

City and County of San Francisco

Controller, Mayor, Board of Supervisors' Budget Analyst

Five Year Financial Plan Update for General Fund Supported Operations FY 2012-13 through FY 2015-16

**Joint Report by the Controller's
Office, Mayor's Office, and Board
of Supervisors' Budget and
Legislative Analyst**



March 7, 2012



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Summary

San Francisco Administrative Code Section 3.6(b) requires that in each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and the Controller submit an updated estimated summary budget for the remaining four years of the City's five-year financial plan. This report provides updated expenditure and revenue projections for Fiscal Years (FY) 2012-13, FY 2013-14, FY 2014-15 and FY 2015-16, assuming no changes to current policies and staffing levels. The next full update of the City's Five Year Financial Plan will be submitted by the Mayor by March 1, 2013.

Table 1 summarizes the projected changes in General Fund Supported revenues and expenditures over the next four years and compares them to the FY 2011-12 Original Budget. As shown in Table 1, this report projects shortfalls of \$170 million in FY 2012-13, \$312 million in FY 2013-14, \$492 million in FY 2014-15 and \$495 million in FY 2015-16. Details behind these projections are provided in the Appendix.

Table 1: Summary of General Fund Supported Projected Budgetary Surplus / (Shortfall)
(Millions)

Sources	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
	Original Budget	Projection	Projection	Projection	Projection
Use of Prior Year General Fund Balance	\$ 159	\$ 65	\$ 65	\$ -	\$ -
Regular Revenues, Transfers & Other	3,902	4,102	4,198	4,276	4,364
Subtotal - Sources	4,062	4,167	4,263	4,276	4,364
Uses					
Salaries & Fringe Benefits	2,192	2,304	2,425	2,537	2,622
Other Expenditures, Reserves & Transfers	1,869	2,033	2,150	2,231	2,238
Subtotal - Uses	4,062	4,336	4,575	4,768	4,860
Projected Surplus/(Shortfall)	\$ -	\$ (170)	\$ (312)	\$ (492)	\$ (495)

While the projected shortfalls shown in the above table reflect the difference in projected revenues and expenditures over the next four years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and/or additional revenues. These projections assume no ongoing solutions are implemented. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

Key Assumptions

Key assumptions affecting the FY 2012-13 through FY 2015-16 projections are:

- **No major changes to service levels and number of employees:** This projection assumes no major changes to policies, service levels, or the number of employees from FY 2011-12 budgeted levels, except for those supplemental appropriations approved by the Board of Supervisors and the Mayor as of the Six Month Report issued on February 9, 2012. This projection does not include potential savings due to changes proposed in departmental FY 2012-13 and FY 2013-14 budget submissions.
- **Continued economic recovery:** This projection assumes the economic recovery that began in 2010 will continue and will be reflected in tax revenue increases, many of which will reach prior peak levels in FY 2011-12.
- **Preliminary estimate of State and Federal budget impacts:** Due to the State's budget shortfall in both the current and upcoming fiscal year, we expect significant cuts in State funding for FY 2012-13. A number of actions taken by the State to address the FY 2011-12 budget shortfall are the subject of litigation and have been temporarily stayed. We are continuing to assess the impacts of the dissolution of the San Francisco Redevelopment Agency, as well as the impact of Public Safety and Human Services realignment efforts. Proposed budgets for both the State and Federal governments contain significant additional reductions to a number of services provided by the City, including reductions to health and welfare, housing, and transportation programs. Given this considerable uncertainty, this report includes a \$50.0 million preliminary assumption for State and Federal budget impacts, an increase of \$35.0 million from the FY 2011-12 budget assumption. The extent to which the City backfills State and Federal reductions is a decision for the Mayor and the Board of Supervisors.
- **No change in closed labor agreements and inflationary increase on open labor agreements:** This projection assumes no change to closed collective bargaining agreements. In FY 2012-13, the 12 furlough days in effect in many labor agreements during the two prior fiscal years will expire, resulting in an effective wage increase of 4.6%. Beginning in FY 2013-14 open contracts are assumed to have salary increases equal to the change in the Consumer Price Index (CPI), which is projected by the Controller's Office of Economic Analysis to be 3.3% for FY 2013-14, 3.5% for FY 2014-15 and 3.0% for FY 2015-16.
- **Retirement plan employer contribution rates and implementation of Proposition C:** This projection assumes employer pension contributions to the San Francisco Employee Retirement System (SFERS) in accord with a projection scenario provided by the Cheiron consulting group in January 2012. The scenario used assumes that the plan achieves a 0% investment return in FY 2011-12 and achieves its target investment return in each subsequent year (7.58% in FY 2012-13 and 7.50% thereafter). This scenario yields a rise in SFERS employer contribution rates from 18.1% in FY 2011-12 to 20.7% in FY 2012-13, 25.5% in FY 2013-14, 28.6% in FY 2014-15, and 27.6% in FY 2015-16. These rates are assumed to be reduced by the floating employee contribution rates included in the pension cost sharing provisions of Proposition C, which was passed by voters in November 2011, as well as the increased employee contributions included in the amended labor agreements between the City and the Police Officers Association and Firefighters Local 798.

Employer contribution rates for the California Public Employees' Retirement System (CalPERS), which covers some public safety personnel, are projected to rise from 21.3% in FY 2011-12 to 21.6% in FY 2012-13, to 22.0% in FY 2013-14, and to 22.3% in FY 2014-15 and FY 2015-16. In accordance with Proposition C, which requires that the City achieve comparable savings from CalPERS members as SFERS members, this report assumes that these rates are reduced by the floating employee contribution rates that apply to SFERS-Safety members (e.g., Police Officers and Fire Fighters). In March 2012, the CalPERS Board will consider reducing the pension fund's investment return assumption. If they take such an action, these projected employer contribution rates could significantly increase.

- **Health and dental insurance cost increases:** This report assumes that the employer share of health insurance premiums will increase by approximately 6.0% each year, based on projections provided by the Health Service System's actuarial firm Aon Hewitt. Dental insurance costs are projected to increase by approximately 3% each year based on the average increase over the past five years. For retiree health benefits, this report assumes that the City will continue its "pay-as-you-go" practice of funding the amounts currently due for retirees. The growth in this obligation has been estimated based on projected actual cost increases of approximately 8% to 9% each year.
- **Inflationary increase on non-personnel operating costs:** This projection assumes that the cost of materials and supplies, professional services, contracts with Community-Based Organizations and other non-personnel operating costs will rise by CPI increases of 3.0%, 3.3%, 3.5% and 3.0% for FY 2012-13, and FY 2013-14, FY 2014-15, and FY 2015-16, respectively.
- **10-Year Capital Plan and inflationary increases on equipment funding:** This projection assumes that capital projects and facilities maintenance costs will increase over the next four years based on the levels assumed in the City's adopted 10-Year Capital Plan. This projection assumes equipment funding will increase to \$5.0 million in FY 2012-13 and increase by CPI in the following years.
- **Rainy Day Reserve withdrawals assumed:** Our projections assume the City will not be eligible to withdraw from the Rainy Day Reserve Economic Stabilization Reserve in any of the four years, nor will the City be required to deposit into the reserve based on forecasted revenues. However, we estimate that the San Francisco Unified School District (SFUSD) will be eligible to withdraw its maximum 25% of the Rainy Day Reserve in each of the four years due to declining inflation-adjusted per-pupil revenues. Withdrawals are at the discretion of the Mayor and Board of Supervisors. This report assumes the maximum withdrawals for the SFUSD in each of the next four years.
- **Effect of Redevelopment Dissolution:** This report does not attempt to forecast changes to net property tax revenues or General Fund expenditures as a result of the dissolution of the San Francisco Redevelopment Agency (SFRDA) on February 1, 2012. The SFRDA dissolved pursuant to State law Assembly Bill x1 26, as upheld by a California Supreme Court decision of December 29, 2011. On January 26, 2012, the Board of Supervisors designated that the City and County of San Francisco would be the successor agency to the SFRDA. Enforceable SFRDA obligations existing at the time of dissolution will continue to be paid with property tax increment from former Redevelopment project areas. There are uncertainties regarding the magnitude of property tax that may be freed up by the dissolution of SFRDA pending clarification of the law and potential follow-on legislation. It is

also possible that the General Fund may incur new expenses to continue certain activities formerly carried out by the SFRDA.

