



## OFFICE OF THE CONTROLLER

March 3, 1999

The Honorable Willie L. Brown, Mayor  
City and County of San Francisco  
1 Dr. Carlton B. Goodlett Place, Room 200  
San Francisco, CA 94102

Honorable Members of the Board of Supervisors  
City and County of San Francisco  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco, CA 94102

Re: Three-Year Budget Projection

Dear Mayor Brown, Ladies and Gentlemen:

Proposition F passed by the voters in November 1994 requires a "joint report to be issued annually on the City's financial condition for the next three fiscal years from the Controller, the Mayor's budget analyst and the budget analyst for the Board of Supervisors." This report projects revenues and expenditures for fiscal years 1999-2000 through 2001-2002.

We are projecting a \$1.5 million surplus for next fiscal year to maintain the current level of services. Chart A provides a summary of the projected revenues less expenditures. Please refer to Attachment I for a detailed breakdown of the budget projections for the next three years.

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

	<u>1999-2000</u> vs. 98-99	<u>2000-2001</u>	<u>2001-2002</u>
Projected Revenues less Expenditures	\$1.5	\$(26.4)	\$(56.8)

Our projections reflect the estimated cost of providing the City's current and/or committed level of services as well as maintaining an appropriate General Fund reserve. These projections are not intended to commit the City to future spending levels. Actual funding decisions will be subject to availability of funds as well as policy decisions of the Mayor and Board of Supervisors. Although projected shortfalls are shown for the second and third year of our analysis, all final budgets will be balanced.

### Summary of Projected Items

#### **Projected Changes in Revenue and Other Sources of Funds**

- We project **stable revenue growth** of approximately 4.1% to 5.6% annually over the next three fiscal years. The estimate includes projected growth of 5% for property taxes, 5.1% for business taxes and 3.5% for sales taxes. In addition, 1998-99 revenues are expected to be above budget. The continuing effect of that growth is expected to be \$22.1 million. This would result in incremental revenue of \$62.6 million in 1999-2000, \$48.6 million in 2000-2001 and \$55.4 million in 2001-2002 (see Attachment II for detail by specific revenue source).
- The General Fund receives an **annual service payment** each year from the San Francisco International Airport based on concession sales. In FY 1998-99, the City repaid the remaining balance of the \$25.0 million Airport advance to the General Fund. Therefore, the revenue transfer from the San Francisco International Airport to the General Fund will increase by a full \$13.0 million in FY 1999-2000.

The Airport revenue transfer to the General Fund is also expected to grow at greater than normal rates due to large increases in concession revenue as the Airport expansion project completes new facilities. Specifically, two new parking garages will begin operation in FY 1999-2000 and the new International Terminal is expected to open in the second half of the year 2000, resulting in increased concession revenue. Consequently, the Airport revenue transfer is projected to increase by \$3.3 million in FY 2000-2001 and another \$3.4 million in FY 2001-2002.

- The Controller's six-month report projects a FY 1998-99 year-end surplus of \$86 million, which includes a one-time recovery for prior year property tax transfers of \$17 million. The six-month report does not include actual business tax revenues. Given that we budgeted a \$101.9 million **prior year surplus** in FY 1998-99, we reflect a \$15.9 million decrease as compared to the previous year. We anticipate a \$11.5 million beginning balance in FY 2000-2001 and \$10 million in FY 2001-2002.
- Each year the City includes a **General Fund reserve** in its budget. The reserve is used to fund unanticipated and emergency needs that arise during the year, and must be replenished in subsequent years. Given the size of the General Fund budget and the potential of revenue downturns, we recommend a \$20 million reserve be maintained for each of the next three fiscal years. This level of reserves is \$5.0 million less than the General Fund reserve finally adopted by the Board of Supervisors in the FY 1998-99 budget.

#### **Salary/Benefit-Related Items**

- **Known Provisions in Existing MOUs** - Most bargaining units, including those for the SEIU, Trades and Muni Operators, have previously negotiated contracts that extend beyond the current fiscal year. Wage and benefit increases have been predetermined, and the new

provisions will cost the General Fund approximately \$26.1 million in FY 1999-2000, and \$16.2 million in FY 2000-2001.

