



Edward Harrington
Controller

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February 3, 2006

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 2005-06 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 expended from July 1, 2005 through December 31, 2005. 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 an available fund balance of \$137.31 million for the General Fund by the end of fiscal year 2005-2006 (FY 2005-06). This surplus is primarily attributed to the additional fund balance available from the prior year, which was larger than previously assumed due to both better revenue growth and expenditure savings in FY 2004-05 as well as further continuing revenue growth in the current fiscal year and some projected expenditure savings. For comparison purposes, the City ended **FY 2004-05** with a \$137.18 million available fund balance.

This level of projected fund balance is good news and reflects continued improvement in our local economy. Much of this information was known and included in the \$80 million projected shortfall outlined in the Mayor's FY 2006-07 budget instructions issued in December. The Three-Year Projection Report (i.e. the Joint Report) will be published in about one month and will include updated projections and the collective opinions of the Board's Budget Analyst, Controller and Mayor's Budget Director regarding the budget projections for FY 2006-07 and the subsequent two fiscal years.

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. The narrative on the following pages provides a summary of key budgetary issues, helping to frame the key uncertainties present – notably the strength of the economic recovery and associated revenue growth.

Chart A: Six-Month General Fund Budget Summary – FY 2005-06 (millions)

	AAO Original Budget	Revised Budget	Year-End Projection	Projected Incremental Available Fund Balance
SOURCES:				
Prior-Year Fund Balance	\$ 117.99	\$ 118.17	\$ 137.18	\$ 19.01
Prior-Year Reserves Budgeted in the Current Year (CY)	2.49	2.49	2.49	-
Subtotal Sources - Prior Year	\$ 120.48	\$ 120.66	\$ 139.67	\$ 19.01
Current Year Revenues	2,285.14	2,292.98	2,389.27	96.29
Current Year Transfers-In	107.57	108.38	107.60	(0.78)
Subtotal Sources - CY Revenues & Transfers-In	\$ 2,392.71	\$ 2,401.36	\$ 2,496.88	\$ 95.52
Current Year Transfers (Out), Operating	(59.90)	(59.90)	(59.90)	-
Carryforwards & Transfers, net	-	117.46	117.46	-
Subtotal Sources - CY, Carryforwards & Transfers	\$ 2,332.81	\$ 2,458.92	\$ 2,554.44	\$ 95.52
Total Sources	\$ 2,453.29	\$ 2,579.59	\$ 2,694.11	\$ 114.52
USES:				
Operating Expenditures, net of recoveries	1,898.88	1,963.33	1,956.33	7.00
Project Expenditures	129.18	173.54	173.54	-
Capital & Facilities Maintenance	40.49	40.49	40.49	-
Baseline Funding Requirement Transfers Out	173.66	173.66	186.75	(13.10)
Subsidy Transfers to Hospitals & Other Transfers	156.98	157.73	142.49	15.24
Reserves	29.86	46.59	46.59	-
Total Uses - Current Year	\$ 2,429.03	\$ 2,555.32	\$ 2,546.19	\$ 9.14
Required Reserves from Current Year Resources				
Rainy Day - Economic Stabilization Reserve			4.80	(4.80)
Rainy Day - Capital & One-Time Uses Reserve			2.40	(2.40)
Budget Savings - Recreation & Park Reserve			1.40	(1.40)
Budget Savings - Citywide Incentive Reserve			2.00	(2.00)
Total Uses - Current Year & Set-Asides	\$ 2,429.03	\$ 2,555.32	\$ 2,556.79	\$ (1.47)
GENERAL FUND ENDING BALANCE	\$ 24.26	\$ 24.26	\$ 137.31	\$ 113.05

General Fund Beginning Balance & Prior Year Reserves

At the time the budget for FY 2005-06 was prepared, we anticipated starting the current fiscal year with a General Fund beginning balance of \$117.99 million and prior-year reserves of \$2.49 million. When the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005 was completed in December 2005, we confirmed that the ending balance from the previous fiscal year was \$137.18 million, along with prior-year reserve balances of \$2.49 million assumed liquidated in the current year. As a result, there is an additional \$19.01 million of prior-year sources available from FY 2004-05 that was not anticipated for FY 2005-06.

Current Revenues and Transfers In

We project revenues and transfers-in to be \$95.52 million better than the revised FY 2005-06 budget. The revenue surplus is primarily due to higher property tax, real property transfer tax, payroll tax, and utility users tax revenues. Some shortfalls in social service subventions are projected with more than offsetting expenditure savings in the Human Services Agency. In addition to realized revenues through the first six months of FY 2005-06, posted January 2006 activity-to-date has been incorporated into our revenue projections. Our projections are also based on discussions with department staffs and industry experts, as well as analyses of key economic

indicators and forecasts. Chart B below provides a high-level summary of key revenue changes from budget. Chart F (on page 8) provides a more detailed revenue summary followed by descriptive narrative for each major category on the following pages.

Chart B: Revenues & Transfers In Budget Summary – FY 2005-06 (millions)

Revenues & Transfers-In, US\$ Millions	FY 2004-05		FY 2005-06		<i>sort order</i> Surplus / (Shortfall) from Budget to 6-Month
	Year-End Actuals	Revised Budget	6-Month Projection	6-Month	
Property Tax	\$ 710.49	\$ 696.66	\$ 760.16	\$ 63.50	
Real Property Transfer Tax	116.80	83.00	104.50	21.50	
Business Taxes	292.17	288.32	297.66	9.34	
Utility Users Tax	72.57	70.92	74.75	3.83	
Parking Tax	33.09	33.12	33.75	0.63	
Subtotal - Key Surpluses	1,225.12	1,172.02	1,270.83	98.81	
Motor Vehicle In Lieu	3.68	36.66	33.61	(3.05)	
Public Safety Service Charges	17.84	21.61	20.52	(1.09)	
Sales Tax	94.69	102.78	102.17	(0.61)	
Health & Welfare Realignment	156.09	158.45	158.45	-	
Hotel Room Tax	108.91	121.46	121.46	-	
Property Sales	9.20	7.75	7.75	-	
Other Revenues	612.01	672.26	674.49	2.23	
Subtotal - Other Key Revenues	1,002.42	1,120.96	1,118.45	(2.51)	
Total Revenues	2,227.54	2,292.98	2,389.27	96.29	
Transfers In	140.41	108.38	107.60	(0.78)	
Total Revenues & Transfers In	\$ 2,367.95	\$ 2,401.36	\$ 2,496.88	\$ 95.52	
<i>Revenues Better from Prior Year Actual by...</i>	\$ 157.18	\$ 65.44	\$ 161.74		
<i>% Increase</i>	7.6%	2.9%	7.3%		
<i>Revenues & Transfers In Better from Prior Year...</i>	\$ 176.1	\$ 33.4	\$ 128.9		
<i>% Increase</i>	8.0%	1.4%	5.4%		

State Budget Impact: The FY 2005-06 Adopted State Budget included discretionary revenue reductions of \$25.17 million related to Property Tax Educational Revenue Augmentation Fund (ERAF) III diversion. FY 2005-06 is the second of two years that the ERAF III shift was projected to hit the General Fund. In addition to this \$25.17 million reduction, shifts from our General Fund of approximately \$260 million continue for ERAF I and II, which are assumed to be on-going in the Governor's Proposed Budget released on January 10, 2006 for the upcoming FY 2006-07.

The repayment of the Vehicle License Fee revenues diverted by the State in FY 2003-04 have been received in FY 2005-06 – creating a one-time surge in Motor Vehicle revenues noted in the

table on the previous page. Additionally, 0.25% of the Local 1.00% Sales Tax continues to be shifted from the General Fund to cover debt service on the State's Economic Recovery Bonds. Both this Sales Tax shift and the permanent rollback of Vehicle License Fees are backfilled by property taxes, as assumed in the budget and projected in this report.

Current Operating Expenditures & Transfers Out

Based on current spending patterns, we project overall departmental expenditures and transfers-out savings of \$9.14 million by fiscal year-end. Chart C below incorporates that savings and further factors in the projected General Reserve balance less partially offsetting required reserve set-asides. Most departments are projected to be on budget by fiscal year-end, both in their revenue and expenditure performance. However, a few are projected to have net shortfalls, and a number of others have net savings. Departments with key variances are summarized below. Chart G (on page 17) provides further budgetary detail for all departments including prior-year actuals and current year expenditure appropriations.

Chart C: Departmental Budget Summary of Sources & Uses – FY 2005-06 (millions)

Net Shortfall Departments		<i>Sort Order</i>		
US\$ millions		SOURCES	USES	NET
		Surplus / (Short)	Under / (Over)	Savings /
		Budget	Budget	(Shortfall)
Police	\$	(1.47)	(5.66)	(7.13)
Elections		0.74	(1.41)	(0.67)
Public Works		(0.10)	(0.40)	(0.50)
Total Net Projected Shortfall	\$	(0.82)	(7.47)	(8.29)
Net Surplus Departments		<i>Sort Order</i>		
		SOURCES	USES	NET
		Surplus / (Short)	Under / (Over)	Savings /
		Budget	Budget	(Shortfall)
Public Health including Subsidies to Hospitals	\$	4.75	16.19	20.93
Recreation & Parks		1.84	1.40	3.25
Human Services		(8.43)	11.62	3.18
City Planning		0.54	0.50	1.04
Other Departments		1.12	0.00	1.12
Total Net Projected Savings	\$	(0.18)	29.71	29.52
Citywide & General Tax Revenues		96.52		96.52
Baselines - Library			(2.10)	(2.10)
Baselines - Children's Services			(3.11)	(3.11)
Baselines - Municipal Transportation Agency			(7.90)	(7.90)
Subtotal - Current Year Operations	\$	95.52	9.14	104.65
General Reserve			24.26	24.26
Prior Year Fund Balance		19.01		19.01
Incremental Required Reserves - Dept. Savings			(3.40)	(3.40)
Incremental Required Reserves - Rainy Day			(7.20)	(7.20)
Net Surplus / (Shortfall)	\$	114.52	22.79	137.31

Contribution Transfers Out, Baselines & Other Required Reserve Set-Asides

Contribution Transfers Out - San Francisco General & Laguna Honda Hospitals: Based on the current projected revenues and expenditures, San Francisco General Hospital will have a net surplus of \$5.62 million while Laguna Honda Hospital will have a net surplus of \$9.61 million for a total of \$15.24 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. Higher required contributions are primarily due to better revenues in property tax, real property transfer tax and business taxes revenues. Chart D outlines the General Fund Appropriation, the Current Required Baseline, and the Projected Increase / (Decrease) Contribution needed given the projections outlined in this report.