- **Public Safety and Human Services Realignment:** In FY 2011-2 the State began shifting responsibility for certain public safety and human services functions to local jurisdictions. This report assumes that increased costs in the Adult Probation Department, Sheriff's Office, Public Defender's Office, and District Attorney's Office resulting from the shift of inmates and parolees from State to local custody are offset by State revenue allocations pursuant to Assembly Bill 109, estimated to be \$7.1 million in FY 2012-13. This report also assumes an ongoing loss of \$3.2 million to the Human Services Agency due to State funding formula changes for health and welfare programs. The State has proposed further realignment initiatives for human services over the next few years; any fiscal impact resulting from these efforts is included in the estimate of State and Federal budget impacts discussed above.
- **Impact of America's Cup:** This projection assumes a one-time increase of \$16.2 million in General Fund tax revenue in FY 2013-14 from America's Cup activities, including \$8.4 million in hotel tax, \$5.6 million in payroll tax, and \$2.2 million in local sales tax. These figures are derived from the Board of Supervisors' Budget and Legislative Analyst's report on the costs and benefits of hosting the America's Cup dated November 18, 2010. Parking tax revenue is not included in our projection, as the General Fund allocation of this revenue source is minimal. This report also assumes that the America's Cup Organizing Committee will successfully fundraise \$32 million by FY 2013-14, covering the City's expenses associated with hosting the event. If this fundraising target is not achieved, or if City costs exceed \$32 million, either additional funding would be required or departments would have to absorb the extra costs within their budgets. Finally, this report anticipates that the \$6.5 million funding gap for the cruise terminal project will either be supported by non-General Fund sources or will be funded within the General Fund capital budget.

Key Factors That Could Affect These Forecasts

As with all projections, substantial uncertainties exist regarding key factors that could affect the City's financial condition. These include:

- **Outcome of State and Federal Budget-Balancing Efforts and Pending Litigation:** We will not know the outcome of State and Federal budget deliberations for several months, and the timing of pending litigation around State cuts to In-Home Supportive Services and Medi-Cal reimbursement rates for Skilled Nursing Facilities is also uncertain.
- **Pace of Local Economic Recovery:** Our projections assume continued recovery in tax revenues from the improvements experienced in FY 2010-11 and projected for FY 2011-12. However, the speed of the recovery will depend heavily on job growth and changes in business activity and tourism.
- **Collective Bargaining Agreement Negotiations:** Other than approved wage increases in collective bargaining agreements and CPI in open contracts, this report does not assume any contract changes due to on-going labor negotiations with unions. Wage or benefit increases versus these assumptions would increase the deficit, while decreases would reduce the deficit.

- **CalPERS Board Action:** As noted above, the CalPERS Board will be considering adjustments to the assumptions that determine the required employer contribution rate for CalPERS members at its March meeting. If they approve such changes, the City's employer contribution rates for CalPERS members could increase by 4% to 8% each year beginning in FY 2013-14, resulting in annual cost increases of approximately \$4.0 million to \$8.0 million above the projections included in this report.
- **San Francisco 49ers Potential Move to Santa Clara -** Under their current lease with the City, the San Francisco Forty Niners have the right to vacate Candlestick Park at the conclusion of the 2014 football season. The City expects that the team will move to Santa Clara upon the expiration of the lease. The departure of the Forty Niners will likely result in a net revenue loss to the Recreation and Park Department beginning in FY 2015-16.
- **Pending or Proposed Legislation – Potential Fee / Departmental Revenue Increases:** Fee increases may be proposed to the Board of Supervisors before the end of the year or as part of the FY 2012-13 and FY 2013-14 budget. No increases have been assumed in this projection.
- **Potential New Revenue Proposals and Charter Amendments in Future Elections:** This report makes no assumptions about the impact of potential revenue proposals or Charter amendments that may be included on future election ballots.

Schedule of Upcoming Reports Containing Budget Projections

- **Early May - Controller's Nine-Month Budget Status Report:** This report will provide updated revenue, expenditure, and ending fund balance projections for FY 2011-12.
- **Mid-June - Controller's Discussion of the Mayor's Fiscal Year 2012-13 and 2013-14 Proposed Budget ("Revenue Letter"):** This report will provide the Controller's opinion regarding the reasonableness of the revenue estimates in the Mayor's Proposed Budget.

Appendix: Projected Changes to General Fund Supported Revenues and Expenditures

Table A-1: Key Changes to General Fund Supported Sources and Uses

Table A-2a: Reserve Withdrawal & Appropriation Amounts

Table A-2b: Net Budgetary Impact of Changes to Reserves

Table A-3a: Summary of General Fund Supported Operating Revenues and Transfers In

