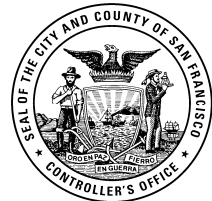


**FY 2010-11  
First Quarter  
General Fund  
Budget Status Report**



*October 20, 2010*



# City and County of San Francisco

FY 2010-11 First Quarter General Fund Budget Status Report

October 20, 2010

## Executive Summary

This report provides an update to the Mayor and Board of Supervisors regarding the City and County's Fiscal Year 2010-11 General Fund revenues and impacts of the State's FY 2010-11 budget signed October 8, 2010.

As shown in Table 1, our updated forecasts indicate:

- The General Fund will end FY 2010-11 with a net surplus of \$21.5 million, assuming current service levels and that \$30.1 million in uncertain revenues are received.
- The FY 2010-11 State budget reduces the City's General Fund revenue by an estimated \$7.0 million. This is \$23 million less than the City's \$30 million budgeted allowance for State revenue shortfalls.
- \$30.1 million in federal and other revenues remain uncertain, pending federal and State actions on State Medi-Cal plan amendments, voter approval of revenue measures on the November ballot, and litigation developments.
- Notable factors that could affect these estimates include the pace of economic recovery, the outcome of major commercial property tax appeals, the likelihood that the State will face budget shortfalls that could result in mid-year reductions to State-funded programs, and trends in public assistance caseloads and indigent defense requirements.
- Additionally, the City will end the fiscal year with projected balances of \$25.0 million in the General Reserve and \$33.4 million in the Rainy Day Reserve.

The Controller's Office will update these projections in the Six-Month Budget Status Report in February, 2011 and the Nine-Month Budget Status Report in May, 2011.

**Table 1. Potential FY 2010-11 Variances to Budget, \$ Millions**

Based on data available through October 15, 2010, assuming spending continues at budgeted or requested service levels and uncertain revenues are received.

	<b>Surplus (Shortfall)</b>
<b>A. FY 2009-10 Pre-Audit Year-End Fund Balance</b>	
Pre-audit Projection of FY 2009-10 Year End Unassigned Fund Balance	105.3
Fund Balance Appropriated in the FY 2010-11 Budget	(79.9)
<b>Subtotal Prior Year Surplus Fund Balance</b>	<b>25.4</b>
<b>B. Impact of Final State Budget</b>	
Human Services IHSS 3.6% Reduction in Hours - Local Match Savings	0.5
Human Services Child Welfare Services/Foster Care	(0.6)
Human Services Medi-Cal Administration	(5.5)
Public Health Elimination of Vehicle License Fee Backfill	(1.0)
Public Health Elimination of Substance Abuse Offender Treatment funding	(0.4)
<b>State Budget Impact</b>	<b>(7.0)</b>
<b>Budgeted Allowance for State Revenue Reductions</b>	<b>30.0</b>
<b>C. General Revenues</b>	
Property Tax	18.2
Payroll Tax	11.2
Interest & Investment Income	(4.3)
Other General Fund Sources	1.0
General Fund Revenue Baseline Transfers	(2.6)
Rainy Day Reserve Withdrawal Threshold No Longer Met	(12.3)
<b>Subtotal Other Revenues</b>	<b>11.2</b>
<b>D. Departmental Revenues and Expenditures</b>	
SFGH Hospital Fee Shortfall	(26.5)
Federal Medical Assistance Percentage Extension Shortfall	(4.6)
Mental Health State Plan Amendment Likely Reduced Retroactivity	(4.0)
Sheriff Staffing	(4.0)
Food Stamp Employment and Training Program Policy Change	(1.7)
Debt Service Refinancing Savings	2.7
<b>Subtotal Departmental Shortfalls</b>	<b>(38.1)</b>
<b>Total Estimated General Fund Impacts</b>	<b>21.5</b>

**A. FY 2009-10 Pre-Audit Year-End Fund Balance: \$25.4 Million Surplus**

Pre-audit FY 2009-10 year-end reports show a \$25.4 million surplus above the \$79.9 million prior year fund balance assumed in the FY 2010-11 budget. This is primarily due to supplemental property tax assessments from prior years enrolled by the Assessor, along with better-than-expected year-end payroll tax and real estate transfer tax receipts. Following

Charter formulas, \$15 million of the surplus revenues were returned to the City's Rainy Day Reserve, leaving a net \$25.4 million available for FY 2010-11.

