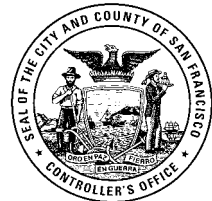


# City and County of San Francisco

Controller, Mayor, Board of Supervisors' Budget Analyst

## **Three-Year Budget Projection for General Fund Supported Operations FY 2009-10 through FY 2011-12**

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



*March 31, 2009*



# City and County of San Francisco

Three-Year Budget Projection for General Fund Supported Operations

March 31, 2009

## Summary

San Francisco Administrative Code Section 3.6 requires a three-year budget report to be issued annually by the Controller, the Mayor’s Budget Director, and the Budget Analyst for the Board of Supervisors. This report provides updated expenditure and revenue projections looking forward to the three budget years of Fiscal Year (FY) 2009-10, FY 2010-11 and FY 2011-12, assuming no changes to current policies and staffing levels.

Table 1 summarizes the projected changes in General Fund Supported revenues and expenditures over the next three years and compares them to the FY 2008-09 Original Budget. As shown in Table 1, this report projects shortfalls of \$438 million in FY 2009-10, \$615 million in FY 2010-11, and \$746 million in FY 2011-12. Details behind these projections are provided in the Appendix.

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

(\$ Millions)

Sources	FY 2008-09			
	Original Budget	FY 2009-10 Projection	FY 2010-11 Projection	FY 2011-12 Projection
Use of prior year fund balance & reserves	\$ 116	53	\$ 25	\$ 25
Regular Revenues & Transfers	3,594	3,371	3,394	3,457
<b>Subtotal - Sources</b>	<b>3,710</b>	<b>3,425</b>	<b>3,419</b>	<b>3,482</b>
<b>Uses</b>				
Salaries & Fringe Benefits	2,000	2,163	2,282	2,393
Other Expenditures, Reserves & Transfers	1,710	1,699	1,752	1,835
<b>Subtotal - Uses</b>	<b>3,710</b>	<b>3,863</b>	<b>4,034</b>	<b>4,228</b>
<b>Projected Surplus/(Shortfall)</b>	<b>\$ -</b>	<b>\$ (438)</b>	<b>\$ (615)</b>	<b>\$ (746)</b>

While the projected shortfalls shown in the above table reflect the difference in projected revenues and expenditures over the next three 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. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

## Key Assumptions

Key assumptions affecting the FY 2009-10 through FY 2011-12 three-year projection are:

- **No major changes to service levels and numbers of employees:** This projection assumes no major changes to policies, service levels, or the number of employees from FY 2008-09 budgeted levels, except for those on-going mid-year reductions announced by the Mayor in August and November 2008. This projection does not include potential savings due to changes proposed in departmental FY 2009-10 budget submissions and layoffs announced in February 2009 to be effective in May 2009.
- **Controller's FY 2008-09 Six-Month Report ending fund balance updated with effects of increased Federal Medical Assistance Percentage (FMAP):** To estimate the fund balance available at the end of FY 2008-09 to support the FY 2009-10 budget, this report uses the \$20.1 million ending fund balance projection from the Controller's February 10, 2009 Six-Month Budget Status Report, updated to include the effects of the Federal Medical Assistance Percentage (FMAP) increase provided as part of the Federal American Recovery and Reinvestment Act (Federal Stimulus Package) passed by Congress in February 2009. FY 2008-09 projections will be updated in the Controller's Nine-Month Budget Status Report in early May 2009.
- **Economic downturn impact on revenues continues through 2009, followed by slow recovery:** For the purpose of projecting tax revenues, this projection assumes that the national recession will continue through late 2009 or early 2010 followed by a prolonged recovery period before reaching pre-recession levels of economic activity. San Francisco entered the recession later than the nation, and is projected to recover later as well.
- **\$18.4 million more in State funding reductions in FY 2009-10 compared to FY 2008-09:** Consistent with the actions of the February 2009 Special Legislative Sessions, this projection assumes net decreased State funding of \$18.4 million for FY 2009-10 compared to FY 2008-09 levels.
- **No change in closed labor agreements and inflationary increase on open labor agreements:** This projection assumes no change to closed collective bargaining agreements, and that all open agreements will include salary increases equal to the Consumer Price Index (CPI) for San Francisco Bay Area wage earners as projected by the California Department of Finance, which is currently 1.7%, 2.7%, and 2.8% for FY 2009-10, FY 2010-11, and FY 2011-12, respectively. To the extent that closed labor agreements are renegotiated to achieve salary and/or benefit cost savings, projected shortfalls will be reduced.
- **Retirement Plan Employer Contributions:** This projection assumes employer pension contributions to the San Francisco Employee Retirement System (SFERS) reflect a consultant scenario provided to the Retirement Board on January 29, 2009, that would accommodate a potential 20% decline in retirement assets in FY 2008-09 followed by 7.75% growth in successive years, along with the impact of voter-approved retirement enhancements that went into effect in January 2009. This scenario shows a rise in SFERS employer contributions from 4.99% (\$67.0 million General Fund) in FY 2008-09 to 9.49% (\$127.4 million) in FY 2009-10, followed by 11.98% (\$160.9 million) and 14.79% (\$198.6 million) in FY 2010-11, and FY 2011-12, respectively. Employer contributions to the California Public Employees' Retirement System (which covers some public safety personnel) are assumed to rise at a similar rate.

- **Inflationary increase on materials and supplies, professional services, and contracts with Community-Based Organizations:** This projection assumes that the cost of materials and supplies, professional services, and contracts with Community-Based Organizations will increase by the CPI rates of 1.7%, 2.7%, and 2.8% for FY 2009-10, FY 2010-11, and FY 2011-12, respectively.
- **Medical Inflation on Health and Dental Insurance:** This projection assumes that the employer cost of health and dental insurance will increase by the CPI for San Francisco Bay Area medical costs as projected by the California Department of Finance, which is currently 5.5%, 4.5%, and 5.1% for FY 2009-10, FY 2010-11, and FY 2011-12, respectively. 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, with additional pre-funding of the future liability related to employees hired on or after January 10, 2009 (in compliance with Charter amendments approved by voters in June 2008). The City's unfunded liability for the benefits accruing to employees hired before January 10, 2009 is estimated at approximately \$4 billion and would require substantial annual contributions above the City's current "pay-as-you-go" level to be considered fully funded on an actuarial basis. The City's Comprehensive Annual Financial Statement for the Year Ending June 30, 2008 reported that the gap between the City's pay-as-you-go funding and an actuarially defined contribution level for General Fund Supported payroll during FY 2007-08 was \$165 million.
- **10-Year Capital Plan and level equipment funding:** This projection assumes that capital projects and facilities maintenance costs will increase by 10% annually based on the FY 2008-09 through FY 2017-18 10-Year Capital Plan. This projection also assumes level equipment funding for the three-year period.
- **No Rainy Day Reserve Withdrawals Assumed:** For years when General Fund revenues decline (as this projection anticipates will happen in FY 2009-10), the Charter allows the City to withdraw up to 50% of the City's Rainy Day Economic Stabilization Reserve. The Reserve balance is currently \$98 million, so the maximum withdrawal potentially available to the City for 2009-10 is currently \$49 million. 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 per-pupil revenues decline. The maximum FY 2009-10 withdrawal for SFUSD would currently be \$24.5 million if per-pupil revenues decline by at least that amount. This report does not assume withdrawals for either party. Should the Mayor and Board of Supervisors choose to withdraw from the Reserve for the City, the FY 2009-10 shortfall would be correspondingly reduced.