Table A-3b: Growth Factors for General Fund Supported Sources

Table A-4a: Baselines and Select Mandated Expenditures, Projected Budget

Table A-4b: Baselines and Select Mandated Expenditures, Change from Prior Year

Appendix: Projected Changes to Revenues and Expenditures

Table A-1: Key Changes to General Fund Supported Sources & Uses

		Change from Prior Year Budget (\$ Millions)			
		FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
SOURCES Increase / (Decrease)					
Change in Starting Fund Balances		(94.8)	-	(64.6)	-
General Fund Taxes, Revs and Transfers net of items below*		221.5	78.7	69.6	81.8
Estimate of State and Federal Budget Impacts**		(35.0)	-	-	-
Other General Fund Supported Revs (Public Health, Human Svc)		13.4	17.4	8.5	6.3
TOTAL CHANGES TO SOURCES		105.1	96.2	13.5	88.1
USES Decrease / (Increase)					
Salaries & Benefits					
Annualization of Partial Year Positions		(9.8)	2.2	-	-
Projected Costs of Closed Labor Agreements		(81.3)	-	-	-
Projected Costs of Open Labor Agreements		-	(47.7)	(52.6)	(63.5)
Health & Dental Benefits - Current Employees		(12.7)	(12.9)	(13.0)	(13.8)
Health & Dental Benefits - Retired Employees		(7.6)	(9.2)	(10.4)	(11.4)
Retirement Benefits - Employer Contribution Rates		(6.9)	(46.5)	(36.7)	12.4
Other Misc. Costs (Unemployment Insurance & Work Days)		7.0	(6.9)	-	(8.1)
<i>Subtotal Salaries & Benefits</i>		<i>(111.3)</i>	<i>(121.0)</i>	<i>(112.7)</i>	<i>(84.4)</i>
Citywide Operating Budget Costs					
Net Contributions to Reserves		(11.2)	10.6	6.9	1.5
Public Education Enrichment Fund Annual Contribution		(22.8)	(2.4)	(1.7)	(2.1)
Baseline & Mandate Requirements (MTA, Library, Children, Edu)		(29.0)	(12.1)	(9.6)	(10.9)
Capital, Facilities Maintenance, Equipment, & Technology		(24.2)	(11.1)	(12.9)	(17.8)
Inflation on Non-Personnel Costs, Contracts and Grants		(26.4)	(30.3)	(32.8)	(29.0)
Debt Service & Lease Financings		(7.9)	(2.6)	0.2	(0.5)
Workers' Compensation		(0.9)	(1.5)	(1.6)	(2.7)
Other Citywide Costs		(2.7)	(1.1)	(2.6)	(2.6)
<i>Subtotal Citywide Operating Budget Costs</i>		<i>(125.1)</i>	<i>(50.6)</i>	<i>(54.2)</i>	<i>(64.1)</i>
Departmental Costs					
City Administrator - Convention Facilities Subsidy		(11.9)	(5.3)	(0.4)	5.3
Elections - Number of Scheduled Elections		5.0	(5.7)	5.3	(6.1)
Ethics Commission - Public Financing of Elections		4.2	(0.0)	(0.0)	(0.0)
Fire - Engine 35 Return to Service		(2.5)	-	-	-
Housing - Affordable Housing and HOPE SF		(6.0)	(5.9)	(1.2)	(1.0)
Human Services Agency - Aid		0.4	(4.0)	(4.5)	(4.6)
Police - Multi-year Hiring Plan and Expiration of COPS Grant Funding		(4.6)	(4.8)	(1.4)	(0.2)
Police - New Public Safety Building		(9.0)	(0.9)	4.7	-
Public Health - Delivery System Reform Incentive Pool (DSRIP)		(1.9)	(5.2)	(2.1)	-
Public Health - Electronic Medical Records Implementation		(4.9)	4.3	(0.1)	(0.4)
Public Health - Planning and Equipment for New SF General Hospital		(2.0)	(38.0)	(25.0)	65.0
Public Health - Other Costs		(6.1)	(0.7)	(0.5)	(0.5)
All Other Departmental Savings / (Costs)		1.1	(0.7)	(1.1)	(0.6)
<i>Subtotal Departmental Costs</i>		<i>(38.2)</i>	<i>(67.0)</i>	<i>(26.4)</i>	<i>56.9</i>
TOTAL CHANGES TO USES		(274.6)	(238.6)	(193.3)	(91.6)
Projected Surplus (Shortfall) vs. Prior Year		(169.6)	(142.4)	(179.8)	(3.5)
Cumulative Projected Surplus (Shortfall)		(169.6)	(312.0)	(491.8)	(495.3)

*Excludes certain revenue changes shown in Table A-3a that have offsetting expenditure changes.

**Total estimated impact is \$50 million, \$35 million more than FY 2011-12, of which \$30 million is General Fund as shown in Table A-3a.

Notes to Table A-1

SOURCES

Change in Starting Fund Balances: This report assumes available fund balance will be spent down evenly during the two upcoming budget years. This results in a net loss of General Fund Supported starting fund balance of \$94.8 million in FY 2012-13, \$0 million in FY 2013-14, and \$64.6 million in FY 2014-15, comprised of:

Loss of prior year General Fund Supported fund balances: This represents the loss of \$159.4 million in prior year General Fund fund balance used to support the FY 2011-12 budget that is not available in FY 2012-13.

Gain of FY 2012-13 starting General Fund Supported balances: This represents the gain of the \$129.1 million in available balance at the end of FY 2011-12 as projected in the Controller's Six-Month Budget Status Report. This projection assumes the \$129.1 million will be used evenly over the upcoming two budget years.

General Fund Taxes, Revenues and Transfers: General Fund Taxes, Revenues and Transfers are projected to increase by \$221.5 million in FY 2012-13 from FY 2011-12 Original Budget levels, followed by increases of \$78.7 million, \$69.6 million and \$81.8 million in the following years. These projections exclude certain revenue changes that have offsetting expenditure changes.

Our projections assume continued recovery in tax revenues from the improvements that began in FY 2009-10. During the most recent recession, most local tax revenues bottomed out in FY 2008-09 or FY 2009-10 and are projected to return to pre-recessionary levels in FY 2011-12 or shortly thereafter. This represents a faster recovery than in the previous Joint Report, when most tax revenues were projected to recover in FY 2012-13 or later. This is based on stronger than expected performance at FY 2010-11 year end and in FY 2011-12 to date, particularly with payroll, local sales, hotel, and property transfer taxes. The exceptions to this pattern are property tax (which did not decline during the recession), parking tax (which recovered early due to rate increases), and utility users tax (which is bottoming out in the current year due to changes in collection policies by wireless providers).

This projection is subject to some risks, including possible effects of the European debt crisis, long term unemployment, federal fiscal policy and political uncertainty, and the continued drag of housing on the economy. However, local revenue growth in the budget year and beyond will depend heavily on corporate spending on technology, local employment (especially tech-related jobs), and continuation of the robust tourism recovery.

Details on specific revenue streams are provided below:

Property Tax increases reflect relatively stable residential rolls and rebounding commercial valuations. Key assumptions used to build the projections include:

- Base roll growth increases allowed under Proposition 13 of 2.00% in FY 2012-13, 2.00% in FY 2013-14, 1.98% in FY 2014-15, and 2.00% in FY 2015-16. These estimates are calculated using California Department of Finance forecasted CPI. The maximum CPI increase allowed under Proposition 13 is 2%.

- The General Fund share of supplemental and escape property tax assessments is estimated to be \$56 million in FY 2011-12. For Fiscal Years 2012-13 through 2015-16, the General Fund share of supplemental and escape property tax assessments is estimated to be about \$36 million annually. Supplemental and escape property tax revenues fluctuate based upon the changes in ownership and new construction to be processed by the Assessor-Recorder.
- Funds set aside for assessment appeals are estimated to decline 15% in FY 2012-13 compared to FY 2011-12 levels and an additional 15% each year from FY 2013-14 through FY 2015-16, assuming that the most significant adjustments to assessed property values are reflected in the Assessor's Roll and that market values gradually improve through FY 2015-16.
- Gross tax increment draw to pay for ongoing obligations of the former San Francisco Redevelopment Agency and related agency dissolution costs are assumed to remain at \$126 million for each fiscal year through FY 2015-16, matching the tax increment amount requested on January 9, 2012 for FY 2011-12 by the former San Francisco Redevelopment Agency. There are uncertainties regarding the magnitude of property tax that may be freed up by the dissolution of the former San Francisco Redevelopment Agency pending clarification of the law and potential follow-on legislation.

Business Tax increases are premised on a series of economic assumptions. Private employment, a key lagging indicator, which reached a trough in 2010, is expected to grow at a rate of approximately 2.3% in 2011 through 2013, and 3.5% per year thereafter. Wages are projected to grow at or slightly above projected rates of inflation (approximately 3%). San Francisco entered the recession late and its unemployment rate has been below that of the state and other large cities. This was partly because it experienced less of a residential construction-related boom in employment before the recession. In 2011, internet, publishing and computer systems design payrolls improved markedly in San Francisco, while finance and insurance industry payrolls have bottomed out but not yet recovered. Overall, employment growth appears to have finally reached levels indicating a sustainable jobs recovery.

Local Sales tax increases reflect projected employment growth. San Francisco's decline in sales tax revenue during the recession came later and will recover to prior peak levels earlier than the state as a whole as they are highly correlated with local employment and inflation. New apartment construction and household formation will support revenue growth in the later projection years.

Hotel tax receipts are projected to exceed their prior peak in the current year due to historically high room rates, now that occupancy rates have stabilized. Moscone Convention Center renovations will be completed and all facility space available by July 1, 2012, enabling growth from convention-related business.

