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Controller

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February 9, 1999

The Honorable Willie L. Brown, Jr.  
Mayor, City and County of San Francisco  
Room 200, City Hall

The Honorable Board of Supervisors  
Room 244, City Hall

Re: 1998-99 Six-Month Budget Status Report

Dear Mayor Brown, Ladies and Gentlemen:

Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. This report is a six-month budget status report based on revenues received and appropriations expended through December 31, 1998. The purpose of the report is to apprise the City's policy makers of the current budgetary status and projected year-end revenues and expenditures. It is organized as follows:

- I. Overview
- II. Revenues
- III. Expenditures
- IV. General Fund Subsidized Departments (Municipal Railway and Health)
- V. Issues to Monitor (Workers' Compensation)

## I. OVERVIEW

**We project an \$86.0 million year-end balance available at the end of fiscal year 1998-99.**

This amount is based on current revenue and spending patterns and the dollar amount of supplemental appropriation requests currently pending before the Board of Supervisors. The actual year-end balance may differ due to changes in revenues, current spending rates, or differences in the dollar amount of supplementals ultimately approved by the Mayor and the Board.

The projected year-end balance, while healthy, is less than the ending balance of the previous year. We relied on \$101.9 million in surplus from the prior year to balance the 1998-99 budget. Much of this year's \$86.0 million projected balance is made up of prior-year revenues, primarily \$43.4 million in additional funds from 1997-98 and \$17.6 million from an adjustment to the allocation of property taxes. A summary of our projected sources and uses of revenues by

category follows. The most significant changes from the original budget and year-end projections are summarized below.

**Chart A: Six-Month General Fund Budget Summary -- FY1998-99**

(in millions)

	Original Budget	Revised Budget	Year-End Projection	Variance: + to G.F. (- from G.F.)
<b>Sources:</b>				
Current revenues	1,649.8	1,653.8	1,693.9	40.1
Transfers in	158.7	156.3	154.5	(1.8)
<b>Total Sources</b>	<b>1,808.5</b>	<b>1,810.1</b>	<b>1,848.4</b>	<b>38.3</b>
<b>Uses:</b>				
Operating expenditures	1,581.5	1,616.4	1,616.2	0.2
Contribution transfers	115.5	130.3	135.4	(5.1)
Other transfers and reserves	188.4	155.1	155.1	0.0
Required set-asides			0.1	(0.1)
Pending supplemental appropriations			0.9	(0.9)
<b>Total Uses</b>	<b>1,885.4</b>	<b>1,901.8</b>	<b>1,907.7</b>	<b>(5.9)</b>
<b>Current Year Net Surplus/(Deficit)</b>	<b>(76.9)</b>	<b>(91.7)</b>	<b>(59.3)</b>	<b>32.4</b>
<b>General Fund Reserve:</b>				
Beginning balance	101.9	101.9	145.3	43.4
Ending balance	<b>25.0</b>	<b>10.2</b>	<b>86.0</b>	<b>75.8</b>

**Revenues and Transfers In**

We project revenues to be \$38.3 million higher than the revised budget. The majority of additional revenues comes from property-related taxes, which have increased primarily because of the continued strength in the economy and increases in property values and real estate transactions. Section II outlines the projected revenues by category.

**Expenditures and Transfers Out/Reserves**

Based on current spending patterns, we project operating expenditures to be approximately \$0.2 million less than budget. However, the Health Department requires an additional General Fund contribution of \$5.1 million to cover shortfalls at Laguna Honda Hospital. Section III outlines projected expenditures by department. Changes between the original budget and the revised

budget in the schedule of expenditures in Chart D are due to a carryforward of unexpended appropriations from the previous fiscal year, a supplemental appropriation (as listed in Appendix A) or an allocation from a reserve fund to a department budget.

### **Required Set-Asides**

The Charter specifies that the **Children's Fund** and the **Library Preservation Fund** shall receive at least a minimum level of funding from the General Fund (Sections 16.108 and 16.109). This minimum funding level is adjusted by any change in aggregate City appropriations from the base year. As a result, as General Fund expenditures increase, the minimum funding levels for the Children's Fund and the Library Preservation Fund also increase. Chart B identifies the minimum funding level (baseline) for each fund based on the original 1998-99 budget, and the revised funding level based on projected aggregate City expenditures.

**Chart B: Children's Fund and Library Preservation Fund Baseline Funding Levels**  
(in thousands)

	<u>Required</u>		<u>Actual</u>	
	<u>Original Baseline</u>	<u>Revised Baseline</u>	<u>G. F. Contribution -- Revised Budget</u>	<u>Excess G.F. Contribution</u>
Children's Fund	\$55,284	\$56,887	\$56,787	(\$100)
Library Fund	24,922	25,644	28,411	2,767

The 1998-99 General Fund contribution to the Library Fund already exceeds our revised baseline calculation of the amount they are entitled to receive under the Charter. Based on current projections, the contribution to the Children's Fund is less than required. We will continue to monitor City appropriations and, if requested, make an adjustment to the Children's Fund.