- **Unknown Costs of New MOUs** - We have projected that wages for employees with MOUs that have not yet been negotiated will increase by the same amount as the increase in the Consumer Price Index for Wages (CPI-W). These projected increases will result in incremental costs of \$12.7 million in FY 1999-2000, \$33.4 million in FY 2000-2001 and \$50.5 million in FY 2001-2002. In addition, the expected cost associated with unknown MOUs, that have not yet been negotiated, will increase in future years as current MOUs expire. **This estimate does not reflect the City's willingness or ability to pay, nor does it represent what will ultimately be negotiated.** Factors other than the CPI-W, such as the adequacy of previous MOUs and the overall job market for similar job classifications, will also impact negotiations. Nonetheless, the CPI-W serves as an indication of overall wage inflation in our region.
- **Annualization of FY 1998-99 Memoranda of Understanding (MOUs) Provisions** - The ongoing cost of partial-year salary increases granted during FY 1998-99 will result in \$7.6 million in additional General Fund costs in FY 1999-2000.
- In FY 1999-2000, the City will incur additional costs to **annualize new positions** added to the FY 1998-99 budget. Since most of the new positions were funded for only three-quarters of a year, an additional General Fund expenditure of \$9.1 million will be needed in FY 1999-2000 to fund the positions on an ongoing basis.
- FY 1999-2000 includes **one more work day** than the previous fiscal year. The additional salary and related fringes for this additional day will cost approximately \$4.2 million. There are two less work days in 2000-2001 and 2001-2002.
- **Health Service System costs** are estimated to increase by \$1.6 million based on the Charter provision that allows annual costs increases based on a survey of ten counties. We expect similar increases in the following years.
- The federal government has **increased the Social Security cap**. This increases the maximum wage that the City has to match an individual's Social Security contributions. As a result, the City's employer payments for Social Security will increase by approximately \$1 million next fiscal year. We expect similar increases in the following years.

## Public Health

These projections assume a maintenance of the current level of services at the hospitals, clinics and other community programs. The projected expenditures for budget for FY 1999-2000 includes the reconfiguration of pharmacy services at SFGH in order to reduce costs and administer services within the budgeted appropriation. Funding for detoxification services was transferred from SFGH to a community based setting in order to provide a more therapeutic

model of care. This transfer also results in a cost savings. Significant changes are detailed below.

- Laguna Honda Hospital assumes the continuation of a lower level of census, as required by the State Department of Health Services and the U.S. Department of Justice. A reduction in census from 1166 to 1065 has resulted in a reduction to revenues at LHH, which will be partially offset by selected reductions in equipment, capital and salary expenses. The remaining loss of revenues of \$6.2 million will need to be replaced by an increased General Fund subsidy for Laguna Honda.
- SFGH is currently experiencing reduced revenues due to increased number of unsponsored patients, and rate reductions to state and federal reimbursement terms for eligible services. The FY1999-00 budget projection assumes selected reductions to capital, equipment and salaries in order to partially offset the loss in revenues. An increase of the General Fund subsidy to SFGH will offset the remaining loss of revenue. These figures assume a continuation of the current budgeted patient census level. For FY 2000-01 and FY 2001-02, reductions in MediCal revenues in the Federally Qualified Health Center (FQHC) program and the SB855 Disproportionate share revenue have been defined by formula. This would result in revenue reductions of \$5.9 million for FY 2000-2001 and \$8.5 million in FY 2001-2002.
- The Department of Public Health budget for FY 1999-2000 will increase by \$1.9 million due to the annualization of new programs approved by the Mayor and the Board of Supervisors in the current fiscal year. These programs include the expansion of substance abuse services, housing for homeless, urgent care at SFGH, and a psychiatric program for residents at Laguna Honda.
- In addition, **inflation adjustments** to maintain current service levels are expected to cost an additional \$7.0 million in FY 1999-2000, \$7.2 million in FY 2000-2001 and \$7.4 million in FY 2001-2002.