Real Property Transfer Tax reflects rebounding commercial real estate values. Real property transfer taxes have exceeded expectations in the current year and are

expected to peak in FY 2012-13, driven by available capital being invested in commercial and multi-family residential properties by pension funds, Real Estate Investment Trusts (REITs) and foreign investors. Real Property Transfer Tax revenues are projected to exceed the average of the previous five years in FY 2012-13, 2013-14 and 2014-15, triggering deposits into the Budget Stabilization Reserve described in the Uses section of this report.

Estimate of State and Federal Budget Impacts: Due to the State's budget shortfall in both the current and upcoming fiscal year, we expect significant cuts in State funding for FY 2012-13. A number of actions taken by the State to address the FY 2011-12 budget shortfall are under litigation, including limits to the In-Home Supportive Services program and a reduction to the Medi-Cal reimbursement rate for Skilled Nursing Facilities, which could result in a \$15.2 million revenue loss at Laguna Honda Hospital. We are also continuing to analyze the property tax revenue implications of the dissolution of the San Francisco Redevelopment Agency, as well as the impact of both Public Safety and Human Services realignment efforts. Finally, recent State and Federal changes to funding for HIV/AIDS programs are projected to result in increased costs to the City's Low Income Health Program (LIHP). Proposed budgets for both the State and Federal governments currently pending before the State legislature and Congress contain significant additional reductions to a number of services provided by the City, including reductions to health and welfare, housing, and transportation programs.

Given the considerable uncertainty, this report includes a \$50.0 million preliminary assumption for State and Federal budget impacts, an increase of \$35.0 million from the FY 2011-12 budget assumption. Of this amount, \$30 million is assumed to be the impact to the General Fund and \$20 million the impact on other General Fund supported funds. The extent to which the City backfills State and Federal reductions is a decision for the Mayor and the Board of Supervisors.

Other General Fund-Supported Revenues: Other General Fund Supported revenues are projected to increase by \$13.4 million in FY 2012-13, \$17.4 million in FY 2013-14, \$8.5 million in FY 2014-15, and \$6.3 million in FY 2015-16.

Human Services Agency Revenues: The Human Services Agency (HSA) is projected to draw incremental State and Federal revenues to pay for approximately 37% of salaries and fringe benefit costs, resulting in incremental revenue increases of \$3.7 million, \$5.2 million, \$3.7 million, and \$1.5 million in FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16 respectively. In addition, HSA is projecting the loss of \$3.2 million in state and federal revenues in FY 2012-13 due to realignment funding changes.

Public Health Revenues: The Department of Public Health (DPH) projects increases in patient revenues at San Francisco General and Laguna Honda Hospital of \$16.9 million in FY 2012-13, \$12.2 million in FY 2013-14, and \$4.8 million in both FY 2014-15 and FY 2015-16. These revenues are offset by increasing expenditures listed in the Uses section below. In addition, DPH projects an ongoing loss of \$4.0 million in Mental Health State Plan Amendment revenue due to lower than anticipated reimbursable costs.

Table A-3a: Summary of General Fund Operating Revenues and Transfers In (\$ Millions)

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
	Year-End Actuals	Original Budget	Current Projection	Projection	Projection	Projection
Property Taxes	\$ 1,061.9	\$ 1,028.7	\$ 1,060.0	\$ 1,080.0	\$ 1,114.0	\$ 1,181.0
Business Taxes	391.1	389.9	409.7	436.0	469.6	516.1
Sales Tax	106.3	106.6	114.3	121.7	130.0	138.9
Hotel Room Tax	158.9	165.9	177.4	193.0	215.1	228.3
Utility Users Tax	91.7	95.6	89.8	91.6	94.4	100.1
Parking Tax	72.7	72.0	75.4	77.7	80.0	85.3
Real Property Transfer Tax	135.2	118.8	170.2	195.7	176.2	159.0
Stadium Admission Tax	2.4	2.3	2.3	2.4	2.4	2.5
Access Line Tax (FY09 incl. \$37.1m 911 fee re	40.9	41.1	41.1	42.3	43.6	46.5
Subtotal - Local Tax Revenues	2,061.1	2,020.8	2,140.3	2,240.5	2,325.3	2,457.6
Licenses, Permits & Franchises	25.3	24.3	24.3	24.3	24.4	24.6
Fines, Forfeitures & Penalties	6.9	7.7	7.7	4.1	4.1	4.1
Interest & Investment Income	8.2	6.1	7.8	6.5	5.9	6.5
Rents & Concessions	23.4	22.9	22.8	21.2	21.4	22.0
Subtotal - Licenses, Fines, Interest, Rent	63.7	61.0	62.7	56.1	55.8	57.2
Social Service Subventions	184.5	205.8	198.4	198.4	198.4	198.4
Other Grants & Subventions	26.7	3.0	8.4	8.4	8.4	8.4
Subtotal - Federal Subventions	211.3	208.8	206.8	206.8	206.8	206.8
Social Service Subventions	143.6	142.5	110.1	110.1	110.1	110.1
Health & Welfare Realignment - Sales Tax	100.3	101.4	106.6	110.9	114.8	121.2
Health & Welfare Realignment - VLF	42.9	42.3	40.8	40.8	41.2	42.9
Health/Mental Health Subventions	69.7	114.4	87.5	106.5	91.5	91.5
Public Safety Sales Tax	68.4	69.1	73.9	77.9	80.6	85.1
Motor Vehicle In-Lieu (County & City)	5.3	1.7	0.8	-	-	-
Other Grants & Subventions	26.2	13.1	18.9	20.2	20.2	20.2
Preliminary State Budget Assumption	-	(15.0)	(11.6)	(30.0)	(30.0)	(30.0)
Subtotal - State Subventions	456.5	469.6	426.9	436.4	428.4	440.9
General Government Service Charges	35.1	36.3	36.5	36.8	37.2	37.9
Public Safety Service Charges	22.4	22.2	21.1	21.3	21.6	22.0
Recreation Charges - Rec/Park	12.6	12.1	12.1	12.2	12.3	12.6
MediCal, MediCare & Health Svc. Chgs.	52.2	58.0	56.9	57.5	58.1	59.2
Other Service Charges	11.5	14.7	14.6	14.7	14.9	15.2
Subtotal - Charges for Services	133.8	143.3	141.2	142.6	144.0	146.9
Recovery of General Government Costs	10.3	10.4	10.4	10.5	10.6	10.8
Other General Fund Revenues	8.5	18.8	69.6	28.5	24.6	16.5
TOTAL REVENUES	2,945.1	2,932.7	3,057.8	3,121.4	3,195.4	3,336.8
Transfers in to General Fund						
Airport	30.2	30.3	33.1	34.0	34.6	36.6
Other Transfers	76.9	126.9	128.2	115.4	115.4	115.4
Total Transfers-In	107.1	157.2	161.3	149.4	150.1	152.1
TOTAL GF Revenues and Transfers-In	3,052.2	3,089.9	3,219.1	3,270.8	3,345.5	3,488.8

