

City and County of San Francisco

Office of the Controller

FY 2008-09 Six-Month Budget Status Report



February 10, 2009



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Summary

The Controller's Office provides periodic budget status updates to the City's policy makers during the course of each fiscal year, as directed by Charter Section 3.105. This report provides updated expenditure and revenue information and projections at the midpoint, or six month mark, of fiscal year (FY) 2008-09.

- **General Fund Revenue Weakness is Modestly Worse than Previously Projected.** Current year revenues continue to weaken versus those assumed in the adopted budget. Our office now projects a revenue shortfall of \$126.9 million in the current year, below the bottom end of the \$90 million to \$125 million range of losses we estimated in October 2008.
- **Expenditure Savings and Reserve Balances are Available to Offset These Losses.** Expenditure reductions – primarily those implemented by the Mayor's Office in early December – are projected to yield approximately \$4.7 million in savings versus the adopted budget. These savings, when combined with a better than anticipated starting balance for the current year, an available withdrawal from the City's Rainy Day Reserve, and after accounting for other legally required reserve deposits, offset projected General Fund revenue losses.
- **Projected General Fund Year-End Balance is \$20.1 Million.** Given the revenue and spending projections outlined above and detailed in this report, we project an ending General Fund balance for FY 2008-09 of \$20.1 million. For comparative purposes, this is \$85.0 million lower than the General Fund ending balance of \$105.1 million at the end of last fiscal year (FY 2007-08).
- **Considerable Projection Uncertainty Remains.** Continued fluctuations in tax revenues due to economic volatility, the precarious budget position of the State of California, and ongoing expenditure reductions by departments all mean that considerable uncertainty remains in our projections. We will update these projections in our Nine-Month Budget Status Report, planned for issuance in early May.

Summary of General Fund Budget

The Controller's Office projects an available General Fund balance of \$20.1 million at the end of FY 2008-09, as summarized below.

Table 1. FY 2008-09 Projected General Fund Ending Balance (\$ Millions)

A. Starting Balance	
Better than anticipated starting balance	\$ 23.4
Budgeted General Fund reserve	20.1
	<hr/>
	43.5
B. Revenues	
Citywide Revenues	(116.8)
Departmental Revenues	(10.1)
	<hr/>
	(126.9)
C. Expenditures	
Departmental operating and capital reductions and savings	72.2
Reduced Baseline Contributions & Parking Tax Set-Aside	22.5
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	94.7
D. Use of Reserves	
Uses of General Fund Reserve	(0.5)
Rainy Day Reserve Withdrawal	6.3
Budget Savings Incentive Reserve Net Withdrawal	3.0
	<hr/>
	8.8
E. Ending Balance	
	<hr/>
	\$ 20.1
	<hr/>

A. General Fund Starting Balance = \$43.5 Million

The General Fund unreserved fund balance at the end of FY 2007-08 was \$105.1 million. The FY 2008-09 budget assumed and appropriated \$81.7 million of this balance, leaving a surplus of \$23.4 million available for use in the current fiscal year. Combined with a budgeted General Fund Reserve of \$20.1 million in the adopted budget, the starting balance available for appropriation in FY 2008-09 was \$43.5 million.

B. General Fund Revenue Loss = \$(126.9) million

The adopted FY 2008-09 budget assumed continued local economic growth and moderate growth in General Fund tax revenues. On October 31, 2008, the Controller's Office issued revised

projections of major tax revenues given the sudden and dramatic change in the national, state and local economic outlook after significant shocks in the financial markets in September. The revenue projections in this report reflect a number of changes from those presented in our three-month update.

(\$ Millions)	<u>3-Month Estimate</u>		<u>6-Month Estimate</u>
	Better Case	Worse Case	
Property Tax	(8.0)	(8.0)	(4.1)
Property Transfer Tax	(40.0)	(49.0)	(49.5)
Payroll Tax	1.0	(7.0)	11.7
Sales Tax Related	(33.0)	(43.0)	(37.0)
Hotel Tax	(14.0)	(19.0)	(39.8)
Other (Fees, Grants, etc.)	4.0	1.0	(8.2)
Total	(90.0)	(125.0)	(126.9)

These revised projections are informed with more recent information on the performance of the local economy in the final months of calendar year 2008.

- Property Transfer Tax.** Total taxes paid in the first six months of the year were 42.1 percent below prior year levels, and transaction counts declined 20.2 percent. This revenue is highly dependent on investor interest, economic cycles, interest rates, credit availability, and the strength of the dollar against other currencies. The current year budget assumed a 24.0 percent reduction versus the prior fiscal year budget, however, experience during the year to date indicates much larger declines than initially projected. The projected shortfall of \$49.5 million is the result of applying the year over year change for the most recent four months to the remainder of the year.
- Payroll Tax.** Payroll tax revenues are projected to increase 3 percent over prior year actuals due to moderate overall growth in jobs and wages during the first three quarters of calendar year 2008. Local job losses at the end of 2008 will affect payroll tax collections in FY 2008-09 and will further impact this revenue source in FY 2009-10. However, we currently project payroll tax collection to exceed budget by \$11.7 million in FY 2008-09 due largely to significant collections of delinquent taxes.
- Hotel Tax.** Given a significant and abrupt worsening of occupancy and average daily room rates for local hotels in the final months of 2008 and our expectation that this trend will continue through the current fiscal year, we project losses versus the adopted budget of \$39.8 million for FY 2008-09.
- Sales Tax Related.** Revenues related to sales tax receipts at both the state and local levels, including the local 1 percent sales tax, Health and Welfare Realignment, and Public Safety Sales Tax are projected to be \$37.0 million below budget. Local sales tax revenues are projected to be \$13.0 million below budget due to declining receipts in gasoline and other sources and adjustments. Statewide sales tax is expected to decline 9.0 percent during the year, affecting Realignment and Public Safety Sales Tax.
- Other Sources.** All other sources of General Fund revenue are projected to fall \$8.2 million below budgeted levels. This includes the net effect of changes in departmental

grant, fee, license, permit, and intergovernmental revenue not included in our October review, which included only major tax and line items.

C. General Fund Expenditures Savings = \$94.7 Million

We project net expenditure savings of \$94.7 million, as summarized in Table 2 below and further detailed and discussed in Appendix 2 of this report. These savings include the liquidation of capital project balances that in some cases were appropriated in prior fiscal years.

Table 2. FY 2008-09 Departmental Budget Summary of Sources and Uses

General Fund (\$ Millions)

	Revenue Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Surplus /(Deficit)
Net Deficit Departments			
City Attorney	\$ -	\$ (1.0)	\$ (1.0)
Public Defender	-	(0.7)	(0.7)
Board of Appeals	(0.2)	-	(0.2)
Ethics Commission	(0.1)	0.1	(0.0)
Subtotal Departments with Net Deficits	\$ (0.3)	\$ (1.6)	\$ (2.0)
Net Surplus Departments			
Public Health	\$ (5.0)	\$ 12.2	\$ 7.2
SF General and Laguna Honda Hospital	-	4.6	4.6
Total Public Health	(5.0)	16.8	11.8
Police	0.2	8.9	9.1
Human Services	(3.8)	9.1	5.3
Fire Department	(1.8)	6.2	4.4
Recreation and Parks	-	3.1	3.1
Elections	3.3	(1.2)	2.1
Assessor / Recorder	0.1	1.3	1.4
Sheriff	0.2	1.0	1.2
City Administrator	(0.3)	1.4	1.1
Economic & Workforce Development	-	1.1	1.1
District Attorney	(0.1)	1.1	1.0
Public Works	-	1.0	1.0
Children, Youth & Their Families	-	0.8	0.8
Controller	-	0.7	0.7
Juvenile Probation	-	0.7	0.7
Technology	-	0.6	0.6
Mayor	-	0.5	0.5
All Other Net Surplus Departments	(2.4)	4.9	2.5
Subtotal Departments with Net Surpluses	\$ (9.7)	\$ 58.1	\$ 48.4
Baselines - Municipal Transportation Agency (MTA)	\$ -	\$ 18.2	\$ 18.2
Parking Tax in lieu Transfer - MTA	-	0.1	0.1
Baselines - Library	-	4.2	4.2
Subsidy Transfer to SF General Hospital for Realignment	-	(5.9)	(5.9)
Transfers to General Fund Supported Funds	-	(1.0)	(1.0)
Mid-Year Reductions (Citywide Capital)	-	22.7	22.7
Subtotal Non-Departmental	\$ -	\$ 38.3	\$ 38.3
Total Current Year Operations	\$ (10.1)	\$ 94.7	\$ 84.6

As summarized above, the majority of city departments are projected to achieve significant savings versus the adopted budget, primarily given spending reductions directed by the Mayor's Office this past December to offset projected General Fund tax revenue losses.

