



OFFICE OF THE CONTROLLER

February 22, 1996

The Honorable Willie L. Brown, Mayor,  
City and County of San Francisco  
401 Van Ness Avenue, Room 336  
San Francisco, CA 94102

Honorable Members of the Board of Supervisors  
City and County of San Francisco  
401 Van Ness Avenue, Room 308  
San Francisco, CA 94102

Re: Three Year Budget Projection

Dear Mayor Brown, Ladies and Gentlemen:

Proposition F passed by the voters in November, 1994 called for a "joint report to be issued annually on the City's financial condition for the next three fiscal years from the Controller, the Mayor's budget analyst and the budget analyst for the Board of Supervisors." This is the report for 1996-97 through 1998-99.

Our projections attempt to show what would be required to provide a continuing level of service as well as an expanded level where required by policy or charter. This projection does not include:

- Any effect of pending or proposed Federal or State legislation, including potentially major changes in health and welfare funding;
- Any effect of proposed local legislation, such as changes to Retirement benefits.

Details supporting the following are in Attachment 1:

	<u>1996-97</u> vs. 95-96	<u>1997-98</u> vs. 96-97 (in millions)	<u>1998-99</u> vs. 97-98
<b>Projected Revenue Shortfall</b>	<b>\$(87.1)</b>	<b>\$(41.1)</b>	<b>\$(59.0)</b>

As you know, this is only a projection—before future budgets are finally adopted, steps must be taken to bring those budgets into balance. We also acknowledge that projections several years ahead are less certain than those for the immediate future. In addition, this report assumes that revenue shortfalls are corrected in the year in which they first appear. To the extent shortfalls are corrected with one-time revenue or expenditure solutions, subsequent years' shortfalls will worsen.

- **Health Service System contributions** are established under the Charter by comparing the amount provided per employee to that paid by the largest 10 counties in California. Since these counties have reduced their contribution, the City reduces the amount it provides.
- **Debt service** related to lease financing of equipment purchases is expected to increase in the next few years. The large increase in 1998-99 is related to the new 800 MHz communication system and a portion of the 911 facility. Debt related to General Obligation bonds is not included in this projection since it is separately paid from property taxes.
- We show an increase of \$1.2 million in 1996-97 for debt related to the new **San Francisco General Hospital Garage** because we believe the Off-Street Parking Fund will need to retain an additional \$1.2 million of meter revenues to be able to make the debt service payments on this garage. These funds currently subsidize Muni Railway and would need to be backfilled by an increase in General Fund support to Muni.
- Proposition D from the June, 1994 election called for staffing the Police Department at 1,971 "full duty" officers. While substantially all of those officers were hired during 1994-95 and 1995-96, we include a small amount in the next several years to provide for the unusually high number of officers receiving salary step increases which occur in the first few years of employment.
- The City partially opened a **new jail** in December, 1994. The final operating unit, a centralized booking facility, is expected to open in Fall, 1996 and increased costs are shown on that basis.
- The 1995-96 budget anticipated a decline in **General Assistance** caseload. The decline has been more gradual than anticipated resulting in a projected increase in General Assistance for 1996-97 of \$1.2 million. We also project a \$1.7 million increase in cost for the **In Home Supportive Services (IHSS)** program due to a five percent increase in caseload and a reduction in the number of clients who are eligible for Federal Title XIX reimbursement.
- **Public Health** is an area of great uncertainty given the status of Federal and State funding decisions. As noted above, we have not attempted to guess at what might occur and therefore have not included any estimate of the costs related to pending proposals. We also have shown all Citywide salary and benefit increases together in a separate line item; therefore this section does not represent all new costs associated with Public Health.

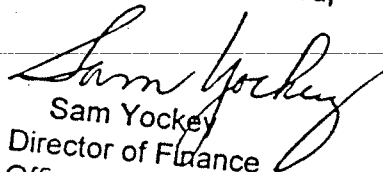
Since we were not attempting to predict the effect of pending Federal and State legislation, some Public Health numbers actually appear better than they did in our report of last year. For example, our 1995 joint report showed Public Health with an expected loss in 1997-98 of \$22.7 million. Most of those programs we predicted would be cut have remained steady in the current year but continue to be at risk in future years. This report does not attempt to adjust for these unknowns and therefore shows a net gain of \$2.6 million for 1997-98. Unfortunately if all pending Federal and State cuts are made, they could result in a loss of \$24 million from the Federal Government and an additional loss of \$20 million from the State in 1996-97 and presumably larger losses in subsequent years. As noted, we have not included these potential losses as part of our projections.