Table A-3b: Growth Factors for General Fund Sources

	FY 2012-13		FY 2013-14	FY 2014-15	FY 2015-16
	% Chg from FY 2011-12 Original Budget	% Chg from FY 2011-12 Current Projection	% Chg from FY 2012-13 Five Year Projection	% Chg from FY 2013-14 Five Year Projection	% Chg from FY 2014-15 Five Year Projection
Property Taxes	5.0%	1.9%	3.1%	3.1%	2.9%
Business Taxes	11.8%	6.4%	7.7%	4.7%	5.0%
Sales Tax	14.2%	6.5%	6.8%	2.7%	4.0%
Hotel Room Tax	16.3%	8.8%	11.4%	0.8%	5.3%
Utility Users Tax	-4.1%	2.0%	3.0%	3.0%	3.0%
Parking Tax	7.9%	3.0%	3.0%	3.5%	3.0%
Real Property Transfer Tax	64.7%	15.0%	-10.0%	-5.0%	-5.0%
Stadium Admission Tax	2.0%	2.0%	2.0%	2.0%	2.0%
Access Line Tax	3.0%	3.0%	3.0%	3.5%	3.0%
Subtotal - Tax Revenues	10.9%	4.7%	3.8%	2.6%	3.0%
Licenses, Permits & Franchises	0.0%	0.0%	0.4%	0.0%	0.7%
Fines, Forfeitures & Penalties	-47.0%	-47.0%	0.0%	0.0%	0.0%
Interest & Investment Income	7.5%	-17.0%	-10.0%	0.0%	11.0%
Rents & Concessions	-7.4%	-7.0%	1.1%	1.3%	1.1%
Subtotal - Licenses, Fines, Interest, Rent	-8.0%	-10.4%	-0.6%	0.5%	1.9%
Social Service Subventions	-3.6%	0.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	183.0%	0.0%	0.0%	0.0%	0.0%
Subtotal - Federal Subventions	-1.0%	0.0%	0.0%	0.0%	0.0%
Social Service Subventions	-22.7%	0.0%	0.0%	0.0%	0.0%
Health & Welfare Realignment - Sales Tax	9.4%	4.0%	3.5%	3.0%	2.5%
Health & Welfare Realignment - VLF	-3.7%	0.0%	1.0%	2.0%	2.0%
Health/Mental Health Subventions	-6.9%	21.7%	-14.1%	0.0%	0.0%
Public Safety Sales Tax	12.8%	5.5%	3.5%	3.0%	2.5%
Motor Vehicle In-Lieu (County & City)	-100.0%	-100.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	53.8%	6.9%	0.0%	0.0%	0.0%
Preliminary State Budget Assumption	100.0%	158.0%	0.0%	0.0%	0.0%
Subtotal - State Subventions	-7.1%	2.2%	-1.8%	1.6%	1.3%
General Government Service Charges	1.4%	1.0%	1.0%	1.0%	1.0%
Public Safety Service Charges	-3.8%	1.0%	1.0%	1.0%	1.0%
Recreation Charges - Rec/Park	1.0%	1.0%	1.0%	1.0%	1.0%
MediCal, MediCare & Health Svc. Chgs.	-0.9%	1.0%	1.0%	1.0%	1.0%
Other Service Charges	0.3%	1.0%	1.0%	1.0%	1.0%
Subtotal - Charges for Services	-0.5%	1.0%	1.0%	1.0%	1.0%
Recovery of General Government Costs	1.0%	1.0%	1.0%	1.0%	1.0%
Other Revenues	51.5%	-59.0%	-14.0%	-32.6%	0.0%
TOTAL REVENUES	6.4%	2.1%	2.4%	1.9%	2.5%
Transfers in to General Fund					
Airport	12.1%	2.6%	2.0%	3.7%	2.0%
Other Transfers	-9.0%	-9.9%	0.0%	0.0%	0.0%
Total Transfers In	-5.0%	-7.4%	0.5%	0.9%	0.5%
TOTAL GF Revenues and Transfers-In	5.9%	1.6%	2.3%	1.8%	2.4%

USES – Salaries and Benefits

This report projects General Fund Supported salaries and fringe benefits to increase by \$111.3 million in FY 2012-13, \$121.0 million in FY 2013-14, \$112.7 million in FY 2014-15, and \$84.4 million in FY 2015-16. These increases reflect the annualization of partial year positions approved in the current fiscal year, provisions in collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs, as discussed below.

Annualization of Partial Year Positions: In FY 2012-13, the City is projected to incur \$9.8 million of additional costs to annualize positions funded for only a partial year in the FY 2011-12 budget, primarily police academy positions and Department of Public Health positions related to implementation of health care reform. Savings of \$2.2 million are projected in FY 2013-14 as limited term positions expire.

Projected Costs of Closed Labor Agreements: The additional salary and benefit costs of closed labor agreements are projected to be \$81.3 million for FY 2012-13. These costs include the annualization of prior year wage adjustments for police officers, firefighters, deputy sheriffs and nurses; the restoration of salaries to pre-furlough levels; and additional approved future wage adjustments as outlined in each collective bargaining agreement.

Projected Costs of Open Labor Agreements: The additional salary and benefit costs for open collective bargaining agreements are projected to be \$47.7 million in FY 2013-14, \$52.6 million in FY 2014-15 and \$63.5 million in FY 2015-16. Most labor agreements will expire by the end of FY 2011-12. The projection for FY 2012-13 assumes salaries for most unions return to pre-furlough levels captured above but no additional increases in the first year of their new contracts. Beginning in FY 2013-14, we assume that these bargaining units receive salary increases equivalent to the Consumer Price Index (CPI).

Health and Dental Benefits for Current Employees: The Charter requires the City's contribution for individual health coverage costs to increase based on a survey of California's ten largest counties. The most recently conducted survey resulted in a 3.8% increase (from \$503.94 to \$522.97 per month) in the Charter-required contribution from the FY 2011-12 level for the first half of FY 2012-13. In January 2012, the Health Service System Board approved shifting from a fiscal year plan to a calendar year plan. Therefore, another 10-county survey will be conducted for January 2012, and insurance plan premiums for the second half of FY 2012-13 will be determined at that time. This report relies on projected health insurance rates provided by the Health Service System actuarial firm Aon Hewitt, which assume annual cost increases of approximately 6% based on medical inflation and industry trends. Dental insurance premiums for active employees are guaranteed at their current level through FY 2012-13. This report assumes dental insurance cost increases of approximately 3% in each subsequent year based on the average increase over the previous five years. Given these assumptions, health and dental insurance premium costs related to current employees are projected to increase by \$12.7 million in FY 2012-13, \$12.9 million in FY 2013-14, \$13.0 million in FY 2014-15, and \$13.8 million in FY 2015-16.

Health and Dental Benefits for Retired City Employees: Charter Section A8.428 also mandates health coverage for retired City employees. The cost of medical benefits for retirees are projected to increase by \$7.6 million from \$93.4 million in FY 2011-12 to \$100.9 million in FY 2012-13, and to increase by \$9.1 million, \$10.4 million, and \$11.4 million for FY 2013-14, FY 2014-15, and FY 2015-16 respectively.

Retirement Benefits - Employer Contribution Rates: Total retirement costs are projected to increase due to recent investment losses in the San Francisco Employees' Retirement System (SFERS) and California Public Employees' Retirement System (CalPERS), the increased cost of SFERS benefits due to Proposition B (June 2008), and lower projected earnings on retirement plan assets. These factors are partially offset by reductions to the City's employer contribution rates due to the passage of Proposition C (November 2009), which requires the employee contribution rate to fluctuate depending on the employer contribution rate. As shown in Table A4, the net result of these changes is an increase in total General Fund Supported employer contributions into SFERS and CalPERS of \$6.9 million in FY 2012-13, \$46.5 million in FY 2013-14, and \$36.7 million in FY 2014-15, followed by a decrease of \$12.4 million in FY 2015-16. These changes are comprised of contributions into SFERS and CalPERS as follows:

SFERS Contribution Rate Changes – Employer-Share: Employer-share contribution rates are set to increase from 18.1% in FY 2011-12 to 20.7% in FY 2012-13 for covered City employees, as adopted by the Retirement Board in March 2012. Required employer-share rates included in our projection are based on a projection scenario provided by the Cheiron consulting firm, which assumes that the pension fund achieves a 0% investment return in FY 2011-12 and achieves its target investment return in each subsequent year. This projection assumes required employer-share contribution rates of 25.5% in FY 2013-14, 28.6% in FY 2014-15, and 27.6% in FY 2015-16. These rates are assumed to be reduced by the floating employee contribution rates included in the pension cost sharing provisions of Proposition C, as well as the increased employee contributions included in the amended labor agreements with the Police Officers Association and Firefighters Local 798. Together, these provisions result in 38.1 million in savings to the City in FY 2012-13, growing to \$56.5 million in FY 2015-16. Despite these savings, SFERS employer contribution costs are projected to increase by \$10.2 million in FY 2012-13, \$47.1 million in FY 2013-14, and \$36.6 million in FY 2014-15, followed by a decrease of \$12.8 million for FY 2015-16.