However, we project that four General Fund departments will require supplemental appropriations or additional expenditure reductions given projected overspending or under-recovery versus the adopted budget:

- **City Attorney and Public Defender.** Both departments are projected to overspend or under-recover their expenditure budgets. Neither department has additional revenue available to cover the shortfalls. The Mayor's Office and the Controller's Office will continue to work with both departments to develop balancing plans.
- **Public Health.** The department plans to request a supplemental appropriation of \$11.0 million to cover projected spending in excess of budget at San Francisco General Hospital (\$7.5 million) and Laguna Honda Hospital (\$3.5 million). This supplemental will be funded by additional net patient revenue related to higher census levels than were assumed in the budget.
- **Elections.** The Elections Department plans to request a supplemental appropriation of \$1.2 million to cover projected over-expenditures related to the November 2008 election. This supplemental will be funded by unanticipated revenue from State reimbursement for the February 2008 special election. In addition, if a special election is held in June 2009 the department will incur an estimated \$3.5 million in additional costs, which have not been assumed in our projections.

Additionally, the San Francisco Charter establishes baseline funding levels for a number of city services. These baselines are indexed to overall growth or loss of aggregate General Fund discretionary revenues. The Controller's Office updated the formula used to calculate aggregate discretionary revenue to ensure consistent year-over-year exclusion of non-discretionary fee revenues. The combined effect of the formula update and the revenue shortfalls discussed above, result in a projected \$22.5 million decrease in required revenue-driven transfers, as summarized in Table 3 below.

Table 3. FY 2008-09 Revenue-Driven Transfers

(\$ Millions)	Original Budget	6-Month Projection	General Fund Savings/(Deficit)
Municipal Railway Baseline	\$ 143.3	\$ 128.9	\$ 14.3
Parking and Traffic Baseline	52.5	48.6	3.8
Parking Tax in Lieu Transfer to MTA	52.3	52.2	0.1
Municipal Transportation Agency	\$ 195.7	\$ 177.5	\$ 18.2
Library Preservation Baseline	46.3	42.1	4.2
Total Revenue Driven Transfers	\$ 294.3	\$ 271.8	\$ 22.5

In addition, the Children's Services and Public Education minimum required baseline appropriations have decreased. However, these baselines remain funded beyond their minimum requirements, as shown below:

Appropriation Baselines	Original Budget Appropriation	Original Budget - Minimum Requirement	6-Month Projection Minimum Requirement
Children's Services Baseline	\$ 126.7	\$ 106.3	\$ 96.5
Public Education Baseline	6.0	5.9	5.6
Total Appropriation Baselines	\$ 132.7	\$ 112.2	\$ 102.1

D. Use of Reserves = \$8.8 Million

Our projection assumes the following uses of and deposits into various reserves during the current fiscal year. In total, the net effect of these actions is a projected withdrawal of \$8.8 million from the General Fund during FY 2008-09, as summarized in Table 4 below.

Table 4. FY 2008-09 General Fund Impact of Reserves (\$ Millions)

	Starting Balance	General Fund Withdrawal / Deposit	Ending Balance
Citywide Budget Savings Incentive Reserve	\$ 8.2	\$ 7.8	\$ 0.4
Recreation & Park Budget Savings Incentive Reserve	0.4	(4.8)	5.2
Subtotal Budget Saving Incentive Reserves	8.6	3.0	5.6
Rainy Day Reserve	\$ 98.3	\$ 6.3	\$ 92.0
General Fund Reserve	20.1	(0.5)	19.6
Total General Fund Impact		\$ 8.8	

- **Citywide Budget Savings Incentive Reserve Deposit**

As required under Administrative Code Section 10.20, up to 25 percent of the total appropriation savings by General Fund departments and the Department of Public Health's hospital funds are deposited into the Citywide Budget Savings Incentive Reserve. This reserve is subsequently allocated in the next fiscal year to departments that generated net year-end expenditure savings in the current fiscal year. At the end of FY 2007-08 there was a \$16.2 million balance in the reserve, of which \$7.9 million was appropriated in the FY 2008-09 budget, leaving a current unappropriated balance in the reserve of \$8.2 million. The Administrative Code states that the Controller may suspend the carry forward of reserve balances in years when the Controller determines that the City's financial condition cannot support deposits into the fund. Based on current projections, this report assumes that the Controller will limit deposits into the fund to \$0.4 million at the end of FY 2008-09 and that Controller would suspend the carry forward of the \$8.2 unappropriated balance from the prior fiscal year, resulting in a projected year-end balance of \$0.4 million.

- ***Recreation & Park Budget Savings Incentive Reserve Deposit***

Charter Section 16.107 requires that overall Recreation & Park Department expenditure savings be retained by the Department to be dedicated to one-time expenditures. At the beginning of the fiscal year, there was a \$0.4 million balance in this reserve. The department projects to end the year with a \$4.8 million surplus in the General Fund, including departmental operating savings of \$3.1 million and \$1.7 million of capital project savings, which will be deposited into this reserve. We therefore project a fiscal year-end balance of \$5.2 million in this reserve.

- ***General Fund Reserve***

To date, \$0.5 million has been appropriated from the budgeted \$20.1 million General Fund Reserve, leaving a projected balance of \$19.6 million that will be available at the end of the current fiscal year. The Mayor's FY 2008-09 budget submission included a \$25.0 million General Reserve. The final FY 2008-09 budget passed by the Board of Supervisors included policy changes that added \$4.9 million in costs, reducing the General Reserve to \$20.1 million. The Mayor's first round of mid-year expenditure reductions was designed to restore the General Fund Reserve to \$25.0 million.

This report assumes that there will be no further appropriations from the General Reserve, so that the entire remaining \$19.6 million appropriation may close to fund balance at the end of the fiscal year.

- ***Rainy Day Economic Stabilization Reserve***

City Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve funded by excess revenue growth in good years, which can be used to support the City General Fund and San Francisco Unified School District operating budget in years when revenues decline. The Rainy Day Economic Stabilization Reserve began the year at \$117.6 million. As prescribed in the FY 2008-09 budget, \$19.3 million from the Rainy Day Economic Stabilization Reserve has been allocated to the San Francisco Unified School District to offset the impact of declining State aid, resulting in a current balance of \$98.3 million. If actual revenues at the end of the fiscal year are realized at projected levels, the City would be able to withdraw up to \$6.3 million from the Reserve, leaving a balance of \$92.0 million.

- ***Salary and Benefits Reserve***

Administrative Provisions Section 10.3 of the AAO authorizes the Controller to transfer funds from the Salary and Benefits Reserve, or any legally available funds, to adjust appropriations for salaries and related fringe benefits for collective bargaining agreements adopted by the Board of Supervisors. For FY 2008-09 the budgeted Salary and Benefits Reserve, or Memorandum of Understanding (MOU) Reserve, is equal to \$14.4 million. As of February 9, 2009, the Controller's Office has transferred \$11.3 million to individual City departments as detailed in Appendix 3, which also outlines the projected need for the remaining \$3.1 million reserve. No surplus balance is projected at this time.

E. Ending General Fund Balance = \$20.1 Million

The Controller's Office currently projects an ending General Fund balance of \$20.1 million for FY 2008-09. We will update these budget projections in the Controller's Nine-Month Budget Status Report, scheduled to be published in May 2009.