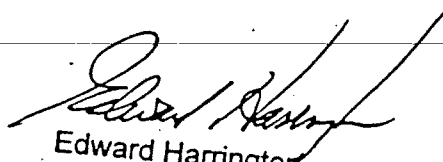
Summary

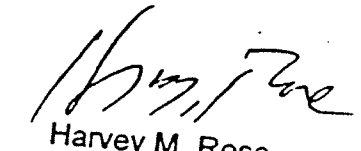
In summary, we are projecting a budgetary shortfall of \$87.1 million for Fiscal Year 1996-97, assuming a continuation of the same service levels as in Fiscal Year 1995-96, plus an expanded level of service where required by policy or Charter. Our projected budgetary shortfalls for Fiscal Years 1997-98 and 1998-99 are \$41.1 million and \$59.0 million respectively. None of our projections reflect any major decrease in State or Federal revenues which the City may receive. As previously indicated, when the City's annual budgets are finally adopted by the Mayor and the Board of Supervisors, such budgets must and will be fully balanced in accordance with Charter requirements.

This report is based on the best information available at this time. All three of our offices will continue to work closely together in the coming months and will keep you apprised of any changes that occur.

Respectfully submitted,

  
Sam Yockey  
Director of Finance  
Office of the Mayor

  
Edward Harrington  
Controller

  
Harvey M. Rose  
Budget Analyst  
Board of Supervisors

Attachments

cc: Honorable Louise Renne, City Attorney  
William Lee, Chief Administrative Officer  
John Taylor, Clerk of the Board

**CITY AND COUNTY OF SAN FRANCISCO**  
**Major Revenues - General Fund and General Fund-Supported Departments**  
 (figures in thousands of dollars)

	FY94-95	FY95-96			Forecast					
	Actual	Budget	Projected	Base	FY96-97	Growth (4)	FY97-98	Growth	FY98-99	Growth
Property Taxes (1)	\$326,739	\$332,227	\$329,261	\$323,164	\$326,396	(\$2,865)	\$326,759	\$363	\$333,294	\$6,535
					1.0%		2.0%		2.0%	
Business Taxes	167,670	171,517	171,517	171,517	177,520	6,003	183,733	6,213	190,164	6,431
					3.5%		3.5%		3.5%	
Sales Tax (2)	92,111	93,736	100,650	97,550	102,915	2,265	108,061	5,146	113,464	5,403
					5.5%		5.0%		5.0%	
Utility Users Tax	51,579	50,610	53,330	53,330	55,463	2,133	57,682	2,219	59,989	2,307
					4.0%		4.0%		4.0%	
Prop. Transfer Tax	20,038	20,433	20,719	20,719	22,169	1,450	23,499	1,330	24,909	1,410
					7.0%		6.0%		6.0%	
Hotel Tax (3)	34,651	34,691	37,622	37,622	40,296	2,674	42,380	2,084	44,925	2,545
					6.5%		6.0%		6.0%	
Parking Tax	24,073	24,870	26,251	26,251	26,251	0	26,251	0	26,251	0
					0.0%		0.0%		0.0%	
Public Safety Sales Tax	45,237	47,524	48,794	48,794	50,990	2,196	53,029	2,040	55,150	2,121
					4.5%		4.0%		4.0%	
Motor Vehicle in lieu	61,733	65,122	65,462	65,462	69,062	3,600	72,170	3,108	75,418	3,248
					5.5%		4.5%		4.5%	
Traffic Fines	48,285	53,079	49,715	49,715	49,715	0	49,715	0	49,715	0
					0.0%		0.0%		0.0%	
<b>Total - Major Revenues</b>	<b>\$872,116</b>	<b>\$893,809</b>	<b>\$903,321</b>	<b>\$894,124</b>	<b>\$920,778</b>	<b>\$17,457</b>	<b>\$943,280</b>	<b>\$22,502</b>	<b>\$973,280</b>	<b>\$30,000</b>
<b>% Change</b>						<b>1.9%</b>		<b>2.4%</b>		<b>3.2%</b>

Notes:

- (1) Property tax base for FY96-97 estimate is \$6 million less than FY95-96 projection, and base for FY97-98 estimate is \$6 million less than FY96-97 revenue estimate, reflecting elimination of one-time gains from reductions in property tax loss reserve requirements.
- (2) Sales tax base for FY96-97 estimate is \$3.1 million less than FY95-96 projection, eliminating a one-time retroactive reallocation.
- (3) Projected net general fund hotel tax is not exactly equal to [base x growth rate], because of allocation requirements.
- (4) Growth is from prior year projected amount.