CalPERS Contribution Rate Changes – Employer-Share: The California Public Employees' Retirement System (CalPERS) has notified the City that the employer contribution rates for employees covered by CalPERS Safety will increase from 21.3% in FY 2011-12 to 21.6% in FY 2012-13. CalPERS projects that this rate will increase to 22.0% in FY 2013-14 and 22.3% in FY 2014-15. For FY 2015-16, we assume that the rate will grow to 22.7% based on the average increase of the previous two years. In accordance with Proposition C, which requires that the City achieve comparable savings from CalPERS members as SFERS members, this report assumes that these rates are reduced by the floating employee contribution rates that apply to SFERS-Safety members (e.g., Police Officers and Fire Fighters). These contribution rate assumptions result in additional CalPERS employer contribution costs of \$3.5 million in FY 2012-13, \$4.5 million in FY 2013-14, \$4.8 million in FY 2014-15, and \$4.8 million in FY 2015-16. In March 2012, the CalPERS Board will consider adjusting the assumptions that determine the City's employer contribution rate. If they take such an action, these projected employer contribution rates could significantly increase, resulting in increased costs of \$4 million to \$8 million each year beginning in FY 2013-14.

Table A-4: Employer Pension Contributions Excluding Impact of Salary Changes
(\$ Millions)

	Budget FY 2011-12	Projection FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
SFERS Employer Rate	18.1%	20.7%	25.5%	28.6%	27.6%
CalPERS Employer Rate	21.3%	21.6%	22.0%	22.3%	22.7%
Employer Contributions Before Proposition C & Police and Fire MOU Amendments					
SFERS-Miscellaneous	163.6	187.3	230.6	258.6	249.6
SFERS-Safety	67.7	77.6	95.5	107.1	103.4
CalPERS	21.4	21.7	22.1	22.4	22.8
Total	252.7	286.5	348.2	388.1	375.7
<i>Change from Prior Year</i>		33.8	61.7	39.9	(12.4)
Employer Contributions After Proposition C & Police and Fire MOU Amendments					
SFERS-Miscellaneous	163.6	163.9	198.7	224.7	215.7
SFERS-Safety	56.5	66.3	78.6	89.3	85.6
CalPERS	21.4	18.2	17.6	17.6	18.0
Total	241.5	248.4	295.0	331.6	319.2
<i>Change from Prior Year</i>		6.9	46.5	36.7	(12.4)
Savings from Proposition C and Police and Fire MOU Amendments					
SFERS-Miscellaneous	-	23.3	31.8	33.9	33.9
SFERS-Safety	11.2	11.2	16.9	17.8	17.8
CalPERS	-	3.5	4.5	4.8	4.8
Total	11.2	38.1	53.2	56.5	56.5
<i>Change from Prior Year</i>		26.8	15.1	3.3	0.0

Other Miscellaneous Salaries and Fringe Benefits Costs

Change in Work Days: Most fiscal years consist of 261 workdays for regularly scheduled shifts and 365 days for 24/7 operations. FY 2012-13 includes 365 days for 24/7 operations but only 260 workdays for regularly scheduled shifts, resulting in a projected \$6.5 million savings in salaries and fringe benefit costs compared to FY 2011-12, which was a leap year. FY 2013-14 returns to 261 workdays, which results in an increase of \$4.1 million from FY 2012-13. Finally, FY 2015-16 has 262 workdays and 366 calendar days, resulting in increased costs of \$8.1 million from FY 2014-15.

Other Changes: This category includes changes to costs for unemployment insurance, Long Term Disability, and any changes to the FICA income cap, as well as other small salary and fringe adjustments and MOU related agreements. We project these changes to result in cost of \$3.5 million in FY 2012-13 and \$2.7 million in FY 2013-14.

USES –Citywide Operating Budget Costs

Table A-1 displays other non-salary Citywide cost increases of \$125.1 million, \$50.6 million, \$54.2 million, and \$64.1 million for the years from FY 2012-13 to FY 2015-16.

Net Contributions to Reserves: The net cost of changes to reserves is estimated to be a loss of \$11.2 million in FY 2012-13, followed by savings of \$10.6 million, \$6.9 million, and \$1.5 million in FY 2013-14, FY 2014-15, and FY 2015-16 respectively. Key changes to reserves are summarized below and reflected in Table A-2a and Table A-2b.

Rainy Day Reserve: For years in which General Fund revenues decline, the Charter allows the City to withdraw up to 50% of the City's Rainy Day Economic Stabilization Reserve. The Charter also allows withdrawals of up to 25% of the Rainy Day Reserve for the San Francisco Unified School District (SFUSD) in years when inflation-adjusted per-pupil revenues decline. Withdrawals are at the discretion of the Mayor and Board of Supervisors. Based on the projected changes in City revenues, this report does not project a City withdrawal from the Rainy Day Reserve in any of the upcoming years. The projected FY 2011-12 year-end balance of the reserve is \$25 million. If SFUSD revenues continue to decline, the maximum withdrawals that could be approved would be \$6.3 million in FY 2012-13 and \$4.7 million in FY 2013-14, leaving a reserve balance of \$14.1 million at the end of FY 2013-14. The maximum withdrawals for FY 2014-15 and FY 2015-16 would be \$3.5 million and \$2.7 million, respectively.

Recreation & Park Reserve: The FY 2011-12 budget used \$4.4 million of Recreation & Park Budget Savings Incentive Reserve to support one time expenditures in the Recreation and Park Department, leaving an available balance of \$1.9 million in the reserve. This report does not assume use of this reserve to support future year budgets.

General Reserve: Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates the General Reserve rising from \$25.0 million in FY 2011-12 to 1.0% of regular General Fund revenues in FY 2012-13 (projected at \$31.5 million) to 1.25% in FY 2013-14 (\$40.3 million) to 1.5% in FY 2014-15 (\$49.2 million) and to 1.75% in FY 2015-16 (\$58.9 million). This report also assumes that unspent monies at the end of each Fiscal Year will be carried forward to the subsequent year.

Budget Stabilization Reserve: Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates a deposit of \$21.4 million into the Budget Stabilization Reserve in FY 2012-13, \$10.9 million in FY 2013-14, and \$2.9 million in FY 2014-15 due to projected Real Property Transfer Tax revenues above the average of the previous five years.

Salaries and Benefits Reserve: This report projects increasing the salary and benefits reserve by CPI in each year of the projection period from the \$13.5 million level appropriated in the FY 2011-12 budget to support costs related to labor agreements not budgeted in individual departments.

Litigation Reserve: This report projects increasing the Litigation Reserve by CPI in each year of the projection period from the \$11.0 million level appropriated in the FY 2011-12 budget to support annual City liabilities related to claims, settlements and judgments.