### 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:

- **Federal Stimulus Package:** The American Recovery and Reinvestment Act (Federal Stimulus Package) passed by Congress in February 2009 provides for new funding to federal, state and local agencies in a wide variety of programmatic areas. Much of the funds will be for non-General Fund infrastructure projects at the Municipal Transportation Agency, Housing Authority, Airport, and San Francisco Public Utilities Commission. As details are still pending regarding the amount of funds that will be available to San Francisco, aside from the FMAP formula change discussed above, this report makes no other assumptions

regarding additional Federal Stimulus Package-related general fund revenues or expenditures.

- **State Funding:** These projections could be affected by changes in State funding beyond those included in the budget agreement passed by the California legislature in February 2009. On March 13, 2009, State Legislative Analyst's Office issued a report stating that their new estimates showed State revenue falling \$8 billion short of the amounts assumed in the State's 2009-10 budget agreement. This shortfall would rise to \$14 billion if voters do not approve budgetary measures in the special election to be held on May 19, 2009. The local impact of this potential State shortfall is unknown.
- **New Development Projects:** There are several large, proposed projects that will likely result in both new tax revenues and associated costs. This projection makes no assumption regarding the net financial impact of these projects, which include Mission Bay, the Transbay Terminal, Hunter's Point, and the development of Treasure Island.
- **Pending or Proposed Legislation – Potential Fee / Departmental Revenue Increases:** Various fee increases may be proposed to the Board of Supervisors before the end of the year or as part of the FY 2009-10 budget. No increases have been assumed in this projection.
- **Potential New Revenue Proposals and Charter Amendments in Future Elections:** The Board of Supervisors has discussed a range of potential new revenue proposals and Charter amendments that could affect baseline requirements if approved by the voters in future elections. Potential impacts of future elections are not factored into this report.
- **Natural Disasters & Man-Made Disruptions:** As in previous reports, this report does not include any projected costs associated with natural disasters or man-made disruptions.

### **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 2008-09.
- **Mid-June - Controller's Discussion of the Mayor's Fiscal Year 2009-10 Proposed Budget ("Revenue Letter"):** This report provides 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 General Fund Supported Revenues and Expenditures

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

(\$ Millions)		Change from Prior Year Budget		
		FY 2009-10	FY 2010-11	FY 2011-12
<b>SOURCES</b>				
<b>Fund Balances &amp; Reserves</b>				
Increase /	Change in Starting Fund Balances	(36.7)	(22.8)	-
(Decrease)	Changes to Reserves	(24.7)	(5.6)	-
	<i>Subtotal Fund Balance &amp; Prior Year Reserves</i>	<u>(61.4)</u>	<u>(28.4)</u>	<u>-</u>
<b>Revenues &amp; Transfers In</b>				
	Taxes & Other General Fund Supported Revenues	(250.2)	50.5	81.1
	Federal Stimulus Package FMAP Percentage Increase	46.3	(28.1)	(18.3)
	State Budget Funding Changes	(18.4)	-	-
	<i>Subtotal Revenues &amp; Transfers In</i>	<u>(222.3)</u>	<u>22.4</u>	<u>62.9</u>
	<b>TOTAL CHANGES TO SOURCES</b>	<b>(283.7)</b>	<b>(6.0)</b>	<b>62.9</b>
<b>USES</b>				
<b>Salaries &amp; Benefits</b>				
Decrease /	Annualization of Partial Year Positions	(9.2)	-	-
(Increase)	Prior Year COLA Annualization & Closed Labor Agreements	(76.3)	(34.4)	-
	Projected Costs on Open Labor Agreements	(1.5)	(31.8)	(48.2)
	Health & Dental Benefits	(13.2)	(16.3)	(17.3)
	Retirement Benefits - Employer Contribution Rates	(61.0)	(35.6)	(40.2)
	Other Misc. Costs (Social Security, Unemployment, Work Days)	(2.4)	(0.9)	(4.5)
	<i>Subtotal Salaries &amp; Benefits</i>	<u>(163.7)</u>	<u>(119.0)</u>	<u>(110.3)</u>
<b>Citywide Operating Budget Costs</b>				
	Public Education Enrichment Fund	(28.0)	(1.9)	(1.9)
	Baseline & Mandate Requirements (MTA, Library, Children)	24.9	(5.9)	(13.2)
	Base Budget Adjustments	(14.3)	-	-
	Annualization of Aug. & Nov. Prior Year Mid-Year Reductions	87.9	-	-
	Capital, Facilities Maintenance, Equipment, & Technology	(18.5)	(6.7)	(7.3)
	Materials, Supplies, and Contracts	(13.5)	(20.6)	(21.4)
	Debt Service & Lease Financings	3.2	(1.6)	(0.8)
	Project eMerge (Payroll & Human Resources Information System)	(1.2)	4.6	-
	Utilities	(1.4)	(1.1)	(1.0)
	Workers' Compensation	0.6	(1.6)	(1.3)
<b>Departmental Costs</b>				
	Academy of Science - Aquarium Operating Costs	(1.3)	-	-
	City Administrator - Convention Facilities Fund Subsidy	2.9	(2.8)	0.0
	Court Facilities Payments (Superior Court and Public Works)	(0.6)	-	-
	Elections - Number of Elections	(3.6)	2.9	(8.9)
	HOPE SF - Public Housing & Affordable Housing	(3.0)	-	-
	Human Resources - Collective Bargaining Expenses	(0.8)	0.7	(0.7)
	Human Services - Aid	(6.6)	(9.5)	(10.2)
	Human Services - Supportive Housing Services for Pipeline Units	(2.2)	(2.9)	(6.1)
	Police - Crime Lab & Tactical Unit Rent	(1.4)	(10.2)	(10.2)
	Police - Maintenance of Effort for COPS Grant-Funded Positions	(1.2)	-	-
	Public Health - Chambers Settlement Scattered Site Housing	(0.7)	(1.2)	(1.0)
	Public Health - Laguna Honda Laundry Contract	(2.1)	-	-
	Public Health - Laguna Honda New Facility Operating Costs	(1.0)	(0.5)	-
	Recreation & Park - Golf Fund Subsidy	(2.2)	(0.1)	0.4
	Superior Court and Public Defender – Indigent Defense	(1.1)	3.0	-
	Technology - Public Education & Government Funding	(0.6)	-	-
	Technology - Security	(4.9)	3.1	-
		<u>9.3</u>	<u>(52.3)</u>	<u>(83.7)</u>
	<b>TOTAL CHANGES TO USES</b>	<b>(154.4)</b>	<b>(171.2)</b>	<b>(194.0)</b>
	<b>Projected Surplus / (Shortfall) vs. Prior Year</b>	<b>(438.1)</b>	<b>(177.2)</b>	<b>(131.1)</b>
	<b>Cumulative Projected Surplus/(Shortfall)</b>	<b>(438.1)</b>	<b>(615.3)</b>	<b>(746.4)</b>

## **Notes to Table A-1**

### ***SOURCES - Fund Balances & Reserves***

**Change in Starting Fund Balances:** This report projects a loss in General Fund Supported starting fund balances of \$36.7 million in FY 2009-10 and \$22.8 million in FY 2010-11. Key changes in fund balances are summarized below:

**Loss of prior year General Fund Supported fund balances:** This represents the loss of \$84.5 million in prior year General Fund Supported fund balances used to support the FY 2008-09 budget that is not available in FY 2009-10.

