



OFFICE OF THE CONTROLLER

February 15, 1995

The Honorable Frank M. Jordan  
Mayor, City and County of San Francisco  
Room 200, City Hall

The Honorable Board of Supervisors  
Room 235, City Hall

Re: Three Year Budget Projection

Dear Mayor Jordan, 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 report replaces the annual projection which has been provided for the past several years.

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. In addition, we are separately projecting cost increases in wages, benefits and contractor cost of living adjustments (COLA's) where decisions have yet to be made. Details supporting the following are in Attachment 1:

	<u>1995-96</u> vs. 94-95	<u>1996-97</u> vs. 95-96 (in millions)	<u>1997-98</u> vs. 96-97
<b>Programed Costs</b>	\$(81.4)	\$(33.9)	\$(16.4)
<b>Projected Wages, Benefits &amp; COLA's</b> (above current MOU's)	(20.9)	(46.5)	(60.6)
<b>Total if policy items accepted</b>	<u>\$(102.3)</u>	<u>\$(80.4)</u>	<u>\$(77.0)</u>

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 everything is corrected for in the year in which it is listed; to the extent solutions are postponed, subsequent years' shortfalls will worsen.

Finally, this report substantially reflects the cost of doing the same things in the same way. We strongly encourage innovative ideas and processes that will allow the City to continue to provide a high level of services to its citizens with increased efficiency and at lower cost.

**Assumptions:**

- The effect of potential **legislation at the State and Federal** levels is unknown at this time. It is prudent to assume that some negative result will be felt in the City, particularly in the Public Health and Social Service areas. However, we cannot estimate a dollar value and therefore show no revenue shortfalls due to State or Federal actions except limited Public Health estimates in Attachment 3.
- We assume there will be **moderate revenue growth** of 1-3% for property taxes and 4-7% for other revenues (see Attachment 2 for details.) We have not separately factored in the continuing revenue effect of the recently completed business tax amnesty program since the analysis is not yet available.
- We all assume employees will receive some increase in **salaries and benefits** over the next three years. However, it is difficult to make assumptions about the cost of these increases since negotiations are not complete. The Controller and Budget Analyst believe that it is reasonable to assume that salary increases, retirement pick-up (where the City assumes a phased-in portion of the employee's share of retirement costs) and dependent health coverage similar to that received by SEIU, Police, Fire, and others will be extended to the remaining City employees over time. We also believe that unions that already have these benefits will continue to receive wage increases in future years equivalent to the roughly 3.7% projected growth in the consumer price index. This results in about \$50 million to \$60 million of new costs in each of the next three years. The Mayor's staff believe that much of this increase will be offset by various cost savings measures including changes in other provisions in memoranda of understanding with employee unions.
- In three of the last four years, the former and current Mayors **vetoed the salary standardization ordinance** which would have provided raises to a portion of City employees. There is litigation pending related to these vetoes. We make no provision for the possible outcome of these lawsuits.
- **Debt service** related to lease financing of equipment purchases, including the new 800 MHz communication system and a portion of the 911 facility, is expected to increase in the next few years. 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 \$1.5 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 \$1.5 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 are scheduled to be hired during 1994-95, for fiscal year 1995-96 we have included the full, annual cost of these officers at an estimated increase of \$21.5 million.
- The City partially opened a **new jail** in December, 1994. Opening the entire jail for the entire 1995-96 year is expected to cost an additional \$13 million for the Sheriff and \$1.5 million in health forensic services. Also, to avoid court fines for **jail overcrowding**, the City

expects to spend an additional \$1.5 million during 1995-96 on various programs designed to keep the overall jail population within prescribed limits.

- **Muni Railway** is expecting to receive one-time transfers from non-General Fund sources during 1994-95 worth approximately \$4 million. We assume the General Fund will provide those funds in 1995-96.
- **Public Health** is an area of great uncertainty given the status of State and Federal funding decisions. Attachment 3 details projected revenue impacts on some programs. In addition, inflation and contractor COLA's create an annual added need of \$10 to \$11 million. The annualized increase of \$3.8 million for managed care is expected to be fully reimbursed and shows matching revenue on Attachment 3. Finally, the new "**R Facility**" for mental health care at San Francisco General Hospital is expected to open next year. Given the uncertainty surrounding licensing and potential reimbursement, we only show the cost of operating the children's unit, not the entire facility.
- We expect **inflation** as measured by the consumer price index will grow by 3.5% in 1995-96 and 3.7% in 1996-98. We assume that the costs of goods and services will increase accordingly.
- In June, 1994, Proposition E was passed by the voters creating a **Library** Preservation Fund. At that time a calculation was made of the baseline level of support that was required to be provided to the Library. Since that time, Library advocates and the Controller have arrived at what they mutually consider to be a better definition of those baseline amounts which will result in increasing the baseline by an additional \$2 million.
- In 1994-95, the City had \$3.2 million of **available surplus** from 1993-94 to help balance the budget. We assume the 1994-95 budget year will end with no surplus funds available to be carried forward to 1995-96.
- The goal for funding of **capital facilities maintenance** projects has been \$10 million for a number of years. We are projecting an increase of \$5 million in 1995-96 to achieve that goal. In addition, it is clear that \$10 million annually has not been sufficient to even minimally preserve the City's infrastructure. We therefore have shown additional annual increases of \$2 million in 1996-97 and 1997-98 to start ratcheting up the spending in this area.
- For a number of years the City has had a policy of starting each fiscal year with a **contingency reserve of \$10 million**. This reserve is always used during the year and must be replenished in the subsequent year. We assume this process will again occur in each of the next three years. We also assume that we need to start increasing the level of that reserve beyond \$10 million over time to reflect the overall growth in the budget.
- The City provides much of its service, particularly in the health area, through outside contractors. While there is no contractual obligation to provide these contractors with cost of living increases (**COLA's**), it has been common for the City to provide COLA's to contractors in years where we provide salary increases to City staff. We therefore assume that will occur. We did not show any cost of contractor COLA's for Public Health during 1995-96 since Public Health did not include COLA's in their budget submittal.