F. Other Funds

Special revenue funds are used for departmental activities that have dedicated revenue sources or legislative requirements that mandate the use of segregated accounts outside the General Fund. Some of these special revenue funds receive General Fund baseline transfers and other subsidies in the FY 2008-09 budget, including the Public Library Fund (\$46.3 million), Children's Fund (\$43.1 million), Gasoline Tax Fund (\$12.0 million), Public Protection/911 Project Fund (\$11.0 million), Convention Facilities Fund (\$10.8 million), and Human Welfare Fund (\$1.0 million).

Enterprise funds are used primarily for self-supporting agencies, including the Airport, Public Utilities Commission and the Port. Some enterprise fund operations are supported with significant General Fund subsidies budgeted in FY 2008-09, including the Municipal Transportation Agency (\$195.7 million), San Francisco General Hospital (\$145.9 million) and Laguna Honda Hospital (\$51.5 million).

Projected General Fund Support requirements for these funds are included in the Department budget projections in Appendix 2 Appendix 4 provides a table of selected special revenue and enterprise fund balance projections and a discussion of significant issues associated with their operations.

G. Scheduled Update: Nine-Month Report in May

The Controller's Office will update these budget projections in the Controller's Nine-Month Budget Status Report, scheduled to be published in May 2009.

H. Appendices

1. General Fund Revenues and Transfers In
2. General Fund Department Budget Projections
3. Salaries and Benefits Reserve Update
4. Other Funds Highlights

Appendix 1. General Fund Revenues and Transfers In

Total General Fund revenues are projected to be \$126.9 million under budget by year end, slightly worse than the \$125.0 million shortfall projected on October 31, 2008. The FY 2008-09 budget assumed continued local economic growth and moderate growth in General Fund tax revenues. Some of these assumptions were met or exceeded in the first quarter, notably in Hotel Tax, however, the global financial market upheavals and credit crunch that began in September caused the City's economic outlook to worsen significantly. Six-Month projections reflect this change, with most tax revenues projected to decline over prior year actuals. As reported in October, the greatest losses are in the areas most sensitive to the recent changes in economic conditions, including Real Property Transfer Tax, Hotel Room Tax, state and local Sales Tax related items, and Interest Income. Key projection uncertainties remain, particularly related to economic volatility affecting tax revenues, the outcome of state budget negotiations and the local effects of any federal stimulus bill.

	FY 2007-08	FY 2008-09	FY 2008-09	sort order
Revenues & Transfers-In (\$ Millions)	Year-End Actuals	Revised Budget	6-Month Projection	Surplus (Shortfall)
Business Taxes	\$ 394.3	\$ 394.6	\$ 404.9	\$ 10.4
Other Revenues	160.3	169.2	177.3	9.1
Utility Users Tax	87.0	82.8	87.8	5.1
Other State Grants & Subventions	33.7	18.1	17.1	1.9
Subtotal - Key Surpluses	\$ 675.3	\$ 664.6	\$ 687.2	\$ 26.3
Real Property Transfer Tax	\$ 86.2	\$ 94.3	\$ 44.8	\$ (49.5)
Hotel Room Tax	165.5	188.7	148.9	(39.8)
Health & Welfare Realignment	166.6	170.2	153.4	(16.7)
Sales Tax	111.4	119.3	106.3	(13.0)
Interest Income	31.2	21.4	12.5	(8.9)
Prop 172 Public Safety Sales Tax	69.7	73.8	66.6	(7.3)
Property Tax	943.5	1,018.9	1,014.8	(4.1)
Health/Mental Health Subventions	79.0	86.6	84.7	(3.4)
State Social Service Subventions	140.7	136.1	132.2	(3.0)
Public Safety Service Charges	24.9	26.8	24.6	(2.2)
Federal Grants & Subventions	182.1	208.0	204.3	(2.1)
General Government Service Charges	30.2	35.7	33.8	(1.9)
Medicare, Medical & Health Charges	55.1	54.3	52.2	(0.8)
Subtotal - Key Shortfalls	\$ 2,086.0	\$ 2,234.1	\$ 2,079.0	\$ (152.7)
Total Revenues	\$ 2,761.3	\$ 2,898.7	\$ 2,766.2	\$ (126.4)
Transfers In	\$ 68.9	\$ 120.0	\$ 117.7	\$ (0.6)
Total Revenues & Transfers In	\$ 2,830.2	\$ 3,018.7	\$ 2,883.9	\$ (126.9)

Property Tax revenues are projected to be \$4.1 million under budget due to an \$8.1 million assumed increase in deposits into the Assessment Appeals Reserve, offset by a net increase of \$1.3 million related to changes in the roll and \$3.0 million in savings from decreased Education Revenue Augmentation Fund (ERAF) shifts to the State. This shortfall will affect Property Tax set asides in the Special Revenue Funds as follows:

	Surplus (Shortfall)
Children's Fund	(\$0.7)
Library Fund	(\$0.4)
Open Space Fund	(\$0.4)

An area of risk to Property Tax revenue is the possibility of significant assessment appeals, particularly from owners of commercial properties whose values fluctuate with their ability to earn income from business activity. We have assumed additional deposits into the Assessment Appeals Reserve of \$8.1 million in the current year.

Foreclosures have not had a significant impact to date on property valuation in San Francisco. The number of foreclosures in San Francisco increased from 162 in FY 2006-07 to 494 in FY 2007-08, a 205 percent increase. Foreclosures are expected to increase 50 percent or more in FY 2008-09. While the percent change in foreclosures is significant, the absolute number of homeowners affected is still relatively small compared to other Bay Area counties. Total Bay Area foreclosures in the first quarter of this fiscal year were approximately 12,000, which were concentrated in the eastern counties.

Business Tax revenues are projected to be \$10.4 million over budget due to collections of delinquent Payroll Tax revenue by the Tax Collector's Office partly offset by declining Business Registration Tax from fewer business formations. Aside from delinquent collections, Payroll Tax revenues are projected to increase 3 percent over prior year actuals due to moderate overall growth in jobs and wages during 2008, as gains in the first three quarters of 2008 offset the losses that began in the fourth quarter. The budget assumed 4 percent growth in wages and jobs before correcting for one-time, prior year receipts. Our 3.2 percent projected decrease in employment and earnings for tax year 2009 will largely affect FY 2009-10 Payroll Tax receipts.

Jobs Growth

San Francisco PMSA (Marin, San Francisco, San Mateo)

Source: California Economic Development Department Monthly Jobs Data through December 2008

Calendar Year	Average Annual Jobs	Growth / (Decline)	% Change
2000	1,085,767		
2001	1,057,417	(28,350)	-2.6%
2002	990,533	(66,883)	-6.3%
2003	954,167	(36,367)	-3.7%
2004	942,450	(11,717)	-1.2%
2005	948,583	6,133	0.7%
2006	967,242	18,658	2.0%
2007	989,533	22,292	2.3%
2008	999,625	10,092	1.0%

Local Sales Tax revenues are projected to be \$13.0 million under budget, or 4.6 percent under prior year actuals. Cash collections for the first quarter of 2008-09 were up 6.5 percent over the same quarter prior year, while collections in the nine-county Bay Area decreased 2.8 percent and statewide collections declined 3.2 percent. San Francisco experienced declines of 2.0 and 2.2 percent in general retail and construction, respectively, which were smaller declines than in many other areas of the state, as these economic categories are particularly sensitive to the housing and credit market problems. Receipts for food products, which include restaurants and grocery stores which typically increase with the costs of labor and food prices, were up 3.3 percent, and receipts for transportation were up 3.0 percent due to gasoline prices. Statewide, the largest gains were due to gasoline sales, and the largest losses were in new and used auto sales.

A total of \$2.5 million in adjustments to the sales tax base due to the reallocation of jet fuel taxes, the reduction in gasoline prices, and for a number of small audit adjustments and business closures is projected. Applying a projected 3 percent decline in local retail sales to all taxable sales in the remaining three quarters of the year results in the total 4.6 percent decline.

