



OFFICE OF THE CONTROLLER

March 3, 1998

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 requires 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 projects revenues and expenditures for fiscal years 1998-99 through 2000-2001.

For the first time since we began preparing this joint report for fiscal year 1988-89, we project a surplus for next fiscal year to maintain the current level of services. Chart A provides a summary of the projected revenues less expenditures. Please refer to Attachment I for a detailed breakdown of the budget projections for the next three years.

Chart A
Summary of Projected Surplus/(Shortfall)
(in millions)

	<u>1998-99</u> vs. 97-98	<u>1999-2000</u>	<u>2000-2001</u>
Projected Revenues less Expenditure	\$6.4	\$(44.8)	\$(39.9)

Our projections reflect the estimated cost of providing the City's current and/or committed level of services as well as maintaining an appropriate General Fund Reserve. These projections are not intended to commit the City to future spending levels. Actual funding decisions will be subject to availability of funds as well as policy decisions of the Mayor and Board of Supervisors.

Summary of Projected Items

Projected sources and uses listed in Attachment I are discussed below.

I. Projected Prior-Year Funds and General Fund Reserve

The Controller's six-month report projects a 1997-98 year-end surplus of \$78.4 million. These funds will be available for the 1998-99 budget. Each year the City includes a **General Fund reserve** in its budget. The reserve is used to fund unanticipated and emergency needs that arise during the year, and must be replenished in subsequent years.

Given the size of the General Fund budget and the potential of revenue downturns, we recommend a \$20 million reserve be maintained for each of the next three fiscal years. We are recommending a \$20 million General Fund reserve be established from the 1997-98 year-end surplus. We anticipate a \$16.4 million beginning balance in 1999-2000 and \$10 million in 2000-2001 and that the General Fund reserve will be restored to \$20 million.

II. Projected Sources

- 1997-98 revenues are expected to be above budget. The continuing effect of that growth is expected to be \$18.1 million (please refer to Attachment II for details).
- We project **moderate revenue growth** of approximately 3.4% to 2.8% annually over the next three fiscal years. This would result in incremental revenue of \$33.9 million in 1998-99, \$29.6 million in 1999-2000 and \$29.4 million in 2000-2001. The estimate includes projected growth of 3% for property taxes and 3% to 5% for sales taxes and business taxes (see Attachment II for detail by specific revenue source).
- The General Fund receives an **annual service payment** each year from the San Francisco International Airport based on concession sales less loan payments. This revenue is \$1 million above budget in 1997-98 and is expected to continue at this higher level for fiscal year 1998-99. The City's loan payment to the airport expires in 1999-2000; therefore, we are projecting a \$6.2 million revenue increase in 2000-2001.
- The 1997 **Lockyer-Isenberg Trial Court Funding Act** shifts greater responsibility to the state for trial court operations. Although the exact amount of net savings is still under review, we project an \$11 million savings to the City in 1998-99 based the amounts specified in the legislation.

III. Projected Uses

Salary/Benefit-Related Items

We have assumed that employees will receive some level of salary and benefit increases over the next three years. We have based our projections on the following components:

- **Annualization of 1997-98 Memoranda of Understanding (MOUs) Provisions** - The ongoing cost of partial-year salary increases granted during 1997-98 will result in \$7.2 million in additional General Fund costs in 1998-99.

- In fiscal year 1998-99, the City will incur additional costs to **annualize new positions** added to the fiscal year 1997-98 budget. Since most of the new positions were funded for only three-quarters of a year, an additional \$6.8 million will be needed in fiscal year 1998-99 to fund the positions on an ongoing basis.
- **Known Provisions in Existing MOU's** - Most bargaining units, including those for the SEIU, Trades, Police, Firefighters and Muni Operators, have previously negotiated contracts that extend beyond the current fiscal year. Wage and benefit increases have been predetermined, and the new provisions will cost the General Fund approximately \$27.8 million in fiscal year 1998-99, \$25.6 million in fiscal year 1999-2000 and \$8.8 million in 2000-2001.
- **Unknown Costs of New MOUs** - We have projected that wages for employees with MOUs that have not yet been negotiated will increase by the Consumer Price Index for Wages (CPI-W). These projected increases will result in incremental costs of \$9.8 million in fiscal year 1998-99, \$14.8 million in fiscal year 1999-2000 and \$34.3 million in fiscal year 2000-2001. The expected cost associated with unknown MOUs will increase in future years as current MOUs expire. **This estimate does not reflect the City's willingness or ability to pay, nor does it represent what will ultimately be negotiated.** Factors other than the CPI-W, such as the adequacy of previous MOUs and the overall job market for similar job classifications, will also impact negotiations. Nonetheless, the CPI-W serves as an indication of overall wage inflation in our region.
- The Health Services System has estimated that the City's **retiree subsidy payments** will cost an additional \$1.0 million in fiscal year 1997-98.
- **Health Service System costs** are estimated to increase by \$1.5 million due to additional program needs and higher contribution payments for active members.
- The federal government has **increased the Social Security cap**. This increases the maximum wage that the City has to match an individual's Social Security contributions. As a result, the City's employer payments for Social Security will increase by approximately \$1 million next fiscal year. We expect similar increases in the following years.