Table A-2a: Reserve Withdrawal & Appropriation Amounts

	Orig. Budget Projected Budget, \$ Millions				
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Reserve Withdrawals Used to Support Budget					
Rainy Day Reserve	\$ -	\$ -	\$ -	\$ -	\$ -
Recreation & Park Reserve	4.4	-	-	-	-
Total Withdrawals	\$ 4.4	\$ -	\$ -	\$ -	\$ -
Appropriations to Reserves					
General Reserve Requirement	\$ 25.0	\$ 31.5	\$ 40.3	\$ 49.2	\$ 58.9
General Reserve Deposit	25.0	9.7	8.8	9.0	9.6
Budget Stabilization Reserve	-	21.4	10.9	2.9	-
Salaries & Benefits Reserve	13.5	13.9	14.4	14.9	15.3
Litigation Reserve	11.0	11.3	11.7	12.1	12.5
Total Appropriations	\$ 49.5	\$ 56.3	\$ 45.7	\$ 38.9	\$ 37.4

Table A-2b: Net Budgetary Impact of Changes to Reserves

	Change from Prior Year Budget, \$ Millions				
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Increase (Decrease) in Reserve Withdrawals Used to Support Budget					
Rainy Day Reserve		\$ -	\$ -	\$ -	\$ -
Recreation & Park Reserve		(4.4)	-	-	-
Subtotal Changes to Withdrawals		\$ (4.4)	\$ -	\$ -	\$ -
Decrease (Increase) in Appropriations to Reserves					
General Reserve Requirement		\$ 6.5	\$ 8.8	\$ 9.0	\$ 9.6
General Reserve Deposit		15.3	0.9	(0.2)	(0.7)
Budget Stabilization Reserve		(21.4)	10.5	7.9	2.9
Salaries & Benefits Reserve		(0.4)	(0.5)	(0.5)	(0.4)
Litigation Reserve		(0.3)	(0.4)	(0.4)	(0.4)
Subtotal Changes to Appropriations		\$ (6.8)	\$ 10.6	\$ 6.9	\$ 1.5
Net Budgetary Impact of Changes to Reserves		\$ (11.2)	\$ 10.6	\$ 6.9	\$ 1.5

Public Education Enrichment Fund Annual Contribution: The Public Education Enrichment Fund (PEEF) contribution is projected to increase by the percentage increase in the City's aggregate discretionary revenue in FY 2012-13 and FY 2013-14, as prescribed by Charter Section 16.123-2. Note that the FY 2012-13 projected increase of \$22.8 million from the FY 2011-12 budgeted amount of \$44.1 million reflected a decision not to fund the full amount for that year, as allowed by the Charter in budget years when the preceding Joint Report projects a budgetary shortfall of \$100 million or more. This report does not assume a similar reduction for FY 2012-13 or future years.

Baseline and Mandate Requirements: The Charter specifies baseline-funding levels for various programs or functions, including the Municipal Transportation Agency (MUNI and Parking & Traffic), the Library, Public Education, Children's Services, the Human Services Care Fund, and the City Services Auditor. Baseline amounts are generally linked to changes in

discretionary City revenues, though some are a function of Citywide expenditures or base-year program expenditure levels. The revenue and expenditure projections assumed in this report result in increased contributions for Charter-mandated baseline requirements of \$29.0 million in FY 2012-13, \$12.1 million in FY 2013-14, \$9.6 million in FY 2014-15 and \$10.9 million in FY 2015-16. This report assumes that the required expenditure appropriation for the Children's Baseline is exceeded in each year.

Table A-4a: Baseline & Select Mandated Expenditures, Projected Budget

Baselines & Select Mandated Expenditures	Orig. Budget	Projected Budget, \$ Millions				
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	
Municipal Transportation Baseline	\$ 190.7	\$ 209.4	\$ 217.1	\$ 222.5	\$ 229.1	
MTA Transfer In - Lieu of Parking Tax	57.6	\$ 62.1	\$ 64.0	\$ 66.3	\$ 68.2	
Library Preservation Baseline	47.4	\$ 52.1	\$ 54.0	\$ 55.3	\$ 57.0	
Public Education Baseline - Required Appropriation	6.0	\$ 6.6	\$ 6.8	\$ 7.0	\$ 7.2	
Children's Baseline - Required Appropriation	103.2	109.1	113.3	117.4	120.4	
Human Services Care Fund	13.7	13.7	13.7	13.7	13.7	
Controller - City Services Auditor	12.1	12.6	12.7	12.7	12.7	
Total Baselines & Select Mandates	430.7	\$ 465.6	\$ 481.6	\$ 494.9	\$ 508.4	

Table A-4b: Baseline & Select Mandated Expenditures, Change from Prior Year Budget

Baselines & Select Mandated Expenditures	Decrease (Increase) from Prior Year Budget, \$ Millions				
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Municipal Transportation Baseline		\$ (18.7)	\$ (7.7)	\$ (5.4)	\$ (6.7)
MTA Transfer In - Lieu of Parking Tax		(4.6)	(1.9)	(2.2)	(2.0)
Library Preservation Baseline		(4.7)	(1.9)	(1.4)	(1.7)
Public Education Baseline - Required Appropriation		(0.6)	(0.2)	(0.2)	(0.2)
Children's Baseline - Required Appropriation		-	-	-	-
Human Services Care Fund		-	-	-	-
Controller - City Services Auditor		(0.4)	(0.4)	(0.4)	(0.4)
Total Baselines & Select Mandates		\$ (29.0)	\$ (12.1)	\$ (9.6)	\$ (10.9)

Capital, Facilities Maintenance, Equipment, & Technology: General Fund capital and facilities maintenance cost projections are consistent with those outlined in the FY 2012-21 Capital Plan — currently adopted at \$63.6 million for FY 2012-13, an increase of \$20.2 million from the FY 2011-12 budget, then \$68.9 million in FY 2013-14, \$79.2 million in FY 2014-15, and \$95.0 million in FY 2015-16. This report also assumes a level of funding of \$5.0 million in FY 2012-13 for the cash purchase of equipment, an increase of \$3.0 million from the FY 2011-12 budget, and then increasing by CPI in FY 2013-14, FY 2014-15, and FY 2015-16. Technology investments are projected to increase by \$0.4 million in FY 2012-13 followed by increases of \$5.6 million, \$2.4 million, and \$2.2 million over the following 3 years. The relatively small increase in FY 2012-13 is mainly due to an expected use of fund balance by the department of technology in FY 2012-13 that will not be available in future years.

Inflation on Non-Personnel Costs, Contracts and Grants: This projection uses the Consumer Price Index (CPI) to estimate inflation in the cost of materials and supplies, professional services, contracts with Community-Based Organizations, and other non-personnel operating costs. These items are projected to increase by 3.0% (\$26.4 million) in FY 2012-13,

3.3% (\$30.3 million) in FY 2013-14, 3.5% (\$32.8 million) in FY 2014-15, and 3.0% (\$29.0 million) in FY 2015-16.

Debt Service & Lease Financings: Based on current debt repayment requirements and projected debt service costs for investments anticipated in the Capital Plan, as well as an assumed lease-financing program for equipment purchases, total debt service and lease financing costs are projected to increase by \$7.9 million in FY 2012-13 and \$2.6 million in FY 2013-14, followed by a decrease of \$0.2 million in FY 2014-15 and an increase of \$0.5 million in FY 2015-16. This projection does not include debt service related to the Moscone Convention Center, which is reflected in the Convention Facilities Fund subsidy projection discussed below.