**B. Impact of Final State Budget: \$7.0 Million Shortfall, offset by \$30 Million Budgeted Allowance**

The final State budget signed by the Governor on October 8, 2010 is projected to result in \$7.0 million in direct reductions to budgeted General Fund revenues. This impact is more than offset by the \$30 million allowance for State reductions included in the City's budget. Details on State budget impacts are provided in the Appendix.

**C. General Revenues: \$11.2 Million Surplus**

- Property tax revenues in the General Fund are projected to be \$18.2 million above budget due to higher than expected roll growth from prior year backlog enrolled at the end of FY 2009-10. The roll growth is partially offset by increased allocations for commercial property assessment appeals. This estimate will be updated as more appeals information becomes available. The surplus property tax also increases the Charter-mandated set-asides of property tax outside the General Fund as shown in Table 2:

**Table 2. Property Tax Set-Asides, \$ Millions**

	Budget	Projected	Variance
Children's Fund	41.1	41.6	0.5
Open Space Fund	34.2	34.7	0.5
Library Preservation Fund	34.2	34.7	0.5
<b>Total</b>	<b>109.5</b>	<b>111.0</b>	<b>1.5</b>

- Payroll Tax revenues are projected to be \$11.2 million above budget due to lower than expected losses in the taxable payroll in FY 2009-10 that increase the base for current year taxes.
- Interest and Investment Income is projected to be \$4.3 million below budget due to interest rates persisting at historically low levels.
- Other General Fund sources are projected to be \$1.0 million above budget due to a variety of other items.
- Charter-mandated General Fund Baseline Transfers to the Municipal Transportation Agency (MTA), Library, and Public Education Enrichment Fund are expected to increase by \$2.6 million above budget. As shown in Table 3, MTA and Library transfers are increased by \$2.7 million and \$0.4 million respectively due to the higher projected Aggregate Discretionary Revenue (ADR) for FY 2010-11 compared to budget. The Public Education Enrichment Fund transfer to the San Francisco Unified School District and Children and Families' Commission is projected to be reduced by \$0.5 million because the underlying formula is tied to the change in ADR from FY 2009-10. Since the final FY 2009-10 ADR was higher than anticipated, this report projects a larger than budgeted year-over-year drop in ADR from FY 2009-10 to FY 2010-11.

**Table 3. Revenue Transfer Baselines, \$ Millions**

	Budget	Projected	Variance
MTA Baseline	175.0	177.7	2.7
Library Baseline	43.6	44.2	0.4
Public Education Enrichment Fund	47.1	46.6	(0.5)
<b>Total</b>	<b>265.7</b>	<b>268.5</b>	<b>2.6</b>

- The FY 2010-11 budgeted included a \$12.3 million withdrawal from the Rainy Day Reserve which is no longer anticipated because increased projected FY 2010-11 revenues mean that the City's withdrawal threshold from the Reserve would no longer be met. As a result, the Rainy Day Reserve is projected to end FY 2010-11 with a balance of \$33.4 million.

**D. Departmental Revenues and Expenditures: \$38.1 Million Shortfall**

- The Department of Public Health anticipates a \$26.5 million shortfall in Hospital Fee revenues due to reduced retroactive allocations available from this State initiative. A further \$13 million budgeted revenue remains uncertain, pending further decisions by the State regarding funding formulas (see Section E and Table 4, below).
- The Human Services Agency and the Department of Public Health anticipate a \$4.6 million shortfall in enhanced Federal Medical Assistance Percentage (FMAP) revenues due to a reduction in the formula approved by Congress while extending this stimulus program for six months.
- The Department of Public Health anticipates a \$4.0 million shortfall in Mental Health State Plan Amendment revenues due to likely reduced retroactivity in this State initiative. The details of the State Plan Amendment are still pending federal and State approval, and the balance of the budgeted funds remains uncertain (see Section E and Table 4, below).
- The Human Services Agency anticipates a \$1.7 million shortfall in Food Stamp Employment Training (FSET) program revenues due to a revised federal guideline that has reduced FSET support for housing services from twelve months to two months.
- The Sheriff's Department anticipates a \$4.0 million staffing-related expenditure overrun due to an increase in the jail population from approximately 1,600 at the end of the last fiscal year to approximately 1,800 in recent weeks, and due to less attrition savings from retirements than anticipated.
- The Controller's Office of Public Finance anticipates \$2.7 million in debt service savings resulting from recently-completed refinancing of long-term debt.