Sales Tax Revenue, Local 1% Portion – Including ‘Triple Flip’

(\$ Millions)

	Fiscal Year	Direct Allocation	Triple Flip Shifts	Total GF Revenue	Annual Growth	
					\$ Change	% Change
Prior Peak	FY 2000-01	\$ 138.28		\$ 138.28	\$ 4.89	3.7%
	FY 2001-02	\$ 116.83		\$ 116.83	\$ (21.45)	(15.5%)
	FY 2002-03	\$ 115.58		\$ 115.58	\$ (1.25)	(1.1%)
	FY 2003-04	\$ 120.64		\$ 120.64	\$ 5.06	4.4%
	FY 2004-05	\$ 94.69	\$ 23.60	\$ 118.29	\$ (2.35)	(2.0%)
	FY 2005-06	\$ 103.07	\$ 33.77	\$ 136.84	\$ 18.55	15.7%
	FY 2006-07	\$ 107.81	\$ 35.64	\$ 143.45	\$ 6.61	4.8%
	FY 2007-08	\$ 111.41	\$ 37.32	\$ 148.73	\$ 5.28	3.7%
	Budget FY 2008-09	\$ 119.33	\$ 39.95	\$ 159.28	\$ 10.55	7.1%
	6-Month Projection FY 2008-09	\$ 106.29	\$ 40.60	\$ 146.88	\$ (1.85)	(1.2%)

Hotel Room Tax revenues are projected to be \$39.8 million under budget in the General Fund. This includes the payment of \$5.3 million for Redevelopment Agency revenue bonds from Hotel Taxes which were originally budgeted to be paid from Property Tax revenues. Hotel Tax receipts in the first quarter increased 11.0 percent over the prior year, but an equally large decrease in the second quarter is expected once December receipts are finalized. November occupancy and average daily room rates (ADR) dropped 11.1 and 8.1 percent from November 2007, respectively, a combined decline of 19.1 percent. Adjusting for particularly high rates in November 2007, we project losses of 12.0 percent for the remaining two quarters of the fiscal year, which results in a decline in total revenue of 4.5 percent over prior year actuals. This loss is entirely reflected in the General Fund unallocated portion of Hotel Tax as the allocation stipulated in the FY 2008-09 Annual Appropriation Ordinance (AAO) overrides the Municipal Code allocation and can only be changed legislatively.

Hotel Occupancy Rates

MONTH	FY 2006-07	FY 2007-08	FY 2008-09	Change
July	82.0%	84.9%	90.0%	6%
August	82.7%	87.1%	93.0%	7%
September	86.5%	86.9%	87.3%	0%
October	85.7%	86.4%	83.1%	-4%
November	71.8%	76.0%	67.6%	-11%
December	62.4%	65.3%		
January	61.8%	63.2%		
February	72.1%	73.9%		
March	75.4%	76.9%		
April	77.0%	78.1%		
May	82.8%	79.6%		
June	82.4%	85.8%		
AVG. OCC. RATE - ANNUAL	76.9%	78.7%		
% Rate Chg from PY	0.7%	1.8%		
% Change from PY	1.0%	2.3%		

Average Daily Room Rates (ADRs)

MONTH	FY 2006-07	FY 2007-08	FY 2008-09	Change
July	\$ 163.57	\$ 183.85	\$ 185.72	1%
August	\$ 162.20	\$ 185.94	\$ 186.51	0%
September	\$ 179.76	\$ 200.86	\$ 210.55	5%
October	\$ 201.01	\$ 213.31	\$ 209.82	-2%
November	\$ 166.18	\$ 192.62	\$ 177.10	-8%
December	\$ 150.90	\$ 157.17		
January	\$ 168.82	\$ 180.93		
February	\$ 182.61	\$ 197.90		
March	\$ 186.05	\$ 200.96		
April	\$ 179.46	\$ 187.87		
May	\$ 188.66	\$ 190.46		
June	\$ 176.85	\$ 203.73		
AVERAGE ADR - ANNUAL	\$ 175.51	\$ 191.30		
\$ Change from PY	\$ 14.98	\$ 15.79		
% Change from PY	9.3%	9.0%		

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

Real Property Transfer Tax revenues are projected to be \$49.5 million under budget, or 48.0 percent below prior year levels. Total taxes paid in the first six months were 42.1 percent below prior year levels, and transaction counts declined 20.2 percent. This revenue has traditionally been one of the General Fund's most volatile taxes and is highly dependent on investor interest, economic cycles, interest rates, credit availability, and in the past several years, the strength of the dollar against other currencies. Low mortgage, capitalization, and exchange rates fueled an unsustainable level of transactions in fiscal years 2004-05 through 2006-07. The current year budget assumed a 24.0 percent reduction versus the prior fiscal year budget. However, experience during the year to date indicates much larger losses than initially projected. The projected shortfall of \$49.5 million is the result of applying the year over year change for the most recent four months to the remainder of the year.

Real Property Transfer Tax Revenue (\$ millions)										
Fiscal Year	@ 0.50%		@ 0.68%		@ 0.75%		@ 1.5%		Timing Differences	Total Revenue*
	<\$250K	>\$250K	>\$1 M	>\$5 M						
FY 2004-05	\$ 0.6	\$ 37.2	\$ 78.9	N/A	\$ 0.10	\$ 116.8				
FY 2005-06	\$ 0.5	\$ 31.4	\$ 98.3	N/A	\$ 1.05	\$ 131.3				
FY 2006-07	\$ 0.4	\$ 29.3	\$ 114.3	N/A	\$ 0.00	\$ 144.0				
FY 2007-08	\$ 0.5	\$ 24.7	\$ 61.0	N/A	\$ (0.00)	\$ 86.2				
FY 2008-09 Budget	\$ 0.5	\$ 25.5	\$ 65.6	\$ -	\$ -	\$ 91.6				
FY 2008-09 Projection	\$ 0.5	\$ 22.5	\$ 22.8	\$ 1.0	\$ -	\$ 46.8				

Through December Actuals							
FY 2007-08 YTD	\$ 0.3	\$ 13.1	\$ 35.1	N/A		\$ 48.4	
FY 2008-09 YTD	\$ 0.2	\$ 11.3	\$ 16.4	\$ 0.2		\$ 28.0	
YTD Change	-8.7%	-14.0%	-53.4%	N/A		-42.1%	

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

Transaction Count									
Fiscal Year	@ 0.50%		@ 0.68%		@ 0.75%		@ 1.5%		Total
	<\$250K	>\$250K	>\$1 M	>\$5 M					
FY 2004-05	1,176	8,699	3,056	N/A				12,931	
FY 2005-06	931	7,400	3,355	N/A				11,686	
FY 2006-07	800	7,225	3,003	N/A				11,028	
FY 2007-08	810	6,498	2,951	N/A				10,259	
FY 2008-09 Budget	851	6,494	3,070	-				10,414	
FY 2008-09 Projection	735	4,724	2,853	4.00				8,316	

Through December Actuals				
FY 2007-08 YTD	479	3,415	1,531	5,425
FY 2008-09 YTD	372	2,939	1,020	4,331
YTD Change	-22.3%	-13.9%	-33.4%	-20.2%

Proposition N, passed by the voters in November 2008, increased the property transfer tax rate on transactions valued at over \$5 million from 0.75 percent to 1.5 percent. Only one transaction in this new tax bracket occurred through December, an additional indication of the decline in large commercial transactions.

Utility Users Tax revenues are projected to be \$5.1 million better than budget, or 1.0 percent over prior year actuals, which were higher than expected due to a spike in natural gas prices in the final quarter of the year and prior year revenue from unregistered businesses identified by the Tax Collector. A decline in gas and electric user tax of approximately 3.0 percent is projected to be offset by increases in telephone user tax, given continued substitution of cell phones for residential land lines, and to a slight increase in water bills, given the net effect of a 15.0 percent rate increase tempered by conservation efforts.

Interest & Investment Income is projected to be \$8.9 million under budget, or 60.0 percent below prior year actuals. The budget assumed a 32.0 percent decline in average monthly interest rates, to 2.7 percent, due to successive cuts in the Federal Funds rate in the prior year. However, average interest rates through December were 47.0 percent below the prior year and earnings declined by 57.0 percent. Projected revenues assume average monthly interest rates of 1.6 percent from January through year end and a reduction in cash balances.