Workers' Compensation: Workers' compensation costs are projected to increase by \$0.9 million, \$1.5 million, \$1.6 million, and \$2.7 million in FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16 respectively. These projections are based on FY 2010-11 actuals and year to date FY 2011-12 trends, and using an assumed 4% inflation rate for future years.

Other Citywide Costs: Other citywide costs are expected to increase by \$2.7 million in FY 2012-13, \$1.1 million in FY 2013-14, and \$2.6 million in both FY 2014-15 and FY 2015-16. This category includes changes to departmental utility costs, the removal of one-time expenditures and revenues, and other technical base budget adjustments.

USES –Departmental Costs

Table A-1 displays other departmental cost increases of \$38.2 million, \$67.0 million, \$26.4 million, and savings of \$56.9 million in FY 2011-12, FY 2012-13, and FY 2013-14 respectively.

City Administrator – Convention Facilities Fund Subsidy: This projection assumes a year-over-year cost of \$11.9 million in FY 2012-13 due to the loss of a transfer from the Convention Facilities Fund to the General Fund that was included in the FY 2011-12 budget. The fund is projected to require General Fund contributions of \$5.3 million in FY 2012-13, \$5.8 million in FY 2014-15 and \$0.4 million in FY 2014-15 due to increased debt service and operating costs, partially offset by the use of \$18.0 million in available fund balance over the first two years.

Elections Department – Number of Elections: The number of elections and the associated costs for holding elections changes from year to year. Currently one November presidential election is projected for FY 2012-13, two elections are projected for FY 2013-14 (a November municipal election and a June state primary), and one November gubernatorial election is projected for FY 2014-15, and two elections for FY 2015-16. This schedule results in a projected incremental savings of \$5.0 million in FY 2012-13, followed by a cost of \$5.7 million in FY 2013-14, a savings of \$5.3 million in FY 2014-15 and a cost of \$6.1 million in FY 2015-16.

Ethics Commission – Public Financing of Elections: The Ethics Commission administers the Election Campaign Fund, which provides matching funds to candidates for Mayor and the Board of Supervisors. The total annual cost of the public financing program, including program administration, cannot exceed \$2.75 per year per resident of San Francisco. For FY 2012-13 the contribution to the Fund is projected to be \$1.9 million; a decrease of \$4.2 million from FY 2011-12. The reason for this decrease is the FY 2011-12 restoration of the remaining \$4.2 million in Election Campaign funds used to balance the General Fund in FY 2008-09 and FY 2009-10. Based on population projections, the payment to the fund will increase by less than

\$0.1 million in 2013-14 and future years. Additionally, the Election Campaign Fund projects to have an unspent balance of \$7.3 million at the end of FY 2011-12. This projection is based on actual disbursements for the 2011 Mayoral election and projected disbursements for the 2012 Board of Supervisors election. Legislation changing the rules on the disbursement of public funds and the City's annual required contribution is pending and would change future projections.

Fire Department – Engine 35 Return to Service: This report assumes that Fire Engine 35 is returned to service based on the projected completion of station repairs, resulting in a cost of \$2.5 million in FY 2012-13.

Housing – Affordable Housing and HOPE SF: The City anticipates spending an additional \$6.0 million in FY 2012-13, \$5.9 million in FY 2013-14, \$1.2 million in FY 2014-15 and \$1.0 million in FY 2015-16 on three of the City's Housing Programs. We anticipate contributing more to the Care Fund than mandated to meet the increased needs above the baseline required contribution, restoring HOPE SF to its historic spending level of \$5.0 million per year and contributing additional monies to supportive services in subsidized housing units that are scheduled to be added over the next three years.

Human Services Agency – Aid: The Human Services Agency projects that General Fund Aid expenses will decrease by \$0.4 in FY 2012-13 but increase by \$4.0 million in FY 2013-14, \$4.5 million in FY 2014-15 and \$4.6 million in FY 2015-16. These changes are due primarily to caseload growth for the County Adult Assistance Program (CAAP) and In Home Support Services (IHSS) as well as increased costs for Foster Care resulting from new State service requirements.

Police Department – Multi-Year Hiring Plan and Expiration of COPS Grant Funding: This report assumes the Police Department will conduct three police academy classes of 50 officers in each of the next four fiscal years in order to backfill retiring sworn personnel. Only one class was budgeted in FY 2011-12; the two additional classes in FY 2012-13 result in an additional \$1.4 million cost. An additional \$1.1 million cost is projected in FY 2013-14 to run the three academy classes due to different attrition assumptions. In addition, federal stimulus legislation included Community Oriented Policing Services (COPS) grant funding, which covered the cost of 50 officer positions for three years. In FY 2012-13, funding for these positions begins shifting to the General Fund, resulting in a cost of \$3.1 million, followed by an additional cost of \$3.7 million in FY 2013-14, \$1.4 million in FY 2014-15, and \$0.2 million in FY 2015-16.

Police Department – New Public Safety Building: The Earthquake Safety and Emergency Response (ESER) bond approved by voters in 2010 funded the construction of a new Public Safety Building to house Police command staff and a new police station and fire house for the Mission Bay neighborhood. This facility is expected to open in June 2014, and will require a significant investment in, furniture, fixtures and equipment that are not bond-eligible. This report projects \$9.0 million to be needed for those expenses in both FY 2012-13 and FY 2013-14. Additionally, a \$0.9 million cost is assumed for building engineering services in FY 2013-14, growing to \$5.2 million annually for full building operations beginning in FY 2014-15.

Public Health: The Department of Public Health projects expenditure increases of \$14.9 million in FY 2012-13, \$39.7 million in FY 2013-14, and \$27.7 million in FY 2014-15, followed by savings of \$64.1 million in FY 2015-16. The expenditure changes are summarized below.

Delivery System Reform Incentive Pool (DSRIP)/Medicaid Section 1115 Waiver: In FY 2011-12, DPH budgeted to receive \$39.9 million in incentive payments in order to achieve federally mandated performance milestones as part of Health Care Reform. In FY 2012-13, DPH is expecting an additional \$3.1 million in revenue, offset by \$5.1 million in additional costs as the department invests in expanding capacity across their system of care. DPH projects additional net costs of \$5.2 million in FY 2013-14 and \$2.1 million in FY 2014-15 related to this effort.

Electronic Medical Records Implementation: DPH is undertaking a project to implement electronic medical records in its facilities. The department projects additional net costs of \$4.9 million in FY 2012-13, followed by savings of \$4.3 million in FY 2013-14 and costs of \$0.1 million and \$0.4 million in FY 2014-15 and FY 2015-16, respectively. The declining costs represent a decrease in start-up expenditures and a transition to ongoing costs as the department achieves “Meaningful Use.”

Planning and Equipment for New SF General Hospital: The General Hospital Rebuild project is expected to be completed with occupancy beginning near the end of FY 2014-15. The department will need to purchase new furniture, fixtures, and equipment that are not bond-eligible prior to occupancy. DPH is expecting to use \$2.0 million to plan for the transition to the new facility in FY 2012-13 and is projecting to need \$40 million in FY 2013-14 and \$65 million in FY 2014-15. An additional \$65 million not included in this projection is expected to be paid for through fundraising efforts. DPH will continue to refine the plan for these expenses, including exploring options to finance the expenditures instead of using cash.

Other Costs: DPH is projecting additional cost increases of \$6.1 million in FY 2012-13, \$0.7 million in FY 2013-14, and \$0.5 million in both FY 2014-15 and FY 2015-16. These costs include expenditures related to regulatory changes impacting the Low Income Health Plan (LIHP), operations at the new Laguna Honda Hospital, and other inflationary cost increases.

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