



**Edward Harrington**  
Controller

February 8, 2002

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: FY 2001-02 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, 2001. The purpose of the report is to apprise the City's policy makers of the current status of the General Fund revenues and expenditures. It is organized as follows:

- I. Overview
- II. Sources of Funds (Revenues & Transfers In)
- III. Uses of Funds (Expenditures & Transfers Out)
- IV. Issues to Monitor
  - Natural Gas Prices
  - Public Health
  - Worker's Compensation
- V. Conclusion

## **I. OVERVIEW**

**We project an \$81.92 million General Fund balance at the end of the fiscal year 2001-2002 (FY 2001-02).** This is \$66.80 million lower than the \$148.72 million of prior year fund balance used to balance the FY 2001-02 budget. The \$81.92 million is substantially composed of:

- Last fall we released final year-end numbers that indicated we had ended FY 2000-01 with \$198.57 million fund balance rather than the \$148.72 million assumed in the budget, for a gain of 49.85 million.
- In September 2001, after the events of September 11<sup>th</sup>, we projected a loss in current year revenue from hotel, sales and similar taxes of between \$60 and \$100 million. Those losses are estimated in this report at \$75 million, but are partially offset by public health revenues of \$25 million, for a net loss of approximately \$50 million.
- The Mayor had proposed a plan to save \$60 million during this year, and that is substantially on track.
- The budget included a contingency reserve of \$28.11 million that will be partially used to cover overspending in a few departments, leaving approximately \$22 million.

**Chart A: Six-Month General Fund Budget Summary – FY 2001-02 (millions)**

	AAO Original Budget	Revised Budget	Year-End Projection	Increase / (Decrease) From Revised Budget
<b>Sources:</b>				
General Fund Beginning Balance	\$ 148.72	\$ 148.72	\$ 198.57	\$ 49.85
Prior Year Reserves	\$ 39.99	\$ 45.00	\$ 45.00	\$ -
Subtotal Sources - Prior Years	<u>\$ 188.71</u>	<u>\$ 193.72</u>	<u>\$ 243.57</u>	<u>\$ 49.85</u>
Current Revenues	\$ 2,016.74	\$ 2,023.00	\$ 1,980.51	\$ (42.49)
Transfers In	\$ 127.96	\$ 127.96	\$ 120.34	\$ (7.63)
Subtotal Sources - Current Year	<u>\$ 2,144.71</u>	<u>\$ 2,150.96</u>	<u>\$ 2,100.85</u>	<u>\$ (50.11)</u>
<b>Total Sources</b>	<b><u>\$ 2,333.42</u></b>	<b><u>\$ 2,344.68</u></b>	<b><u>\$ 2,344.42</u></b>	<b><u>\$ (0.26)</u></b>
<b>Uses:</b>				
Operating Expenditures, net	\$ 1,853.26	\$ 1,875.21	\$ 1,871.22	\$ (4.00)
General Fund Contribution Transfers	\$ 285.72	\$ 285.72	\$ 279.42	\$ (6.30)
Projects, Capital, Facilities Maintenance	\$ 120.55	\$ 121.64	\$ 106.14	\$ (15.50)
Reserves	\$ 45.77	\$ 27.90	\$ 25.01	\$ (2.89)
Required Set-Asides			\$ 1.52	\$ 1.52
Pending Supplemental Appropriations			\$ 0.29	\$ 0.29
<b>Total Uses</b>	<b><u>\$ 2,305.30</u></b>	<b><u>\$ 2,310.48</u></b>	<b><u>\$ 2,283.60</u></b>	<b><u>\$ (26.88)</u></b>
<b>General Fund Ending Balance</b>	<b><u>\$ 28.11</u></b>	<b><u>\$ 34.21</u></b>	<b><u>\$ 60.82</u></b>	<b><u>\$ 26.62</u></b>
<b>Proposed Legislation</b>				
911 Legislation			\$ 12.60	
Lease Financing			\$ 7.50	
			<u>\$ 20.10</u>	
<b>Fund Balance Closeouts</b>				
Worker's Compensation Fund Closeout			\$ 0.60	
Reproduction Fund Closeout			\$ 0.30	
25 Van Ness Closeout			\$ 0.10	
			<u>\$ 1.00</u>	
<b>General Fund Ending Balance Estimate</b>			<u>\$ 81.92</u>	

The projected General Fund balance of \$81.92 million is due to a combination of increases and decreases in various budget line items. The projected year-end balance is based on current revenue and spending patterns less supplemental appropriation requests currently pending at the Board of Supervisors. The actual year-end balance may differ due to changes in revenues, spending rates, or differences in the dollar amount of supplementals ultimately approved by the Mayor and the Board. The narrative on the following pages provides a descriptive crosswalk of the key changes and operational issues.

### **General Fund Beginning Balance**

At the time the budget for FY 2001-02 was prepared, we anticipated starting the current fiscal year with a General Fund Beginning Balance of \$148.72 million. When the Comprehensive Annual Financial Report for the year ended June 30, 2001, was completed in January 2002, we confirmed that the ending balance from the previous fiscal year was \$198.57 million. As a result, there is an additional \$49.85 million available from FY 2000-01 that was not anticipated when the current budget was adopted. These additional funds are attributable to higher-than-projected actual revenues in FY 2000-01.

### **Current Revenues and Transfers In**

We project revenues and transfers to be \$50.11 million lower than the revised FY 2001-02 budget. This shortfall is comprised of **two key components**: 1) an approximate \$75 million shortfall in non-Health, operating revenues and transfers in, and 2) an approximate \$25 million surplus in Health-related revenues. Our revenue projections are based on realized revenues through the first six months of FY 2001-02, discussions with industry / department experts, and analysis of key economic indicators and forecasts. The current projection of non-Health revenues is **predicated upon a recovery during the second quarter of calendar year 2002 – that is, seeing a modest regional rebound beginning in May 2002 with a gradual upturn** throughout FY 2002-03.

The \$75 million shortfall in projected **non-Health revenues** is attributed generally to economic weakness impacting four key revenues: 1) Sales Tax, 2) Hotel Room Tax, 3) Real Property Transfer Tax, and 4) Airport Transfers In. These four revenues have been adversely affected by the economic slowdown, lower levels of consumer confidence, and decreases in both tourism and business travel to San Francisco. Property Tax and Health-related revenues are better than originally expected and help to partly offset the economic weakness exhibited in more cyclical or economically sensitive revenues. Section II below details the projected revenues by category.

At this point in our fiscal year, **key projection uncertainty** is still present for both Business Payroll Tax and Sales Tax revenues. For Business Payroll Tax, final tax returns will be submitted in February 2002, which means the impact of the slowdown will not be clear until early March for this revenue. As for Sales Tax, there is always a three to four month lag in receiving data from the State. This delay affects all jurisdictions in California.

**Current Operating Expenditures**

Based on current spending patterns, we project operating expenditures to be **approximately \$4.00 million less than the revised budget**. However, this is due to a combination of increases and decreases, namely:

- \$15.13 million, in **Departmental Savings** overall, including  
Natural Gas Costs under budget by \$4.90 million  
Worker’s Compensation over budget by \$2.97 million
- \$11.13 million, **Departmental Over Expenditures**, including  
Emergency Communications  
Sheriff  
City Attorney  
Elections

Section III outlines projected year-end surpluses or deficits for each department.

**Contribution Transfers Out & Required Set-Asides**

The Charter specifies that the **Children’s Services, Library Preservation, and Municipal Transportation** shall receive a minimum appropriation amount (baseline) from the General Fund. The required baselines are adjusted by changes in discretionary revenues throughout the budget year. **Chart B** below outlines current and original required baselines as well as the Actual General Fund Appropriation for the three baselines. For FY 2001-02, all three baselines currently show Projected Excess Contribution as of the date of this report. Based on the Mayor’s Plan to bridge the \$60 million shortfall, reductions in both the Library Preservation and the Municipal Transportation baselines are assumed in the amounts \$0.86 million and \$5.42 million respectively. A reduction in the Children’s Services baseline is not assumed.