Health & Welfare Realignment revenues in the General Fund are projected to be under budget by a total of \$16.7 million. Current year trends in the Sales Tax portion of Realignment revenues, which are based on statewide Sales Tax receipts, show the City 8.7 percent below prior year actual revenues at year end. Given various state and national level projections of declining California retail activity and taxable sales through the fiscal year ranging from 6.5 to 8.0 percent, this revenue is projected to be 9.0 percent below prior year actuals. Current trends in receipts of the Vehicle License Fee (VLF) portion of Realignment revenues show the City 5.5 percent below prior year actual revenues at year end, or \$4.5 million under budget. The portion of a vehicle's value that is subject to the 0.65 percent fee ranges from 100 percent for new vehicles to 15 percent for vehicles 11 years or older, thus the value of new car sales is the most important variable in determining VLF revenue. Taxable sales of new vehicle purchases in California fell 25 percent in the first quarter of the fiscal year. These losses accelerated in the second quarter and are expected to continue through the end of the fiscal year.

Public Safety Sales Tax revenues are projected to be \$7.3 million under budget, or 4.5 percent below prior year actuals. This is due to the estimated 90 percent decline in statewide sales tax receipts offset in part by a 4.9 percent increase in San Francisco's share of taxable sales.

Charges for Services revenues are projected to be \$4.4 million below budget. The largest components of the decrease are a net reduction in City Planning fees of \$2.4 million, \$1.1 million in reduced Fire Department plan check fees, and \$0.8 million in reduced medical services fees, offset in part by \$0.5 million in additional revenue at Recreation and Park for event permits, athletic field reservations, and Japanese Tea Garden entrance fees.

Detail of General Fund Revenue and Transfers In

GENERAL FUND (\$ Millions)	FY 2007-08	FY 2008-09		6-Month Projection	Surplus / (Shortfall)
	Year End Actual	Original Budget	Revised Budget		
PROPERTY TAXES	\$ 943.5	\$ 1,018.9	\$ 1,018.9	\$ 1,014.8	\$ (4.1)
BUSINESS TAXES					
Business Registration Tax	9.1	10.0	10.0	8.6	(1.3)
Payroll Tax	385.2	384.6	384.6	396.3	11.7
Total Business Taxes	394.3	394.6	394.6	404.9	10.4
OTHER LOCAL TAXES					
Sales Tax	111.4	119.3	119.3	106.3	(13.0)
Hotel Room Tax	165.5	188.7	188.7	148.9	(39.8)
Utility Users Tax	87.0	82.8	82.8	87.8	5.1
Parking Tax	67.3	65.4	65.4	65.3	(0.1)
Real Property Transfer Tax	86.2	94.3	94.3	44.8	(49.5)
Stadium Admission Tax	2.4	2.5	2.5	2.2	(0.3)
Access Line Tax		-	-	10.7	10.7
Total Other Local Taxes	519.9	553.0	553.0	466.1	(86.9)
LICENSES, PERMITS & FRANCHISES					
Licenses & Permits	7.5	9.2	9.2	9.2	-
Franchise Tax	15.7	15.8	15.8	15.7	(0.1)
Total Licenses, Permits & Franchises	23.2	25.0	25.0	24.9	(0.1)
FINES, FORFEITURES & PENALTIES	8.4	3.9	3.9	3.7	(0.1)
INTEREST & INVESTMENT INCOME	31.2	21.4	21.4	12.5	(8.9)
RENTS & CONCESSIONS					
Garages - Rec/Park	10.1	9.8	9.8	9.3	(0.5)
Rents and Concessions - Rec/Park	7.9	9.4	9.4	9.4	-
Other Rents and Concessions	2.1	1.9	1.9	1.9	-
Total Rents and Concessions	20.1	21.1	21.1	20.6	(0.5)
INTERGOVERNMENTAL REVENUES					
Federal Government					
Social Service Subventions	179.9	201.9	203.1	199.3	(2.6)
Other Grants & Subventions	2.2	4.5	4.9	5.0	0.5
Total Federal Subventions	182.1	206.4	208.0	204.3	(2.1)
State Government					
Social Service Subventions	140.7	135.2	136.1	132.2	(3.0)
Health & Welfare Realignment - Sales Tax*	115.3	117.2	117.2	104.9	(12.3)
Health & Welfare Realignment - VLF*	51.3	53.0	53.0	48.5	(4.5)
Health/Mental Health Subventions	79.0	88.1	86.6	84.7	(3.4)
Public Safety Sales Tax	69.7	73.8	73.8	66.6	(7.3)
Motor Vehicle In-Lieu	3.5	5.0	5.0	2.1	(2.8)
Other Grants & Subventions	33.7	15.3	18.1	17.1	1.9
Total State Subventions	493.2	487.5	489.7	456.1	(31.4)
CHARGES FOR SERVICES:					
General Government Service Charges	30.2	35.7	35.7	33.8	(1.9)
Public Safety Service Charges	24.9	26.8	26.8	24.6	(2.2)
Recreation Charges - Rec/Park	8.1	7.4	7.4	7.9	0.5
MediCal, MediCare & Health Service Charges	55.1	53.0	54.3	52.2	(0.8)
Other Service Charges	7.9	11.9	11.9	11.9	-
Total Charges for Services	126.1	134.9	136.2	130.5	(4.4)
RECOVERY OF GEN. GOV'T. COSTS	9.5	12.8	12.8	12.8	-
OTHER REVENUES	9.9	13.2	14.1	15.0	1.8
TOTAL REVENUES	2,761.3	2,892.6	2,898.7	2,766.2	(126.4)
TRANSFERS INTO GENERAL FUND:					
Airport	25.9	26.4	26.4	25.7	(0.7)
Other Transfers	42.9	91.8	93.6	91.9	0.1
Total Transfers-In	68.9	118.2	120.0	117.7	(0.6)
TOTAL GENERAL FUND RESOURCES	\$ 2,830.2	\$ 3,010.8	\$ 3,018.7	\$ 2,883.9	\$ (126.9)

*General Fund portion only.