### **Pending Supplemental Appropriations**

The Board is considering supplemental appropriation requests from various departments of about \$0.9 million (see Appendix A). This amount may be modified by the Mayor and the Board or by additional supplemental requests from departments in the next few months. Our projections assume that these supplementals are approved at the requested funding levels.

### **Current Year Net Surplus/(Deficit)**

In the original budget, we projected a current year net deficit of \$76.9 million (i.e., expenditures exceed revenues). Based on the revised revenue and expenditure projections, the current year deficit is now \$59.3 million. The General Fund Reserve will be used to cover the current year deficit.

### **General Fund Reserves**

At the time the budget for 1998-99 was prepared, we anticipated that we would start the current fiscal year with a balance of \$101.9 million in the General Fund Reserve. From this beginning balance, \$76.9 million would be used to close the gap between current year revenues and expenditures (the current year net deficit). The Board specified that the remaining \$25 million should be reserved for contingencies. Subsequent to the adoption of the budget, the Board approved a \$14.8 million supplemental for the Municipal Railway, leaving a General Fund Reserve balance of \$10.2 million.

After the budget was adopted, and when the Comprehensive Annual Financial Report for the year ended June 30, 1998, was completed in November, we reported that the ending balance from the previous fiscal year was \$145.3 million. As a result, there is an additional \$43.4 million budgetary surplus available from 1997-98. Most of this surplus is attributable to higher-than-projected revenues in 1997-98 and unused reserves, as well as budget savings within City departments.

A portion of the General Fund Reserve will be used to cover the current year projected deficit of \$59.3 million. Based on current revenue and expenditure projections, the year-end balance in the General Fund Reserve is \$86.0 million.

### **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.



## II. REVENUES

### Chart C: Schedule of Budgeted and Projected Revenues

Fiscal Year Ending June 30, 1999  
As of December 31, 1998  
(In thousands)

GENERAL FUND	FISCAL YEAR 1998-99					NOTES
	ACTUAL FY97-98	ORIGINAL BUDGET	REVISED BUDGET	6 MONTH PROJECTION	VARIANCE FAV(UNFAV)	
<b>PROPERTY TAXES</b>	<b>342,050</b>	<b>346,027</b>	<b>346,027</b>	<b>365,297</b>	<b>19,270</b>	(1)
<b>BUSINESS TAXES:</b>						
Business Registration Tax	10,106	10,628	10,628	10,628	-	
Gross Receipts Tax	30,662	30,608	30,608	30,608	-	
Payroll Tax	182,136	190,027	190,027	190,027	-	
<b>Total Business Taxes</b>	<b>222,904</b>	<b>231,263</b>	<b>231,263</b>	<b>231,263</b>	<b>-</b>	(2)
<b>OTHER LOCAL TAXES:</b>						
Sales Tax	112,950	114,135	114,135	115,606	1,471	(3)
Hotel Room Tax	83,502	85,627	85,627	82,518	(3,109)	(4)
Utility Users Tax	56,604	56,087	56,087	53,180	(2,907)	(5)
Parking Tax	16,808	17,198	17,198	17,396	198	
Real Property Transfer Tax	44,007	42,350	42,350	48,276	5,926	(6)
Admission Tax	2,934	3,199	3,199	3,176	(23)	(7)
<b>Total Other Local Taxes</b>	<b>316,805</b>	<b>318,596</b>	<b>318,596</b>	<b>320,152</b>	<b>1,556</b>	
<b>LICENSES, PERMITS &amp; FRANCHISES</b>						
Licenses & Permits	6,612	7,145	7,145	7,140	(5)	
Franchise Tax	7,892	7,764	7,764	7,998	234	(8)
<b>Total Licenses, Permits &amp; Franchises</b>	<b>14,504</b>	<b>14,909</b>	<b>14,909</b>	<b>15,138</b>	<b>229</b>	
<b>FINES, FORFEITURES &amp; PENALTIES</b>	<b>1,431</b>	<b>2,522</b>	<b>4,922</b>	<b>4,922</b>	<b>-</b>	
<b>INTEREST/INVESTMENT INCOME</b>	<b>28,257</b>	<b>21,502</b>	<b>21,687</b>	<b>21,687</b>	<b>-</b>	
<b>RENTS &amp; CONCESSIONS</b>						
Garages - Rec/Park	6,621	5,963	5,963	6,088	125	(7)
Rents and Concessions - Rec/Park	12,576	13,107	13,107	12,605	(502)	(7)
Other Rents and Concessions	1,904	3,118	3,118	3,118	-	
<b>Total Rents and Concessions</b>	<b>21,101</b>	<b>22,188</b>	<b>22,188</b>	<b>21,811</b>	<b>(377)</b>	
<b>INTERGOVERNMENTAL REVENUES</b>						
<b>Federal Subventions</b>						
Social Service Subventions	96,614	129,472	129,622	129,622	-	
Other Grants & Subventions	9,810	7,679	7,679	7,679	-	
<b>Total Federal Subventions</b>	<b>106,424</b>	<b>137,151</b>	<b>137,301</b>	<b>137,301</b>	<b>-</b>	