**E. Update on Revenues Identified as Uncertain in FY 2010-11 Budget**

The FY 2010-11 Annual Appropriation Ordinance (AAO) identified \$134.1 million of proposed revenues as uncertain and placed an equivalent amount of General Fund supported salary and benefit budgets on reserve pending further developments.

Table 4 provides a summary of updated information regarding these revenues:

**Table 4. FY 2010-11 Uncertain Revenues Update, \$ Millions**

Revenue Item	Amount Uncertain in FY 10-11 Budget	Current Projection Likely Revenues	Amount Still Uncertain	Known shortfall	Comments
SB 188/AB1383 Hospital Fee	88.0	48.5	13.0	26.5	Retroactivity reduced, uncertainty remains regarding final 6 months of fee.
Enhanced Federal Medical Assistance Percentage (FMAP) Extension	22.5	17.9	-	4.6	Approved by Congress and President at reduced rate.
Mental Health State Plan Amendment	12.6	-	8.6	4.0	Amendment pending, with review delayed. If approved likely to have reduced retroactivity.
Clarifying Hotel Tax Ordinance on November ballot	6.0	-	6.0	-	Pending election outcome.
Solid Waste Impound Account Revenue Surcharge	2.5	2.5	-	-	Surcharge approved by Rate Board.
Cigarette Litter Abatement Fee	2.5	-	2.5	-	No significant developments
<b>Total</b>	<b>134.1</b>	<b>68.9</b>	<b>30.1</b>	<b>35.1</b>	

#### **F. General Reserve**

The FY 2010-11 budget included a General Reserve of \$25 million. If none of the remaining general revenues identified as uncertain are received, and if there are no other adjustments to budgeted expenditures and revenues, \$8.6 million would need to be drawn from the General Reserve, leaving a balance of \$16.4 million. Since the General Reserve appears sufficient at this time to meet anticipated FY 2010-11 needs, the Controller's Office will lift the Controller reserves on expenditures related to the uncertain revenues listed in the FY 2010-11 budget.

#### **G. Major Factors That Could Change These Estimates**

- **Pace of Economic Recovery:** This report's revenue projections rely upon currently available information including tax receipts and leading economic indicators. We will update these projections as new information becomes available.
- **Commercial Property Tax Appeals:** A key assumption underlying our forecast relates to the amount of property tax revenue that will need to be set aside for settlement of appeals. The greatest uncertainty relates to the fair assessment value of commercial properties as of the January 2009 reference period for the FY 2009-10 property tax assessment and January 2010 reference period for the 2010-11 property tax assessment. There has not been a significant number of large commercial appeal decisions related to these years. We will update our estimates as we learn more about actual appeal settlements and decisions.

- **Additional State Reductions:** As noted in the Legislative Analyst's (LAO) October 8 overview of the legislature's FY 2010-11 budget, only \$1.3 billion of the \$5.4 billion in federal revenue used to close the budget shortfall has been secured at this time. In addition, more than two-thirds of the solutions in the budget are temporary or one-time, meaning the State faces a significant shortfall in FY 2011-12. It therefore seems likely the State budget approved on October 8 will be revisited by the new governor and legislature. This means that there is a risk of additional State reductions in the second half of the fiscal year.
- **Trends in Public Assistance Caseloads and Indigent Defense requirements:** Public assistance expenditures and court-mandated expenditures for indigent defense can cause fluctuations in expenditure requirements, resulting in shortfalls and surpluses. The Controller's office will provide updates on these programs in the Six-Month and Nine-Month Budget Status reports.

#### **H. Implications for FY 2011-12 Budget Years**

In June, 2010, the Controller's Office estimated that the FY 2011-12 budget year would face a shortfall approaching or exceeding \$400 million to fund current service and staffing levels, due to the anticipated loss of one-time revenues included in the FY 2010-11 budget coupled with likely increases in employee benefit and other costs. The Mayor's Office plans to provide an updated estimate for the FY 2011-12 budget gap by early December, 2010.