Appendix 2. General Fund Department Budget Projections

GENERAL FUND (\$ millions)	Revised Budget	Projected Year-End	Uses Savings / (Deficit)	Revenue* Surplus / (Shortfall)	Net Surplus / (Deficit)	Notes
PUBLIC PROTECTION						
Adult Probation	\$ 12.3	\$ 12.4	\$ (0.1)	\$ 0.2	\$ 0.1	
Superior Court	33.1	33.1	-	-	-	
District Attorney	34.1	33.0	1.1	(0.1)	1.0	
Emergency Management	3.8	3.6	0.2	-	0.2	
Fire Department	258.2	252.1	6.2	(1.8)	4.4	1
Juvenile Probation	39.0	38.3	0.7	-	0.7	
Public Defender	23.7	24.5	(0.8)	-	(0.8)	2
Police	380.6	371.7	8.9	0.2	9.1	3
Sheriff	141.4	140.4	1.0	0.2	1.2	
PUBLIC WORKS, TRANSPORTATION & COMMERCE						
Public Works	\$ 77.0	\$ 76.0	\$ 1.0	\$ -	\$ 1.0	
Economic & Workforce Development	15.8	14.7	1.1	-	1.1	
Municipal Transportation Agency (General Fund only)	0.3	0.3	-	-	-	
Board of Appeals	0.8	0.8	-	(0.2)	(0.2)	
Public Utilities Commission (General Fund only)	0.2	0.2	-	-	-	
HUMAN WELFARE & NEIGHBORHOOD DEVELOPMENT						
Children, Youth & Their Families	\$ 32.7	\$ 31.9	\$ 0.8	\$ -	\$ 0.8	
Human Services	641.0	631.9	9.1	(3.8)	5.3	4
Environment	3.7	3.7	-	-	-	
Human Rights Commission	1.0	0.9	0.0	-	0.0	
County Education Office	0.1	0.1	-	-	-	
Status of Women	3.5	3.3	0.2	-	0.2	
COMMUNITY HEALTH						
Public Health	\$ 544.2	\$ 532.0	\$ 12.2	\$ (5.0)	\$ 7.2	5
CULTURE & RECREATION						
Asian Art Museum	\$ 6.7	\$ 6.5	\$ 0.2	\$ -	\$ 0.2	
Arts Commission	10.3	9.9	0.4	-	0.4	
Fine Arts Museum	11.0	10.7	0.3	-	0.3	
Law Library	0.6	0.5	0.1	-	0.1	
Recreation and Parks	82.2	79.1	3.1	-	3.1	6
Academy of Sciences	4.8	4.7	0.1	-	0.1	
GENERAL ADMINISTRATION & FINANCE						
City Administrator	\$ 68.2	\$ 66.8	\$ 1.4	\$ (0.3)	\$ 1.1	7
Assessor / Recorder	14.6	13.3	1.3	0.1	1.4	
Board of Supervisors	12.5	12.3	0.2	-	0.2	
City Attorney	10.0	11.0	(1.0)	-	(1.0)	8
Controller	17.7	17.0	0.7	-	0.7	
City Planning	25.7	23.2	2.6	(2.6)	0.0	
Civil Service Commission	0.6	0.6	-	-	-	
Ethics Commission	6.3	6.2	0.1	(0.1)	(0.0)	
Human Resources	18.3	17.9	0.4	-	0.4	
Health Service System	0.1	0.1	0.1	-	0.1	
Mayor	24.1	23.6	0.5	-	0.5	
Elections	11.3	12.6	(1.2)	3.3	2.0	9
Retirement System	1.6	1.6	-	-	-	
Technology	4.9	4.3	0.6	-	0.6	
Treasurer/Tax Collector	23.3	23.1	0.2	-	0.2	
GENERAL CITY RESPONSIBILITIES						
Citywide Capital Reductions (Various Departments)	-	-	22.7	-	22.7	
TOTAL GENERAL FUND	\$ 2,692.3	\$ 2,640.4	\$ 74.5	\$ (10.1)	\$ 64.4	
Baseline Transfer to Municipal Railway Fund	143.3	128.9	14.3	-	14.3	
Baseline Funding to Parking & Traffic Fund	52.5	48.6	3.8	-	3.8	
Baseline Funding to Library Preservation Fund	46.3	42.1	4.2	-	4.2	
Parking Tax In Lieu Transfer to Municipal Railway Fund	52.3	52.2	0.1	-	0.1	
Subsidy Transfer to SF General Hospital Fund	145.9	141.3	4.6	-	4.6	5
Subsidy Transfer to Laguna Honda Hospital Fund	51.5	51.5	-	-	-	5
Transfer to SF General Hospital Fund for Realignment	-	5.9	(5.9)	-	(5.9)	
Transfer to All Other Special Revenue Funds	12.0	13.0	(1.0)	-	(1.0)	10
Total Baselines and Transfers	503.7	483.5	20.2	-	20.2	
Reserves	190.1	190.1	-	-	-	
TOTAL GENERAL FUND SUPPORTED IMPACT	\$ 3,386.1	\$ 3,314.0	\$ 94.7	\$ (10.1)	\$ 84.6	

*Excludes Citywide Tax Revenues

Notes to General Fund Department Budget Projections

1. Fire Department

The Fire Department projects to end the year with a net \$4.4 million surplus. The total revenue shortfall is \$1.8 million, including \$1.1 million of lower plan check fee revenue related to decreased building construction, \$0.4 million of lower original filing fee revenue due to decreased requests for fire related permits, and \$0.3 million of lower inspection fee revenue due to decreased building construction. This revenue shortfall is offset by \$6.2 million in expenditure savings, which is comprised of \$4.3 million of savings in uniform salaries due to anticipated retirements, \$2.6 million in savings associated with the Mayor's mid-year reductions, \$0.2 million in building and equipment maintenance cost savings due to delays in contracts, and \$0.5 million in overtime savings, offset by a \$1.0 million deficit in premium pay. Note that an additional shortfall of \$3.6 million allocated to the Fire Department in Proposition 172 Public Safety Sales Tax revenue is not displayed in this departmental projection but is instead reflected in the overall Citywide revenue projection.

2. Public Defender

The Public Defender projects to end the year with a net \$0.8 million deficit, due to \$1.0 million in over-expenditure in salary and fringe benefits after reducing their budget by \$0.2 million as part of the Mayor's mid-year reductions. The department received two additional unfunded attorney positions through an Annual Salary Ordinance amendment, but has not seen the rate of attrition that they expected to fund those positions. The department expects to see voluntary retirements and reductions in staff time. The Mayor's Office and the Controller's Office will work with the Public Defender to bring their budget into balance.

3. Police

The Police Department projects to end the year with a net \$9.1 million surplus. The department projects to have \$8.9 million in expenditure savings resulting from \$3.9 million from the Mayor's mid-year reductions related to freezing vacant civilian positions and delaying two Police Academy classes, and \$5.0 million in additional recovery of funds from the Municipal Transportation Agency for services performed by the department related to transportation and transit. In addition, the department projects to end the year with a revenue surplus of \$0.2 million from higher than budgeted revenue in 10B Administrative Overhead Fees and Fingerprinting Fees. Note that an additional shortfall of \$3.6 million allocated to the Police Department in Proposition 172 Public Safety Sales Tax revenue is not displayed in this departmental projection but is instead reflected in the overall Citywide revenue projection.

4. Human Services Agency

The Human Services Agency projects to end the year with a \$5.3 million surplus. The department projects expenditure savings of \$9.1 million, of which \$6.8 million is in operations and \$2.3 million is in Aid programs. These savings are partially offset by reduced federal and state reimbursements of \$3.8 million. Note that an additional shortfall of \$6.0 million in Health and Welfare Realignment revenue allocated to the

Human Services Agency is not displayed in this departmental projection but is instead reflected in the overall Citywide revenue projection.

5. Public Health

The Department of Public Health projects to end the year with a net surplus of \$11.8 million, including a \$7.2 million surplus for non-hospital operations in the General Fund and a \$4.6 million surplus for San Francisco General Hospital. The following table summarizes the department's projected surplus.

Department of Public Health (DPH) Projected Surplus/(Deficit)

Fiscal Year Ending June 30, 2009

(\$ Millions)	Sources	Uses	Net
Division	Surplus/ (Shortfall)	Surplus/ (Deficit)	Surplus/ (Deficit)
Public Health General Fund	\$ (5.0)	\$ 12.2	\$ 7.2
S.F. General Hospital	\$ 12.1	\$ (7.5)	\$ 4.6
Laguna Honda Hospital	\$ 3.5	\$ (3.5)	\$ -
Total All Funds	\$ 10.6	\$ 1.2	\$ 11.8

Note that an additional shortfall of \$16.5 million allocated to the Department of Public Health from Health and Welfare Realignment revenue is not displayed in this departmental projection but is instead reflected in the overall Citywide revenue projection. Of this projected shortfall, \$10.6 million is in the General Fund and \$5.9 million is in the San Francisco General Hospital fund. Consequently, the General Fund subsidy to the San Francisco General Hospital Fund is increased by \$5.9 million to cover the projected Realignment revenue shortfall and decreased due to the net \$4.6 million surplus, resulting in a net subsidy to the Hospital of \$1.3 more than budget.

One factor that could further reduce Departmental revenues is a recent California Supreme Court decision that affects their ability to bill patients because of an insurer's underpayment or partial payment. The potential cost to the department is unknown at this time.

Non-hospital operations in the General Fund

The Department of Public Health projects a \$7.2 million surplus in its non-hospital operations in the General Fund. The department projects a \$3.4 million shortfall in the Mental Health program for Short Doyle Medi-Cal revenue, a \$1.1 million shortfall in California Children Services revenues, a \$0.8 million shortfall in Federally Qualified Health Center funding for primary care services provided for clients in respite beds that the department has not secured. This is offset by a surplus of \$0.3 million in cafeteria fee revenues and \$12.2 million in expenditure surplus largely due to savings in salary and fringe benefit costs as part of the Mayor's mid-year reductions.