**CHART C (continued): Schedule of Budgeted and Projected Revenues**

Fiscal Year Ending June 30, 1999  
As of December 31, 1998  
(In thousands)

GENERAL FUND	FISCAL YEAR 1998-99					NOTES
	ACTUAL FY97-98	ORIGINAL BUDGET	REVISED BUDGET	6 MONTH PROJECTION	VARIANCE FAV(UNFAV)	
<b>State Subventions</b>						
Social Service Subventions	99,767	99,936	99,936	99,936	-	
Health & Welfare Realignment	152,375	155,900	155,900	155,900	-	(9)
Health/Mental Health Subventions	57,600	60,027	60,486	60,486	-	
Public Safety Sales Tax	58,154	60,538	60,538	60,991	453	(10)
Motor Vehicle In-Lieu - County	42,592	43,402	43,402	44,200	798	(11)
Motor Vehicle In-Lieu - City	32,529	32,890	32,890	33,927	1,037	(11)
Trial Court Funding	32,769	-	-	-	-	(12)
Other Grants & Subventions	16,763	11,842	12,397	12,397	-	
<b>Total State Subventions</b>	<b>492,549</b>	<b>464,535</b>	<b>465,549</b>	<b>467,837</b>	<b>2,288</b>	
<b>CHARGES FOR SERVICES:</b>						
General Government Service Charges	14,489	17,142	17,142	17,142	-	(13)
Public Safety Service Charges	11,163	10,029	10,210	11,005	795	(14)
Recreation Charges - Rec/Park	9,010	10,932	10,932	9,423	(1,509)	(7)
MediCal,MediCare and health service charges	42,231	38,108	38,108	38,013	(95)	
Other Service Charges	4,737	4,359	4,359	4,366	7	
<b>Total Charges for Services</b>	<b>81,630</b>	<b>80,570</b>	<b>80,751</b>	<b>79,949</b>	<b>(802)</b>	
<b>RECOVERY OF GEN. GOV'T. COSTS</b>	<b>7,791</b>	<b>10,117</b>	<b>10,117</b>	<b>10,117</b>	<b>-</b>	
<b>OTHER REVENUES/ONE-TIME RECOVERIES</b>	<b>2,703</b>	<b>400</b>	<b>456</b>	<b>18,488</b>	<b>18,032</b>	(15)
<b>TOTAL REVENUES</b>	<b>1,638,149</b>	<b>1,649,780</b>	<b>1,653,766</b>	<b>1,693,962</b>	<b>40,196</b>	
<b>TRANSFERS INTO GENERAL FUND:</b>						
Airport	21,184	10,954	10,954	9,100	(1,854)	
Hetch Hetchy	45,703	42,703	42,703	42,703	-	
Other Transfers	103,734	105,074	102,674	102,674	-	
<b>Total Transfers-In</b>	<b>170,621</b>	<b>158,731</b>	<b>156,331</b>	<b>154,477</b>	<b>(1,854)</b>	
<b>TOTAL GENERAL FUND RESOURCES</b>	<b>1,808,770</b>	<b>1,808,511</b>	<b>1,810,097</b>	<b>1,848,439</b>	<b>38,342</b>	

Notes to Revenue Schedule:

- (1) **Property taxes** are over budget by approximately \$19.3 million. This amount is due to an increase in assessed property value over the 1997 roll. At the time the budget was adopted, the Assessor projected a 4% increase in the 1998 roll, which was used for the budget projection. The Assessor's final roll was actually 9.2% higher than the prior year. In addition, the Assessor anticipates adding another 1% to the 1998 roll through enrollment of escapes. As a result of these changes, the final 1998 roll on which property taxes will be levied is 6.2% higher than the estimate used for budget projections.

The 1998-99 budget included an additional \$2.3 million in property taxes from the Embarcadero Center, which was reportedly sold for \$1.2 billion in November 1998. In the budget projections, we assumed that the property would be reassessed and added to the roll at the new market value, as reflected in the sales price. It is our understanding that the actual transfer of the property between owners is being structured in phases. At this time, the Assessor's office has not included any increase in assessed value of the Embarcadero Center parcels in their projections for the 1998 roll. As a result, our year-end projection does not include any additional property tax revenues from the Embarcadero Center. We will revisit this issue in the nine-month report.