**Gain of FY 2009-10 starting General Fund Supported balances:** This report projects a gain of the \$20.1 million from the balance at the end of FY 2008-09 from mid-year savings, as projected in the Controller's Six-Month Budget Status Report.

**Increased FY 2009-10 starting General Fund Supported balance from FY 2008-09 Federal Stimulus FMAP:** This report assumes that the City will gain \$34.0 million available fund balance to support the FY 2009-10 budget as a result of formula changes to the Federal Medical Assistance Percentage (FMAP) in the American Recovery and Reinvestment Act (Federal Stimulus Package). This funding reimburses State and local governments for Medi-Cal and other service expenditures. The addition of the FY 2008-09 FMAP revenues means that the City will no longer meet the threshold to withdraw \$6.3 million from the Rainy Day Reserve in FY 2008-09 as projected in the Controller's Six-Month Budget Status Report. This results in a net \$27.7 million addition to the FY 2009-10 starting General Fund balance compared to the Controller's Six-Month Budget Status Report, for a total of \$47.8 million. Additional stimulus-related FMAP funding projected to be received in FY 2009-10 and 2010-11 is reflected in the "General Taxes and Other Revenues" section below. Starting fund balance in 2009-10 is expected to drop by \$22.8 million down to a base assumption of \$25 million left available from the prior year, with no change projected for FY 2011-12.

**Changes to Reserves:** The net projected available reserves are estimated to decline by \$24.7 million in FY 2009-10 and \$5.6 million in FY 2010-11. Key changes to reserves are summarized below.

**Salary & Benefits Reserve Appropriation:** This report projects an additional need of \$12.8 million in the Salary and Benefits reserve to support the FY 2009-10 budget. This reserve provides a source to pay for additional costs related to employee collective bargaining agreements. In FY 2008-09, the reserve was supported by \$12.8 million of prior year funds, plus \$1.6 million of new funds budgeted in FY 2008-09, for a total of \$14.4 million. This report assumes the reserve will be fully used in FY 2008-09 so that there will be no prior year funds available, requiring an extra \$12.8 million to be appropriated in the FY 2009-10 budget to match FY 2008-09 levels.

**General Reserve:** Longstanding City practice has been to fund a \$25.0 million General Reserve. In FY 2008-09, late changes to the final budget caused the General Reserve to be reduced to \$20.1 million. This report assumes that the FY 2009-10 appropriation to the reserve will revert to the historical \$25.0 million level, requiring a \$4.9 million increase over the prior year appropriation.

**Citywide Budget Savings Incentive Reserve:** The Controller's Six-Month Budget Status Report projected \$0.4 million available in the Citywide Budget Savings Incentive Reserve as a budgetary source for FY 2009-10. This represents a decline of \$7.5 million compared to the \$7.9 million that was available to support the FY 2008-09 budget.

**Recreation & Park Reserve:** The Controller's Six-Month Budget Status Report projected \$5.2 million of available Recreation & Park Budget Savings Incentive Reserves to support the FY 2009-10 budget, representing an increase of \$2.2 million compared to the \$3.0 million used to support the FY 2008-09 budget.

**Children's Baseline Prior Year Reserve:** This report projects that no Children's Baseline prior year reserve will support the FY 2009-10 budget, which represents a decline of \$1.5 million compared to the amount that supported the FY 2008-09 budget.

**Rainy Day Reserve – One-time Account:** This report projects that no funds will be available to support the FY 2009-10 budget, which represents a decline of \$0.2 million compared to the funds used in FY 2008-09.

**Table A-2a: Reserve Withdrawal & Appropriation Amounts**

	Orig. Budget		Projected Budget, \$ Millions			
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12		
<b>Reserve Withdrawals Used to Support Budget</b>						
Citywide Budget Savings Incentive Reserve (BSIR)	\$ 7.9	\$ 0.4	\$ -	\$ -	\$ -	\$ -
Recreation & Park Reserve	3.0	5.2	-	-	-	-
Children's Baseline Prior Year Reserve	1.5	-	-	-	-	-
Rainy Day Reserve One-Time Account	0.2	-	-	-	-	-
<b>Total Withdrawals</b>	<b>\$ 12.6</b>	<b>\$ 5.6</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Appropriations to Reserves</b>						
Salaries & Benefits Reserve	\$ 1.6	\$ 14.4	\$ 14.4	\$ 14.4	\$ 14.4	\$ 14.4
General Reserve	20.1	25.0	25.0	25.0	25.0	25.0
<b>Total Appropriations</b>	<b>\$ 21.7</b>	<b>\$ 39.4</b>	<b>\$ 39.4</b>	<b>\$ 39.4</b>	<b>\$ 39.4</b>	<b>\$ 39.4</b>

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

	Change from Prior Year Budget, \$ Millions			
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
<b>Increase (Decrease) in Reserve Withdrawals Used to Support Budget</b>				
Citywide Budget Savings Incentive Reserve (BSIR)		\$ (7.5)	\$ (0.4)	\$ -
Recreation & Park Reserve		2.2	(5.2)	-
Children's Baseline Prior Year Reserve		(1.5)	-	-
Rainy Day Reserve One-Time Account		(0.2)	-	-
<b>Subtotal Changes to Withdrawals</b>		<b>\$ (7.0)</b>	<b>\$ (5.6)</b>	<b>\$ -</b>
<b>Decrease (Increase) in Appropriations to Reserves</b>				
Salaries & Benefits Reserve		\$ (12.8)	\$ -	\$ -
General Reserve		(4.9)	-	-
<b>Subtotal Changes to Appropriations</b>		<b>\$ (17.7)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Budgetary Impact of Changes to Reserves</b>		<b>\$ (24.7)</b>	<b>\$ (5.6)</b>	<b>\$ -</b>



## ***SOURCES – Revenues and Transfers In***

### **General Context Underlying Revenue Estimates**

Our projections assume that the national recession will continue through late 2009 or early 2010 followed by a slow recovery before activity returns to pre-recessionary levels. San Francisco entered the recession later than the nation, and is projected to recover later as well.

Employment, a key lagging indicator, is projected to remain relatively flat in 2010 and begin slow but sustained growth in 2011. The effect of employment declines on payroll tax revenues will be disproportionately felt in FY 2009-10 because of the payroll tax payment schedule.

To date, San Francisco has experienced less of a decline in sales tax and other local revenues than other jurisdictions in California and the Bay Area, in part because it did not have the same level of housing construction-related expansion, and its recession has been generally less severe. San Francisco's unemployment rate, for example, remains more than two percentage points below the State's rate. Real property transaction levels and transfer taxes have fallen sharply and are projected to remain at levels experienced before the extraordinary boom in commercial transactions from 2005 to 2007.