San Francisco General Hospital

The Department of Public Health projects a \$4.6 million surplus for the San Francisco General Hospital. The department estimates a \$12.1 million revenue surplus due to additional anticipated net patient revenue. The additional net patient revenue is related to higher census levels than were assumed in the budget. For the first six months of the fiscal year, the average daily census for the Acute Medical/Surgery Units was 4.8 percent higher than assumed in the budget. The revenue surplus is offset by a \$7.5 million deficit from cost overruns in salaries and fringe benefits, which includes \$7.8 million included as part of the Mayor's mid-year reductions. A supplemental appropriation of additional net patient revenue will be submitted to cover the projected expenditure deficit.

Laguna Honda Hospital

The department projects that the \$3.5 million in cost overruns in salaries at Laguna Honda Hospital will be covered by \$3.5 million of additional anticipated net patient revenue. The \$3.5 million expenditure deficit includes \$2.5 million included as part of the Mayor's mid-year reductions. The additional revenue is related to increases in the Medi-Cal per diem rates offset by a decrease in revenues associated with the closure of the Adult Day Health Center. A supplemental appropriation of additional net patient revenue will be submitted to cover the projected expenditure deficit.

7. Recreation and Park

The Recreation and Park Department is projected to end the year with a \$3.1 million net surplus due to expenditure savings as part of the Mayor's mid-year reductions. These savings along with an additional \$1.7 million in capital reductions will be reserved for the department under the requirements of the Recreation and Park Budget Savings Incentive Reserve. The savings will be available for the department to use on one-time expenditures in future years.

The department is monitoring a potential \$2.8 million revenue shortfall related to funds due from the San Francisco Zoological Society per a contractual agreement to pay the department for utility and labor costs it currently provides to the Zoological Society. The Zoological Society has expressed concern about their ability to pay these costs. The City will continue to work with the Zoological Society to resolve these issues.

8. City Administrator

The City Administrator's Office projects to end the year with a net surplus of \$1.1 million. The department projects \$1.4 million in expenditure savings primarily due to \$1.1 million in the Mayor's mid-year reductions to Grants for the Arts, the 311 Call Center and the Entertainment Commission, and \$0.3 million in salary savings. These savings are partially offset by a projected revenue shortfall of \$0.3 million due to lower than budgeted Farmer's Market fees and Medical Examiner fees. Note that this projection does not include the Convention Facilities Fund, which is discussed in Appendix 4.

9. City Attorney

The City Attorney projects to end the year with a deficit of \$1.0 million due to a projected shortfall in departmental recoveries, after taking into account \$0.7 million in Mayor's mid-year reductions. The Mayor's Office and the Controller's Office will work with the City Attorney to bring their budget into balance.

10. Elections

The Elections Department projects to end the year with a net surplus of \$2.0 million. The department projects over-expenditures of \$1.2 million in temporary salaries and benefits, overtime, and non-personnel services related to the June and November 2008 elections. The department projects a \$3.3 million revenue surplus resulting primarily from \$3.2 million in unanticipated state reimbursement for the February 2008 special election. The department intends to seek a supplemental appropriation using a portion of the revenue surplus to cover the expenditure shortfall. In addition, if a special election is held in June 2009 the department will incur an estimated \$3.5 million in additional costs, which have not been included in our projection. These expenditures could be funded in part by the \$2.1 million remainder of the surplus revenue, with additional funding required from the General Fund or possibly from State reimbursement.

11. Transfer to All Other Special Revenue Funds

Transfers to other Special Revenue Funds are expected to be over budget by \$1.5 million. This is due to the transition of the 911 access fee to a general Access Line Tax, which results in an additional \$6.5 million transfer to the 911 fund. This additional transfer is offset by additional Access Line Taxes in the General Fund. The negative \$6.5 million is partially offset by a reduced need for General Fund support to the Convention Facilities Fund by \$5.0 million due to expenditure savings of \$1.8 million and available fund balance in the Convention Facilities Fund of \$3.2 million. See Appendix 4 Special Revenue and Enterprise Funds for more detail.

APPENDIX 3. SALARIES AND BENEFITS RESERVE UPDATE

(\$ Millions)

SOURCES

Salary and Benefits Reserve

Adopted AAO Salary and Benefits Reserve	\$ 1.6
Remaining FY 2007-08 Salary and Benefits Reserve Balance	<u>12.8</u>
Total Sources	<u>\$ 14.4</u>

USES

Transferred to Departments

Fire Fighters Retirement Payouts	\$ 3.3
Police Wellness, Premium, and Compensatory Time Payouts	6.0
Police Recruitment Committee (DHR)	0.3
Police Downpayment and Rental Assistance Program	0.1
SEIU "As-Needed" Temporary Healthcare (DHR)	1.0
Various Depts - Local 21 Life Insurance	0.3
Various Depts - Local 39 Apprenticeship Program	0.2
Visual Display Terminal Insurance - Quarters 1 & 2	<u>0.1</u>
Total Transferred to Departments	\$ 11.3

Remaining Allocations

Retirement Payouts, Wellness Payouts, Premium, Overtime & Compensation Pay, Training and Tuition Reimbursement, & All Other MOU-Related Salary and Fringe Benefit Costs	\$ 3.1
Total Uses	<u>\$ 14.4</u>

APPENDIX 4. OTHER FUNDS HIGHLIGHTS

	Prior Year	Current Year				Notes
	Fund Balance Surplus / (Shortfall)	Sources Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Operating Surplus / (Deficit)	Estimated Year-end Fund Balance	
<u>SELECT SPECIAL REVENUE FUNDS</u>						
911 Emergency Communications Fund	\$1.7	(\$2.0)	\$0.3	(\$1.7)	\$0.0	1
Building Inspection Fund	\$2.0	(\$5.7)	\$3.7	(\$2.0)	(\$0.0)	2
Children's Fund	(\$1.1)	(\$0.7)	\$1.8	\$1.1	\$0.0	3
Convention Facilities Fund	\$3.2	(\$5.0)	\$1.8	(\$3.2)	\$0.0	4
DPW Overhead Fund	\$5.0	\$0.0	(\$2.0)	(\$2.0)	\$3.0	5
Golf Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Library Preservation Fund	\$16.0	(\$4.3)	\$0.4	(\$3.9)	\$12.2	6
Open Space Fund	\$4.6	(\$0.4)	\$0.0	(\$0.4)	\$4.2	7
Rent Arbitration Board Fund	\$0.2	\$0.0	\$0.0	\$0.0	\$0.2	
War Memorial Fund	\$1.7	\$0.0	\$0.0	\$0.0	\$1.7	8
<u>SELECT ENTERPRISE FUNDS</u>						
Airport Operating Fund	\$67.7	(\$0.0)	(\$0.0)	(\$0.0)	\$67.7	9
MTA – MUNI Operating Fund	\$33.6	(\$40.3)	\$31.3	(\$9.0)	\$24.6	10
MTA - MUNI Transit Impact Fund	\$7.8	\$2.9	\$0.3	\$3.3	\$11.1	11
Subtotal MTA - MUNI	\$41.4	(\$37.3)	\$31.6	(\$5.7)	\$35.7	
MTA – Parking & Traffic Operating Fund	\$7.8	(\$3.8)	\$9.7	\$5.9	\$13.7	12
Port Operating Fund	\$36.8	\$2.3	\$1.2	\$3.5	\$40.2	13
PUC – Hetch Hetchy Operating Fund	\$85.7	(\$10.8)	\$16.5	\$5.7	\$91.4	14
PUC – Wastewater Operating Fund	\$12.9	(\$14.1)	\$21.6	\$7.5	\$20.4	15
PUC – Water Operating Fund	\$28.5	(\$2.1)	\$3.3	\$1.2	\$29.7	16

Notes to Special Revenue and Enterprise Funds

Select Special Revenue Funds

1. 911 Emergency Communications Fund

As of April 1, 2009 the 911 Access Fee will be converted to an access line tax per the passage of Proposition O in November 2008. Therefore, as of that date, we will begin the process of closing the 911 Special Revenue Fund and converting all revenues and expenditures to the General Fund. The 911 Special Revenue Fund began the year with \$1.7 million in available fund balance above the \$2.8 million appropriated in the budget. As of April 1, all Access Line Tax will be collected in the General fund. This will require an increase in the General Fund transfer to offset the decrease in revenue. At year end, enough General Fund dollars will be transferred to the fund to bring the balance to zero and beginning in July 1, 2009 all expenditures related to 911 activities will be expended from the General Fund.