- (2) **Business taxes** are projected to be on budget at this time. Since most business tax payments are not remitted until March, it is too early to project any surplus or deficit for the fiscal year. Quarterly receipts to date indicate a slight growth over projections, but this may be offset by new tax credits recently approved by the Board.
- (3) **Sales taxes** are over budget by \$1.5 million. This is due primarily to an increase in prior year actual revenues, thus increasing the basis for this year's projections. Overall, sales taxes are projected to increase 3.2% over last year's actual revenues.
- (4) **Hotel taxes** allocated to the General Fund are under budget by approximately \$3.1 million because of a slowdown in growth rates and reduction in the projection base. There was a slowdown in the rate of growth in hotel tax revenues in the last half of FY97-98. As a result, we ended last year \$2.0 million less than projected. The slower growth rate has continued in the first six months of FY98-99, with an overall growth of 3.3% in hotel tax revenues between July and December. If hotel tax revenues grow at the budgeted rate of 7.5% for the remainder of the fiscal year, the annual growth would be 5.5%, resulting in the revenue shortfall from budget.

In addition to the General Fund allocation, several departments receive a proportion of hotel tax revenues as specified by ordinance (No. 254-98). Based on our revised projection, these departments will receive less revenue than budgeted. Charter Section 3.105 specifies that the Controller may place reserves on department expenditures when revenues are projected to be less than budgeted. As a result, we intend to reserve approximately \$2.0 million in expenditures, pending further revisions to hotel tax revenues. We will notify the Board and the affected departments of those reserves.



- (5) **Utility user taxes** are below budget by \$2.9 million, primarily due to significant declines in gas and electric collections. This decrease continues the trend of the past few years.
- (6) **Real property transfer tax** revenues are up substantially again this year, approximately \$4.6 million over budget. The increase is due to higher property values, a large volume of sales transactions in the residential real estate market, and the sale of several high-priced commercial properties.

The 1998-99 budget included an additional \$9 million in property transfer tax revenues from the Embarcadero Center, which was reportedly sold in November 1998 (\$1.2 billion sales price times 0.75% property transfer tax rate). It is our understanding that the actual transfer of the property between owners is being completed in phases, and that the transfer may be structured in such a way as to reduce the transfer tax liability. The Assessor's office is unable to tell us whether any sales transactions for the Embarcadero Center have been recorded, or when the transactions are completed whether they will be structured so as to reduce the amount of transfer tax paid below the projected \$9 million. At this time, our year-end projection for property transfer tax revenues does not include any additional revenues from the Embarcadero Center. We will revisit this issue in the nine-month report.

- (7) **Recreation and Park Department** revenues include the admission tax, garages, rents and concessions from recreation activities and recreation charges for services. In its budget, the department projected approximately a 5% growth in revenues over last year; however, current projections indicate that revenues are slightly lower than last year. Overall, Recreation and Park's FY98-99 revenues are expected to be approximately \$1.9 million less than budgeted. Admission charges at the Japanese Tea Garden, Coit Tower, and the Carousel are down \$0.7 million, due in part to a fee increase which may deter attendance. Green fees and concession revenues from the City's six public golf courses are down \$0.7 million. Recreation fees are down \$0.4 million, while other concession revenues are down \$0.1 million.
- (8) **Franchise tax** revenues are approximately \$0.2 million over budget, due primarily to higher cable payments.
- (9) **Health and Welfare Realignment** revenues are projected to be \$3.1 million over budget. This includes \$0.6 million in revenues that were not recognized in FY97-98 and \$2.5 million in additional revenues this year, due to stronger-than-projected growth in state-wide sales taxes and in vehicle license fees. The entire surplus is offset by revenue shortfalls in the Health Department, as reflected in Section III (Expenditures), so revenues are shown on budget.
- (10) **Public Safety Sales Tax (Prop. 172)** is expected to be approximately \$0.5 million over budget, due to slightly higher growth in sales tax receipts.
- (11) **Motor Vehicle in Lieu** subventions are projected to be approximately \$1.8 million over budget, due to a larger prior-year base and slightly higher growth rate.

- (12) The 1997 Lockyer-Isenberg **Trial Court Funding** Act substantially changed the division of responsibilities between the state and counties for funding trial courts. Revenues previously received by the County to fund court operations are now allocated directly to the courts by the state.
- (13) **General Government Service Charges**, which are made up of a number of items, are on budget, although certain fees are either above or below the budget estimates. In particular, traffic fees from red light violations are down \$0.7 million from the budget; the \$1 surcharge on parking tickets, which previously was remitted to the state, is down \$1.1 million from budget because the fee is recovered only on parking tickets that are paid, not on the total number of tickets issued.