The residential portion of the property tax base will likely remain stable in San Francisco, due to relatively low annual turnover and the Proposition 13 limits on annual property tax increases. Even after recent declines, market prices for residential properties still exceed most residential properties' assessed valuations.

In contrast, a significant percentage of the commercial property tax base changed hands and was reassessed in recent years, contributing to a substantial rise in associated property tax receipts that are at risk if market values decline.

Considering the mix of factors affecting property tax collections, we project that receipts will not decline in absolute terms, but will grow at a rate closer to 1% annually, which is substantially slower than the 11% average annual growth rates in property tax collections experienced during the decade from FY 1998-99 to FY 2007-08.

Revenues from State Sales Tax and Vehicle License Fees that are allocated to local governments for public safety, health, and social services are declining much more rapidly in the current year, and future growth will be off of this reduced base.

Looking further into the future, the Bay Area's comparative advantages, including a highly educated workforce, research institutions, access to venture capital, and continued appeal as a tourist destination, position it well for recovery. The speed of this recovery will depend heavily on the stabilization of financial markets and changes in international business activity and tourism.

Tables A-3a and A-3b summarize Revenue and Transfer-In sources for the three-year projection. Highlights are noted below.

**Taxes & Other General Fund Supported Revenues:** Taxes and Other General Fund Supported revenues are projected to decrease by \$250.2 million in FY 2009-10 from FY 2008-09 original budget levels, followed by increases of \$50.0 million and \$81.6 million in FY 2010-11 and FY 2011-12, respectively. Significant changes are discussed below:

**Local General Fund Tax Revenues:** This group of locally generated revenues are projected to decrease \$92.8 million in FY 2009-10 from FY 2008-09 Original Budget

levels, followed by increases of \$40.2 million and \$69.1 million in FY 2010-11 and FY 2011-12, respectively. The decrease in FY 2009-10 is primarily due to falling Business Tax, Hotel Room Tax, and Real Property Transfer Tax revenue.

**Health & Welfare Realignment revenues:** This report projects a \$7.0 million reduction in FY 2009-10 and increases of \$1.2 million and \$1.7 million in FY 2010-11 and FY 2011-12, respectively, of Health and Welfare Realignment Sales Tax and Vehicle License Fee revenues that are deposited into the San Francisco General Hospital Fund.

**Other General Fund Supported loss of one-time funding:** This report displays a loss in FY 2009-10 of \$2.0 million one-time funding used in FY 2008-09 to support Public Health's Supportive Housing program.

**Human Services State and Federal reimbursements:** The Human Services Agency is projected to have departmental revenue growth of \$2.2 million in FY 2009-10, \$2.3 million in FY 2010-11, and \$0.9 million in FY 2011-12 due to increased Federal and State reimbursement for aid programs, primarily In-Home Supportive Services. The associated General Fund expenditure increases are included in the uses section below.

**Federal Stimulus Package FMAP Percentage Increase:** This report assumes that the Department of Public Health and the Human Services Agency will receive increased Federal Medical Assistance Percentage (FMAP) funding provided as part of the American Recovery and Reinvestment Act (Federal Stimulus Package). This funding reimburses State and local governments for Medi-Cal and other service expenditures. The increased percentage in the Federal Stimulus Package is retroactively effective to October 2008 and continues for 27 months, through December 2010. The FY 2008-09 effect is factored into the expected beginning fund balance for FY 2009-10. This report estimates an additional \$46.3 million of revenues in FY 2009-10, dropping by \$28.1 million in FY 2010-11, and by \$18.3 million in FY 2011-12.

The City expects to receive additional revenues from other Federal Stimulus Package programs, but aside from the FMAP formula change, much of the funds will be for non-General Fund infrastructure projects at the Municipal Transportation Agency, Housing Authority, Airport, and San Francisco Public Utilities Commission. As details are still pending regarding funding for other programs, this report makes no other assumptions as to additional Federal Stimulus Package-related revenues or expenditures.

**State Budget Funding Changes:** Consistent with the actions of the February 2009 State's Special Legislative Sessions, this projection includes proposed net decreased funding of \$18.4 for FY 2009-2010.