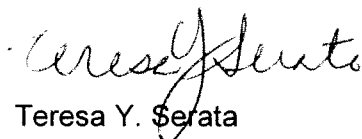
- Some departments have the ability to **raise some fees** or other reimbursement revenue when their costs increase. For this report, we assumed that General Fund and General Fund-supported departments would need to look to the General Fund as the primary source of this support. To some extent, that assumption makes these projected budgetary shortfalls somewhat larger than may actually occur.
- We assume that there will be no General Fund impact of any work at **Candlestick Park** in preparation for the 1999 Superbowl.

### Summary

In summary, we are projecting a budgetary shortfall of \$102.3 million for Fiscal Year 1995-96, assuming a continuation of the same service levels as in Fiscal Year 1994-95, plus an expanded level of service where required by policy or Charter. Our projected budgetary shortfalls for Fiscal Years 1996-97 and 1997-98 are \$80.4 million and \$77.0 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.

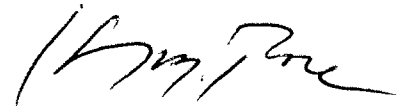
Respectfully submitted,



Teresa Y. Serata  
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  
Rudolf Nothenberg, Chief Administrative Officer  
John Taylor, Clerk of the Board

City and County of San Francisco			
Three Year Fiscal Projections			
February, 15, 1995			
(in millions)			
	1995-96	1996-97	1997-98
	vs. 94-95	vs. 95-96	vs. 96-97
<b>Revenues:</b>			
General Fund growth (Attachment 2)	\$18.1	\$26.4	\$29.7
<b>Employee - related items:</b>			
Committed under existing MOU's:			
SEIU	(21.8)	(21.6)	
Nurses	(4.2)		
Muni	(2.5)		
Police	(2.1)		
Fire	(1.7)		
Other:			
Retirement Rate decrease	2.4		
Health Service decrease	1.7		
One less working day in 95-96	1.1	(1.1)	
<b>Debt service:</b>			
General Fund	(0.9)	(6.1)	(3.6)
SFGH garage		(1.5)	
<b>Transfers In:</b>			
Hetch Hetchy	0.0	0.0	0.0
Airport transfer, net of loan payment	(0.2)	(0.6)	(0.4)
<b>Annualization of 94-95 Items:</b>			
Prop D Police staffing	(21.5)		
Sheriff - new jail (includes \$4.1 for opening new pods)	(13.0)		
Jail Overcrowding	(1.5)		
Public Health forensics - new jail	(1.5)		
Muni Railway	(4.0)		
Social Services - homeless contracts	(1.0)		
<b>Public Health:</b>			
Public Health revenue projection (Attachment 3)	8.1	(6.3)	(17.7)
Inflation increase	(4.4)	(4.9)	(5.0)
Managed Care	(3.8)		
R Facility	(2.0)		

Three Year Projection Continued			
	1995-96	1996-97	1997-98
	vs. 94-95	vs. 95-96	vs. 96-97
<b>Other:</b>			
Inflation	(4.7)	(5.2)	(5.4)
Library baseline increase	(2.0)		
Prop. Q Crime Prevention Program	(0.9)		
Reopen Legion of Honor Museum	(0.9)		
Assume no carryforward surplus	(3.2)		
Increase capital budget	(5.0)	(2.0)	(2.0)
Restore General Fund Reserve	(10.0)	(11.0)	(12.0)
<b>Total Committed</b>	<b>(\$81.4)</b>	<b>(\$33.9)</b>	<b>(\$16.4)</b>
<b>Projected Wages, Benefits &amp; COLA's</b>			
Salary and benefit increases (not committed)	(19.6)	(39.4)	(53.3)
Contractor COLA's - Public Health		(5.7)	(5.9)
- General Fund	(1.3)	(1.4)	(1.4)
<b>Grand Total</b>	<b>(\$102.3)</b>	<b>(\$80.4)</b>	<b>(\$77.0)</b>