**Chart B: Baselines**

Baseline	FY 2001-02			
	Original Required Baseline	Actual General Fund Appropriation	Current Required Baseline	Projected Excess/(Deficit) Contribution as of 6-Month
Children's Services	\$73,312,915	\$79,545,854	\$69,529,673	\$10,016,181
Library Preservation	\$32,658,526	\$31,921,575	\$31,056,891	\$864,684
Municipal Transportation	\$98,048,561	\$98,035,409	\$92,598,022	\$5,437,387
	<b>\$204,020,002</b>	<b>\$209,502,838</b>	<b>\$193,184,586</b>	<b>\$16,318,252</b>

In addition, Section 3.17 of the Administrative Code requires that 10 percent of departments’ year-end balances be set aside in a **Savings Incentive Account**. Based on current projections, approximately \$1.52 million will be placed into the account.

### **Pending Supplemental Appropriations**

Supplemental requests pending approval by the Board of Supervisors for various departments total \$285,144 as outline in *Appendix A*. Our projections assume that these pending supplemental appropriations are approved at the requested funding levels.

Supplemental requests needed to cover projected over-expenditure are not reflected in Appendix A as they are not yet pending Board approval. These projected over-expenditures are, however, included in the expenditure summary (Section III, Chart D).

### **Reserves**

Each year, the Board of Supervisors places certain budget items on reserve, requiring subsequent Board approval before these funds can be spent. *Appendix B* provides a status report on the Board reserves and their remaining balances as of January 31, 2002. Where indicated in Appendix B, the expenditure projections assume that the Board of Supervisors and the Finance Committee reserves will be released prior to the end of the fiscal year.

### **General Fund Ending Balance**

Based on the current revenue and expenditure projections, the City's year-end General Fund balance would be \$81.92 million. This represents a significant drop from our FY 2001-02 beginning fund balance of \$148.72, which was used as one-time funding in the development of the current year budget. As in previous years, FY 2001-02's projected year-end General Fund balance would be available as a funding source for next year's budget.

**II. Revenues, Chart C**

GENERAL FUND	FY 2000-01	FY 2001-02			%Chg	%Chg	\$ VARIANCE FAV(UNFAV)
	ACTUALS	ORIGINAL BUDGET	REVISED BUDGET	6 MONTH PROJECTION	from Revised	from PY	
<b>PROPERTY TAXES</b>	\$ 461,937,818	\$ 461,549,756	\$ 461,714,609	\$ 473,986,382	2.7%	2.6%	\$ 12,271,773 (1)
<b>BUSINESS TAXES:</b>							
Business Registration Tax	9,980,244	6,417,000	6,417,000	6,417,000	0.0%	-35.7%	0
Gross Receipts Tax	0	0	0	0	n/a	n/a	0
Payroll Tax	267,113,974	269,252,000	269,252,000	265,252,000	-1.5%	-0.7%	(4,000,000) (2)
<b>Total Business Taxes</b>	<b>277,094,218</b>	<b>275,669,000</b>	<b>275,669,000</b>	<b>271,669,000</b>	<b>-1.5%</b>	<b>-2.0%</b>	<b>(4,000,000)</b>
<b>OTHER LOCAL TAXES:</b>							
Sales Tax	143,815,095	155,190,000	155,190,000	129,941,228	-16.3%	-9.6%	(25,248,772) (3)
Hotel Room Tax	131,402,044	141,634,414	141,634,414	94,810,992	-33.1%	-27.8%	(46,823,422) (4)
Utility Users Tax	77,170,418	77,346,000	77,346,000	76,900,294	-0.6%	-0.4%	(445,706) (5)
Parking Tax	33,831,603	35,022,000	35,022,000	33,022,000	-5.7%	-2.4%	(2,000,000) (6)
Real Property Transfer Tax	62,335,132	48,000,000	48,000,000	43,000,000	-10.4%	-31.0%	(5,000,000) (7)
Admission Tax	2,877,401	2,622,000	2,622,000	2,622,000	0.0%	-8.9%	0
<b>Total Other Local Taxes</b>	<b>451,431,692</b>	<b>459,814,414</b>	<b>459,814,414</b>	<b>380,296,514</b>	<b>-17.3%</b>	<b>-15.8%</b>	<b>(79,517,900)</b>
<b>LICENSES, PERMITS &amp; FRANCHISES</b>							
Licenses & Permits	7,264,052	7,633,928	7,633,928	7,543,507	-1.2%	3.8%	(90,421) (8)
Franchise Tax	11,650,375	11,141,000	11,141,000	11,141,000	0.0%	-4.4%	0
<b>Total Licenses, Permits &amp; Franchises</b>	<b>18,914,427</b>	<b>18,774,928</b>	<b>18,774,928</b>	<b>18,684,507</b>	<b>-0.5%</b>	<b>-1.2%</b>	<b>(90,421)</b>
<b>FINES, FORFEITURES &amp; PENALTIES</b>	<b>9,096,778</b>	<b>5,793,257</b>	<b>5,793,257</b>	<b>8,093,257</b>	<b>39.7%</b>	<b>-11.0%</b>	<b>2,300,000</b> (9)
<b>INTEREST &amp; INVESTMENT INCOME</b>	<b>34,584,773</b>	<b>24,732,983</b>	<b>24,841,718</b>	<b>24,841,718</b>	<b>0.0%</b>	<b>-28.2%</b>	<b>0</b>
<b>RENTS &amp; CONCESSIONS</b>							
Garages - Rec/Park	7,559,981	8,487,114	8,487,114	6,765,000	-20.3%	-10.5%	(1,722,114) (10)
Rents and Concessions - Rec/Park	10,690,148	10,154,166	10,154,166	10,275,000	1.2%	-3.9%	120,834 (11)
Other Rents and Concessions	1,288,323	1,351,017	1,351,017	1,351,017	0.0%	4.9%	0
<b>Total Rents and Concessions</b>	<b>19,538,452</b>	<b>19,992,297</b>	<b>19,992,297</b>	<b>18,391,017</b>	<b>-8.0%</b>	<b>-5.9%</b>	<b>(1,601,280)</b>
<b>INTERGOVERNMENTAL REVENUES</b>							
<b>Federal Subventions</b>							
Social Service Subventions	129,336,505	121,626,428	132,669,635	132,669,635	0.0%	2.6%	0
Other Grants & Subventions	6,073,056	6,826,356	3,626,356	3,626,356	0.0%	-40.3%	0
<b>Total Federal Subventions</b>	<b>135,409,561</b>	<b>128,452,784</b>	<b>136,295,991</b>	<b>136,295,991</b>	<b>0.0%</b>	<b>0.7%</b>	<b>0</b>
<b>State Subventions</b>							
Social Service Subventions	114,398,590	141,046,922	142,361,011	142,361,011	0.0%	24.4%	0
Health & Welfare Realignment	123,110,517	120,957,804	120,957,804	121,957,804	0.8%	-0.9%	1,000,000 (12)
Health/Mental Health Subventions	53,764,260	60,759,014	60,759,014	63,240,014	4.1%	17.6%	2,481,000 (13)
Public Safety Sales Tax	71,637,691	75,066,000	75,066,000	69,060,720	-8.0%	-3.6%	(6,005,280) (14)
Motor Vehicle In-Lieu - County	55,018,074	57,615,000	57,615,000	57,615,000	0.0%	4.7%	0
Motor Vehicle In-Lieu - City	42,288,523	44,556,000	44,556,000	44,556,000	0.0%	5.4%	0
Other Grants & Subventions	40,802,809	26,254,121	22,659,868	27,004,428	19.2%	-33.8%	4,344,560 (15)
<b>Total State Subventions</b>	<b>501,020,464</b>	<b>526,254,861</b>	<b>523,974,697</b>	<b>525,794,977</b>	<b>0.3%</b>	<b>4.9%</b>	<b>1,820,280</b>