## Appendix: State Budget Impact

Table A1 displays State Budget solutions that directly impact funding for programs and services currently serving San Francisco residents. Departments are still determining the fiscal impact, if any, of certain State budget items, notably, fingerprinting requirements for IHSS recipients, the phase-in of mandatory enrollment of certain seniors and persons with disabilities into managed care in some counties, and rate freezes and reductions to certain Medi-Cal providers.

**Table A1. FY 2010-11 State Budget Impact on City Programs & Services, \$ Millions**

State Action	Department	General Fund Supported Impact	Other Funds Impact	Reductions Impacting City Residents but not CCSF Budget
Reduced Medi-Cal Administration Funding	Human Services	(5.5)		
Elimination of Stage 3 Child Care Funding	Human Services			(13.0)
New \$3 Parking Citation Surcharge	Municipal Transportation Agency		(3.0)	
Health & Welfare Realignment Reduction	Public Health	(1.0)		
Child Welfare / Foster Care Funding Reductions	Human Services	(0.6)		
Elimination of Substance Abuse Offender Treatment Program Funding	Public Health	(0.4)		
Reduction in Funding for Immunization Services	Public Health		(0.2)	
IHSS: 3.6% Reduction in Authorized Work Hours	Human Services	0.5		(3.2)
<b>Total</b>		<b>(7.0)</b>	<b>(3.2)</b>	<b>(16.2)</b>

### General Fund Supported Impact

- **Medi-Cal Administration:** The Human Services Agency faces a \$5.5 million reduction in reimbursements for Medi-Cal administration expenditures for FY 2010-11.
- **Health & Welfare Realignment Revenue:** In 2001, the State changed the way it assesses vehicle license fees (VLF) for commercial truck trailers. Since that time, the State has backfilled the lost VLF revenue resulting from this assessment change. In the FY 2010-11 budget, the State has chosen to eliminate this backfill. The Controller estimates that this will result in a \$1 million reduction in Health & Welfare Realignment revenue to the Department of Public Health.



- **Child Welfare / Foster Care Services:** The Human Services Agency faces a net \$0.6 million reduction in funding for Foster Care services. Reductions include a \$0.3 million reduction in reimbursements to foster caregivers for education-related travel expenses and a \$0.4 million reduction in funding for the severely emotionally disturbed (SED) portion of the foster care program due to the one-time suspension of AB 3632 mandates. These reductions are partially offset by \$0.07 million in funding to implement the Resource Family Pilot Program (AB 340), and \$0.02 million in increased State allocations for health care coordination for foster children.
- **Substance Abuse Offender Treatment Program (OTP):** The State's budget eliminated OTP funds, which were previously distributed to counties to divert nonviolent drug possession offenders into behavioral health services in lieu of incarceration. Backfilling this funding loss would cost \$0.4 million in FY 2010-11.
- **In-Home Support Services (IHSS):** The State's budget included a 3.6 percent reduction in authorized service hours for the majority of IHSS recipients. This reduction becomes effective 90 days after the enactment of the State budget and will remain in effect until June 30, 2012. General Fund savings from the local share of cost for IHSS service hours are estimated to be \$0.5 million for the 2010-11 fiscal year. The value of the services lost to City residents is estimated to be \$3.2 million.

#### **Other Funds Impact**

- **New Parking Citation Surcharge:** To raise revenue to fund court operations, the State's budget adds a \$3 surcharge to every parking penalty, fine, and forfeiture that is to be deposited into the Trial Court Trust Fund. This surcharge will have no impact on the City's budget if it is passed through to parking violators, otherwise, the cost to the Municipal Transportation Agency would be approximately \$3 million.
- **Immunization Services:** The City lost \$0.2 million in funding for immunization services due to a statewide cut included in the State's budget. Contractors that received these State funds through the Department of Public Health have already been notified that they will not be receiving payment for invoices in FY 2010-11. These funds currently support a number of community organizations that provide registry, tracking, and outreach services.

#### **Cuts Affecting City Residents, but not City Budget**

- **CalWORKS Stage 3 Child Care:** The State budget eliminated Stage 3 Child Care funding. While there is no direct impact on the City's budget, the funding loss affects approximately 1,200 children and 1,000 families in the City. Human Services estimates that the FY 2010-11 cost to the City of backfilling these child care services would be approximately \$13 million.