Public Health

The Department of Public Health (DPH) projects \$3.9 million in 1998-99 expenditure increases due to the **annualization of partial-year budgeted items and supplemental appropriations**. The most significant cost increase is \$2.6 million for annualization of the substance abuse treatment on demand program, bringing the total ongoing program costs to \$10.5 million. Expansion of this program in future years will be a policy decision of the Mayor and the Board of Supervisors. Annualizing other health programs will cost an additional \$1.3 million, including \$0.7 million for mental health managed care.

In addition, **inflation adjustments** to maintain current service levels is expected to cost an additional \$11.4 million in 1998-99, \$13.2 million in 1999-2000 and \$14.1 million in 2000-2001.

Human Services

The Department of Human Services (DHS) received a large supplemental appropriation in the current year to respond to state and federal Welfare Reform, and to provide additional service to the homeless

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and indigent adults. Based on information provided by DHS, the ongoing General Fund costs of the supplemental total \$10.9 million and are listed below:

- Welfare to Work initiatives for Calworks- \$7.6 million
- Services for Indigent Adults- \$2.1 million
- Homeless program- \$0.7 million
- Administration- \$0.5 million

In addition, the department has projected increased expenditures of \$2.9 million for the following:

- \$1.4 million for the Foster Care program due to court orders mandating more services be provided to families and children in placement.
- \$1.5 million for annualization of the In-Home Support Services (IHSS) workers pay increase as well as 8% caseload growth.

Miscellaneous Items

- Annualization of expenditures to operate the **Treasure Island Brig**, including forensic health services, will cost an additional \$2.0 million in 1998-99.
- General Fund **debt service payments** related to lease financing is expected to increase by \$1.5 million in 1998-99, decrease by \$0.5 million in 1999-2000 and increase by \$0.9 million in 2000-2001.
- The fiscal year 1997-98 budget includes \$15.2 million in funding for **capital facilities maintenance projects**. This level of funding largely covers health and safety facilities maintenance items only. Since we do not expect to repeat the high level of revenue growth that we experienced over the past two years, we recommend spending a larger share of the surplus on one-time capital costs. We, therefore, recommend an increase of \$9.8 million for a total of \$25 million per year capital program or about 1.5 percent of the General Fund budget. This increased level of funding will be used to fund capital needs that have been deferred in the past, as well as for one-time purchases to furnish and equip the newly renovated City Hall (these items can not be purchased with FEMA or bond funds).
- The City is building a new **Combined Emergency Command Center** that relies on a mix of funding, including revenue from a telephone surcharge, grants, lease revenue bond proceeds and the General Fund. In Fiscal Year 1998-99, the project has a potential General Fund cost of \$10.1 million, an additional \$7 million in 1999-2000 and a \$4 million reduction because of reductions in debt service costs in 2000-2001.
- We expect **inflation**, as measured by the consumer price index, to be 3.45% in 1998-99, 3.85% in 1999-2000 and 3.95% in 2000-2001. We assume \$1.9 million for professional services and \$6.5 for other non-salary items in 1998-99 and similar increases thereafter.

Uncertainties

These projections do not include any changes in the Hetchy Hetchy transfer or the City's litigation reserve. Power sales in the state are being deregulated which may have a negative impact on Hetchy Hetchy. This may be offset by the wet winter and the recently negotiated PG&E settlement. There are a variety of cases outstanding against the City, particularly in the area of Property Tax assessment appeals

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and employee-related matters. For the purpose of this report, we have assumed that both these items will remain at the 1997-98 level.

Summary

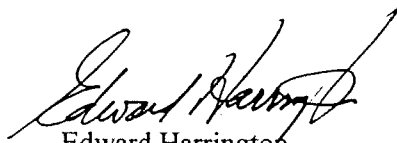
We project a \$6.4 million budget surplus for the next fiscal year. This assumes we continue to provide the current level of services, increase our General Fund reserve to \$20 million, and increase our capital/facility maintenance program by \$9.8 million to \$25 million a year. Our projected budget shortfalls for fiscal years 1999-2000 and 2001-2001 are \$44.8 million and \$39.9 million. This report assumes that revenue shortfalls are corrected in the year they first appear. We also acknowledge that projections several years ahead are less certain than those for the immediate future.

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.