**II. Revenues, Chart C (continued)**

	FY 2000-01		FY 2001-02		% Chg from Revised	% Chg from PY	\$ VARIANCE FAV(UNFAV)
	ACTUALS	ORIGINAL BUDGET	REVISED BUDGET	6 MONTH PROJECTION			
<b>CHARGES FOR SERVICES:</b>							
General Government Service Charges	\$ 19,095,392	\$ 20,635,858	\$ 20,635,858	\$ 17,985,858	-12.8%	-5.8%	\$ (2,650,000) (16)
Public Safety Service Charges	13,298,417	12,620,432	12,640,282	15,084,016	19.3%	13.4%	2,443,734 (17)
Recreation Charges - Rec/Park	9,896,816	9,754,000	9,754,000	9,316,000	-4.5%	-5.9%	(438,000) (18)
MediCal,MediCare and health service charges	42,412,367	38,044,080	38,044,080	60,285,080	58.5%	42.1%	22,241,000 (19)
Other Service Charges	5,866,349	5,376,024	5,376,024	5,376,024	0.0%	-8.4%	0
<b>Total Charges for Services</b>	<b>90,569,341</b>	<b>86,430,394</b>	<b>86,450,244</b>	<b>108,046,978</b>	<b>25.0%</b>	<b>19.3%</b>	<b>21,596,734</b>
<b>RECOVERY OF GEN. GOV'T. COSTS</b>	<b>9,756,152</b>	<b>8,378,165</b>	<b>8,378,165</b>	<b>11,010,165</b>	<b>31.4%</b>	<b>12.9%</b>	<b>2,632,000 (20)</b>
<b>OTHER REVENUES</b>	<b>2,993,459</b>	<b>900,000</b>	<b>1,301,711</b>	<b>3,401,711</b>	<b>161.3%</b>	<b>13.6%</b>	<b>2,100,000 (21)</b>
<b>TOTAL REVENUES</b>	<b>2,012,347,135</b>	<b>2,016,742,839</b>	<b>2,023,001,031</b>	<b>1,980,512,217</b>	<b>-2.1%</b>	<b>-1.6%</b>	<b>(42,488,814)</b>
<b>TRANSFERS INTO GENERAL FUND:</b>							
Airport	26,151,881	29,327,877	29,327,877	21,702,877	-26.0%	-17.0%	(7,625,000) (22)
Hetch Hetchy	29,850,000	0	0	0	n/a	-100.0%	0
Other Transfers	93,085,665	98,635,268	98,635,268	98,635,268	0.0%	6.0%	0
<b>Total Transfers-In</b>	<b>149,087,546</b>	<b>127,963,145</b>	<b>127,963,145</b>	<b>120,338,145</b>	<b>-6.0%</b>	<b>-19.3%</b>	<b>(7,625,000)</b>
<b>TOTAL GENERAL FUND RESOURCES</b>	<b>2,161,434,681</b>	<b>2,144,705,984</b>	<b>2,150,964,176</b>	<b>2,100,850,362</b>	<b>-2.3%</b>	<b>-2.8%</b>	<b>(50,113,814)</b>

**Notes to Sources of Funds Schedule:**

- (1) **Property Tax** revenues are projected to be over budget by approximately \$12.27 million. This increase is due to the previously strong real estate market, which translated to an even higher increase in assessed property value over original assumptions. Like surrounding jurisdictions, San Francisco's assessed valuation growth was strong in recent years, equaling 12.4 percent from FY 2000-01 to FY 2001-02. This strong growth is partly offset due to reduced supplemental activity, appeals, roll corrections and refunds.
- (2) Final **Payroll Tax** revenues are collected in February and represent the tax liability related to the prior calendar year. As outlined in the summary above, a great deal of uncertainty surrounds this revenue line item until the beginning of March. At this time, our fiscal year-end projected decrease of \$4.00 million assumes a slight contraction in the original budget assumptions due to the increase in unemployment (going from less than 3 percent in early 2001 to over 6 percent by late 2001). Moreover, with more people out of work, lower wage inflation pressures were present. Together, the number of workers employed and wage inflation are the principal drivers of this revenue.
- (3) **Sales Tax** revenues are projected to be under budget by \$25.25 million (i.e. 16.3 percent under budget, 9.6 percent less than prior year actuals) due to the economic slowdown and drop in tourism and business travel. Nationally, retail sales finished 2001 stronger than many analysts originally expected due to aggressive financing strategies, discounting and inventory reduction markdowns. During the most recent holiday season, same-store retail sales nationally increased 2.2 percent over last year.<sup>1</sup> California retailers experienced a 1.7 percent increase over the prior year's holiday season.<sup>2</sup> However, San Francisco generally fared worse than the nation and the state due to our exposure to tourism and business travel. **Appendix C** provides further detailed information on Sales Tax revenues, including key projection considerations.
- (4) **Hotel Room Tax** revenues allocated to the General Fund are projected to be under budget by approximately \$46.82 million. This represents a 27.8 percent drop from the prior year revenues. The decline is the result of significantly lower average occupancy rates (down as much as 33 percent in recent months) and lower average daily room rates (down as much as 16 in recent months) brought on by the economic slowdown and the September 11<sup>th</sup> terrorist attacks. Immediately following September 11<sup>th</sup>, occupancy rates fell sharply, and subsequently the lodging industry introduced price discounting and promotions. Our projection is based on realized revenue collections to date, interviews with hotel industry professionals, and assumes a gradual rebound beginning in May of 2002. Deep declines in occupancy and average daily room rates will reverse recent trends with that recovery, albeit slow and modest during the latter part of FY 2001-02. Our forecast assumes 66-68 percent average occupancy and average daily room rates to be 10-12 percent lower than the prior fiscal year. If this is not realized, additional downward revision may be required. **Appendix D** provides further detailed information on Hotel Room Tax revenues, including key projection considerations.

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<sup>1</sup> TeleCheck Retail Index (SF Business Times, 1/4/2002)

<sup>2</sup> TeleCheck Retail Index (SF Business Times, 1/4/2002)



- (5) **Utility User Tax** revenues are projected to be under budget slightly by \$0.45 million. The original budget assumed almost no growth overall as increases in telecommunication and electricity revenues were projected to be offset by a decrease in natural gas revenues. The current projection assumes adequate natural gas reserves, which are largely impacted by winter weather conditions in the short run. If the winter is especially cold, upward pressure on natural gas prices could appear. However, to date the US has fared well with warmer weather conditions. Only commercial users pay the utility user tax; therefore, the City will not benefit from energy rate increases imposed on residential power users. While lower natural gas costs put downward pressure on this revenue category, it does help reduce costs on the expenditure side as is reflected in Section III below.
- (6) **Parking Tax** revenues are projected to be \$2.00 million under budget due to lower usage likely related to the economic slowdown. The Department of Aging & Adult Services receives one third of parking tax revenues accruing to the General Fund. This report, however, assumes that the General Fund will backfill that department's shortfall of \$0.67 million.
- (7) **Real Property Transfer Tax** revenues are projected to be under budget by \$5.00 million. This revenue is one of the more difficult to project due to significant fluctuation in real estate transaction volumes and prices. The \$43.00 million projection is based on lower monthly collections through the first six months of the fiscal year, and assumes a slow recovery in the real estate market, which had been especially robust in recent years. A \$43.00 million projection is commensurate to nearly a 40 percent drop in this revenue from business cycle peak (FY 1999-00) to valley (FY 2001-02). This compares to a 45 percent decline experienced between FY 1988-89 to FY 1990-91. A slightly lower drop is projected for this business cycle due to aggressive easing by the Federal Reserve Bank and mitigated inflationary concerns, which will help ensure lower interest rates and a more conducive lending environment.
- (8) **Licenses and Permit** revenues are projected to be under budget by \$0.09 million due to weakness in Contractor Parking Permits.
- (9) **Fines, Forfeitures and Penalties** are projected to be over budget by \$2.30 million due to:
- +\$1.80 million more in Police Evidence Forfeitures, and
  - +\$0.50 million more in Traffic Fines related to red light camera citations.
- (10) **Garage** revenues at Recreation and Park Department facilities are projected to be under budget by \$1.72 million due to:
- -\$0.62 million less due from lower garage usage generally, and
  - -\$1.10 million less in Union Square Garage revenues as this facility is currently under reconstruction.