SCHEDULE OF PROJECTED MAJOR GENERAL FUND REVENUES  
Fiscal Years Ending June 30, 1995, 1996, 1997 and 1998  
(In Thousands)

	FY93-94	FY94-95		FY95-96		FY96-97		FY97-98	
	ACTUAL	BUDGET	PROJECTION	GROWTH	PROJECTION	GROWTH	PROJECTION	GROWTH	PROJECTION
PROPERTY TAXES	\$331,240	\$340,687	\$337,841	1.00%	\$341,219	2.00%	\$348,044	3.00%	\$358,485
BUSINESS TAXES									
Business registration tax	\$7,893	\$7,893	\$8,195		\$8,195		\$8,195		\$8,195
Gross receipts tax	23,856	22,555	22,555	4.50%	23,570	5.00%	24,748	5.00%	25,986
Payroll tax	132,595	134,467	134,467	4.50%	140,518	5.00%	147,543	5.00%	154,921
Subtotal business taxes	\$164,344	\$164,915	\$165,217		\$172,283		\$180,487		\$189,102
OTHER MAJOR TAX-RELATED REVENUES									
Sales tax	\$84,711	\$87,252	\$87,657	4.00%	\$91,163	4.00%	\$94,809	4.00%	\$98,602
Hotel room tax	28,054	30,588	29,980	5.00%	31,479	4.50%	32,896	4.00%	34,211
Hotel Tax Fund - GF share (1)	6,975	7,084	6,396		4,550		4,756		4,948
Utility users tax	46,577	51,032	50,932		50,932		50,932		50,932
Parking tax	26,089	12,650	12,900		12,900		12,900		12,900
Real property transfer tax	15,857	18,956	18,787	7.00%	20,102	4.00%	20,906	4.00%	21,742
Franchise tax	7,149	7,235	7,129		7,129		7,129		7,129
Vehicle renter tax (2)	1,323	2,030	1,520		0		0		0
Public safety sales tax	42,575	42,840	44,278	4.00%	46,049	4.00%	47,891	4.00%	49,807
Motor vehicle in lieu - county	35,007	34,783	34,256	5.00%	35,969	5.50%	37,947	4.00%	39,465
Motor vehicle in lieu - city	24,774	25,624	25,317	5.00%	26,583	5.50%	28,045	4.00%	29,167
Subtotal other revenues	\$319,092	\$320,073	\$319,152		\$326,856		\$338,211		\$348,903
<b>TOTAL</b>	<b>\$814,675</b>	<b>\$825,675</b>	<b>\$822,209</b>		<b>\$840,358</b>		<b>\$866,742</b>		<b>\$896,489</b>
Change from previous year			\$7,534		\$18,149		\$26,384		\$29,748
Percent change			0.92%		2.21%		3.14%		3.43%

- Notes:
- (1) The General Fund receives a transfer of revenue from the Hotel Tax Fund. This transfer will decrease when legislation limiting other allocations from the fund expires after FY94-95.
- (2) No revenue is anticipated from the Vehicle Renter Tax after March 1995, in anticipation of notice from the State Board of Equalization that collection of the tax violates the State's agreement to collect sales taxes for the City.

Department of Public Health			
Revenue Projections 1995-1998			
February, 15, 1995			
(in millions)			
Item	1995-96	1996-97	1997-98
	vs. 1994-95	vs. 1995-96	vs. 1996-97
SB 1255	(\$4.0)	(\$3.0)	(\$3.0)
Ryan White AIDS Funding	(4.0)	(5.0)	(10.0)
SB 90 Retro Reimb for mental health	(3.2)		
Retro Medi-Cal for MIA's on SSI	(2.7)		
State budget gap misc. in 1994-95	(1.5)		
SNF Medi-Cal Reimbursement rate	(0.8)	(0.8)	
SFGH Medi-Cal Managed Care	(0.3)	(0.6)	(0.4)
Prop 99 tobacco funds	(0.2)	(0.2)	(0.2)
CHS fee increase	0.2		
Title IV A	0.3		
SFGH increase in commercial rates	0.3		
SFGH workers comp revenues	0.4		
SFGH fee increase	0.5		
Indirect grants	1.0		
Laguna Honda adjust payer mix	1.1		
SFGH CMAC Medi-Cal contract rate	1.3		
Laguna Honda clinical services	1.6		
Laguna Honda increase census	1.6		
Mental Health Medi-Cal increase	2.0		
SFGH increase trauma charge	2.0		
Deloitte financial consultation	3.7	6.0	4.0
Mental Health managed care revenue	3.8	3.0	
SFGH FQHC certification for clinics	5.0		
SB 855 Disproportionate Care Program		(3.5)	(6.0)
SFGH reduced in-patient utilization		(1.7)	(1.7)
Medicare Medical Education		(0.5)	(0.4)
	\$8.1	(\$6.3)	(\$17.7)