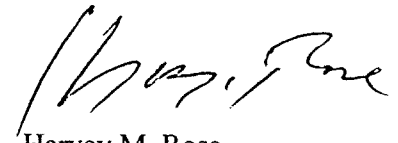
Respectfully submitted,



Matthew H. Hymel
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, City Administrator
John Taylor, Clerk of the Board

Attachment I- Projected Budget Sources and Uses
Joint Budget Report 1998-99

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
I. Prior Year Funds			
Beginning Balance of General Fund Reserve	78.4	16.4	10.0
Establish General Fund Reserve at \$20M	(20.0)	(20.0)	(20.0)
II. Revenues			
General Fund Baseline Growth (Attachment II)	18.1		
GF Revenue Growth (Attachment II)	33.9	29.6	29.4
Airport Transfer	1.0		6.2
Trial Court Funding Realignment	11.0		
III. Projected Uses			
<u>Salary/Benefit-Related Items</u>			
Annualize 1997-98 MOU provisions	(7.2)		
Annualize partial-year positions	(6.8)		
Known MOU provisions for existing contracts	(27.8)	(25.6)	(8.8)
Unknown MOU provisions for expired contracts	(9.8)	(14.8)	(34.3)
HSS- Retiree Subsidy	(1.0)		
Health Service Rates	(1.5)		
Increase in Social Security Cap	(1.0)	(1.0)	(1.0)
<u>Public Health</u>			
Annualization Substance Abuse Treatment on Demand	(2.6)		
Annualization of Other Programs	(1.3)		
Inflation Adjustments	(11.4)	(13.2)	(14.1)
<u>Human Services</u>			
CalWorks	(7.6)		
Indigent Adults	(2.1)		
Homeless Programs	(0.7)		
Administration	(0.5)		
Family & Children Services	(1.4)		
In-Home Supportive Services	(1.5)		
<u>Miscellaneous Items</u>			
Treasure Island Brig	(2.0)		
Debt Service	(1.5)	0.5	(0.9)
Capital Program	(9.8)		
Combined Emergency Command Center	(10.1)	(7.0)	4.0
Professional Services Inflation	(1.9)	(2.2)	(2.4)
Other Non-Salary Inflation	(6.5)	(7.5)	(8.0)
Projected Surplus/(Shortfall)	6.4	(44.8)	(39.9)

ATTACHMENT II

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

	FY95-96 Actual	FY96-97 Actual	FY97-98			Forecast					
			Budget	Projected	Base	FY98-99	Growth	FY99-00	Growth	FY00-01	Growth
Property Taxes	\$317,016	\$322,474	\$325,653	\$331,970	\$330,500	\$340,415	\$9,915	\$347,022	\$6,607	\$357,433	\$10,411
Adjustment for SFRA						3.0%		3.0%		3.0%	
						(3,500)	(\$3,500)				
Business Taxes	175,314	200,922	200,990	208,011	208,011	218,412	\$10,401	227,148	8,736	233,962	6,814
						5.0%		4.0%		3.0%	
Sales Tax	102,991	108,099	113,102	109,696	109,696	115,181	\$5,485	119,788	4,607	123,382	3,594
						5.0%		4.0%		3.0%	
Utility Users Tax	53,693	55,883	56,293	55,014	55,014	55,014	\$0	55,014	0	55,014	0
						0.0%		0.0%		0.0%	
Prop. Transfer Tax	22,968	33,573	32,212	43,166	33,000 (1)	33,000	\$0	33,000	0	33,000	0
						0.0%		0.0%		0.0%	
Hotel Tax	60,242	73,530	69,122	76,986	76,986	82,760	\$5,774	87,726	4,966	92,112	4,386
						7.5%		6.0%		5.0%	
Parking Tax	14,259	15,973	15,080	16,731	16,731	16,731	\$0	16,731	0	16,731	0
						0.0%		0.0%		0.0%	
Public Safety Sales Tax	49,741	53,912	55,437	56,997	56,997	59,847	\$2,850	62,241	2,394	64,108	1,867
						5.0%		4.0%		3.0%	
Motor Vehicle In-Lieu	64,520	69,441	74,172	73,269	73,269	76,200	\$2,931	78,486	2,286	80,840	2,355
						4.0%		3.0%		3.0%	
Traffic Fines	49,853	49,200	48,600	48,600	48,600	48,600	\$0	48,600	0	48,600	0
						0.0%		0.0%		0.0%	
Total - Major Revenues	\$910,597	\$983,007	\$990,661	\$1,020,440	\$1,008,804	\$1,042,659	\$33,855	\$1,075,756	\$29,597	\$1,105,182	\$29,427
% Change				3.01%		3.36%		2.84%		2.74%	
\$ Change				\$29,779	\$18,143						
				(2)	(3)						(4)

Notes:

- (1) Base equals three-year average transfer tax revenues.
- (2) Amount already reflected in beginning balance for FY98-99 (projected - budget).
- (3) Amount added to GF growth in FY98-99 (base - budget)
- (4) FY98-99 growth is from base amount.

JOINT BUDGET REPORT PROJECTIONS

Budget Years 1993-94 to 1998-99
(in millions)