- (11) **Rents & Concessions – Rec/Park** revenues are projected to be over budget by \$0.12 million due to the delay in closing Harding Park concessions.
- (12) **Health & Welfare Realignment** revenues are projected to be over budget by \$1.00 million due to the reallocation of Health Equity Fund monies as State caps were met.
- (13) **Health / Mental Health Subvention** revenues are projected to be stronger than originally budgeted by \$2.48 million. In previous years, Public Health and Human Services would often show higher revenues than projected but have directly offsetting expenditures. For FY 2001-02 revenues realized are projected to be higher than corresponding expenditure levels generally. The revenue impact for Public Health's Population Health & Prevention Divisions is reflected in this line item.
- (14) **Public Safety Sales Tax (Prop. 172)** is expected to be under budget by \$6.01 million due to weakness in sales tax generating activity. The magnitude of the decrease is not as great for this revenue line item as the Local Sales Tax outlined above because it is based on a combination of statewide and local activity, and statewide activity has been less severely impacted by the economic slowdown.
- (15) **Other Grants & Subvention** revenue is projected to be over budget by \$4.34 million due to reimbursements from the State related to the Peace Officers Procedural Bill of Rights (POBAR, \$4.02 million) and other SB 90 reimbursements (\$0.32 million). POBAR reimbursements are for multiple years covering incurred expenditures from FY 1994-95 to FY 2000-01.
- (16) **Service Charges – General Government** revenues are projected to be under budget by \$2.65 million due to:
  - -\$2.50 million less in Planning Department Fees overall, including
    - \$1.12 million less in Environmental Review Fees,
    - \$0.79 million less in Building Permit Fees,
    - \$0.54 million less in Downtown Control Exception Fees,
    - \$0.27 million less in Annual Limit Competition Fees, and
    - \$0.22 million more in other miscellaneous fee revenue (net).
  - -\$0.25 million less in City Hall Event Fees, and
  - +\$0.10 million more in Assessor / Recorder Fees.
- (17) **Service Charges - Public Safety** revenue is projected to be over budget by \$2.44 million due to:
  - +\$2.79 million more from Federal reimbursements for INS prisoners, and
  - -\$0.35 million less in Fire Inspection Fees.
- (18) **Service Charges – Rec / Park** revenue is projected to be under budget by \$0.44 million due to decreased attendance at Coit Tower and the Japanese Tea Garden – yet further anecdotal evidence of a decrease in tourism.

- (19) **Service Charges – MediCal, MediCare and Health** are projected to be \$22.24 million more than originally budgeted. As outlined above in Note 13 (Health/Mental Health Subventions), Public Health and Human Services would often show higher revenues than projected but have directly offsetting expenditures in previous years. For FY 2001-02 projected revenues are currently expected to be higher than associated expenditure level increases, with the revenue effect for Public Health’s Community Health Network Divisions reflected in this line item. The corresponding impact to expenditures is captured in the expenditure summary section of this report. As outlined below, \$21.81 million of the \$22.24 million is related to Public Health service charges, with the remaining \$0.43 million being Fire service charges.

**Public Health, up \$21.81 million**

- **\$10.03 million more at San Francisco General Hospital** due to increased net patient revenue received from MediCal and private insurance because of increased census in the inpatient service, an increase in MediCal inpatient rates, and reduction of bad debts, and
- **\$11.66 million more at Laguna Honda Hospital** due to the recent approval of an amendment to the MediCal Plan that increased Federal participation in MediCal payments for skilled nursing services, and
- **\$0.12 million more in Primary Care, Health at Home and Jail Health** miscellaneous revenues.

**Fire**

- **\$0.43 million** more in Fire EMS collections.

- (20) **Recoveries** are projected to be \$2.63 million over budget due to reimbursement to the General Fund from grant-funded project funds for allowable overhead expenses.
- (21) **Other Revenues** are projected to be \$2.10 million over budget due to expected property sales.
- (22) **Transfers In – Airport.** The General Fund share of **concession revenue** at San Francisco International Airport is projected to be \$7.63 million under budget due the significant drop in passenger traffic through San Francisco International Airport and new regulations limiting only ticketed passengers through security checkpoints.

**III. Uses of Funds, Chart D**

	ACTUAL FY 2000-01	FISCAL YEAR 2001-2002			SURPLUS (DEFICIT)	MAYOR'S PLAN	VARIANCE FROM MAYOR'S PLAN	
		ORIGINAL BUDGET	REVISED BUDGET	CURRENT PROJECTION				
<b>GENERAL FUND</b>								
<b>PUBLIC PROTECTION</b>								
Adult Probation	7,730	9,025	9,062	8,787	275	275	0	
Consumer Assurance	1,490	1,658	1,658	1,477	180	40	140	(1)
Animal Care and Control	2,864	3,215	3,215	3,078	136	66	70	(1)
Medical Examiner	3,936	4,365	4,417	4,013	404	304	100	(1)
Trial Courts	33,489	33,265	33,265	33,265	(0)	0	(0)	
District Attorney-Prosecution	18,685	19,307	19,307	19,424	(117)	233	(350)	(2)
Emergency Communications	17,149	18,915	19,238	21,241	(2,003)	0	(2,003)	(3)
Fire Department	179,351	184,136	193,365	193,365	0	0	0	(4)
Juvenile Court	25,171	26,136	26,229	25,736	493	493	(0)	
Public Defender	12,565	13,075	13,075	12,658	417	417	0	
Police Department	237,263	234,278	245,173	245,172	0	0	0	(5)
Sheriff	84,351	85,886	86,718	91,708	(4,990)	0	(4,990)	(6)
Total Public Protection	624,044	633,262	654,723	659,926	(5,203)	1,828	(7,031)	
<b>PUBLIC WORKS, TRANSPORTATION &amp; COMMERCE</b>								
Clean Water	148	306	306	306	0	0	0	
Public Works	16,191	19,251	19,251	16,151	3,100	3,100	0	
Business and Economic Development	3,403	2,734	2,739	2,640	99	99	0	
PUC Light, Heat and Power	3,836	2,687	2,687	2,687	0	0	0	
Board of Appeals	387	425	425	425	0	0	0	
Parking and Traffic Commission	37,530	37,818	37,818	36,742	1,075	1,075	0	
Telecommunications & Info. Services	1,306	1,439	1,439	1,439	0	0	0	
Total Public Works, etc.	62,801	64,660	64,665	60,391	4,274	4,274	0	
<b>HUMAN WELFARE AND NEIGHBORHOOD DEVELOPMENT</b>								
Aging and Adult Services	17,726	19,064	19,064	18,731	333	333	0	
Children, Youth & Their Families	3,796	8,660	8,660	8,660	0	0	0	
Human Services	394,672	432,946	432,946	431,291	1,654	1,655	0	
Environment	785	738	738	672	66	65	0	
Human Rights Commission	1,803	1,876	1,876	1,876	0	0	0	
Comm. on the Status of Women	2,083	2,585	2,585	2,563	22	22	0	
Total Human Welfare, etc.	420,865	465,868	465,868	463,793	2,075	2,075	0	
<b>COMMUNITY HEALTH</b>								
Community Health Network	60,045	65,030	65,030	65,030	0	0	0	
Public Health	290,493	362,312	362,312	361,339	973	0	973	(1)
Total Community Health	350,538	427,342	427,342	426,369	973	0	973	