The **City Planning Department** estimates that they will collect an additional \$2.9 million in planning fees because of the continued boom in the building industry. Of this amount, \$2.2 million is included in the year-end projection; the department is planning to use the remaining excess fee revenues along with a portion of their projected salary savings for system upgrades, and is preparing a supplemental appropriation request. The surplus planning fees offset the shortfall in traffic fees in this category.

- (14) **Public Safety Service Charges** are expected to be \$0.8 million over budget, mainly due to higher fees collected for towing surcharges related to the "Unclog the Streets" program and to street space permits paid by contractors for construction work.
- (15) **Other revenue** includes a one-time recovery of property tax revenues that were allocated to the Educational Revenue Augmentation Fund (ERAF) in prior years. Based on a preliminary review by the California State Controller, the City anticipates that it will reduce the allocation to ERAF by \$17.6 million this year, which represents overpayments between 1993-94 and 1996-97.

### III. EXPENDITURES

#### Chart D: Schedule of Budgeted and Projected Expenditures

Fiscal Year Ending June 30, 1999

As of December 31, 1998

(In Thousands)

Fiscal Year 1998-99					
GENERAL FUND	ACTUAL FY 1997-98	ORIGINAL BUDGET	REVISED BUDGET	CURRENT PROJECTION	SURPLUS (DEFICIT)
PUBLIC PROTECTION					
Adult Probation	7,893	\$7,588	\$7,677	\$7,677	\$0
Animal Care and Control	2,222	2,441	2,467	2,467	0
Co. Agriculture - Wts./Measures	1,036	1,232	1,238	1,238	0
District Attorney	28,067	31,093	31,369	31,369	0
Environment	330	298	366	281	30 (1)
Fire Department	145,442	145,427	146,190	148,290	(2,100) (2)
Juvenile Court	21,067	21,765	23,168	23,168	0
Police Department	208,301	213,936	215,970	217,070	(1,100) (3)
Public Administrator/Guardian	2,960	3,331	3,358	3,358	0
Public Defender	10,285	11,018	11,028	11,028	0
Sheriff	67,907	62,028	64,609	65,119	(510) (4)
Trial Courts	31,798	28,011	28,208	28,208	0
Total Public Protection	\$527,308	\$528,168	\$535,648	\$539,273	(\$3,680)
PUBLIC WORKS, TRANSPORTATION AND COMMERCE					
Clean Water	116	152	152	152	0
Emergency Communications	0	9,847	5,686	5,486	200 (1)
Parking and Traffic Commission	\$25,740	31,654	32,899	32,899	0
Permit Appeals	282	315	321	321	0
Public Works	10,579	14,269	14,355	14,355	0
PUC Light, Heat and Power	4,781	4,870	4,930	4,930	0
Telecommunications & Info. Serv	1,404	4,967	2,121	2,121	0
Total Public Works, etc.	\$42,902	\$66,074	\$60,464	\$60,264	\$200
HUMAN WELFARE AND NEIGHBORHOOD DEVELOPMENT					
Business and Economic Developm	793	2,106	2,012	2,012	0
Comm. on the Status of Women	1,797	2,242	2,243	2,243	0
Human Rights Commission	\$1,490	1,648	1,734	1,734	0
Human Services	302,584	362,874	374,280	371,619	2,661 (5)
Total Human Welfare, etc.	\$306,664	\$368,870	\$380,269	\$377,608	\$2,661
COMMUNITY HEALTH					
Community Health Network	51,160	58,765	59,934	59,934	0
Medical Examiner	\$3,343	3,557	3,725	3,675	50 (1)
Public Health	302,884	336,488	353,348	353,348	0
Total Community Health	\$357,387	\$398,810	\$417,007	\$416,957	\$50

**Chart D (continued): Schedule of Budgeted and Projected Expenditures**

Fiscal Year Ending June 30, 1999  
As of December 31, 1998  
(In Thousands)