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

Note: excludes Federal Stimulus Package and future State budget impacts

	FY 2007-08	FY 2007-08	FY 2008-09	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
	Original	Year-End	Original	6-Month	Projection	Projection	Projection
	Budget	Actuals	Budget	Projection	Projection	Projection	Projection
Property Taxes	\$ 934.7	\$ 943.5	\$ 1,018.9	\$ 1,014.8	\$ 1,026.6	\$ 1,047.1	\$ 1,073.3
Business Taxes	359.7	394.3	394.6	404.9	368.8	376.2	405.9
Sales Tax	111.5	111.4	119.3	106.3	102.0	104.8	107.9
Hotel Room Tax	148.9	165.5	188.7	148.9	134.5	138.5	142.7
Utility Users Tax	80.2	87.0	82.8	87.8	86.1	87.8	89.6
Parking Tax	64.8	67.3	65.4	65.3	64.0	64.9	66.2
Real Property Transfer Tax	123.5	86.2	94.3	44.8	47.1	49.4	51.9
Stadium Admission Tax	3.0	2.4	2.5	2.2	2.2	2.2	2.2
Access Line Tax	-	-	-	10.7	42.4	42.8	43.2
<b>Subtotal - Local Tax Revenues</b>	<b>1,826.4</b>	<b>1,857.6</b>	<b>1,966.4</b>	<b>1,885.8</b>	<b>1,873.6</b>	<b>1,913.8</b>	<b>1,982.9</b>
Licenses, Permits & Franchises	22.1	23.2	25.0	24.9	24.8	24.8	25.8
Fines, Forfeitures & Penalties	3.9	8.4	3.9	3.7	3.7	3.7	3.7
Interest & Investment Income	35.5	31.2	21.4	12.5	11.8	12.0	12.4
Rents & Concessions	19.8	20.1	21.1	20.6	20.6	21.0	21.5
<b>Subtotal - Licenses ... Concessions</b>	<b>81.3</b>	<b>82.9</b>	<b>71.4</b>	<b>61.8</b>	<b>60.9</b>	<b>61.6</b>	<b>63.4</b>
Federal Subventions	214.1	182.1	206.4	204.3	204.3	204.3	204.3
State Subventions							
Social Service Subventions	133.8	140.7	135.2	132.2	132.2	132.2	132.2
Health & Welfare Realignment - Sales Tax	117.2	115.3	117.2	104.9	102.8	105.4	108.5
Health & Welfare Realignment - VLF	53.0	51.3	53.0	48.5	47.1	48.0	49.4
Health/Mental Health Subventions	81.9	79.0	88.1	84.7	84.7	84.7	84.7
Public Safety Sales Tax	73.3	69.7	73.8	66.6	66.6	67.2	68.1
Motor Vehicle In-Lieu (County & City)	5.3	3.5	5.0	2.1	1.9	2.0	2.0
Other Grants & Subventions	29.7	33.7	15.3	17.1	14.0	14.0	14.0
<b>Subtotal - State Subventions</b>	<b>494.2</b>	<b>493.2</b>	<b>487.5</b>	<b>456.1</b>	<b>449.2</b>	<b>453.4</b>	<b>458.9</b>
Charges for Services							
General Government Service Charges	31.7	30.2	35.7	33.8	33.8	34.1	34.5
Public Safety Service Charges	27.0	24.9	26.8	24.6	24.6	24.9	25.1
Recreation Charges - Rec/Park	7.5	8.1	7.4	7.9	7.9	8.0	8.1
MediCal, MediCare & Health Svc. Chgs.	51.3	55.1	53.0	52.2	52.2	52.7	53.8
Other Service Charges	10.9	7.9	11.9	11.9	11.9	11.9	11.9
<b>Subtotal - Charges for Services</b>	<b>128.4</b>	<b>126.1</b>	<b>134.9</b>	<b>130.5</b>	<b>130.5</b>	<b>131.7</b>	<b>133.4</b>
Recoveries of General Government Costs	8.7	9.5	12.8	12.8	8.3	8.6	8.9
Other General Fund Revenues	16.1	9.9	13.2	15.0	15.0	15.0	15.0
<b>TOTAL REVENUES</b>	<b>2,769.2</b>	<b>2,761.3</b>	<b>2,892.6</b>	<b>2,766.2</b>	<b>2,741.8</b>	<b>2,788.3</b>	<b>2,866.6</b>
<b>TRANSFERS INTO GENERAL FUND:</b>							
Airport	23.7	25.9	26.4	25.7	25.5	25.5	26.3
Other Transfers	38.6	42.9	91.8	91.9	42.9	42.9	42.9
<b>Total Transfers-In</b>	<b>62.3</b>	<b>68.9</b>	<b>118.2</b>	<b>117.7</b>	<b>68.4</b>	<b>68.4</b>	<b>69.2</b>
<b>TOTAL GF Revenues &amp; Transfers In</b>	<b>2,831.5</b>	<b>2,830.2</b>	<b>3,010.8</b>	<b>2,883.9</b>	<b>2,810.2</b>	<b>2,856.7</b>	<b>2,935.8</b>
<b>GF SUPPORTED (GFS) OPERATIONS , net</b>	<b>639.5</b>	<b>658.4</b>	<b>674.0</b>	<b>657.4</b>	<b>624.4</b>	<b>627.8</b>	<b>630.3</b>
<b>TOTAL GFS Revenues &amp; Transfers In, net</b>	<b>\$ 3,471.0</b>	<b>\$ 3,488.5</b>	<b>\$ 3,684.8</b>	<b>\$ 3,541.3</b>	<b>\$ 3,434.5</b>	<b>\$ 3,484.5</b>	<b>\$ 3,566.2</b>
<i>\$ Change from PY Budget</i>	<i>277.8</i>	<i>295.3</i>	<i>213.7</i>	<i>70.2</i>	<i>(250.2)</i>	<i>50.0</i>	<i>81.6</i>

Table A-3b: Growth Factors for General Fund Supported Sources (\$ Millions)

	FY 2009-10		FY 2010-11	FY 2011-12
	% Chg from FY 2008-09 AAO Original Budget	% Chg from FY 2008-09 6-Month Projection	% Chg from FY 2009-10 Projection	% Chg from FY 2010-11 Projection
Property Taxes	0.8%	1.2%	2.0%	2.5%
Business Taxes	-6.5%	-8.9%	2.0%	7.9%
Sales Tax	-14.5%	-4.0%	2.7%	3.0%
Hotel Room Tax	-28.7%	-9.7%	3.0%	3.0%
Utility Users Tax	4.0%	-2.0%	2.0%	2.0%
Parking Tax	-2.2%	-2.0%	1.5%	2.0%
Real Property Transfer Tax	-50.1%	5.0%	5.0%	5.0%
Stadium Admission Tax	-11.3%	0.0%	1.0%	1.0%
Access Line Tax	N/A	N/A	1.0%	1.0%
<b>Subtotal - Tax Revenues</b>	<b>-4.7%</b>	<b>-0.6%</b>	<b>2.1%</b>	<b>3.6%</b>
Licenses, Permits & Franchises	-1.0%	-0.6%	0.0%	4.0%
Fines, Forfeitures & Penalties	-3.1%	0.0%	0.0%	0.0%
Interest & Investment Income	-44.9%	-5.6%	2.0%	3.0%
Rents & Concessions	-2.3%	0.0%	2.0%	2.0%
<b>Subtotal - Licenses ... Concessions</b>	<b>-14.6%</b>	<b>-1.4%</b>	<b>1.1%</b>	<b>2.9%</b>
<b>Federal Subventions</b>	<b>-1.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>State Subventions</b>				
Social Service Subventions	-2.2%	0.0%	0.0%	0.0%
Health & Welfare Realignment - Sales Tax	-12.3%	-2.0%	2.5%	3.0%
Health & Welfare Realignment - VLF	-11.2%	-3.0%	2.0%	3.0%
Health/Mental Health Subventions	-3.9%	0.0%	0.0%	0.0%
Public Safety Sales Tax	-9.8%	0.0%	1.0%	1.3%
Motor Vehicle In-Lieu (County & City)	-60.7%	-8.0%	2.0%	2.0%
Other Grants & Subventions	-8.7%	-18.5%	0.0%	0.0%
<b>Subtotal - State Subventions</b>	<b>-7.9%</b>	<b>-1.5%</b>	<b>0.9%</b>	<b>1.2%</b>
<b>Charges for Services</b>				
General Government Service Charges	-5.4%	0.0%	1.0%	1.0%
Public Safety Service Charges	-8.1%	0.0%	1.0%	1.0%
Recreation Charges - Rec/Park	6.6%	0.0%	1.0%	1.0%
MediCal, MediCare & Health Svc. Chgs.	-1.5%	0.0%	1.0%	2.0%
Other Service Charges	0.0%	0.0%	0.0%	0.0%
<b>Subtotal - Charges for Services</b>	<b>-3.3%</b>	<b>0.0%</b>	<b>0.9%</b>	<b>1.3%</b>
<b>Recoveries of General Government Costs</b>	<b>-35.0%</b>	<b>-35.0%</b>	<b>3.0%</b>	<b>3.0%</b>
<b>Other Revenues</b>	<b>13.5%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>TOTAL REVENUES</b>	<b>-5.2%</b>	<b>-0.9%</b>	<b>1.7%</b>	<b>2.8%</b>
<b>TRANSFERS INTO GENERAL FUND:</b>				
Airport	-3.6%	-1.0%	0.3%	3.0%
Other Transfers	-53.3%	-53.3%	0.0%	0.0%
<b>Total Transfers-In</b>	<b>-42.2%</b>	<b>-41.9%</b>	<b>0.1%</b>	<b>1.1%</b>
<b>TOTAL GF Revenues &amp; Transfers In</b>	<b>-6.7%</b>	<b>-2.6%</b>	<b>1.7%</b>	<b>2.8%</b>
<b>OTHER GENERAL FUND SUPPORTED (GFS) OPERATIONS, net</b>	<b>-7.4%</b>	<b>-5.0%</b>	<b>0.6%</b>	<b>0.4%</b>
<b>TOTAL GFS Revenues &amp; Transfers In, net</b>	<b>-6.8%</b>	<b>-3.0%</b>	<b>1.5%</b>	<b>2.3%</b>

## **USES – Salaries and Benefits**

This report projects General Fund Supported salaries and fringe benefits to increase by \$163.7 million in FY 2009-10, \$119.0 million in FY 2010-11, and \$110.3 million in FY 2011-12. 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 2009-10, the City will incur \$9.2 million of additional costs to annualize positions funded for only a partial year in the FY 2008-09 budget. Most of the positions were funded for only three-quarters of a year in FY 2008-09 and annualizing these positions would fund them for a full year.