**III. Uses of Funds, Chart D (continued)**

	ACTUAL FY 2000-01	FISCAL YEAR 2001-2002					
		ORIGINAL BUDGET	REVISED BUDGET	CURRENT PROJECTION	SURPLUS (DEFICIT)	MAYOR'S PLAN	VARIANCE FROM MAYOR'S PLAN
<b>GENERAL FUND</b>							
<b>CULTURE AND RECREATION</b>							
Asian Art Museum	1,861	3,469	3,469	3,469	0	0	0
Art Commission	1,046	1,042	1,042	1,043	0	0	0
Convention Facilities	5,345	5,482	5,482	5,354	128	128	0
Fine Arts Museum	6,445	5,547	5,547	5,547	0	0	0
Law Library	411	520	520	510	10	10	0
Recreation and Park	57,698	61,452	61,452	61,451	0	0	0
Academy of Sciences	2,007	2,014	2,014	2,014	0	0	0
County Educational Office	1,120	66	66	66	0	0	0
Total Culture, etc.	<u>75,934</u>	<u>79,592</u>	<u>79,592</u>	<u>79,454</u>	<u>138</u>	<u>138</u>	<u>0</u>
<b>GENERAL ADMINISTRATION &amp; FINANCE</b>							
Administration Services	6,155	3,816	3,816	3,737	80	80	0
Assessor/Recorder	9,186	9,498	9,498	9,103	395	295	100 (1)
Board of Supervisors	8,669	8,967	9,003	9,003	0	0	0
City Attorney	10,981	6,978	6,978	8,978	(2,000)	518	(2,518) (7)
Controller	18,304	19,342	19,342	18,683	660	660	0
City Planning	9,832	11,914	11,914	9,414	2,500	0	2,500 (8)
Civil Service	573	665	665	644	21	21	0
Ethics Commission	764	778	778	749	29	29	0
Human Resources	15,309	15,258	15,673	15,012	662	930	(268) (9)
Mayor	20,957	25,002	25,039	24,769	270	270	0
Office of Contract Administration	0	3,196	3,196	2,946	250	250	0
Elections	9,024	8,077	8,077	10,207	(2,130)	1,800	(3,930) (10)
Treasurer/Tax Collector	15,924	17,018	17,018	16,413	605	605	0
General City Responsibility	41,251	52,028	52,028	51,628	400	400	0
Total General Admin.	<u>166,928</u>	<u>182,537</u>	<u>183,024</u>	<u>181,283</u>	<u>1,741</u>	<u>5,858</u>	<u>(4,117)</u>
<b>TOTAL GENERAL FUND EXPS.</b>	<b><u>1,701,109</u></b>	<b><u>1,853,261</u></b>	<b><u>1,875,214</u></b>	<b><u>1,871,217</u></b>	<b><u>3,997</u></b>	<b><u>14,173</u></b>	<b><u>(10,175)</u></b>
<b>TRANSFERS OUT OF GENERAL FUND:</b>							
Contribution to MUNI		98,035	98,035	92,598	5,437	5,000	437
Contribution to SFGH		96,245	96,245	96,245	0	0	0
Contribution to LHH		39,451	39,451	39,451	0	0	0
Contribution to Library		29,955	29,955	29,090	865	1,200	(335)
Other Transfers		22,038	22,038	22,038	0	0	0
TOTAL TRANSFERS OUT		<u>285,724</u>	<u>285,724</u>	<u>279,422</u>	<u>6,302</u>	<u>6,200</u>	<u>102</u>
Projects, Capital & Facilities Maintenance		120,552	121,639	106,139	15,500	15,500	0
Reserves		45,767	27,901	25,013	2,888	500	2,388
TOTAL PROJECTS & RESERVES		<u>166,319</u>	<u>149,539</u>	<u>131,151</u>	<u>18,388</u>	<u>16,000</u>	<u>2,388</u>
<b>TOTAL GENERAL FUND USES</b>		<b><u>2,305,304</u></b>	<b><u>2,310,477</u></b>	<b><u>2,281,790</u></b>	<b><u>28,687</u></b>	<b><u>36,373</u></b>	<b><u>(7,685)</u></b>

**Notes to Uses of Funds Schedule:**

- (1) Based on current spending patterns, these departments are projected to end the year under budget even with the savings required by the Mayor’s Plan because of salary and fringe benefit savings generally.
- (2) The **Hanlon Arbitration Reserve** was established to cover increased salary and fringe expenditures associated with the Municipal Attorney’s Association MOU. The following schedule outlines the budget amount per department and the expected amount required to cover over expenditures. Supplementals will be required in order to appropriate the reserve. As outlined in *Appendix A*, a supplemental budget request is pending for the District Attorney’s Office to cover the cost of the court ordered change of venue, which is not included in the Schedule of General Fund Budgeted and Projected Expenditures.

<b>Department</b>	<b>Reserve</b>	<b>Amount Needed</b>
City Attorney	\$ 986,100	\$ 986,100
District Attorney	745,924	117,000
Public Defender	571,288	-
Aging	29,449	-
Police	25,298	-
Tax Collector	16,216	-
Sheriff	13,725	-
<b>Total</b>	<b>\$ 2,388,000</b>	<b>\$ 1,103,100</b>

- (3) The **Emergency Communications Department** is projected to end the year \$2.00 million over budget due to additional staffing required for the dispatcher civilization project. This over expenditure will be bridged by the proposed 911 fee legislation. The total \$12.60 million pertaining to the proposed 911 fee legislation is included in Chart A above.
- (4) The **Fire Department** is projected to end the year on budget, assuming the release of reserves for overtime and the Fire Chief’s Assistants salary and fringes. Ending the year on budget also assumes the department’s continued pattern of overtime expenditure control.
- (5) The **Police Department** is projected to end the year on budget. This projection assumes the department’s continued pattern of overtime expenditure control.
- (6) The **Sheriff** is projected to end the year with a deficit of approximately \$4.99 million, consisting of approximately \$5.29 million due to overspending of their overtime and salaries which is offset by a \$0.30 million in natural gas cost savings. The department will submit a supplemental, which will be partially funded by Federal revenues for jail beds.
- (7) The **City Attorney** is projected to end the year with a deficit of approximately \$2.00 million compared to budget. This is due to the following items:
  - \$0.99 million for Municipal Attorney’s Association **MOU funding**, and
  - \$1.01 million for **affirmative litigation** for remainder of FY 2001-02.

- (8) **City Planning** is projected to end the year with a surplus of approximately \$2.50 million, an amount equal to their projected fee revenue shortfall outlined in the revenue summary section of this report. The department has proposed up to \$2.50 million in potential sources to bridge the revenue shortfall. These include expenditure reduction or deferment of up to:
- \$1.21 million in reductions by eliminating consulting contracts for **Community Outreach** and having existing Planning staff do the outreach functions, including community meetings and Environmental Impact Reports,
  - \$0.40 million by deferring the **New Better Neighborhood** program,
  - \$0.40 million in capital project savings originally set aside for the **1660 Annex Tenant Improvements** project (which is currently on hold),
  - \$0.40 million in salaries and fringes benefits savings, and
  - \$0.09 million by not purchasing **3D Software** equipment.
- (9) The **Human Resources Department** is projected to end the year on budget and achieve the Mayor's Plan. This assumes that the year-end deficit of \$268,000 for the worker's compensation charges for small departments will be charged to the fund balance. Additional detail for Worker's Compensation expenditures are outlined in Chart G.
- (10) Last Fall, the **Elections Department** projected a year-end deficit of approximately \$2.13 million compared to budget and \$3.93 million when the Mayor's Plan is taken into account. This was explained by the following:
- additional personnel and ballot related costs for the November 2001 election,
  - costs projected for the March 2002 election,
  - costs associated with the December runoff election (not previously budgeted), and
  - costs associated with the implementation of Proposition E.

Projected expenditures of \$0.87 million related to the **Election Recount** are not included in the current level of projected over expenditure since this is considered a policy decision. It is our understanding that an updated estimate will be provided in the near future.