		Fiscal Year 1998-99			VARIANCE
GENERAL FUND	ACTUAL FY 1997-98	ORIGINAL BUDGET	REVISED BUDGET	CURRENT PROJECTION	SURPLUS (DEFICIT)
CULTURE AND RECREATION					
Academy of Sciences	1,583	1,615	1,615	1,615	0
Art Commission	531	649	745	745	0
Asian Art Museum	1,601	1,488	1,511	1,511	0
County Educational Office	\$1,121	1,121	1,121	1,121	0
Fine Arts Museum	4,416	4,842	4,855	4,855	0
Law Library	207	263	263	263	0
Recreation and Park	59,359	62,750	64,182	64,182	0
Total Culture, etc.	\$68,818	\$72,728	\$74,292	\$74,292	\$0
GENERAL ADMINISTRATION & FINANCE					
Administration Services	1,184	1,834	1,571	1,571	0
Assessor/Recorder	8,322	9,319	8,435	8,385	50 (1)
Board of Supervisors	\$6,648	\$8,522	8,395	8,395	0
City Attorney	13,127	12,411	11,966	11,966	0
City Planning	6,161	8,315	8,471	7,971	500 (1)
Civil Service	560	610	623	598	25 (1)
Controller	13,414	14,363	14,617	14,617	0
Ethics Commission	372	476	480	480	0
General City Responsibility	22,647	35,362	35,510	35,510	0
Human Resources	13,684	14,317	14,767	14,767	0
Mayor	18,375	20,641	23,393	23,393	0
Real Estate	956	1,246	1,246	1,246	0
Registrar	3,642	2,770	2,601	2,601	0
Purchaser	1,718	3,056	3,103	2,943	160 (1)
Treasurer/Tax Collector	12,246	13,620	13,599	13,399	200 (1)
Total General Admin.	\$123,056	\$146,862	\$148,777	\$147,842	\$935
TOTAL GENERAL FUND EXPS.	\$1,426,135	\$1,581,512	\$1,616,457	\$1,616,236	\$166
TRANSFERS OUT OF GENERAL FUND:					
Contribution to MUNI		\$52,397	\$67,181	\$67,181	\$0
Contribution to SFGH		13,720	13,720	13,720	\$0 (6)
Contribution to LHH		21,658	21,658	26,758	(5,100) (6)
Contribution to Library		27,711	27,711	27,711	0
Other Transfers and Reserves		188,385	155,085	155,085	0
Total Transfers Out:		\$303,871	\$285,355	\$290,455	(\$5,100)
TOTAL GENERAL FUND USES		\$1,885,383	\$1,901,812	\$1,906,691	(\$4,879)

Notes to Expenditure Schedule:

- (1) Based on current spending patterns, several departments are projected to end the year under budget because of salary and fringe benefit savings.
- (2) The **Fire Department** is preparing a supplemental appropriation request of \$2.1 million to provide additional emergency medical services. The department increased its ambulance fleet from 17 vehicles to 21 vehicles, which requires an additional 36 paramedics to provide 24-hour-a-day staffing of the new ambulances. The department will also request funds to begin two additional classes of firefighters to fulfill future staffing requirements.
- (3) The **Police Department** expenditures for overtime and workers compensation are over budget by \$1.5 million and \$1.1 million respectively, based on expenditures during the first six month of the fiscal year. At this time the Police Department is projecting that the overtime deficit will be offset by other salary savings. A supplemental appropriation will be required to offset the \$1.1 million workers compensation deficit.
- (4) The **Sheriff** has requested a supplemental appropriation to cover projected shortfalls in food supplies (\$724,000) and workers' compensation (\$289,000). These shortfalls are partially offset by estimated salary and fringe savings of \$503,000, leaving a net shortfall of \$0.5 million.
- (5) The **Department of Human Services** is projecting a savings of \$2.7 million due to reductions in general assistance and CalWORKS caseloads, revised start-up dates for new programs, and additional state revenue allocations.
- (6) The **Health Department** is projecting a shortfall of \$5.1 million at Laguna Honda Hospital. Details of the department's revenue and expenditure projections are discussed in more detail in Section IV.

#### **IV. GENERAL FUND SUBSIDIZED DEPARTMENTS**

##### **Municipal Railway**

The Municipal Railway experienced serious operational problems last summer that affected revenues as well as operating expenses. In response, the Board approved a supplemental appropriation for \$14.8 million. The supplemental appropriation covers a projected shortfall of approximately \$3.3 million in passenger cash fares, which is partially offset by increases in other revenue sources. The supplemental appropriation also provides for additional expenditures of \$1.0 million in salaries and benefits, \$3.7 million in contractual services, \$5.0 million in materials and supplies, and \$5.1 million in other operating expenses. Chart E reflects the supplemental appropriation increase of \$14.8 million in the revised budget column.

At this time, the Municipal Railway is projected to remain within the revised budget. However, based on current spending patterns, the department will overspend its workers' compensation budget by \$2.4 million. This anticipated over-expenditure will be offset by other savings.

### Chart E: Municipal Railway Projected Sources and Uses

Fiscal Year Ending June 30, 1999

As of December 31, 1999

(In Thousands)