2. Building Inspection Fund

The Building Inspection Fund faces a projected \$5.7 million shortfall in permitting and other revenues due to severe reductions in construction activity, partially offset by recognition of previously deferred revenues. The Department of Building Inspection intends to use \$2.0 million in available fund balance, \$2.2 million in salary reductions including layoffs and \$1.4 million savings in materials to cover the shortfall. The department plans to end the fiscal year with no available fund balance.

3. Children's Fund

The Children's Fund ended the prior year with \$1.9 million and appropriated \$3.0 million in the FY 2008-09 budget, creating a starting negative fund balance of \$1.1 million. Current year sources are projected to be \$0.7 million under budget due to the projected decrease in Property Tax revenue. Current year uses are projected to be \$1.8 million under budget due to \$1.6 million of savings in city grants and \$0.2 million of savings in salaries and fringe benefits. The fund is projected to end the year with a fund balance of zero.

4. Convention Facilities Fund

The Convention Facilities Fund began the current year with \$3.2 million of fund balance, and no fund balance was appropriated in the budget. Expenditure savings are projected to be \$1.8 million due to \$1.6 million in lower debt service costs and \$0.2 million in lower operating contract costs. Current year sources are projected to be on budget. However, in light of these surpluses and the available fund balance, the General Fund subsidy to the fund will be reduced by \$5.0 million, resulting in a projected year-end fund balance of zero.

5. Department of Public Works Overhead Fund

The Department of Public Works Overhead Fund began the year with \$5.0 million in fund balance and no fund balance was assumed in the FY 2008-09 budget. The Department expects expenditures to exceed recoveries by \$2.0 million due to lower overhead rates, resulting in a projected year-end fund balance of \$3.0 million which will be used to reduce overhead rates for FY 2009-10.

6. Library Preservation Fund

The Library Preservation Fund began the year with \$16.0 million in available fund balance, none of which was appropriated in the budget. The department has project expenditure savings of \$0.4 million, however, their revenues are projected to end the year with a shortfall of \$4.2 million. This is due to decreases in their property tax allocation and the baseline contribution based on General Fund discretionary revenues discussed earlier in this report. Due to these decreases, the department is expected to end the year with \$12.2 million in available fund balance.

7. Open Space Fund

The Open Space Fund began the year with \$4.6 million in fund balance, none of which was appropriated in the budget. Revenues are anticipated to be under budget by \$0.4 million due to reduced property tax allocation. With no expected expenditure savings the department expects to end the year with \$4.2 million in available fund balance.

8. War Memorial Fund

The War Memorial Fund began the current year with an additional \$1.7 million in fund balance over the \$0.5 million assumed in the budget. The department is projecting a \$0.1 million over-expenditure in workers compensation costs, which will be covered by salary savings. Revenues are projected to be on budget, resulting in a projected \$1.7 million year-end fund balance.

Select Enterprise Funds

9. Airport Operating Fund

The Airport Operating Fund ended the prior year with a \$87.5 million fund balance and has appropriated \$19.8 million of it in the FY 2008-09 budget for a remaining \$67.7 million balance. The department projects to be on budget, with a slight decrease in revenues due to the decrease in passengers and number of flights related to the slowing economy. The projected decrease in revenue will result in a reduction of the transfer related to 15% of the concession revenue to the General Fund by \$0.7 million. The department projects to end the year with a \$67.6 million fund balance.

10. MTA - Municipal Railway Operating Fund

The Municipal Railway Operating Fund ended the prior year with an additional \$33.6 million in fund balance over the \$16.1 million appropriated in the FY 2008-09 budget. Current year sources are projected to be \$40.3 million lower than budget due primarily to shortfalls of \$20.5 million in State Transportation Assistance, \$14.4 million in lower baseline funding from the General Fund, \$8.2 million in parking traffic fine collections, \$4.6 million in State and Local Grants, and \$1.0 million in parking garage revenue, offset by surpluses of \$6.7 million in MUNI pass and cable car revenue and \$1.7 million in all other operating revenue. The Fund is projected to have over-expenditures of \$16.4 million in salary and fringe costs. However, these deficits will be offset by \$47.7 million in contingency reductions to professional services, materials and supplies, and capital outlay, resulting in a \$31.3 million expenditure surplus. The projected net operating shortfall is therefore \$9.0 million, resulting in a projected fiscal year-end fund balance available for appropriation of \$24.6 million.

11. MTA – Transit Impact Development Fund

The Transit Impact Development Fund ended FY 2007-08 with \$7.8 million more in fund balance than the \$8.0 million appropriated in the current year budget. Revenues are projected to be \$3.0 million greater than budget due to \$2.3 million higher non-operating revenue and \$0.7 million in higher interest income, and expenditures are projected to be \$0.3 million lower than budget due to savings in non-personnel services and services of other departments. This fund is projected to have a net operating surplus of \$3.3 million, which will result in a projected \$11.1 million fiscal year-end balance.

12. MTA – Parking & Traffic Operating Fund

The Parking & Traffic Operating Fund ended the prior year with an additional \$7.8 million over the \$8.4 million appropriated in the FY 2008-09 budget. Current year sources are projected to be \$3.8 million lower than budget due to lower baseline funding from the General Fund. Expenditures are projected to be \$9.7 million lower than budget due to \$7.4 million in salary and fringe savings and \$5.1 million in non-personnel services, offset by \$2.8 million in debt interest and other fiscal charges. In addition, the department intends to cover \$5.0 million in higher than budget work order costs to the Police Department with additional savings in non-labor expenditures. This fund is projected to have a net operating surplus of \$5.9 million and an estimated fund balance of \$13.7 million by fiscal year-end.

13. Port Operating Fund

The Port Operating Fund began the year with \$36.8 million in fund balance over and above the \$6.1 million appropriated in the budget. The Port is projecting to have an operating surplus of \$3.5 million in the current year due to better than expected rent and other various revenues, and expenditure savings in nearly all categories for a projected year-end available fund balance of \$40.2 million.

14. Public Utilities Commission – Hetch Hetchy Operating Fund

The Hetch Hetchy Operating Fund began the year with \$85.7 million in fund balance, none of which was appropriated. Revenues are expected to be under-budget by \$10.8 million due to lower electricity rates to city departments than was assumed in the budget and lower than expected sales to districts. Expenditures are expected to be under-budget by \$16.5 million mainly due to lower outside power purchases, savings from a renegotiated Interconnection Agreement, and an intentionally budgeted reserve. Thus the Hetch Hetchy Operating Fund is projecting a net operating surplus of \$5.7 million for a year-end available fund balance of \$91.4 million.

15. Public Utilities Commission – Wastewater Operations Fund

The Wastewater Operations Fund began the year with \$12.9 million in available fund balance, none of which was appropriated. Revenues are expected to be under-budget by \$14.1 million due to lower water consumption and declining interest rates. Expenditures are projected to be lower than budget by \$21.6 million mainly due to an intentionally budgeted reserve of \$17.6 million for a net operating surplus of \$7.5 million. The projected year-end available fund balance for the Wastewater Operating Fund is \$20.4 million.

16. Public Utilities Commission – Water Operating Fund

The Water Operating Fund began the year with an available fund balance of \$28.5 million above the \$35.2 million appropriated in the budget. Revenues are projected to be under-budget by \$2.1 million due to the elimination of the 3^d tier in the previously adopted rate recommendation and due to lower consumption partially offset by increased revenues from wholesale customers from a rate increase that was reflected in the adopted budget. Expenditures are expected to be under budget by \$3.3 million due to savings from salaries and work orders including the City Attorney, cell phones, and health services. The projected year-end available fund balance for the Water Operating Fund is \$29.7 million.

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