#### IV. ISSUES TO MONITOR

##### 1. Energy

**Natural Gas:** With projected adequate supply and warmer winter weather conditions in much of the United States during the first part of this winter season, natural gas prices are significantly lower than this time last year. This has helped the City's expenditure picture; however, it has also put downward pressure on the General Fund's utility user tax and franchise tax revenue line items. The impact on each front is reflected in the revenue and expenditure summary sections above.

**2. Public Health Department**

The Public Health Department is projecting to end the year with a surplus of approximately \$26.08 million.

**Chart E: Health Department Projected Surplus/(Deficit)**

Fiscal Year Ending June 30, 2002

As of December 31, 2001

(In Thousands)

	<u>REVISED BUDGET</u>	<u>REVENUE PROJECTION</u>	<u>EXPENDITURE PROJECTION</u>	<u>REV-EXP SURPLUS/(DEFICIT)</u>
S.F. General Hospital	476,246	486,276	478,345	7,931
Laguna Honda Hospital	139,391	151,053	140,091	10,962
Primary Care	44,241	44,497	43,255	1,242
Health at Home	4,410	4,272	4,339	(67)
Jail Health	23,553	23,554	25,214	(1,660)
Population Health and Prevention	314,623	317,921	310,247	7,674
Total	<u>1,002,464</u>	<u>1,027,573</u>	<u>1,001,491</u>	<u>26,082</u>

Highlights of the above schedule are as follows:

**San Francisco General Hospital**

Revenues are expected to be \$10 million greater than budgeted due to increased net patient revenue received from MediCal and private insurance because of increased census in the inpatient service, an increase to MediCal inpatient rates, and reduction of bad debt. However, expenditures are \$2.1 million greater than budgeted for increased staffing and operating costs associated to meet the higher volume of patients served.

**Laguna Honda Hospital**

Revenues are expected to be \$11.7 million greater than budgeted due to the recent approval of an amendment to the MediCal Plan that increased Federal participation in MediCal payments for skilled nursing services. The expenditures are projected to be \$700,000 greater for increased cost of pharmaceuticals.

**Primary Care**

Revenues are \$256,000 greater than budgeted, and expenditures are \$986,000 less than budgeted due to deferred capital projects.

**Jail Health Services (Forensics)**

Expenditures for jail health services are \$1.7 million greater than budgeted for increased nursing and pharmacy services to the jail population.



**Population Health & Prevention**

- ***Public Health:*** Revenues are projected to be \$0.82 million greater than budgeted from State Realignment, and expenditures are projected to be \$1.47 million less than budgeted due to salary savings.
- ***Mental Health:*** Revenues are projected to be \$1.28 million greater than budgeted due to increased MediCal payments and State Realignments, and expenditures are \$2.14 million less than budgeted due to salary and contractual savings.
- ***Substance Abuse Services:*** Revenues are \$1.20 million greater than budgeted due to contractor repayment from cost reports settlements, and expenditures are \$0.77 million less than expected due to contractual savings.

### 3. Worker's Compensation

Overall, the City's workers compensation cost is projected to be 13.3 percent greater than the FY 2000-01 actuals. This is in contrast to 1.4 percent growth in FY 2000-2001 and 2.5 percent growth in 1999-2000. The increase is due to paying prior year payments totaling \$1.0 million in FY 2001-02 instead of FY 2000-01. This payment delay related to the transition to a new third party administrator (TPA). Moreover, double-digit medical cost inflation adversely impacted resource need. Chart F below reflects the projected year-end worker's compensation spending by department. The estimates are based on six-month actuals as well as prior year spending patterns.

**Chart F: Worker's Compensation Summary**

<u>Department</u>	<u>FY 2000-01 Actual</u>	<u>FY 2001-02 Budget</u>	<u>6-Month Actual</u>	<u>Current Projection</u>	<u>Surplus/ (Deficit)</u>
<b>General Fund</b>					
Juvenile Court	\$631	\$720	\$418	\$822	(101)
Recreation & Park	2,121	1,817	973	1,905	(88)
Human Services	1,573	1,459	1,012	1,986	(527)
Police	6,921	6,480	3,578	6,935	(455)
Academy of Science	33	0	2	4	(4)
Fine Arts Museum	64	100	53	105	(5)
Fire	6,149	6,417	3,206	6,213	203
Public Health	1,271	1,767	822	1,609	157
Sheriff	1,814	1,699	987	1,938	(239)
Parking & Traffic	2,050	2,154	1,409	2,772	(619)
Other GF Departments	1,864	1,364	1,335	2,294	(930)
<b>Subtotal General Fund</b>	<b>24,492</b>	<b>23,977</b>	<b>13,794</b>	<b>26,585</b>	<b>(2,608)</b>
<b>General Fund Subsidized</b>					
SF General Hospital	3,032	3,416	1,867	3,661	(244)
Laguna Honda Hospital	2,765	2,836	1,499	2,949	(113)
<b>Subtotal GF Subsidized</b>	<b>5,796</b>	<b>6,252</b>	<b>3,366</b>	<b>6,610</b>	<b>(357)</b>
<b>Subtotal General Fund &amp; Subsidized</b>	<b>30,288</b>	<b>30,230</b>	<b>17,159</b>	<b>33,194</b>	<b>(2,965)</b>
<b>Non-General Fund</b>					
Airport	1,169	1,324	862	1,440	(116)
Port	326	325	297	582	(257)
War Memorial	282	420	250	492	(72)
Other Non-General Fund Departments	5,757	6,305	3,767	7,144	(839)
<b>Subtotal Non-General Fund</b>	<b>7,535</b>	<b>8,374</b>	<b>5,175</b>	<b>9,658</b>	<b>(1,284)</b>
<b>GRAND TOTAL</b>	<b>\$37,822</b>	<b>\$38,603</b>	<b>\$22,335</b>	<b>\$42,852</b>	<b>(4,249)</b>

With the exception of the Sheriff, all other departments with worker's compensation deficits are projected, at this time, to be able to absorb these increases within their existing budget.

## **V. 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  
Controller

### Attachments:

Appendix A: Status of General Fund Supplemental Appropriations  
Appendix B: Status of General Fund Board Reserves  
Appendix C: Sales & Use Tax Revenue  
Appendix D: Hotel Room Tax Revenue

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

**APPENDIX A: Status of General Fund Supplemental Appropriations  
FY 2001-02  
As of January 31, 2002**

	<u>APPROVED CHANGES</u>	<u>PENDING CHANGES</u>
<u>Approved Supplementals</u>		
Art Commission - San Francisco Symphony	\$ 164,853	
 <u>Supplementals Pending at the Board</u>		
Earthquake Relief - Peru		\$ 25,000
District Attorney - Change of Venue		260,144
 <b>Total Changes</b>	 <u><u>\$ 164,853</u></u>	 <u><u>\$ 285,144</u></u>

**APPENDIX B: Status of General Fund Board Reserves**  
**As of January 31, 2002**

<u>RESERVE</u>	<u>BEGINNING BALANCE</u>	<u>CHANGES AS OF 1/31/02</u>	<u>REMAINING BALANCE</u>
<b>FINANCE COMMITTEE RESERVES</b>			
Administrative Services			
Solid Waste Salaries (9 Months)	209,952	(209,952)	0
Adult and Aging Services			
Senior/Youth Program	75,000		75,000
Board Of Supervisors			
Legislative Analysts Office Salary and Fringes (6 Months)	181,628	(181,628)	0
City Planning			
Computer Equipment	263,000		263,000
Transbay Terminal Study	500,000		500,000
Neighborhood Profiles Project	700,000		700,000
Trial Courts			
Children's Waiting Room Project	24,000		24,000
Department of Public Works			
District 7 Median Program	150,000		150,000
Human Services			
IHSS Paid Time Off	500,000		500,000
Family Assessment Center	1,000,000		1,000,000
Environment			
Energy Projects Professional and Specialized Services	119,300		119,300
Fire Department			
Treasure Island Lease Payment	1,764,000		1,764,000
Fire Chief's Assistant's Salary and Fringes	1,000,000		1,000,000 *
Overtime	1,624,800		1,624,800 *
Public Health			
Shanti Lifelines	100,000		100,000
Human Resources			
Mgmt. Classification/Compensation Plan (MCCP) Review	100,000		100,000