**Prior Year COLA Annualization & Closed Labor Agreements:** The annualization of prior year COLA increases and negotiated salary increases as outlined in each collective bargaining agreement results in additional salary and benefit costs of \$76.3 million for FY 2009-10 and \$34.4 million for FY 2010-11.

**Projected Costs on Open Labor Agreements:** The additional salary and benefit costs for open collective bargaining agreements are projected to be \$1.5 million for FY 2009-10, \$31.8 million for FY 2010-11, and \$48.2 million for FY 2011-12. Most of the agreements will expire by the end of FY 2009-10. To project the cost of anticipated salary increases, we assume that these bargaining units receive salary increases equivalent to the Consumer Price Index (CPI) projected by the California Department of Finance for the San Francisco Bay Area. We also assume market wage adjustments where applicable. The CPI increase is projected to be 2.7% for FY 2010-11 and 2.8% for FY 2011-12.

**Health and Dental Benefits:** Total health and dental benefit costs are projected to increase by \$13.2 million, \$16.3 million and \$17.3 million in FY 2009-10, FY 2010-11, and FY 2011-12, respectively. This is comprised of both current employee and retiree health subsidy costs, as follows:

**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 7.3% increase (going from \$418.80 to \$449.37 per month) in the Charter-required contribution from FY 2008-09 to FY 2009-10. Given this increase as well as other projected changes in plan utilization and negotiated benefit provisions, costs related to current employees are projected to increase by 5.1%, or \$9.0 million. For FY 2010-11 and FY 2011-12, this report assumes that health and dental benefits for current employees will increase by the Consumer Price Index (CPI) projected by the California Department of Finance for San Francisco Bay Area medical costs. As a result, this report projects health and dental benefits will increase by \$8.5 million and \$9.8 million in FY 2010-11 and FY 2011-12, respectively.

**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 \$4.2 million, \$7.8 million, and \$7.5 million for FY 2009-10, FY 2010-11, and FY 2011-12, respectively. The projections for FY 2010-11 and FY 2011-12 are based on projected actuarial cost increases of 11.6% and 10.0%. Not included in these figures are the City's unfunded liability for the benefits accruing to employees hired before January 10, 2009, which is currently estimated at approximately \$4 billion and which

would require substantial annual contributions above the City's current "pay-as-you-go" level to be considered fully funded on an actuarial basis. The City's Comprehensive Annual Financial Statement for the Year Ending June 30, 2008 reported that the gap between the City's pay-as-you-go funding and an actuarially defined contribution level for General Fund Supported payroll during FY 2007-08 was \$165 million.

**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. This results in total General Fund Supported employer contributions into SFERS and CalPERS increasing from \$82.4 million in FY 2008-09 to \$143.3 million in FY 2009-10, \$179.0 million in FY 2010-11, and \$219.2 million in FY 2011-12. This is comprised of contributions into CalPERS and SFERS as follows:

**SFERS Contribution Rate Changes – Employer-Share:** Employer-share contribution rates are set to increase from 4.99% in FY 2008-09 to 9.49% in FY 2009-10 for covered City employees, as adopted by the Retirement Board on January 13, 2009. Required employer-share rates included in our projection are based on the San Francisco Employees' Retirement System's (SFERS) actuarial valuation as of July 1, 2008 (published in January 2009). This projection assumes required employer-share contribution rates of 12.0% in FY 2010-11 and 14.8% in FY 2011-12 as estimated by the Retirement System, resulting in additional retirement contribution costs of \$60.4 million for FY 2009-10, \$33.4 million for FY 2010-11, and \$37.7 million for FY 2011-12.

**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 17.480% in FY 2008-09 to 18.125% in FY 2009-10. For FY 2010-11 and FY 2011-12, this projection assumes that the CalPERS employer contribution rate will increase by the same percentages as the SFERS rate, described above. These contribution rate assumptions result in additional pension costs of \$0.6 million in FY 2009-10, \$2.2 million in FY 2010-11, and \$2.5 million in FY 2011-12.

#### **Other Miscellaneous Benefits Costs**

**Change in Work Days:** Most fiscal years consist of 261 workdays for regularly scheduled shifts. FY 2011-12 has a leap year, which will increase costs for 24/7 operations, resulting in \$3.6 million in additional salary and benefit costs.

**Unemployment Insurance:** We project a 0.1% increase in the unemployment insurance contribution rate for FY 2009-10, resulting in increased costs of \$1.6 million. No changes are anticipated in unemployment costs for FY 2010-11 or FY 2011-12.

**Social Security:** Each year the Federal government increases the base on which Social Security taxes are paid, increasing both employee and employer costs. Our projection includes \$0.8 million, \$0.9 million, and \$1.0 million of additional costs due to Social Security taxes in FY 2009-10, FY 2010-11, and FY 2011-12, respectively.

## USES –Citywide and Departmental Operating Costs

Table A-1 (page 5) displays other non-salary expenditure savings of \$9.3 million in FY 2009-10 and cost increases of \$52.0 million and \$83.4 million in FY 2010-11 and FY 2011-12, respectively.

**Public Education Enrichment Fund:** The Public Education Enrichment Fund (PEEF) contribution is projected to increase by \$28.0 million from \$32.0 million in FY 2008-09 to \$60.0 million in FY 2009-10, as prescribed by Charter Section 16.123-2, and to increase by the percentage increase in the City’s aggregate discretionary revenue in FY 2010-11 and FY 2011-12. Note that the FY 2008-09 budgeted amount of \$32.0 million reflected a decision not to fund the full \$45.0 million due for that year, as allowed by the Charter in budget years when the preceding Controller/Mayor’s Office/Board of Supervisors’ Budget Analyst Joint Report projects a budgetary shortfall of \$100 million or more. This report does not assume a similar reduction for FY 2009-10 or future years.