		FY 98-99			
	ACTUAL FY 97-98	ORIGINAL BUDGET	REVISED BUDGET	CURRENT PROJECTION	SURPLUS/ (DEFICIT)
SOURCES:					
Department Revenues:					
Passenger Fares	\$97,909	\$99,972	\$96,676	\$96,676	\$0
Sales Tax Allocation - MTC	27,829	30,053	30,053	30,053	0
Operating Assistance	546	0	0	0	0
MTC Bridge Toll Allocation	23,639	30,031	30,031	30,031	0
Other	33,846	31,212	34,089	34,089	0
Total Department Revenues	\$183,769	\$191,268	\$190,849	\$190,849	\$0
Proposition M Revenues:					
Parking Tax	\$16,808	\$17,198	\$17,198	\$17,198	\$0
Garage Rents	9,513	8,521	9,235	9,235	0
Traffic Fines/Meter Transfers	57,277	61,684	61,389	61,389	0
Total Other Financing Sources	\$83,598	\$87,403	\$87,822	\$87,822	\$0
General Fund Subsidy	\$52,110	\$52,397	\$67,181	\$67,181	\$0
TOTAL SOURCES	\$319,477	\$331,068	\$345,852	\$345,852	\$0
Expenditures:					
Personal Services	\$231,746	\$240,497	\$241,477	\$241,477	0
Contractual Services	20,299	24,376	28,056	28,056	0
Materials and Supplies	22,518	24,354	29,378	26,978	2,400
Claims	9,283	7,783	7,783	7,783	0
Workers' Compensation	16,417	16,049	16,049	18,449	(2,400)
Other Operating Expenses	7,656	10,819	15,919	15,919	0
Facilities Maint. & Capital Proje	11,558	7,190	7,190	7,190	0
TOTAL USES	\$319,477	\$331,068	\$345,852	\$345,852	\$0
PROJECTED SURPLUS/(DEF)	\$0	\$0	\$0	\$0	\$0

## **Health Department**

The Health Department is projecting substantial revenue and expenditure variances in each division. Overall, department revenues are down \$31.1 million for a variety of reasons. The department projects that it will be able to reduce expenditures by \$26.0 million. The net shortfall in the department is \$5.1 million, as summarized in Chart F.

### **Chart F: Health Department Projected Surplus/(Deficit)**

Fiscal Year Ending June 30, 1999

As of December 31, 1998

(In Thousands)

<u>Division</u>	<u>Over/(Under) Revenues</u>	<u>Budgeted Amount Expenditures</u>	<u>Net Surplus/(Deficit)</u>
Community Health Network			
S.F. General Hospital	(\$20,051)	\$7,600	(\$12,451)
Laguna Honda Hospital	(6,688)	1,601	(5,087)
Primary Care	450	4,822	5,272
Forensics	0	0	0
Subtotal	(26,289)	14,023	(12,266)
Population Health & Prevention	(4,824)	11,946	7,122
Total	<u>(\$31,113)</u>	<u>25,969</u>	<u>(\$5,144)</u>

#### **Revenues:**

Revenues at San Francisco General Hospital (SFGH) are \$20.1 million below budget. The most significant factors affecting these revenues are: (1) high patient census at SFGH which has resulted in citywide hospital diversions of Medi-cal and Medicare patients; (2) a higher than expected number of uninsured patients; (3) additional recognition of bad debt; (4) lower reimbursement based on changes to medical acuity of some Medicare patients; and (5) disallowances of Medi-cal and Medicare costs from prior years, which must be applied to current year revenues. Health and Welfare Realignment revenues, which are projected to be \$3.1 million over budget, are included in the SFGH revenue figures, and offset a portion of the revenue loss.

Revenues at Laguna Honda Hospital (LHH) are \$6.7 million below budget. The primary factor affecting revenues is the reduced census at LHH as required by the Health Care Finance Administration. This reduction has been implemented consistent with the department's plan of correction. Census reductions at LHH have resulted in lower Medi-cal revenues combined with a larger proportion of uninsured patients.

Revenues for Population Health & Prevention divisions are \$4.8 below budget.



Expenditures:

In response to projected revenue shortfalls, the department has instituted an aggressive expenditure reduction plan. This plan includes personnel reductions, deferral of equipment and capital purchases, reduction of administrative expenses, and delay of new programs. The department anticipates that it can reduce expenditures at SFGH by \$7.6 million, LHH by \$1.6 million, Primary Care by \$4.8 million, and Population Health & Prevention programs by \$11.9 million.

Shortfall:

Overall, the department is projecting a shortfall of \$5.1 million at LHH. The department intends to close out other program surpluses to SFGH in order to balance SFGH by year-end. In addition, the department has appealed several state audit adjustments, and may be able to recognize additional revenues associated with its Federally Qualified Health Clinics later this year. The department is planning to submit a supplemental appropriation request to cover the projected shortfall at LHH. For purposes of this report, we have shown an increase in the General Fund Contribution to LHH of \$5.1 million to cover the projected shortfall.

## V. ISSUES TO MONITOR

### Workers' Compensation

Workers' compensation continues to be an area of budgetary concern. Chart G reflects the Human Resources Department's projected year-end workers' compensation spending by department. The estimates are based on six-month actuals as well as prior year spending patterns. Overall, these projections result in an \$8.7 million projected deficit in the City's workers' compensation budget.

With the exception of the Sheriff and the Police Department, all other departments with workers compensation deficits will likely be able to absorb these increases within their existing budget, and are, therefore, being shown on budget in the expenditure section.