**APPENDIX B: Status of General Fund Board Reserves (continued)**  
**As of January 31, 2002**

<u>RESERVE:</u>	<u>BEGINNING BALANCE</u>	<u>CHANGES AS OF 1/31/02</u>	<u>REMAINING BALANCE</u>
FINANCE COMMITTEE (continued)			
Office of Contract Administration			
Computer Contract Compliance Monitoring System	125,000		125,000
Police			
Treasure Island Lease Payment	1,200,000		1,200,000
Recreation and Park Commission			
Golden Gate Park Program Salaries and Fringes (10% of Total)	513,846		513,846
Elections			
Departmental Reorganization (8 Months)	2,268,956	(2,268,956)	0
Telecommunication and Information Services			
Trailer Replacement	310,000		310,000
Citywide Mgmt. Classification/Compensation Plan (MCCP) Reserve (6 Months)	15,260,220	(5,086,740)	10,173,480 *
<b>TOTAL</b>	<b><u>27,989,702</u></b>	<b><u>(7,747,276)</u></b>	<b><u>20,242,426</u></b>

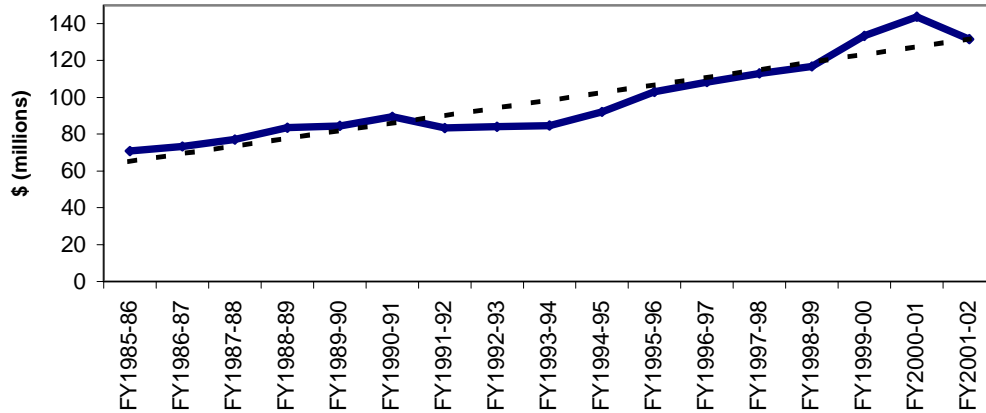
\* Departmental projections assume release of these reserves.

## APPENDIX C: Sales & Use Tax Revenue

### Description

California sales and use taxes are imposed on the retail sale or use of tangible personal property. The sales tax rate in San Francisco is 8.5 percent and is shared among a large variety of state and local entities, as shown in the Tax Rate & Allocation section below. Data in this appendix pertains to the one (1) percent local sales tax portion of the 8.5 percent tax rate.

**Size (FY 2001-02 budget = \$155.2 million; 6-month Projection = \$129.9 million)**



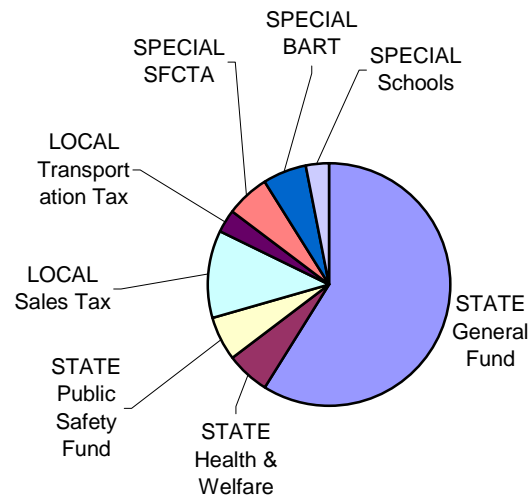
### Revenue Base

Sales tax generators are divided into seven major business groups for reporting purposes, in addition to a County Pool category which captures select countywide activity. The table below shows the percent of revenue derived from the seven business groups from July-September 2001.

Major Business Groups	% of revenue
General Consumer Goods	32.4
Restaurants & Hotels (excluding room charges)	23.3
Business & Industry (including office furniture)	18.9
Autos & Transportation	7.4
Food & Drugs	7.0
Building & Construction	6.2
Fuel & Service Stations	4.4

### Tax Rate & Allocation

San Francisco's Sales Tax Rate	
<b>State Sales Tax</b>	<b>6.00%</b>
--State General Fund	5.00%
--Local Revenue Fund (to counties for health & welfare)	0.50%
--Public Safety Fund (to counties & cities)	0.50%
<b>Local Sales Tax</b>	<b>1.25%</b>
--Local Sales Tax (to San Francisco's General Fund)	1.00%
--Local Transportation Tax (TDA)	0.25%
<b>Special District Sales Tax<sup>1</sup></b>	<b>1.25%</b>
--SF County Transportation Auth.	0.50%
--Bay Area Rapid Transit (BART)	0.50%
--SF Public Financing Authority (Schools)	0.25%
<b>TOTAL Sales Tax Rate</b>	<b>8.50%</b>



<sup>1</sup>Special District sales taxes are generally used for transportation. They are optional and require voter approval.

### **Historical: Legislative History, Rate Changes & Exemptions**

Sales and use taxes were enacted in 1933 at the state level and in 1955 at the local level. Since 1974, the sales tax rate in San Francisco has increased eight times from 6.5 percent to the current rate of 8.50 percent. In November, the California Department of Finance determined that the State's General Fund reserves would be less than three (3) percent of General Fund revenues, which triggered a quarter (0.25) percent increase in the State General Fund portion of the tax rate effective January 1, 2002. If reserves exceed three (3) percent of General Fund revenues, this same legislation triggers a quarter (0.25) percent reduction in the State General Fund portion of the sales tax rate. Some exemptions to the tax have been granted for certain businesses, such as nonprofit organizations, various types of property, and certain food and medical services.

### **Trends & Projections**

Up through FY 2000-01, the local portion of sales tax revenue grew at an average rate of 4.8 percent over the prior 15 years. The tech meltdown, the post-September 11th spending decline and the economic slowdown have put significant downward projection pressure on this revenue. Our current projection is that FY 2001-02 will be 16.3 percent off budget or 9.6 percent lower than the prior year receipts. This is based on the following quarterly results:

➤ July-September 2001	Actual	down 19.9 percent from prior year,
➤ October-December 2001	Estimate	down 16.1 percent,
➤ January-March 2002	Estimate	down 4.8 percent, and
➤ April-June 2002	Estimate	up 1.7 percent.

Information for the October-December 2001 quarter (including the bellwether holiday sales season) will not be known until State Board of Equalization data are available in April 2002.

For the July-September 2001 quarter, sales tax revenue from the general consumer goods, restaurants and hotels, and business and industry groups have shown the greatest decreases from the prior year, due to their heavy reliance on tourism, business and tech company spending. Total receipts dropped 24.5 percent, 11.7 percent and 32.9 percent respectively from the same quarter in the prior year. Our current projection assumes modest signs of recovery beginning May 2002.

### **Sensitivities**

Sales tax is a dynamic revenue source that responds quickly to changing economic conditions. It is one of the more economically sensitive revenue sources for the city. It grows with inflation and can be expanded through business retention and development. Sales tax revenue is chiefly driven by employment, consumer confidence, and regional inflation. Fluctuations in local sales tax revenue are also affected by regional and national economies. Given that sales tax rates in San Francisco and California are among the highest in the nation, it would be politically difficult to raise them further.