Chart D: Baselines Appropriation Current Year Requirements, (millions)

Baseline	Current Year				Total Current Year & Prior Year
	FY 2004-05	FY 2005-06		Projected Increase / (Decrease) Contribution as of 6-Month Report	
	Prior Year Increase / (Decrease) from Year-End Reserves	AAO Original Budget General Fund Appropriation	6-Month Required Baseline		
Revenue Driven					
Children's Services	\$1.18	\$78.91	\$82.02	\$3.11	\$4.29
Library Preservation	\$1.00	\$33.79	\$35.89	\$2.10	\$3.10
Municipal Railway	\$2.98	\$102.74	\$108.41	\$5.68	\$8.65
Parking & Traffic	\$1.06	\$37.13	\$39.35	\$2.22	\$3.28
Subtotal MTA	\$4.04	\$139.87	\$147.76	\$7.90	\$11.93
Total	\$6.22	\$252.57	\$265.66	\$13.10	\$19.32

A number of required reserves are also mandated by the Charter and the Municipal Code. The Rainy Day and Budget Savings Incentive Reserves are summarized in the table below and discussed in further detail in the narrative immediately following the table.

Rainy Day & Budget Savings Reserves	Actual June 30, 2005	Budgeted (Use) in in the Current Year	Required Funding from Current Year	Projected June 30, 2006
Rainy Day - Economic Stabilization Reserve	\$ 48.14	\$ -	\$ 4.80	\$ 52.94
Rainy Day - Capital & One-Time Spending Reserve	-	-	2.40	2.40
Budget Savings - Recreation & Park Reserve	3.08	(0.49)	1.40	3.99
Budget Savings - Citywide Incentive Reserve	2.63	(2.00)	2.00	2.63

Required Set-Asides – Rainy Day Reserve Requirements: Charter Section 9.113.5 requires the City to set-aside 50 percent of revenue growth in excess of five percent from the prior year into the Rainy Day (Economic Stabilization) Reserve as well as to set-aside another 25 percent of growth over five percent into a Rainy Day One-Time or Capital Spending Reserve. The remaining 25 percent can be used for any general governmental use. The required Rainy Day calculations result in \$9.61 million of revenues exceeding the policy adjusted revenue threshold of five percent. Of this \$9.61 million, \$4.80 million is the projected deposit into the Rainy Day (Economic Stabilization) Reserve and \$2.40 million is the projected deposit into the Rainy Day One-Time Spending Reserve.

Chart E: Rainy Day Reserve Requirements, (millions)

Fiscal Year	Policy Adjusted Revenues	Change from PY		Rainy Day Deposit Threshold PY +5%	Difference b/n Deposit Threshold & Policy Adj Rev	Rainy Day Requirements, Deposit/(Withdrawal)			
		\$	%			Economic Stabilization		One-Time Balance	
						CCSF	USD		Balance
FY 2003-04	2,035.99	70.12	3.6%				\$ 55.14		
FY 2004-05	2,203.88	167.89	8.2%			\$ -	\$ (7.00)	\$ 48.14	\$ -
Budget FY 2005-06	2,221.65	17.77	0.8%	2,314.07	(92.43)	\$ -	\$ -	\$ 48.14	\$ -
Projected FY 2005-06	2,323.68	119.80	5.4%	2,314.07	9.61	\$ 4.80	\$ -	\$ 52.94	\$ 2.40

Required Set-Asides – Recreation & Park Budget Savings Incentive Reserve: Charter Section 16.107 requires that ‘overall Department expenditure savings shall be retained by the Department to be dedicated to one-time expenditures’. Expenditure savings are set-aside in the **Recreation & Parks Budget Savings Incentive Reserve**. Based on current projections, \$1.40 million will be required to add to this reserve at fiscal year-end, resulting in a projected year-end total balance of \$3.99 million.

Required Set-Asides – Citywide Budget Savings Incentive Reserve: Administrative Code Section 3.17 requires the greater of \$2.00 million or 10 percent of departments’ year-end appropriation savings to be set-aside in a **Savings Incentive Reserve**. Based on current projections, \$2.00 million will be required to add to this reserve at fiscal year-end, resulting in a projected year-end total balance of \$2.63 million.

Supplemental Appropriations

General Fund supplemental appropriation requests approved through the end of January by the Board did not use any of the General Reserve. Our projections assume proposed or pending supplementals for new programs or services will not be approved and that only supplementals that adjust appropriations to projected spending for Police, Elections and Public Health will be approved.

The Police and Elections supplementals are assumed to use the General Reserve, whereas Public Health's supplemental is revenue-backed by additional patient revenues. Please see a summary of approved, as well as other active and anticipated supplemental appropriation requests in **Appendix A**. To the degree that supplemental appropriations (other than those we have already assumed) currently pending before the Board or additional 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, 2006. 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, not expended and closed to fund balance by year-end, the projected year-end balance would increase. In the event that appropriation reserves are related to work order authority supported through recovery funding from non-General Fund sources, no net General Fund savings would occur.

General Fund Ending Balance

Based on the current revenue and expenditure projections, the City's year-end General Fund balance would be \$137.31 million – a net positive balance, similar in size to the FY 2005-06 beginning fund balance of \$137.18 million.

II. Sources of Funds, Revenues & Transfers In (millions), Chart F

GENERAL FUND (US\$ millions)	FY 2004-05	FISCAL YEAR 2005-06 (Current Year, CY)				Surplus / (Shortfall) from Revised	
	Prior Year (PY) Actuals	Original Budget	Revised Budget	6 -Month Projection			
PROPERTY TAXES	\$ 710.49	\$ 696.66	\$ 696.66	\$ 760.16	\$ 63.50	(1)	
BUSINESS TAXES:							
Business Registration Tax	\$ 7.36	\$ 7.13	\$ 7.13	\$ 7.81	\$ 0.68	(2)	
Payroll Tax	\$ 284.81	\$ 281.19	\$ 281.19	\$ 289.85	\$ 8.66	(3)	
Total Business Taxes	\$ 292.17	\$ 288.32	\$ 288.32	\$ 297.66	\$ 9.34		
OTHER LOCAL TAXES:							
Sales Tax	\$ 94.69	\$ 102.78	\$ 102.78	\$ 102.17	\$ (0.61)	(4)	
Hotel Room Tax	\$ 108.91	\$ 121.46	\$ 121.46	\$ 121.46	\$ -	(5)	
Utility Users Tax	\$ 72.57	\$ 70.92	\$ 70.92	\$ 74.75	\$ 3.83	(6)	
Parking Tax	\$ 33.09	\$ 33.12	\$ 33.12	\$ 33.75	\$ 0.63	(7)	
Real Property Transfer Tax	\$ 116.80	\$ 83.00	\$ 83.00	\$ 104.50	\$ 21.50	(8)	
Stadium Admission Tax	\$ 2.18	\$ 2.43	\$ 2.43	\$ 2.50	\$ 0.07	(9)	
Total Other Local Taxes	\$ 428.24	\$ 413.71	\$ 413.71	\$ 439.14	\$ 25.43		
LICENSES, PERMITS & FRANCHISES							
Licenses & Permits	\$ 6.64	\$ 6.70	\$ 6.70	\$ 6.58	\$ (0.12)	(10)	
Franchise Tax	\$ 12.79	\$ 12.42	\$ 12.42	\$ 13.17	\$ 0.75	(11)	
Total Licenses, Permits & Franchises	\$ 19.43	\$ 19.13	\$ 19.13	\$ 19.76	\$ 0.63		
FINES, FORFEITURES & PENALTIES	\$ 9.54	\$ 11.48	\$ 11.48	\$ 10.26	\$ (1.21)	(12)	
INTEREST & INVESTMENT INCOME	\$ 12.59	\$ 11.31	\$ 11.39	\$ 13.39	\$ 2.00	(13)	
RENTS & CONCESSIONS							
Garages - Rec/Park	\$ 8.06	\$ 7.93	\$ 7.93	\$ 8.22	\$ 0.30	(14)	
Rents and Concessions - Rec/Park	\$ 10.94	\$ 9.98	\$ 9.98	\$ 11.16	\$ 1.18	(15)	
Other Rents and Concessions	\$ 1.47	\$ 1.68	\$ 1.68	\$ 1.50	\$ (0.18)	(15)	
Total Rents and Concessions	\$ 20.47	\$ 19.58	\$ 19.58	\$ 20.88	\$ 1.29		
INTERGOVERNMENTAL REVENUES							
Federal Government							
Social Service Subventions	\$ 164.87	\$ 197.23	\$ 190.61	\$ 190.69	\$ 0.07	(16)	
Other Grants & Subventions	\$ 0.87	\$ 9.11	\$ 9.11	\$ 9.76	\$ 0.65	(17)	
Total Federal Subventions	\$ 165.74	\$ 206.34	\$ 199.73	\$ 200.45	\$ 0.72		
State Government							
Social Service Subventions	\$ 120.03	\$ 117.93	\$ 131.40	\$ 122.97	\$ (8.43)	(18)	
Health & Welfare Realignment	\$ 156.09	\$ 158.45	\$ 158.45	\$ 158.45	\$ -	(19)	
Health/Mental Health Subventions	\$ 75.11	\$ 71.95	\$ 72.48	\$ 72.48	\$ -	(20)	
Public Safety Sales Tax	\$ 65.67	\$ 70.00	\$ 70.00	\$ 68.94	\$ (1.06)	(21)	
Motor Vehicle In-Lieu	\$ 3.68	\$ 36.66	\$ 36.66	\$ 33.61	\$ (3.05)	(22)	
Other Grants & Subventions	\$ 17.90	\$ 19.40	\$ 19.49	\$ 26.53	\$ 7.04	(23)	
Total State Subventions	\$ 438.48	\$ 474.39	\$ 488.48	\$ 482.98	\$ (5.49)		
CHARGES FOR SERVICES:							
General Government Service Charges	\$ 23.87	\$ 27.05	\$ 27.11	\$ 27.79	\$ 0.68	(24)	
Public Safety Service Charges	\$ 17.84	\$ 21.61	\$ 21.61	\$ 20.52	\$ (1.09)	(25)	
Recreation Charges - Rec/Park	\$ 6.25	\$ 5.80	\$ 5.80	\$ 6.35	\$ 0.55	(26)	
MediCal, MediCare & Health Service Charges	\$ 44.17	\$ 47.99	\$ 47.27	\$ 47.99	\$ 0.72	(27)	
Other Service Charges	\$ 7.91	\$ 8.78	\$ 9.90	\$ 9.90	\$ -		
Total Charges for Services	\$ 100.05	\$ 111.22	\$ 111.69	\$ 112.55	\$ 0.86		
RECOVERY OF GEN. GOV'T. COSTS	\$ 16.08	\$ 19.77	\$ 19.77	\$ 19.09	\$ (0.68)	(28)	
OTHER REVENUES	\$ 14.28	\$ 13.24	\$ 13.05	\$ 12.95	\$ (0.10)	(29)	
TOTAL REVENUES	\$ 2,227.54	\$ 2,285.14	\$ 2,292.98	\$ 2,389.27	\$ 96.29		
TRANSFERS INTO GENERAL FUND:							
Airport	\$ 19.68	\$ 21.94	\$ 21.94	\$ 21.17	\$ (0.78)	(30)	
Other Transfers	\$ 120.73	\$ 85.63	\$ 86.44	\$ 86.44	\$ -		
Total Transfers-In	\$ 140.41	\$ 107.57	\$ 108.38	\$ 107.60	\$ (0.78)		
TOTAL GENERAL FUND RESOURCES	\$ 2,367.95	\$ 2,392.71	\$ 2,401.36	\$ 2,496.88	\$ 95.52		