**Baseline and Mandate Requirements:** The Charter specifies baseline-funding levels for various programs or functions, including Public Education, the Municipal Transportation Agency (MUNI and Parking & Traffic), the Library, 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 a decreased contribution related to Charter-mandated baseline requirements of \$24.9 million in FY 2009-10, and projected increases of \$5.9 million and \$13.2 million in FY 2010-11 and FY 2011-12, respectively. Details of changes in baseline requirements and select mandated expenditures included in this report are provided in the following tables:

**Table A-4a: Baseline & Select Mandated Expenditures, Projected Budget (updated 4/9/09)**

Baselines & Select Mandated Expenditures	Orig. Budget		Projected Budget, \$ Millions	
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Public Education Baseline	\$ 6.0	\$ 5.6	\$ 5.7	\$ 5.9
Municipal Transportation Baseline	195.7	176.4	179.0	185.5
MTA Transfer In - Lieu of Parking Tax	52.3	51.2	51.9	53.0
Library Preservation Baseline	46.3	41.8	42.4	43.9
Children’s Baseline - Required Appropriation	106.3	95.9	97.3	100.9
Human Services Care Fund	13.6	13.7	13.7	13.7
Controller - City Services Auditor	11.7	11.9	12.3	12.7
<b>Total Baselines &amp; Select Mandates</b>	<b>431.8</b>	<b>\$ 396.5</b>	<b>\$ 402.4</b>	<b>\$ 415.5</b>

**Table A-4b: Baseline & Select Mandated Expenditures, Change from Prior Year Budget (updated 4/9/09)**

Baselines & Select Mandated Expenditures	Decrease (Increase) from Prior Year Budget, \$ Millions			
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Public Education Baseline		\$ 0.4	\$ (0.1)	\$ (0.2)
Municipal Transportation Baseline		19.3	(2.6)	(6.5)
MTA Transfer In - Lieu of Parking Tax		1.1	(0.8)	(1.0)
Library Preservation Baseline		4.5	(0.6)	(1.5)
Children’s Baseline Minimum Required Appropriation		10.4	(1.4)	(3.5)
Human Services Care Fund		(0.1)	-	-
Controller - City Services Auditor		(0.3)	(0.3)	(0.4)
<b>Total Baselines &amp; Select Mandates</b>		<b>\$ 35.3</b>	<b>\$ (5.9)</b>	<b>\$ (13.2)</b>
Additional funding for Children’s Baseline activities above minimum requirement at current service levels		(10.4)	-	-
<b>Net Effect Baselines &amp; Select Mandates</b>		<b>\$ 24.9</b>	<b>\$ (5.9)</b>	<b>\$ (13.2)</b>

**Base Budget Adjustments:** The effect of all base budget changes is a net increased cost of \$14.3 million in FY 2009-10. Adjustments to the Base Budget include the elimination of one-time costs in the prior year, the annualization of ongoing non-personnel costs, decreases in work order recoveries for Project eMerge (the human resources information system) from several non-General Fund departments to reflect prior year's prepayment, and one-time revenue loss associated with reduced inpatient census at Laguna Honda Hospital.

**Annualization of August and November Prior Year Mid-Year Reductions:** This report projects \$87.9 million of savings annualized in the FY 2009-10 budget as a result of the Mayor's August and November Mid-Year Reductions in FY 2008-09.

**Capital, Facilities Maintenance, Equipment, & Technology:** Capital and facilities maintenance cost projections are consistent with those outlined in the FY 2009-18 Capital Plan — currently proposed at \$66.6 million for FY 2009-10, then growing by 10% in each subsequent year. This report also assumes level funding of \$7.9 million over the next three years for the cash purchase of technology and equipment, as well as an annual equipment lease purchase program discussed in the Debt Service & Lease Financing section below.

**Materials, Supplies, and Contracts:** This projection uses the Consumer Price Index (CPI) projections from the California Department of Finance for the San Francisco Bay Area to estimate inflation projections for the cost of materials and supplies, professional services, and contracts with Community-Based Organizations. These items are projected to increase from a base of \$777.9 million in the FY 2008-09 budget by 1.7% (\$13.5 million) in FY 2009-10, 2.7% (\$20.6 million) in FY 2010-11, and 2.8% (\$21.4 million) in FY 2011-12.

**Debt Service & Lease Financings:** Based on current debt repayment requirements as well as an assumed lease-financing program for equipment purchases (ranging between \$11.0 million and \$11.9 million per year over the three-year projection period), total debt service and lease financing costs are projected to decrease by \$3.2 million in FY 2009-10, then increase by \$1.6 million in FY 2010-11, and \$0.8 million in FY 2011-12. 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.

**Project eMerge:** Costs related to implementation of the City's new payroll and human resources information system (Project eMerge) are projected to increase by \$1.2 million in FY 2009-10 (from a General Fund Supported base of \$7.4 million in FY 2008-09). While the project is expected to be completed by the end of FY 2009-10, ongoing system maintenance and support costs of \$4.0 million result in incremental savings of \$4.6 million in FY 2010-11.

**Utilities:** This report projects the cost of utilities to increase by \$1.4 million, \$1.1 million, and \$1.0 million in FY 2009-10, FY 2010-11, and FY 2011-12, respectively. Costs related to electricity, natural gas, water, sewer, garbage, and steam are projected to increase by \$1.1 million in FY 2009-10, \$0.8 million in FY 2010-11 and \$0.8 million in FY 2011-12. This includes the effect of anticipated annual 15% increases in water rates and 5% increases in garbage rates for city departments. Anticipated increases to the water and sewer subsidy program for low income households (budgeted at \$1.6 million in FY 2008-09) are \$0.3 million, \$0.3 million, and \$0.2 million in FY 2009-10, FY 2010-11, and FY 2011-12, respectively.



**Workers' Compensation:** Workers' compensation costs are projected to decrease by \$0.6 million in FY 2009-10, and increase by \$1.6 million in FY 2010-11 and \$1.3 million in FY 2011-12. These projections are based on FY 2007-08 and FY 2008-09 actual claims, and using the California Department of Finance's San Francisco Bay Area medical costs inflation forecast of 5.5% in FY 2009-10, 4.5% in FY 2010-11, and 4.5% in FY 2011-12. Additionally, this report assumes that the number of indemnity claims will remain relatively flat over the next three years.

### ***USES –Departmental Costs***

**Academy of Sciences – Aquarium Operating Costs:** The new Academy of Sciences facility in Golden Gate Park opened in September 2008. Operating the Steinhardt Aquarium for a full year, including the need for additional biologists, veterinarians, and greater than anticipated water and sewer service charges, results in projected cost increases of \$1.3 million in FY 2009-10.

**City Administrator – Convention Facilities Fund Subsidy:** This projection assumes decreased General Fund Support to the Convention Facilities Fund due primarily to reduced funding for the Convention and Visitors Bureau, which will instead receive funding from the new Tourism Improvement District (TID). This decrease will be partially offset by increased debt service costs, resulting in savings of \$2.9 million in FY 2009-10, followed by additional costs of \$2.8 million in FY 2010-11. This projection assumes that all Hotel Tax revenue growth accrues to the General Fund, and that no additional Hotel Tax revenue growth is allocated to the Convention Facilities Fund during the next three fiscal years.

**Court Facilities Payments (Superior Court and Department of Public Works):** Under the Trial Court Facilities Act of 2002 (California Government Code Section 70301), California Counties and Cities are required to transfer their court facilities to the State and provide annual operating and maintenance costs of the facilities (the Court Facilities Payments) to the State. The City and County of San Francisco has transferred a portion of several facilities to the State, resulting in a projected additional General Fund cost of \$0.6 million in FY 2009-10.