As noted above, this attachment chiefly addresses the one percent local sales tax portion of overall sales tax, which accrues to the City's General Fund. San Francisco also benefits from other components of the sales tax including: the State's Public Safety Fund (i.e. Prop 172), the State's Local Revenue Fund (Health & Welfare Realignment), the Local Transportation Tax (e.g. TDA, Muni), Special District-San Francisco County Transportation Authority (e.g. MTC, Muni), Special District-BART (a portion goes to Muni), and the Special District-San Francisco Public Financing Authority (School District).



## APPENDIX D: Hotel Room Tax Revenue

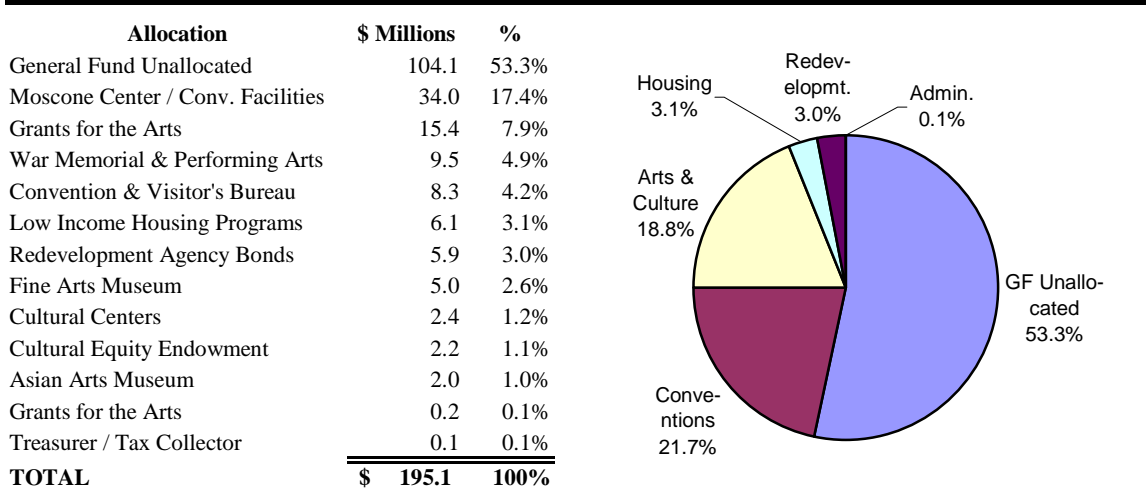
### Description

The hotel room tax (AKA “transient occupancy tax”) is a 14 percent tax levied on hotel room charges. It is collected by hotel operators from guests and remitted to the Tax Collector on a monthly basis. Guests who occupy a hotel room for 30 consecutive days, such as many SRO residents, are exempt from paying the tax, as are guests in dormitory-style arrangements who pay under \$30 per day or \$100 per week. At its introduction in 1961, the hotel tax rate was 6 percent, and has increased incrementally to the current rate of 14 percent, established in August 1996.

### Amount & Allocation

Hotel room tax revenue in all funds totaled \$195.1 million in FY 2000-01. Of that amount, \$131.4 flowed into the General Fund, comprising approximately 6.1 percent of total General Fund resources. Hotel room tax revenues are allocated to a variety of programs, detailed below.

**FY 2000-01 Hotel Room Tax Revenue**



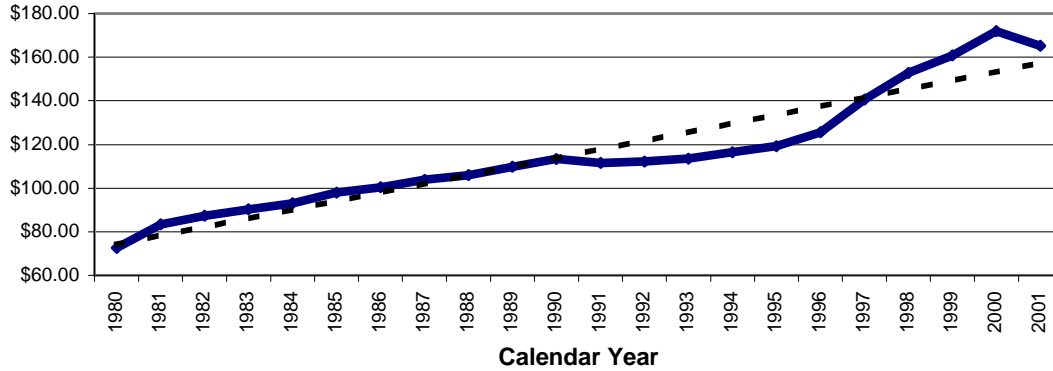
### Collections

Hotel operators must make monthly prepayments, which are based on prior year actual payments for the first two months of each quarter. Then at quarter-end, a tax return is filed which reflects final payment for the total quarter’s tax liability, less the two prepayments. This means hotel room tax revenue for October through December will be due to the Tax Collector by January 31, 2002, then posted to the City’s financial system.

### Trends & Projections

Three factors determine hotel room tax revenue: 1) the average daily room rates, 2) occupancy rates, and 3) the overall supply of rooms. The graphs below show overall trends in these rates for San Francisco since July 1980. The average daily room rates have increased from \$73 for 1980 to a high of \$172 by 2000, with a particularly steep rise from 1997 to 2000. Average annual occupancy levels have tracked economic trends, dipping in the early 1990s to 66 percent, and reaching an all-time high of 84 percent in 2000. Today the total number of rooms generating hotel room tax revenue is approximately 32,000. Over time, room supply has expanded to meet increased demand.

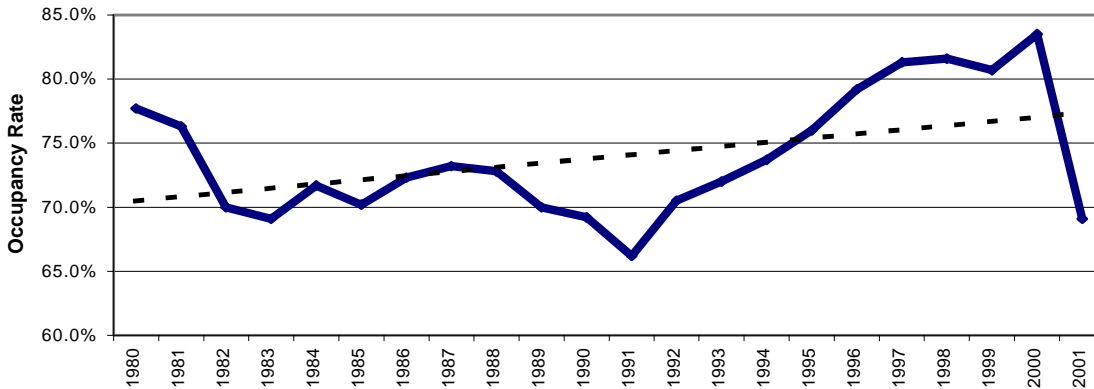
### San Francisco Average Daily Room Rates 1980 - 2001



Source: PKF Consulting, based on sample representing approximately 65-70 percent of the market. 2001 data is based on a Controller's Office estimate.

Up until FY 2000-01, hotel tax revenue grew rapidly. In the five years leading up to FY 2000-01, hotel tax revenues increased on average 13.6 percent per year. The average growth was 9.4 percent over 20 years, with revenues going from \$32.6 million in FY 1980-81 to \$195.1 million in FY 2000-01.

### San Francisco Hotel Room Occupancy Rates, 1980-2001



Source: PKF Consulting, based on sample representing approximately 65-70 percent of the market. 2001 data is based on a Controller's Office estimate.

The economic downturn, which began in early 2001, has led to a steep decline in business travel, causing occupancy rates in the Financial District in particular to decline. Compounding that downward pressure, the September 11th attacks caused a sharp decrease in air travel and related tourism, exacerbating sagging occupancy rates and triggering steep discounting in average daily room rates. We currently estimate that hotel room tax revenue will decrease by 24.5 percent in the current fiscal year, based on average daily room and occupancy rates of \$155 and 66 percent, respectively.