Notes to Sources of Funds Schedule:

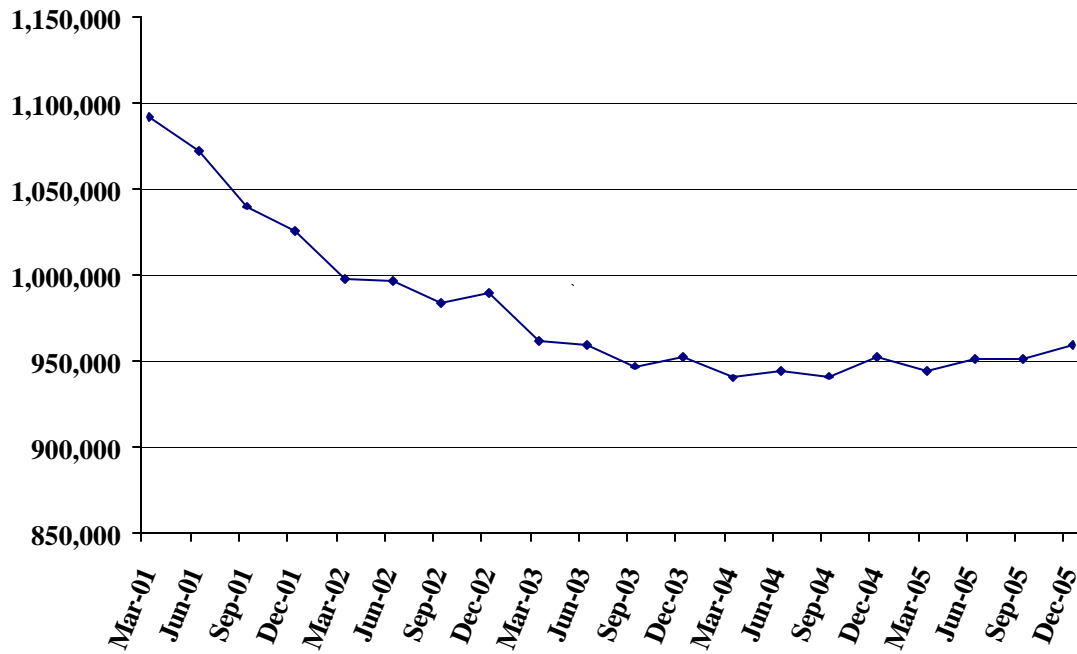
- (1) **Property Tax** revenues are projected to be \$63.50 million better than budget. This is due to four factors: 1) higher assessed valuation growth, 2) assessment appeals experience to date, 3) increased backfill allocations from the State related to vehicle license fees and sales tax shifts (\$14.2 million), and 4) higher supplemental assessments (\$8.00 million). San Francisco’s net assessed valuation grew 6.64 percent in FY 2005-06 from FY 2004-05 compared to an approximate five percent assumed in the budget. ERAF III resulted in shifts of \$25.17 million, which is the same as assumed in the budget. The projected impact is summarized for the General Fund and selected Special Revenue Funds below.

	FY 2005-06		
	Original Budget	6-Month	Surplus / (Shortfall) \$ millions
General Fund	\$ 696.66	\$ 760.16	\$ 63.50
Children's Fund	\$ 30.38	\$ 33.14	\$ 2.77
Library Fund	\$ 25.40	\$ 27.72	\$ 2.32
Open Space Fund	\$ 25.40	\$ 27.72	\$ 2.32

Assessment Backlog: Reduction to the assessment backlog is usually also considered during our projection. At this time the Assessor’s Office is still in the process of estimating changes to the backlog. We will report further information in the Controller’s Nine-Month Report.

- (2) **Business Registration** revenues are projected to be \$0.68 million better than budget based on business formations and renewals to date.
- (3) **Payroll Tax** revenues are projected to be \$8.66 million better than budget. The budget assumed slow growth in employment with moderate wage increases. Additionally, prior-year actuals exceeded the prior year-end projection, which meant that the current year budget assumptions had a higher starting base from which to grow. The following chart 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 appears to have materialized. Our projection assumes average wage inflation of 2.0% percent over the prior year.

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



Source: California Economic Development Department

Job Growth Is Up Over Last 12+ Months
 San Francisco PMSA (Marin, San Francisco, San Mateo)

	<u>Average Annual Growth</u>		<u>Growth from Prior Year</u>
CY 2005	0.80%	December 2005	0.75%
CY 2004	-1.26%	December 2004	-0.01%

Business Taxes Revenue \$ millions

<u>Fiscal Year</u>	<u>Total</u>	<u>Annual Growth</u>	
		<u>\$ Change</u>	<u>% Change</u>
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	\$ (11.78)	(4.3%)
FY 2004-05	\$ 292.17	\$ 27.82	10.5%
Budget FY 2005-06	\$ 288.32	\$ (3.85)	(1.3%)
Projection FY 2005-06	\$ 297.66	\$ 5.49	1.9%

- (4) **Sales Tax** revenues are projected to be higher than the prior year but are still \$0.61 million under budget. The 6-month projection of \$102.17 million includes prior-year adjustments for one-time tax amnesty revenues of \$2.00 million, 6.6 percent underlying growth in retail activity, and prior quarters allocation adjustments posting in current year. As illustrated in the table below, San Francisco sales tax collections are up significantly in recent history. For the most recent quarter, the 3rd Quarter 2005, the City had cash receipts growth of 18.9 percent, which corresponded to an estimated 3.7 percent of real underlying sales activity once adjustments were factored in allocation and tax amnesty adjustments. 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	9 County Bay		
		San Francisco	Area	California
FY 2005-06	3rd Quarter 2005*	+18.9%	+17.0%	+16.0%
FY 2004-05	2nd Quarter 2005**	+6.4%	6.7%	+9.3%
	1st Quarter 2005*	+5.1%	2.4%	4.9%
	4th Quarter 2004*	+6.3%	7.7%	11.4%
	3rd Quarter 2004	+0.8%	1.7%	4.9%
FY 2003-04	2nd Quarter 2004	+8.4%	6.6%	7.7%
	1st Quarter 2004*	+8.2%	8.0%	10.2%
	4th Quarter 2003*	+2.7%	2.8%	4.2%
	3rd Quarter 2003	-1.6%	-1.4%	2.5%
FY 2002-03	2nd Quarter 2003	-3.3%	-2.3%	5.0%
	1st Quarter 2003	-2.0%	-3.0%	4.6%
	4th Quarter 2002	-1.7%	-4.4%	0.8%
	3rd Quarter 2002	-5.0%	-3.1%	3.1%
FY 2001-02	2nd Quarter 2002	-9.7%	-8.4%	-1.3%
	1st Quarter 2002	-17.8%	-12.7%	-3.7%
	4th Quarter 2001	-17.0%	-13.5%	-2.0%
	3rd Quarter 2001	-20.3%	-11.5%	-1.2%
FY 2000-01	2nd Quarter 2001	-8.7%	-5.0%	0.0%

Notes: * Reflects SF adjustments for material prior quarter re-allocations from CA BOE.

** Reflects SF adjustments for material prior quarter re-allocations and Tax Amnesty.

2nd Quarter 2005 up significantly due to a one-time, statewide tax amnesty program.

Source: CA Board of Equalization, HdL

- (5) **Hotel Room Tax** revenues allocated to the General Fund are projected to be on budget. Overall, hotel room tax revenues (all funds) are projected to be approximately \$170.11 million, or 7.7 percent above prior-year revenue levels. Hotel occupancy rates and average daily room rates continued strengthening in the early part of the fiscal year. The tables on page 13 summarize Occupancy and Average Daily Room Rates (ADRs) by month.

Our projection is based on realized revenue collections-to-date, interviews with hotel industry professionals, and assumes continued economic strengthening and a slight increase in average daily room rates for FY 2005-06. Our current forecast assumes average annual occupancy rates of 77.9 percent and average annual daily room rates (ADRs) of \$154.49. Hotel room tax revenues fluctuate primarily based on these two variables.

Hotel Tax Revenue - All Funds (\$ millions)

Fiscal Year	Total	Annual Growth	
		\$ Change	% Change
FY 2000-01	\$ 188.38	\$ 6.28	3.4%
FY 2001-02	\$ 132.23	\$ (56.15)	(29.8%)
FY 2002-03	\$ 128.59	\$ (3.63)	(2.7%)
FY 2003-04	\$ 148.23	\$ 19.64	15.3%
FY 2004-05	\$ 157.94	\$ 9.71	6.6%
Budget FY 2005-06	\$ 170.11	\$ 12.17	7.7%
Projection FY 2005-06	\$ 170.11	\$ 12.17	7.7%

HOTEL OCCUPANCY RATES

MONTH	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
July	88.0%	87.5%	75.4%	68.7%	77.0%	81.1%	84.3%
August	81.3%	90.2%	80.8%	74.7%	83.5%	81.5%	88.9%
September	86.9%	88.5%	58.3%	68.1%	75.0%	81.6%	87.9%
October	82.7%	87.9%	61.1%	73.7%	76.1%	84.5%	83.7%
November	74.1%	72.7%	53.9%	60.9%	69.8%	63.1%	71.4%
December	62.1%	64.4%	50.0%	55.6%	56.9%	62.4%	63.8%
January	67.0%	63.5%	50.3%	51.3%	54.5%	58.7%	60.4%
February	79.7%	70.4%	56.9%	57.9%	63.6%	67.3%	69.2%
March	88.6%	72.9%	60.7%	59.4%	73.6%	74.0%	75.3%
April	84.7%	70.7%	67.8%	62.8%	73.2%	75.8%	77.9%
May	84.4%	76.9%	65.7%	68.7%	78.9%	79.0%	83.5%
June	91.7%	80.0%	74.5%	72.9%	80.8%	82.4%	87.9%
AVG. OCC. RATE	80.9%	77.1%	63.0%	64.6%	71.9%	74.3%	77.9%
% Rate Chg from PY	1.1%	-3.8%	-14.2%	1.6%	7.3%	2.4%	3.6%
% Change from PY	1.4%	-4.7%	-18.4%	2.6%	11.4%	3.3%	4.8%