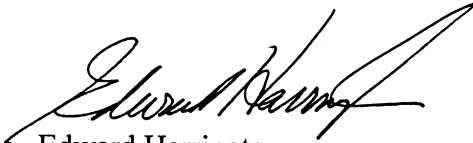
**Chart G: Projected Workers' Compensation Spending**  
(in thousands)

<b><u>Department</u></b>	<b><u>FY 97-98 Actual</u></b>	<b><u>FY 98-99 Budget</u></b>	<b><u>6-Month Actual</u></b>	<b><u>Current Projection</u></b>	<b><u>Surplus/ (Deficit)</u></b>
<b>General Fund:</b>					
Juvenile Court	\$879	\$795	\$413	\$826	(\$31)
District Attorney	171	256	68	136	120
Recreation & Park	1,694	1,423	1,071	2,142	(719)
Human Services	792	797	709	1,418	(621)
Police	5,844	5,463	3,295	6,591	(1,128)
Fire	5,262	4,781	2,552	5,104	(323)
Public Health	790	682	805	1,315	(633)
Sheriff	815	840	597	1,118	(278)
Parking & Traffic	1,910	1,724	1,100	2,080	(356)
Other GF Depts.	1,700	1,209	744	1,487	(278)
<b>Total General Fund</b>	<b>19,857</b>	<b>17,970</b>	<b>11,354</b>	<b>22,217</b>	<b>(4,247)</b>
<b>General Fund Subsidized:</b>					
Public Library	157	132	125	250	(118)
Municipal Railway	16,417	16,048	9,532	19,064	(3,016)
SF General Hospital	2,843	2,666	1,615	3,230	(564)
Laguna Honda Hospital	1,921	1,638	1,180	2,361	(723)
<b>Total GF Subsidized</b>	<b>21,338</b>	<b>20,484</b>	<b>12,452</b>	<b>24,905</b>	<b>(4,421)</b>
<b>GRAND TOTAL</b>	<b>\$41,195</b>	<b>\$38,454</b>	<b>\$23,806</b>	<b>\$47,122</b>	<b>(\$8,668)</b>

**Conclusion**

The funds available appear to be sufficient to carry the City through the rest of the fiscal year, with a remaining balance that can be applied to future years. My staff and I are available to respond to any comments or questions you may have.

Sincerely,



Edward Harrington

Attachments:

Appendix A: Status of Supplemental Appropriations which impact the General Fund Reserve  
Appendix B: Status of Board Reserves

cc: Department Heads  
Matthew Hymel  
Harvey Rose

**APPENDIX A**  
**Status of Supplemental Appropriations**  
**which impact the General Fund Reserve**  
Fiscal year 1998-99 (as of December 31, 1998)

	<u>CHANGES APPROVED</u>	<u>CHANGES PENDING</u>
<u>Approved Supplementals</u>		
MUNI -- Metro Recovery, salaries, equipment	<u>\$14,784,305</u>	
Total Changes Approved:	<u><u>\$14,784,305</u></u>	
 <u>Supplementals Pending at the Board *</u>		
Animal Care and Control -- Treatment of Horses		36,551
Caltrain/Peninsula Corridor Joint Powers Board Payment		830,760
Mayor's Office of Criminal Justice -- Hate Crimes Prevention		<u>50,000</u>
 Total Changes Pending:		<u><u>\$917,311</u></u>

\* These amounts are subject to Mayor or Board changes.

**APPENDIX B**  
**Status of Board Reserves**  
Fiscal Year 1998-99  
As of February 5, 1999

<u>RESERVE</u>	<u>BEGINNING BALANCE</u>	<u>CHANGES PENDING OR APPROVED</u>	<u>BALANCE AFTER CHANGES</u>
Electronic Meter Program	\$1,660,166	\$0	\$1,660,166
Security for Parking Facility Bond	1,500,000	0	1,500,000
Universal Health Care	500,000	0	500,000
Childcare Furnishings/Fixtures	350,000	0	350,000
High Quality Childcare Program	2,000,000	1,500,000	500,000
Tivoli Licensing	49,999	0	49,999
Parking Citation Program	4,471,460	4,471,460	0
Rec. Customer Svc. Program	75,000	75,000	0
Rec. Graffiti Removal Program	100,497	100,497	0
Rec. Program Enhancements	325,000	325,000	0
Rec. Summer Day Camp	75,000	75,000	0
Rec. Youth Space	75,000	0	75,000
Rec. Youth/Teen Ctr. Lease	100,000	0	100,000
875 Stevenson Improvements	464,880	0	464,880
Tivoli Systems Project	<u>1,000,000</u>	<u>1,000,000</u>	<u>0</u>
Total	<u>\$12,747,002</u>	<u>\$7,546,957</u>	<u>\$5,200,045</u>