**Elections Department – Number of Elections:** The number of elections changes from year to year. Currently two elections (gubernatorial primary and municipal) are projected for FY 2009-10, one (gubernatorial) for FY 2010-11, and three (presidential primary, mayoral, and State primary) for FY 2011-12. This results in projected incremental costs of \$3.6 million in FY 2009-10, followed by incremental savings of \$2.9 million in FY 2010-11, and incremental costs of \$8.9 million in FY 2011-12.

**HOPE SF – Public Housing & Affordable Housing:** HOPE SF is the City's supplemental program to the Federal Housing and Urban Development's HOPE VI program to provide public housing and affordable housing to City residents. The HOPE SF project for San Francisco's public housing is funded in the budget at \$5.0 million annually. In FY 2008-09, the City used a one-time source of \$3.0 million to pay for the HOPE SF project. For FY 2009-10, the \$3.0 million cost reflects continuing the program at its current \$5.0 million funding level.

**Human Resources – Collective Bargaining Expenses:** The majority of collective bargaining agreements will expire in the next three fiscal years. Negotiating these contracts results in projected additional costs in the Department of Human Resources of \$0.8 million in FY 2009-10,

followed by incremental savings of \$0.7 million in FY 2010-11, and incremental cost of \$0.7 million in FY 2011-12.

**Human Services Agency:** The department projects cost increases of \$8.8 million in FY 2009-10, \$12.4 million in FY 2010-11 and \$16.3 million in FY 2011-12. These changes are summarized below.

**Aid:** The Human Services Agency projects that its \$106.8 million FY 2008-09 General Fund aid expenditure budget will need to increase by 5% to 6% per year on average, representing \$6.6 million in FY 2009-10, a further \$9.5 million in FY 2010-11, and a further \$10.2 million in 2011-12. Over 50% of the increased costs are expected to be offset by State and Federal reimbursements included in the sources section of this report. The projected increase in aid expenditures is primarily due to increasing caseloads and service hours for the In-Home Supportive Services program, partially offset by anticipated slight declines in Foster Care caseloads and expenditures. This projection also assumes an average 4% caseload growth in the County Adult Assistance Program. Overall, the Human Services Agency is projected to receive over 50% of its funding for client aid payments from the State and Federal governments.

**Supportive Services Costs for Housing in Construction Pipeline:** The Human Services Agency projects additional costs of \$2.2 million in FY 2009-10, \$2.9 million in FY 2010-11, and \$6.1 million in FY 2011-12 related to supportive services in subsidized housing units which are scheduled to be added over the next three years.

**Police Department:** The department has projected cost increases of \$2.6 million in FY 2009-10, \$10.2 million in FY 2010-11, and \$10.2 million in FY 2011-12. These changes are summarized below.

**Crime Lab and Tactical Unit Rent:** The Police Crime Lab and Tactical Unit are currently located in the Hunter's Point Shipyard, and the Medical Examiner in a substandard facility in the Hall of Justice. The City plans to move these functions to new facilities over the next three fiscal years. The projected costs, including improvements, fixtures, and rent for the new facilities are estimated to be \$1.4 million for FY 2009-10, \$10.2 million in FY 2010-11, and an additional \$10.2 million in FY 2011-12.

**Maintenance of Effort for COPS Grant-Funded Positions:** The continued backfilling of positions affected by the expiration of multi-year Federal COPS grant funding is projected to result in cost increases of \$1.2 million in FY 2009-10. By FY 2009-10, all positions originally funded by the previously awarded COPS grant will be funded by the General Fund. The Federal stimulus legislation includes a competitive award process for new COPS grant funding. While the City intends to apply for these grants, this projection does not assume any additional funding.

**Public Health:** The department projects cost increases of \$3.7 million in FY 2009-10, \$2.1 million in FY 2010-11, and \$1.0 million in FY 2011-12. These changes are summarized below.

**Healthy San Francisco:** Funding under the Health Care Coverage Initiative for Healthy San Francisco is paid under a State Medicaid Plan that expires at the end of FY 2009-10. Although this Plan expires, this report assumes that other intergovernmental funding will continue to support increases in expenditures as the program expands to cover more of the population. Because the growth in revenues is presumed to cover additional

expenditures, this report does not include any additional General Fund revenues or expenditures.

**Chambers Settlement Scattered Site Housing:** The Public Health Department and Human Services Agency project increases in General Fund expenditures of \$0.7 million, \$1.2 million, and \$1.0 million in FY 2009-10, FY 2010-11, and FY 2011-12, respectively, due to the implementation of the housing portion of the Chambers lawsuit settlement. The goal of the settlement is to ensure that clients are housed in the most appropriate and least restrictive level of care. As a result, the City must provide 500 new City-subsidized affordable housing units over a five year period to house clients who are diverted or transitioning from Laguna Honda Hospital to community living. As additional people are placed and retained in housing, annual costs will increase.

**Laguna Honda Laundry Contract:** This projection assumes additional costs of \$2.1 million in FY 2009-10 due to the opening of the new laundry facility at Laguna Honda Hospital. When the new laundry facility becomes fully operational, the Department intends to terminate the laundry contract.

**Laguna Honda New Facility Operating Costs:** This projection assumes additional costs of \$1.0 million in FY 2009-10 and \$0.5 million in FY 2010-11 related to facilities maintenance and information technology costs for the new Laguna Honda Hospital.

**Recreation and Park – Golf Fund Subsidy:** The FY 2008-09 budget assumed no General Fund subsidy to the Golf Fund. This report assumes a General Fund subsidy of \$2.2 million in FY 2009-10, an additional \$0.1 million in FY 2010-11, and reduced subsidy of \$0.4 million in FY 2011-12. This subsidy level reflects the revenue and expenditure changes related to PGA tournaments in those years.

**Superior Court and Public Defender – Indigent Defense:** Additional costs of \$1.1 million are projected for FY 2009-10 for the legally-required defense costs of indigent defendants. The Superior Court costs related to the People vs. Bell case are not anticipated to extend beyond FY 2009-10, resulting in savings of \$3.0 million in FY 2011-12. The City plans to request State reimbursements, however, no projected receipts are included in our projection at this time.

**Technology:** The department projects cost increases of \$5.5 million in FY 2009-10, followed by a decrease of \$3.1 million in FY 2010-11. These changes are summarized below.

**Public Education & Government Funding:** California Assembly Bill 2987 resulted in the loss of local government control over video franchising in California. The effect is a projected loss of \$0.6 million of franchise-related Public Education & Government (PEG) channel funding in FY 2009-10.

**Security:** Department of Technology security costs are projected to increase by \$4.9 million in FY 2009-10 and decrease by \$3.1 million in FY 2010-11. These projections are based on the initial increase of staff, equipment, and contractual services in FY 2009-10 and then decrease in FY 2010-11 to reflect ongoing staffing costs in future years.

## **STAFF CONTACTS**

Controller's Office: Leo Levenson, Director of Budget & Analysis, [Leo.Levenson@sfgov.org](mailto:Leo.Levenson@sfgov.org)

Mayor's Office: Nani Coloretti, Budget Director, [Nani.Coloretti@sfgov.org](mailto:Nani.Coloretti@sfgov.org)

Board of Supervisor's Budget Analyst's Office: Ken Bruce, [Ken.Bruce@sfgov.org](mailto:Ken.Bruce@sfgov.org)