Fiscal Year Peak

Approaching 2000 Peak

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	FY 2005-06
July	\$ 154.98	\$ 175.56	\$ 156.14	\$ 140.65	\$ 136.72	\$ 140.34	\$ 149.50
August	\$ 150.06	\$ 165.89	\$ 159.01	\$ 134.34	\$ 133.63	\$ 141.62	\$ 150.79
September	\$ 158.09	\$ 180.33	\$ 157.35	\$ 140.18	\$ 141.04	\$ 147.04	\$ 167.50
October	\$ 153.22	\$ 191.46	\$ 166.56	\$ 156.21	\$ 158.28	\$ 161.13	\$ 172.97
November	\$ 148.02	\$ 169.40	\$ 151.08	\$ 140.01	\$ 141.82	\$ 143.93	\$ 155.74
December	\$ 146.22	\$ 162.24	\$ 136.65	\$ 129.56	\$ 129.33	\$ 138.79	\$ 138.70
January	\$ 153.17	\$ 174.24	\$ 146.41	\$ 140.60	\$ 133.75	\$ 139.77	\$ 147.17
February	\$ 156.25	\$ 181.78	\$ 146.09	\$ 143.65	\$ 138.73	\$ 146.36	\$ 150.96
March	\$ 164.96	\$ 179.18	\$ 143.95	\$ 138.06	\$ 154.22	\$ 148.89	\$ 155.40
April	\$ 164.39	\$ 168.79	\$ 156.06	\$ 140.30	\$ 142.54	\$ 157.31	\$ 152.27
May	\$ 168.41	\$ 191.63	\$ 152.38	\$ 149.66	\$ 149.40	\$ 153.63	\$ 159.61
June	\$ 175.50	\$ 173.72	\$ 160.85	\$ 135.91	\$ 148.02	\$ 153.67	\$ 153.29
AVERAGE ADR	\$ 157.77	\$ 176.19	\$ 152.71	\$ 140.76	\$ 142.29	\$ 147.71	\$ 154.49
\$ Change from PY	\$ 10.25	\$ 18.41	\$ (23.47)	\$ (11.95)	\$ 1.53	\$ 5.42	\$ 6.79
% Change from PY	6.9%	11.7%	-13.3%	-7.8%	1.1%	3.8%	4.6%

Fiscal Year Peak

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

- (6) **Utility Users Tax** revenues are projected to be \$3.83 million better than budget. 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 \$0.63 million better than budget.
- (8) **Real Property Transfer Tax** revenues are projected to be \$21.50 million better than budget. Actual-to-date is \$74.61 million, or approximately 90 percent of current budget. The unprecedented rate and volume of commercial building sales has continued. However, these elevated 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, interest rates are projected to continue in upward pressure thus providing additional incentive for real estate transactions to occur sooner than later. Reviewing a breakdown of Recorder data for the past several years shows that variability is primarily attributable to property of value greater than \$1 million. Table below summarizes the tax revenue by size.

Fiscal Year	Real Property Transfer Tax Revenue (\$ millions)			Timing Differences	Total Revenue*
	@ 0.50% <\$250,000	@ 0.68% >\$250,000	@ 0.75% >\$1,000,000		
FY 1997-98	\$ 2.77	\$ 19.34	\$ 22.89	\$ (0.99)	\$ 44.01
FY 1998-99	\$ 2.05	\$ 23.20	\$ 31.87	\$ (0.99)	\$ 56.13
FY 1999-00	\$ 1.18	\$ 25.51	\$ 41.57	\$ 1.62	\$ 69.88
FY 2000-01	\$ 0.46	\$ 22.87	\$ 38.96	\$ 0.05	\$ 62.34
FY 2001-02	\$ 0.41	\$ 25.38	\$ 21.21	\$ 0.28	\$ 47.27
FY 2002-03	\$ 0.48	\$ 29.31	\$ 21.37	\$ 0.31	\$ 51.48
FY 2003-04	\$ 0.74	\$ 37.78	\$ 41.05	\$ (0.72)	\$ 78.85
FY 2004-05	\$ 0.65	\$ 37.16	\$ 78.89	\$ 0.10	\$ 116.80
FY 2005-06 Budget	\$ 0.62	\$ 34.75	\$ 47.63	\$ (0.00)	\$ 83.00
FY 2005-06 Projected	\$ 0.69	\$ 37.47	\$ 66.34	\$ (0.00)	\$ 104.50

* Adjusted for timing differences between Recorder's System and revenue recognition requirements.

- (9) **Stadium Admission Tax** revenues are projected to be \$0.07 million better than budget due to the Department of Recreation & Park reflecting pre-season sales of 49^{ERS} tickets into the fiscal year when the games occur.
- (10) **Licenses and Permit** revenues are projected to be on \$0.12 million under budget due to fee revenue weakness at the Department of Public Works:
- -\$0.06 million in Café Tables;
 - -\$0.03 million in Newsracks; and
 - -\$0.03 million in Sidewalk Display.

- (11) **Franchise Tax** revenues are projected to be \$0.75 million better than budget. Higher natural gas commodity prices discussed above in the Utility Users Tax section also impact this revenue.
- (12) **Fines, Forfeitures and Penalty** revenue is projected to be \$1.21 million under budget due to revenue weakness in the Department of Public Works and District Attorney:
 - -\$0.11 million in Department of Public Works Penalties; and
 - -\$1.10 million in District Attorney Consumer Protection Fines.
- (13) **Interest Income** is projected to be \$2.00 million better than budget because of increasing interest earnings and higher average cash balances. The Fed continues to raise short-term interest rates. This measured increase in short-term rates has resulted in higher interest revenues for the City. Higher rates are good news for our interest revenues, but eventually can also put downward pressure on other revenues such as the real property transfer tax. Higher short-term rates often translate into increasing longer-term rates over time, which in turn result in more costly mortgage debt service.
- (14) **Recreation & Parks Garage** revenues are projected to be \$0.30 million better than budget, reflecting a two percent anticipated growth from prior-year levels.
- (15) **Rents and Concessions** revenues, including Recreation & Parks, are projected to be \$1.00 million better than budget reflecting a two percent anticipated growth from prior-year levels.
- (16) **Federal Social Service Subventions** revenues are projected to be \$0.07 million better than budget due to additional Juvenile Title IV reimbursement revenues.
- (17) **Federal Other Grants & Subventions** revenues are projected to be \$0.65 million better than budget due to higher than anticipated collections of South West Border Patrol Initiative funding.
- (18) **State Social Service Subventions** revenues are projected to be \$8.43 million under budget. A summary of all Human Services operations is included in the expenditure section below, Note #6 on page 19.
- (19) **Health & Welfare Realignment** revenue is projected to be on budget.
- (20) **Health & Mental Health Subventions** revenues are projected to be on budget.
- (21) **Public Safety Sales Tax** revenue is projected to be \$1.06 million under budget due to lower than previously assumed prior-year actuals.
- (22) **Motor Vehicle in Lieu (MVL-VLF)** revenues are projected to be \$3.05 million under budget due to lower city direct allocations from the State than previously assumed. This is more than offset by the additional backfill discussed in the Property Tax section above.
- (23) **Other Grants and Subventions** revenues are projected to be \$7.04 million better than budget due to SB90 revenues.

- (24) **Service Charges – General Government** revenues are projected to be \$0.68 million better than budget due to \$0.04 million better revenue in County Candidate Filing Fee, and \$0.64 million higher collections in City Planning Environmental Review and Building Permits.
- (25) **Service Charges - Public Safety** revenue is projected to be \$1.09 million under budget due to weakness in District Attorney, Sheriff, and Police revenues, offset by better revenue in Fire Department, and Department of Public Works:
- -\$1.04 million in Police Alarm Permit, Street Space, and DUI Emergency Response Fee;
 - -\$0.68 million in Sheriff Boarding of Prisoners;
 - -\$0.23 million in Public Works Asphalt Plant;
 - -\$0.20 million in Public Works Encroachment Assessment Fee;
 - -\$0.10 million in District Attorney Community Court Fee;
 - -\$0.06 million in Public Works Permit Phone Booth;
 - -\$0.02 million in Public Works miscellaneous fees;
 - +\$0.10 million in Fire False Alarm;
 - +\$0.50 million in Fire Building Inspection; and
 - +\$0.64 million in Public Works Street Space and Right-Of-Way Assessment.
- (26) **Recreation Charges – Rec/Park** revenues are projected to be \$0.55 million better than budget due to Naming Rights revenue not assumed in current budget.
- (27) **Service Charges – MediCal, Medicare, & Health Services** revenue is projected to be \$0.72 million better than budget. A summary of all Public Health operations is included in the expenditure section below, Note #7 on pages 20-21.
- (28) **Recoveries** are projected to be \$0.68 million under budget due to a prior-year accrual from the City College not being collected.
- (29) **Other Revenues** are projected to be \$0.10 million under budget due to City Planning Visitation Valley Grant partially unrealized.
- (30) **Transfers In – Airport.** The General Fund 15 percent share of concession revenues at San Francisco International Airport is projected to be \$0.78 million under budget, primarily due to weakness in parking and domestic concession revenues as a result of lower air traffic than was assumed in the budget.

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%
FY 2004-05	16.25	5.5%	12.32	5.2%	3.93	6.5%
Projection FY 2005-06	16.45	1.2%	12.32	0.0%	4.13	5.2%

III. Uses of Funds, Chart G

GENERAL FUND (US\$ millions)	FY 2004-05		FY 2005-06		Surplus/ (Shortfall)	
	Actuals	Original Budget	Revised Budget	Projected Year-End		
PUBLIC PROTECTION						
Adult Probation	\$ 9.35	\$ 9.81	\$ 9.88	\$ 9.88	\$ -	
Trial Courts	34.28	32.34	32.52	32.52	-	
District Attorney	23.44	25.50	26.33	26.33	-	
Emergency Communications Department	32.93	4.23	5.72	5.72	-	
Fire Department	189.91	203.70	208.92	208.92	-	1
Juvenile Probation	30.07	33.01	34.20	34.20	-	2
Public Defender	17.10	18.03	18.07	18.07	-	
Police	262.56	271.49	274.89	280.55	(5.66)	3
Sheriff	120.31	131.26	132.46	132.46	-	4
	719.96	729.36	742.99	748.65	(5.66)	
PUBLIC WORKS, TRANSPORTATION & COMMERCE						
Public Works	24.40	33.78	46.32	46.72	(0.40)	5
Economic & Workforce Development	1.38	4.54	5.67	5.67	-	
Municipal Transportation Agency	0.04	-	0.09	0.09	-	
Board of Appeals	0.45	0.54	0.54	0.54	-	
Public Utilities Commission	0.14	0.20	0.25	0.25	-	
	26.40	39.05	52.88	53.28	(0.40)	
HUMAN WELFARE & NEIGHBORHOOD DEVELOPMENT						
Children, Youth & Their Families	11.34	13.31	14.19	14.19	-	
Human Services	486.82	535.54	559.71	548.10	11.62	6
Environment	1.53	0.57	4.88	4.88	-	
Human Rights Commission	1.19	1.07	1.24	1.24	-	
County Office of Education	0.07	0.07	0.07	0.07	-	
Status of Women	2.02	2.36	2.51	2.51	-	
	502.97	552.93	582.60	570.99	11.62	
COMMUNITY HEALTH						
Public Health	413.11	431.40	462.13	461.18	0.95	7
CULTURE & RECREATION						
Asian Art Museum	5.66	6.30	6.56	6.56	-	
Arts Commission	5.70	5.92	8.05	8.05	-	
Fine Arts Museum	5.00	8.83	8.85	8.85	-	
Law Library	0.48	0.40	0.40	0.40	-	
Recreation & Parks	55.10	72.04	72.94	71.53	1.40	8
Academy of Sciences	1.67	1.70	1.70	1.70	-	
	73.60	95.21	98.51	97.10	1.40	
GENERAL ADMINISTRATION & FINANCE						
Administrative Services	32.15	38.83	38.52	38.52	-	
Assessor / Recorder	8.43	10.01	10.73	10.73	-	
Board of Supervisors	8.43	9.41	10.40	10.40	-	
City Attorney	4.99	6.91	8.16	8.16	-	
Controller	18.75	21.43	23.98	23.98	-	
City Planning	14.17	17.08	19.21	18.71	0.50	9
Civil Service Commission	0.55	0.55	0.60	0.60	-	
Ethics Commission	1.78	1.38	1.41	1.41	-	
Human Resources	16.18	12.76	14.36	14.36	-	
Health Service System	-	0.10	0.10	0.10	-	
Mayor	7.19	6.28	8.94	8.94	-	
Elections	10.32	11.08	11.12	12.53	(1.41)	10
Retirement System	0.19	0.44	1.16	1.16	-	
Telecommunications & Information Services	1.21	7.31	8.03	8.03	-	
Treasurer / Tax Collector	17.88	22.15	21.39	21.39	-	
	142.23	165.72	178.10	179.01	(0.91)	
	62.37	54.88	60.14	60.14	-	
TOTAL GENERAL FUND EXPENDITURES	1,940.64	2,068.54	2,177.36	2,170.35	7.00	
Baseline Funding to Children's Services				3.11	(3.11)	11
Baseline Funding to Library Preservation Fund	31.86	33.79	33.79	35.89	(2.10)	12
Baseline Funding to Parking & Traffic Fund	36.07	37.13	37.13	39.35	(2.22)	13
Baseline Transfer to Municipal Railway Fund	101.32	102.74	102.74	108.41	(5.68)	14
Subsidy Transfer to SF General Hospital Fund	78.25	102.60	103.03	97.41	5.62	15
Subsidy Transfer to Laguna Honda Hospital Fund	36.85	46.77	47.09	37.47	9.61	16
Transfer to All Other Special Revenue Funds	5.28	7.61	7.61	7.61	-	
Baselines & Selected Subsidy Transfers Out	289.62	330.63	331.38	329.25	2.14	
Reserves	-	29.86	46.59	46.59	-	
TOTAL GENERAL FUND USES (AAO)	\$ 2,230.26	\$ 2,429.03	\$ 2,555.32	\$ 2,546.19	\$ 9.14	

Notes to Uses of Funds Schedule:

Most departments are managing their operations closely to budget. Though, a number of departments warrant further discussion – either because of operational issues or budgetary challenges. Department highlights 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) The **Fire Department** is projected to end the year on budget. Permanent miscellaneous salary savings related principally to hiring delays of previously assumed civilian EMS staff and workers compensation cost savings are projected to be largely offset by higher uniform salary, overtime, Labor Code 4850 and natural gas costs. The projection assumes two new classes of H 3 Firefighters being hired in March for the EMS reconfiguration. Further delays from that March cycle would likely result in greater projected overtime costs for existing personnel. This projection also assumes 75 total retirements compared to the 110 assumed in the budget.

The Fire Department is working on a \$0.50 million reimbursement related to the 30 staff that assisted in the Hurricane Katrina relief efforts. This reimbursement is assumed in this projection. Fire Department revenues are also projected to be slightly better than budget by \$0.07 million as discussed previously in the revenue section.

- (2) The **Juvenile Probation Department** is projected to finish the year on budget. An estimated overall \$0.70 million surplus (mainly related to \$0.50 million in workers compensation savings, CYA placement savings and hiring delays) has been assumed to cover cost overruns in the Juvenile Hall Construction project, as proposed by the department. Staff hiring plans through year-end are expected to reduce help reduce overtime expenditures and are assumed in this projection.
- (3) The **Police Department** is projected to end the year with a \$5.66 million appropriation deficit. Overtime is projected to exceed budget by \$7.00 million. Additionally, increased prisoner transport work order costs are assumed with the Sheriff's Department of \$0.40 million. These cost overruns are partially offsetting by workers compensation and permanent miscellaneous salary cost savings. **A supplemental appropriation will be required for this Department.**
- (4) The **Sheriff's Department** is projected to be within its appropriation budget by year-end. However, overtime is projected to be over budget due to staff vacancies as are costs related to the transport of prisoners from Police stations to the county jail. This over spending is projected to be offset by both uniform and civilian permanent salary savings. Increased work related to the transport of prisoners is reported to free up time for Police to be out on patrol. This projection assumes ten additional Deputy Sheriffs being phased-in during April and that the Department receives \$0.40 million in reimbursement from the Police Department for the current level of effort being provided for prisoner transport. On a related note for this department, the Deputy Sheriff's Association contract negotiations appear to be nearing completion, which will result in additional current year costs.

Public Works, Transportation & Neighborhood Development Departments

- (5) The **Department of Public Works** is projected to end the year with a \$0.40 million deficit because of a projected shortfall in the Gas Tax fund that we have assumed backfilled by the General Fund. To the degree Gas Tax project funding is reduced, this shortfall can be mitigated (discussed further in Appendix C on page 30).

Asphalt Plant: The asphalt plant projected shortfall is \$0.43 million and continues to be of concern to the department given that costs for the City-run facility are approximately 25 to 30 percent more expensive than buying asphalt in the private market.

Human Welfare & Neighborhood Development Departments

- (6) The **Human Services Agency** (including both Human Services and Aging & Adult Services) is projected to end the year with \$11.62 million of expenditure savings with a partially offsetting shortfall in departmental revenues of \$8.43 million. These factors combined result in a net projected departmental savings of \$3.18 million as highlighted by program in the table below.

HUMAN SERVICES	SOURCES	<i>sort order</i> USES	NET
US\$ Millions	Surplus/ (Shortfall)	Savings / (Shortfall)	Department Savings / (Shortfall)
CalWorks Childcare	\$ (5.57)	\$ 6.03	\$ 0.46
CalWorks Aid	(3.12)	2.09	(1.03)
CAAP		2.11	2.11
Adoption Assistance	(1.13)	1.45	0.32
Other programs	1.39	0.26	1.65
Workorder - Workers Comp.		(0.06)	(0.06)
Workorder - Energy		(0.11)	(0.11)
Workorder - Telecomm.		(0.16)	(0.16)
Department Total - All Funds	\$ (8.43)	\$11.62	\$3.18

Projected CalWorks childcare savings are primarily related to decreased utilization of childcare benefits by families. CalWorks aid savings is related to caseloads not increasing as projected, in fact there has been a slight decrease. Similarly, CAAP savings is related to caseloads being slightly lower than assumed in the budget, and finally, savings in adoption assistance costs are related to flat caseloads coupled with declining average costs per case. This projection does not assume any potential change associated with an increase to the City's minimum compensation ordinance.

Public Health Departments

- (7) The **Department of Public Health** is projected to have a net operating surplus of \$20.93 million. This is mainly comprised of projected expenditure savings in the General Fund and lower subsidy transfer to the hospitals due to additional patient and reimbursement revenues. For the General Fund, an expenditure savings of \$0.95 million is projected along with a revenue surplus of \$4.75 million. No appropriation shortfall is assumed for San Francisco General (SFGH) and Laguna Honda Hospital (LHH) as this **projection assumes that the department's pending patient revenue-backed supplemental increasing both SF General Hospital's and Laguna Honda Hospital's operating budgets will be approved.**

Health Department Projected Surplus/(Deficit)

Fiscal Year Ending June 30, 2006
As of January 31, 2006

PUBLIC HEALTH	SOURCES			USES			NET
	Revised Budget	Projection	Surplus/ (Shortfall)	Revised Budget	Projection	Savings / (Shortfall)	Department Savings / (Shortfall)
US\$ Millions							
S.F. General Hospital^	517.31	522.93	5.62	517.31	517.31	-	5.62
Laguna Honda Hospital	168.67	178.28	9.61	168.67	168.67	-	9.61
GENERAL FUND							
Primary Care	43.68	44.40	0.72	43.68	45.27	(1.59)	(0.87)
Health at Home	8.55	8.55	-	8.55	8.35	0.20	0.20
Jail Health	23.38	23.38	-	23.38	23.29	0.08	0.08
Public Health	101.73	101.73	-	101.73	101.56	0.17	0.17
Mental Health	213.02	217.06	4.03	213.02	211.24	1.79	5.82
Substance Abuse	71.77	71.77	-	71.77	71.47	0.30	0.30
Subtotal - General Fund	\$ 462.13	\$ 466.88	\$ 4.75	\$ 462.13	\$ 461.18	\$ 0.95	\$ 5.70
Department Total - All Funds^	\$ 1,148.11	\$ 1,168.09	\$ 19.98	\$ 1,148.11	\$ 1,147.15	\$ 0.95	\$ 20.93

^ Net of SB 855 IGT Transfers

The large projected net departmental surplus is primarily related to: 1) \$13.00 million in higher MediCal base per diem rates at Laguna Honda Hospital, 2) \$4.43 million in higher net patient revenues related to census levels and improved collections from Medicare and other third party payers at SF General Hospital, and 3) the State once again reimbursing local governments for SB 90 mandated costs (projected at an additional \$4.03 million). For the first 6 months of the year, the average daily census at SF General was 290.9 compared to a budget of 276.2. That being said though, average census data does not by itself reflect the spikes in census that occur requiring additional staffing nor does it consider the difficulty in staffing down on short notice when the census declines briefly. Mandated nurse staffing ratios at the hospital require staffing be adjusted to meet the census using straight time or overtime.

As for as non-hospital operations, Primary Care's projected expenditure shortfall is related to clinic staffing shortages tied to urgent care services at the Tom Waddell Clinic. Health at Home's surplus is related to staff hiring delays, as is the surplus at Jail Health and Substance Abuse. Public Health is projected to have a surplus due to salary savings that is

partially offset by higher work order costs (natural gas and telephone). Mental Health's surplus is related to having a large number of unfilled positions.

Culture & Recreation Departments

- (8) **Recreation and Park** is projected to end the year with a \$1.40 million appropriation surplus in the General Fund. This projected surplus is mainly the result of salary and benefits savings less partially offsetting work order costs related to natural gas, workers compensation, garbage, and telephone services. The Golf Fund's projected fund balance shortfall of \$0.12 million is also assumed covered by departmental savings in the General Fund. By using a portion of its General Fund savings to cover the Golf Fund shortfall, the Department will have less budget savings reserve funding than would otherwise be the case under their Charter-mandated Recreation & Park Budget Savings Incentive Reserve (discussed previously on page 6). The Open Space and Golf Funds are discussed further in Appendix C on page 31.

General Administration & Finance Department

- (9) The **City Planning Department** is projected to have a surplus of \$0.50 million in salary and benefits due to hiring delays.
- (10) The **Department of Elections** is projected to end the year with a \$1.41 million deficit. This deficit is primarily due to \$1.24 million in projected over spending in temporary staffing costs plus an additional net over expenditure on non-personnel spending of \$0.32 million less an additional anticipated recovery of \$0.15 million from the Community College for bond election costs incurred. Non-personnel overspending is principally related to poll worker stipends, postage and systems consulting costs. **A supplemental appropriation will be required from this department.** On a related note, the Controller's Office is currently undertaking a staffing study, which is projected to be completed by mid-February 2006.

Transfers Out

- (11) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to Children's Services** is projected to be \$3.11 million more than budgeted due to higher discretionary revenue levels primarily attributable to property tax, real estate transfer tax, and payroll tax revenues.
- (12) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to the Library** is projected to be \$2.10 million more than budgeted due to better discretionary revenue primarily attributable to property tax, real estate transfer tax, and payroll tax revenues.
- (13) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to Parking & Traffic** is projected to be \$2.22 million more than budgeted

due to better discretionary revenue primarily attributable to property tax, real estate transfer tax, and payroll tax revenues.

- (14) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to MUNI** is projected to be \$5.68 million more than budgeted due to better discretionary revenue primarily attributable to property tax, real estate transfer tax, and payroll tax revenues.
- (15) The **Transfer Out – Contribution to SFGH** is projected to be \$5.62 million less than budget due to a net surplus in the San Francisco General Hospital's budget principally related to higher revenues. This results in a net General Fund savings. See also Note #7 on pages 20-21 – Department of Public Health.
- (16) The **Transfer Out – Contribution to LHH** is projected to be \$9.61 million less than budget due to a net surplus in Laguna Honda Hospital's budget due mainly to higher MediCal base per diem reimbursement rates than assumed in the budget. This results in a net General Fund savings. See also Note #7 on pages 20-21 – Department of Public Health.

Workers' Compensation Summary

Workers' compensation reforms are continuing to contribute to the projected cost savings. Overall, the City's FY 2005-06 workers' compensation costs are projected to be lower than the FY 2004-05 actuals and also significantly better the FY 2005-06 budget by \$8.38 million – a 10.5 percent savings from budgeted levels. The savings are explained by lower numbers of reported claims as well as significant reductions in medical costs. In the first half of FY 2005-06 claims costs decreased by 12 percent over the first half of the prior year. New claims filed have decreased by 13 percent from the same period last year.

Recent declines are a stark contrast to the 14.2 percent growth in FY 2003-04, the 4.3 percent growth in FY 2002-03 and the 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.

Workers Compensation (US\$ Millions)

<u>Fund/Service Area</u>	<u>FY 2004-05</u>		<u>FY 2005-06</u>		<u>% Change from PY</u>
	<u>Actual</u>	<u>Budget</u>	<u>Current Projection</u>	<u>Surplus/ (Deficit)</u>	
<u>GENERAL FUND</u>					
Police Department	\$ 7.97	\$ 10.33	\$ 9.00	\$ 1.33	13.0%
Human Resources w/ All Other Small Depts.	7.84	3.91	3.42	0.49	-56.4%
Public Health	1.62	2.05	1.57	0.48	-3.0%
Fire Department	6.63	8.18	7.72	0.46	16.3%
Juvenile	1.19	1.50	1.05	0.45	-11.8%
Assessor/Recorder	0.19	0.25	0.15	0.10	-21.8%
Treasurer/Tax Collector	0.15	0.21	0.18	0.03	23.8%
City Attorney	0.22	0.23	0.22	0.01	2.3%
Asian Art Museum	0.02	0.02	0.02	0.00	-8.7%
Economic & Workforce Development	0.19	0.23	0.22	0.00	19.9%
Sheriff	2.11	2.69	2.74	(0.05)	29.8%
Human Services Agency (DSS & AGE)	2.42	2.35	2.40	(0.06)	-0.8%
Fine Arts Museum	0.12	0.13	0.25	(0.12)	116.4%
Recreation & Park	2.55	3.14	3.34	(0.19)	30.8%
Subtotal General Fund (GF)	33.21	35.23	32.28	2.95	-2.8%
<u>GENERAL FUND SUBSIDIZED</u>					
Community Health					
SF General Hospital	4.97	5.36	4.94	0.42	-0.7%
Laguna Honda Hospital	3.33	3.37	3.37	0.00	1.4%
Subtotal General Fund Subsidized	8.30	8.74	8.31	0.43	0.1%
Subtotal General Fund & Subsidized	41.51	43.96	40.59	3.37	-2.2%
% Change from FY 2004-05 Actuals			-2.2%		
% Change from FY 2005-06 Original Budget			-7.7%		

<u>Fund/Service Area</u>	<u>FY 2004-05</u>		<u>FY 2005-06</u>		<u>% Change from PY</u>
	<u>Actual</u>	<u>Budget</u>	<u>Current Projection</u>	<u>Surplus/ (Deficit)</u>	
<u>OTHER FUNDS</u>					
MTA - MUNI and Parking & Traffic	19.93	23.10	19.24	3.86	-3.4%
Public Utilities Commission	3.29	3.02	2.59	0.44	-21.3%
Public Works	2.95	3.26	2.32	0.94	-21.3%
Airport Commission	2.04	2.45	1.97	0.48	-3.5%
Public Library	0.70	1.03	2.07	-1.04	195.6%
War Memorial	0.36	0.44	0.41	0.03	13.9%
Police Department (Airport)	0.39	0.49	0.35	0.14	-9.3%
Telecommunications & Info Svcs	0.33	0.42	0.40	0.01	23.9%
Sheriff**	0.20	0.21	0.21	0.00	4.5%
Administration Services	0.16	0.20	0.20	0.00	22.7%
Child Support Services	0.11	0.21	0.15	0.07	38.1%
Retirement System	0.05	0.07	0.07	0.00	40.4%
Other Small Departments	1.10	1.27	1.27	0.00	15.5%
Subtotal Non-General Fund	31.80	36.17	31.25	5.01	-1.7%
GRAND TOTAL ***	73.31	80.13	71.83	8.38	-2.0%
% Change from FY 2004-05 Actuals			-2.0%		
% Change from FY 2005-06 Original Budget			-10.5%		

Energy – Natural Gas

While higher natural gas prices helped on the sources or revenue-side of the budget through higher projected utility users tax and franchise tax revenues, it also results in higher heating costs for a number of City facilities. This adversely impacts departments who are larger users of natural gas, including General Fund Supported departments like Public Health and the City Museums. The expenditure projections included in this report reflect the impact for affected departments. Absent an appreciable decline in commodity prices during the second half of FY 2005-06, General Fund Supported departments are projected to be \$4.03 million over budget due mainly to higher natural gas costs. This compares to \$3.83 million in additional utility users tax revenues and \$0.75 million in additional franchise tax revenues.

Energy Costs – Variance from Budget (US\$ Millions)

<u>GENERAL FUND</u>	Power	Gas	Steam	Variance from Budget
Public Health	\$ (0.00)	\$ (0.06)	\$ 0.00	\$ (0.06)
Recreation & Parks	(0.02)	(0.44)	0.00	(0.46)
Fine Arts Museums	(0.08)	(0.10)	0.00	(0.19)
Sheriff	0.00	(0.15)	0.00	(0.15)
War Memorial	(0.00)	(0.12)	0.00	(0.12)
Real Estate Department	(0.01)	(0.04)	0.00	(0.04)
Human Services	(0.00)	(0.11)	0.00	(0.11)
Fire Department	(0.00)	(0.11)	0.00	(0.11)
Asian Art Museum	0.00	(0.03)	0.00	(0.02)
Police Department	0.01	(0.06)	0.00	(0.06)
Juvenile Probation	0.00	(0.09)	0.00	(0.08)
Other Departments	0.04	(1.51)	0.02	(1.45)
Total General Fund	(0.07)	(2.80)	0.02	(2.85)
<u>GENERAL FUND SUBSIDIZED</u>				
Non General Fund				
Laguna Honda Hospital	0.00	(0.32)	0.00	(0.32)
SF General Hospital	0.00	(0.85)	0.00	(0.85)
Subtotal General Fund Subsidized	0.00	(1.17)	0.00	(1.17)
Subtotal General Fund & Subsidized	(0.07)	(3.98)	0.02	(4.03)
<u>OTHER FUNDS</u>				
Municipal Railway	0.05	(0.17)	-	(0.12)
Public Library	(0.00)	(0.03)	0.00	(0.03)
Other Departments	(1.25)	0.32	0.01	(0.92)
Subtotal Non-General Fund	(1.20)	0.12	0.01	(1.07)
GRAND TOTAL	\$ (1.27)	\$ (3.85)	\$ 0.03	\$ (5.10)

Overtime Costs

Overtime is projected to be over budget by approximately \$41 million. The table below includes an overtime summary by key user department. Two projection methodologies are included: 1) straight-line and 2) 'adjusted' (that latter adjusting for hiring plans, seasonality and other one-time events). As in the past, the MTA, Police, Public Health, Fire, Sheriff and the PUC account for nearly 90 percent of all overtime spending in the City.

Overtime Costs (US\$ Millions)

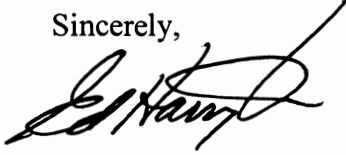
Fund/Service Area	FY 2004-05		FY 2005-06			
	Actual	Revised Budget*	STRAIGHT LINE		ADJUSTED	
			Projection*	Surplus / (Shortfall)	Projection	Surplus / (Shortfall)
MTA						
Municipal Railway	\$ 29.06	\$ 18.67	\$ 37.61	\$ (18.95)	\$ 31.77	\$ (13.10)
Parking & Traffic	0.71	0.81	1.39	(0.58)	1.66	(0.85)
Subtotal - MTA	29.76	19.48	39.01	(19.53)	33.43	(13.95)
Police						
General Fund Operations	12.74	10.50	19.79	(9.29)	17.50	(7.00)
Special Law Enforcement Svcs (10B)*	7.28	11.78	11.78	-	11.78	-
Grants & Other Non-10B Special Revenue	5.12	2.75	2.75	(0.00)	2.75	-
Airport	1.72	2.84	1.94	0.90	1.94	0.90
Subtotal - Police	26.86	27.88	36.26	(8.38)	33.98	(6.10)
Public Health						
All Other Non-Hospital Operations	0.68	0.77	0.69	0.07	0.69	0.07
SF General	6.59	3.93	6.31	(2.38)	6.31	(2.38)
Laguna Honda Hospital	4.92	0.24	6.89	(6.66)	6.89	(6.66)
Subtotal - Public Health	12.19	4.93	13.90	(8.96)	13.90	(8.96)
Fire						
General Fund Operations	5.56	6.92	8.02	(1.10)	7.62	(0.70)
Grants & Other Special Revenues	0.85	1.68	2.02	(0.34)	1.68	-
Airport	1.39	1.51	1.81	(0.30)	1.81	(0.30)
Port	0.20	0.34	0.18	0.16	0.18	0.16
Subtotal - Fire	8.00	10.45	12.04	(1.58)	11.29	(0.84)
Sheriff	6.59	4.73	10.86	(6.13)	9.43	(4.70)
PUC	6.06	2.26	6.91	(4.65)	6.91	(4.65)
Subtotal - Big 6	89.47	69.73	118.97	(49.23)	108.93	(39.20)
Juvenile Probation	1.18	1.17	1.33	(0.16)	1.22	(0.05)
Recreation & Park	0.88	0.80	2.35	(1.56)	2.15	(1.36)
All Other Departments	8.51	12.45	13.04	(0.59)	13.04	(0.59)
Total	\$ 100.04	\$ 84.14	\$ 135.68	\$ (51.54)	\$ 125.34	\$ (41.20)
<i>Big 6 % of Total</i>	<i>89.4%</i>	<i>82.9%</i>	<i>87.7%</i>	<i>95.5%</i>	<i>86.9%</i>	<i>95.2%</i>
Change from Prior Year	\$ 6.46	\$ (15.90)	\$ 35.64		\$ 25.30	
Change from FY 2000-01 Peak	\$ (12.42)	\$ (28.32)	\$ 23.22		\$ 12.88	
Total Gross Salaries	\$ 2,039.82	\$ 2,127.43	\$ 2,127.43		\$ 2,127.43	
Overtime as a % of Total Gross	4.9%	4.0%	6.4%		5.9%	

*Police 10B Revised Budget reflects automatic appropriation equal to the straight-line projection.

IV. 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 \$137.31 million. 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 revenue and expenditure 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
Appendix C: Other Fund Highlights

cc: Department Heads
Noelle Simmons, Mayor's Budget Office
Harvey Rose, Budget Analyst

**APPENDIX A: Status of Supplemental Appropriations
FY 2005-06
As of January 31, 2006**

<u>GENERAL FUND SUPPORTED SUPPLEMENTALS</u>	<u>APPROVED CHANGES</u>	<u>PENDING / POTENTIAL CHANGES</u>	<u>USING GENERAL RESERVE</u>
<u>Approved Supplementals</u>			
BOS - Contract for Budget Analyst Audit of Office of Emergency Services	\$ 179,385		\$ -
Total Changes Approved	<u>\$ 179,385</u>		<u>\$ -</u>
<u>Supplementals Pending at the Board - New or Enhanced Programs</u>			
MYR - Reappropriation of pay for Treasure Island Development Authority Director		\$ 240,000	\$ -
MYR - Real Ownership Opportunities for Tenants		1,500,000	1,500,000
FIR - Retrofitting of Hydrant Adapter Caps		800,000	800,000
CHF - Loan to San Francisco Unified School District to Delay School Closings		5,259,000	5,259,000
Total Supplementals Pending at the Board - None Assumed Approved in 6-Month Projection		<u>\$ 7,799,000</u>	<u>\$ 7,559,000</u>
<u>Additional Anticipated Supplementals</u>			
DPH - Additional funding for Hospitals, Backed by Patient Revenues		\$ 15,205,000	\$ -
POL - Additional funding for Uniform Personnel Costs		5,660,000	5,660,000
REG - Additional funding for June 2006 Election Costs		1,410,000	1,410,000
Total Additional Anticipated Supplementals - All Assumed Approved in 6-Month Projection		<u>\$ 22,275,000</u>	<u>\$ 7,070,000</u>
<u>NON-GENERAL FUND SUPPORTED SUPPLEMENTALS</u>	<u>APPROVED CHANGES</u>	<u>PENDING / POTENTIAL CHANGES</u>	
<u>Approved Supplementals</u>			
DPW - GO Bond 2005A Series and 2005I Series	\$ 108,328,014		
AIR - De-appropriation of Capital for San Francisco International Airport	(287,977,266)		
AIR - Re-appropriation of Capital for San Francisco International Airport	243,723,524		
Total Changes Approved	<u>\$ 64,074,272</u>		
<u>Supplementals Pending at the Board</u>			
DPW - State Traffic Congestion Relief Funds		5,216,754	
AIR - De-appropriation of Capital for San Francisco International Airport		(16,342,714)	
AIR - Re-appropriation of Capital for San Francisco International Airport		16,342,714	
Total Supplementals Pending		<u>\$ 5,216,754</u>	
<u>Additional Anticipated Supplementals</u>			
DPW - Juvenile Hall Replacement Project		\$ 6,565,462	
PUC - PG&E Litigation Cost		4,100,000	
PUC - WSIP Water System Improvement Program		TBD	
Total Additional Anticipated Supplementals		<u>\$ 10,665,462</u>	

**APPENDIX B: Status of Reserves
As of January 31, 2006**

Department	Reserve Description & Follow-Up Action Required	Total Appropriation Reserve	Released	Remaining Balance
X CHF--Children, Youth & Their Families--West Bay Filipino Multi-Service Center	Pending Corrective Action and Controller Audit Recommendation Implementation	\$ 131,250	\$ 131,250	\$ -
X CHF--Children, Youth & Their Families--Proposition H Advance to Unified School District	Pending Detailed Spending Plan from Unified School District or Department	\$ 13,333,334	\$ 1,100,000	\$ 12,233,334
X CON--Controller--Proposition C, City Services Auditor Salaries	Pending City Services Auditor Hiring Plan	\$ 392,193		\$ 392,193
CPC--City Planning--Long Range Planning Surcharge	Pending Fee Legislation Adoption by Board (revenue growth certification)	\$ 800,000	\$ 800,000	\$ -
CPC--City Planning--Visitation Valley Redevelopment Survey Study	Pending Submittal of Work Plan and Detailed Budget	\$ 200,000		\$ 200,000
CRT--Trial Courts--Hall of Justice Replacement Feasibility Study	Pending Approval by the State Administrative Office of the Courts	\$ 1,000,000		\$ 1,000,000
X DPH--Public Health--West Bay Filipino Multi-Service Center	Pending Corrective Action and Controller Audit Recommendation Implementation	\$ 63,489		\$ 63,489
X DPH--Public Health--AIDS/HIV Augmentation	Pending Approval of Detailed Spending Plan	\$ 1,000,000		\$ 1,000,000
X DSS--Human Services--West Bay Filipino Multi-Service Center	Pending Corrective Action and Controller Audit Recommendation Implementation	\$ 85,387	\$ 85,387	\$ -
X DSS--Human Services--Senior Services and Long-Term Care	Pending Approval of Detailed Spending Plan	\$ 3,250,000		\$ 3,250,000
X DSS--Human Services--Human Services Care Funding	Pending Approval of Detailed Spending Plan	\$ 2,167,477		\$ 2,167,477
X ECD--Emergency Communications--Urban Areas Security Initiative (UASI) Grant	Pending Submission of Justification and Detailed Budget to the Board	\$ 11,168,001		\$ 11,168,001
X ENV--Environment--Rents and Leases, Civic Center Consolidation	Pending Timeline Report for Move to 25 Van Ness	\$ 14,893		\$ 14,893
X ENV--Environment--Rents and Leases, Civic Center Consolidation	Pending Timeline Report for Move to 25 Van Ness	\$ 22,340		\$ 22,340
X FIR--Fire--Overtime	Pending Report Regarding Budget Analyst Absenteeism Recommendations	\$ 684,471		\$ 684,471
X GSA-TIS--Telecommunication & Information Services--Cable Franchise Negotiation	Pending Start Timeframe for New Franchise Agreement	\$ 250,000		\$ 250,000
X HRD--Human Resources--Classification Study	Pending Submission of Justification and Detailed Budget to the Board	\$ 150,000		\$ 150,000
X JUV--Juvenile Probation--Overtime	Pending Report Regarding Budget Analyst Absenteeism Recommendations	\$ 108,339		\$ 108,339
POL--Police--Cost Recovery for Street Fairs	Pending Fee Legislation Adoption by Board	\$ 180,000		\$ 180,000
X PUC--Public Utilities Commission--Salaries and Benefits	Pending Report on Budget Analyst Management Audit Recommendations	\$ 17,759,421	\$ 17,759,421	\$ -
X PUC--Public Utilities Commission--Southeast Plant Dewatering Facility	Pending Proceeds from Sale of Bonds	\$ 31,420,000		\$ 31,420,000
X PUC--Public Utilities Commission--Solar Power Project	Pending Proceeds from Sale of Certificates of Participation (COPs)	\$ 12,500,000	\$ 12,500,000	\$ -
X SHF--Sheriff--Overtime	Pending Report on the Implementation of Budget Analyst Recommendations	\$ 419,225		\$ 419,225
X TTX--Treasurer / Tax Collector--Collections Improvement Project	Pending Detailed Revenue and Expenditure Information	\$ 400,000		\$ 400,000
Total Appropriation Reserves		\$ 97,499,820	\$ 32,376,058	\$ 65,123,762
General Fund Supported		\$ 10,165,474	\$ 885,387	\$ 9,280,087
All Other Funds		\$ 87,334,346	\$ 31,490,671	\$ 55,843,675

X = Indicates Board of Supervisor's Financial Committee Reserve

APPENDIX C: Other Fund Highlights

	Prior-Year Fund Balance Surplus / (Shortfall)	Current Year			Estimated Year-end Fund Balance
		Sources Better / (Lower) than Budget	Uses Savings / (Shortfall) from Budget	Net Operating Surplus / (Deficit)	
Other Funds	\$ million	\$ million	\$ million	\$ million	\$ million
<u>Special Revenue Fund</u>					
911 Fund	\$2.13	\$2.48	\$0.00	\$2.48	\$4.61
Building Inspection Operating Fund	\$0.77	\$5.68	\$3.00	\$8.68	\$9.45
Children's Fund	\$0.28	\$2.77	\$0.00	\$2.77	\$3.05
Convention Facilities Fund	\$1.60	\$0.00	\$0.00	\$0.00	\$1.60
Gas Tax Fund **	\$0.00	(\$0.40)	\$0.00	(\$0.40)	(\$0.40)
Golf Fund **	\$0.33	(\$0.15)	(\$0.30)	(\$0.45)	(\$0.12)
Library Preservation Fund	\$6.40	\$5.42	\$0.30	\$5.72	\$12.12
Neighborhood Beautification Fund	\$0.00	\$0.02	\$0.00	\$0.02	\$0.02
Open Space Fund	\$1.81	\$2.70	\$0.00	\$2.70	\$4.51
<u>Enterprise Fund</u>					
Airport Operating Fund	\$96.83	(\$1.80)	\$11.30	\$9.50	\$106.33
MTA – MUNI Operating Fund	(\$1.43)	\$7.14	\$0.00	\$7.14	\$5.71
MTA – Parking & Traffic Operating Fund	\$8.26	\$2.39	\$0.00	\$2.39	\$10.65
Port Operating Fund	\$10.48	\$3.46	\$1.67	\$5.13	\$15.61
PUC – Hetch Hetchy Operating Fund	\$31.85	\$22.51	(\$4.10)	\$18.41	\$50.26
PUC – Wastewater Operating Fund	\$16.32	(\$3.85)	\$2.66	(\$1.19)	\$15.13
PUC – Water Operating Fund	\$42.31	(\$3.90)	\$4.84	\$0.94	\$43.25

Shortfalls are assumed to be backfilled by department savings in the General Fund as discussed previously.

APPENDIX C: Other Fund Highlights (continued)

Notes	Other Funds	Description
<u>Special Revenue Fund</u>		
(1)	911 Fund	The 911 Fund started the current year with an additional \$2.13 M over and above the \$1.50 M appropriated in the budget. Additionally, 911 fee revenues are projected to be \$1.90 M better than budget as are interest earnings projected to be \$0.60 M better than budget. This positive news is slightly offset by miscellaneous fee revenue shortfalls of \$0.02 M. Expenditures are on track overall; however, the department is exceeding its overtime budget by \$1.30 M with offsetting savings in permanent salary expenditures due to higher attrition savings. Staff retention and recruitment for call takers and dispatchers continue to be one of the department's main operating concerns. Once additional staff completes two training classes, they are projected to reduce permanent salary savings as well as overtime costs. Overall, the department will be within its appropriation budget by year-end. The 911 Fund is projected to have a \$2.48 M net current year operating surplus, which then results in a projected year-end fund balance to \$4.61 M that will be available for use in the subsequent budget year.
(2)	Building Inspection Operating Fund	The Building Inspection Fund started current year with an additional \$0.77 M over and above the \$6.53 M appropriated in the budget. Additionally, current year revenues are projected to be \$5.68 M better than budget due primarily to higher Plan Checking and Code Enforcement revenues, as well as some backlog reductions. Expenditure savings of \$3.00 M are projected, which are related to salary savings, as a number of vacant positions are not expected to be filled until March 1. This fund is projected to have an \$8.68 M net operating surplus, resulting in a \$9.45 M projected year-end fund balance.
(3)	Children's Fund	The Children's Fund started current year with an additional \$0.28 M in fund balance over and above the \$2.58 M appropriated in the budget. Additionally, sources are projected to be \$2.77 M better than budget primarily due to higher property tax revenues. Expenditures are projected to be on budget resulting in a \$2.77 M net operating surplus and a \$3.05 M estimated year-end fund balance.
(4)	Convention Facilities Fund	The Convention Facilities Fund began current year with \$1.60 M additional fund balance. Additionally, expenditures are expected to be within its appropriation budget, resulting in a \$1.60 M projected year-end fund balance.
(5)	Gas Tax Fund	The Gas Tax fund is projected to have \$0.40 M in revenue shortfall related to Pavement Mitigation Fees from PG&E and Comcast due to the Court of Appeals decision finding that the City could not charge this fee to companies otherwise subject to a franchise fee. This results in a net operating deficit and an estimated negative fund balance of \$0.40 M. This shortfall is assumed to be covered by the General Fund and reflected in the Public Works General Fund shortfall.

Notes Other Funds Description

- (6) **Golf Fund** The Golf Fund started current year with an additional \$0.33 M in fund balance over and above the \$0.12 M already appropriated in the budget. However, revenue weakness is projected to be \$0.15 M due to course closures from rain and flooding. Additionally, higher expenditures are projected of \$0.38 M related to higher interest costs on the Open Space loan with slightly offsetting other miscellaneous savings of \$0.08 M. While this interest cost news negatively impacts the Golf Fund, it positively impacts the Open Space Fund. This shortfall is assumed to be covered by the General Fund in Recreation and Park, which then reduces that department's potential savings incentive reserve that it could otherwise spend. This fund is projected a \$0.45 M net operating deficit and resulting in an estimated negative fund balance of \$0.12 M by fiscal year-end, which is assumed to be backfilled by Recreation & Park's General Fund savings.
- (7) **Library Preservation Fund** The Public Library began current year with \$6.40 M additional fund balance over and above the \$1.05 M appropriated in the budget. Additionally, current year sources are projected to be \$5.42 M better as a result of higher baselines funding of \$2.10 M from current year and \$1.00 M from prior year, as well as \$2.32 M in higher property tax revenues. Expenditures are projected to show savings of \$0.30 M resulting from salary savings less a partially offsetting increase in workers compensation costs. This fund is projected to have a \$5.72 M net operating surplus and a \$12.12 M estimated fund balance by fiscal year-end.
- (8) **Neighborhood Beautification Fund** Payroll Tax revenues are projected to be \$0.02 M better than budget, while expenditures are projected to be on budget; resulting in both a \$0.02 M net operating surplus and estimated fund balance by fiscal year-end.
- (9) **Open Space Fund** The Open Space Fund ended prior year with \$3.16 M fund balance of which \$1.35 M was appropriated in the current-year budget, leaving a prior-year fund balance surplus of \$1.81 M. Additionally, the current year's property tax revenues are projected to be \$2.32 M better than budget along with \$0.38 M in higher loan repayments from the Golf Fund (Discussed further in the Golf Fund section). On the expenditure side, the Open Space Fund is projected to end the year at budget. This fund is projected to have a \$2.70 M current-year net operating surplus and a \$4.51 M projected fund balance by fiscal year-end.

Enterprise Fund

- (10) **Airport Operating Fund** The Airport Operating Fund ended prior year with additional \$96.83 M over and above the \$6.08 M appropriated in the budget. However, revenues are projected \$1.80 M lower than budget due to both aviation and non-aviation revenues (including parking & concessions). Additionally, air passenger enplanements and airline landed weight have been lower than assumed in the budget. This fee revenue shortfall is more than offset by higher than anticipated interest income earnings and \$11.30 M in projected expenditure savings primarily related to personnel cost savings. The result is a projected net operating surplus of \$9.50 M and an estimated fund balance of \$106.33 M by fiscal year-end.

Notes	Other Funds	Description
(11)	MTA-MUNI Operating Fund	The Municipal Railway Operating Fund ended prior year with \$8.76 M fund balance, \$1.43 M less than the \$10.19 M assumed in the budget. Current year sources are projected to be \$7.14 M better than budget due to: 1) \$5.68 M from additional FY 2005-06 baseline funding, 2) \$2.98 M from additional FY 2004-05 baseline funding, and 3) a partially offsetting operating revenue net shortfall of \$1.52 M. The operating revenue shortfall is related to weakness of \$0.71 M in Parking Fines, \$0.51 M in Transit Advertising, \$0.47 M in Garage Revenues, \$0.24 M in Passenger Fares, \$0.22 M in Property Rental, \$0.06 M in Parking Tax, along with better revenue of \$0.70 M in Cable Car revenues. While expenditures are projected to be on budget overall, the department is on track to overspend their overtime budget by \$13.10 M assuming their moratorium on overtime spending which was implemented January 1, 2006 is imposed through year-end. The department also is projected to have \$7.60 M in savings in permanent salaries along with \$3.00 M in professional contract savings, \$3.00 M savings in workers' compensation savings, and a small utility shortfall. This fund is projected a net operating surplus of \$7.14 M, which will result in a projected \$5.71 M fiscal year-end balance.
(12)	MTA-Parking & Traffic Operating Fund	The Parking & Traffic Operating Fund began current year with \$8.26 M fund balance. Current year sources are projected to be \$2.39 M better than budget due to: 1) \$2.22 M from additional FY 2005-06 baseline funding, 2) \$1.06 M from additional FY 2004-05 baseline funding, and 3) a partially offsetting operating revenue net shortfall of \$0.89 M. Operating revenue performance is related to weakness of \$0.80 M in Parking Meters, \$0.27 M in License & Permits, \$0.04 M in Fines, along with better revenue of \$0.23 M in Garages. Expenditures are projected to be on budget overall. While higher than anticipated attrition is expected to generate \$1.20 M salary savings, overtime spending is largely offsetting this savings. The department reports that some 30 positions are out on long-term leave, which is impacting overtime costs. Additionally, the department reports that the temporary salary shortfall of \$0.35M is the result of additional staffing at the Citation Processing Unit to resolve long wait times and a backlog in processing mail-in citations, residential parking permits and responding to general customer inquiries. The purchase of a queue-matic system that monitors wait times, and allows for a more orderly cueing process should permanently address this issue. This fund is projected to have a net operating surplus of \$2.39 M and an estimated fund balance of \$10.65 M by fiscal year-end.
(13)	Port Operating Fund	The Port Operating Fund began current year with additional \$10.48 M over and above the \$12.39 M appropriated in the budget. Additionally, projected revenues in Maritime, Ship Repair, Cruise, and Parking are better than budget; offset by shortfalls in Fishing and Fines for a net additional revenue of \$3.46 M. Furthermore, approximately \$1.67 M of expenditure savings is projected from both salary savings and lower use of work orders, for a net current year operating surplus of \$5.13 M, resulting in an estimated fund balance of \$15.61 M by fiscal year-end.

Notes Other Funds Description

- (14) **PUC-Hetch Hetchy Operating Fund** The Hetch Hetchy Operating Fund started current year with an additional \$31.85 M over and above the \$28.24 M appropriation in the budget. Additionally, current year revenues are projected to be \$22.51 M better than budget as a result of heavy rains allowing for greater power production and the strong resale market for power. Expenditures are projected to be over budget by \$4.10 M due to unexpected litigation costs. A supplemental appropriation request has been submitted to the Controller and Mayor's Budget Office. Overall, the resulting net operating surplus of \$18.41 M is projected, with a resulting estimated fund balance of \$50.26 M by fiscal year-end.
- (15) **PUC-Wastewater Operating Fund** The Wastewater Operating Fund began current year with a \$16.32 M fund balance and none was appropriated in current-year budget. Current-year revenues are projected to be \$3.85 M under budget due mainly to lower consumption and associated lower sewer service charges. This is offset by a projected savings of \$2.66 M primarily attributable to salary savings due to hiring delays for a resulting net current-year operating deficit of \$1.19 M and an estimated fund balance of \$15.13 M by fiscal year-end.
- (16) **PUC-Water Operating Fund** The Water Operating Fund began current year with additional \$42.31 M over and above \$21.87 M appropriated in the budget. Current-year revenues are projected to be \$3.90 M under budget due mainly to lower wholesale water sales revenue than assumed in the budget. This is offset by a projected savings of \$4.84 M primarily attributable to salary savings from operations staff savings related to delays in hiring. The net current-year operating surplus is projected to be \$0.94 M and results in an estimated fund balance of \$43.25 M by fiscal year-end.