#### Miscellaneous Items

- We project non-health department **inflation** of approximately \$8.6 million for professional services and other non-salary items in FY 1999-2000 and similar increases thereafter.
- The FY 1998-99 budget includes \$29.6 million in funding for **capital facilities maintenance projects**. This funding level represented a one-time investment of surplus funding. We are assuming returning to an annual program of \$25 million over the next three years. Therefore, there is a \$4.6 million savings in FY 1999-2000.
- The **Municipal Railway** supplemental appropriation approved by the Mayor and the Board of Supervisor's in December 1998 will add \$12.1 million for continued funding in FY 1999-2000.

- The Mayor has submitted a supplemental appropriation to fund increased **Emergency Medical Services** in the Fire Department. The cost of 36 firefighters to staff four additional ambulances 24 hours a day/seven days a week will be approximately \$2.2 million in FY 1999-2000. Although this supplemental appropriation has not been approved by the Board of Supervisors, we have included these costs in our projections.
- Similarly, the Mayor has submitted a supplemental appropriation for the **Sheriff's Department** for 22 new Deputy Sheriff positions. Continued, full-year funding of those 22 new positions will cost \$1.2 million in FY 1999-2000. Again, this supplemental appropriation has not been approved by the Board of Supervisors, but we have included these costs in our projections.
- The current year's budget supported a single election. The historical cost of an **additional election** has been approximately \$1.3 million. Our projection assumes two elections in Fiscal years FY 1999-2000 and FY 2001-2002, and one election and a runoff due to district elections in FY 2000-2001.
- The 1997 **Lockyer-Isenburg Trial Court Funding Act** shifts greater responsibility to the state for trial court operations. Although the exact amount of net savings is still under review, we project an \$1 million savings to the City in FY 1999-2000 based on the maintenance of effort amounts specified in the Governor's proposed budget.
- The **Department of Human Services** is projecting a \$1.6 million savings in FY 1999-2000 for caseload driven programs. General Assistance savings of \$5.3 million will be partially offset by increased caseloads in foster care and in-home health services (IHSS).
- The City budgeted a \$15 million City Investment reserve in 1998-99 to guard against economic downturns. This reserve has not been spent and is available for future budget years without additional funding.
- The City spent approximately \$23 million on one-time **equipment purchases** in FY 1998-99. This projection assumes that we will reduce that amount to our traditional level of about \$5 million per year.
- We typically transfer approximately \$25 million to the **Moscone Center Project**. Since they have a surplus, they will not need a transfer of funds in FY 1999-2000 and only a slight transfer in FY 2000-2001. In FY 2001-2002, we project the need to make a full transfer of \$28.0 million again.

#### Items not included in projections

As with all projections, unforeseen events will occur that will change the numbers as we see them today. In addition, there are items we are aware of now that may have an impact on the City's finances over the next three years, but we are unable to predict what that effect might be at this time.

- Hetch Hetchy transfer – weather, changing regulations, competition in the electric utility industry and changes in policy may affect the transfer from Hetch Hetchy to the General Fund. For this report, we assumed no change in the transfer from the current level of \$42.7 million.
- Litigation reserves – There are always outstanding lawsuits against the City. There are a variety of cases outstanding against the City, particularly in the area of Property tax assessment and business tax appeals. For this report, we assume a level of spending comparable to prior year reserves.
- Mission Bay, Pac Bell Park, Bloomingdales and other projects currently proposed or underway may impact the City's finances, either positively or negatively, during the next three years. Since that impact is unknown, we make no assumptions about it in this report.
- Litigation Proceeds– Revenue from the tobacco litigation settlements are assumed to be used for new or special needs. Neither the proceeds nor the proposed expenditures are included in the report. Until the final amount is determined, the Bank of America settlement is also not included in our projections.
- State and federal budget changes – Other than the Trial Court funding change discussed above, other potential changes in state and federal budgets that may impact the City are unknown and therefore not reflected in the report.
- Treasure Island – Many changes to Treasure Island may occur over the next three years. The assumption for this report is that those changes will have no impact on the General Fund.
- Living Wage – The fiscal impact from living wage legislation is contingent on future policy decisions of the Mayor and Board of Supervisors. We make no assumption about the outcome in this report.
- 911/ Emergency Command Center – We expect to implement a new computer assisted dispatch system in the new Emergency Command Center with a new radio system all during FY 1999-2000. We believe major funding for this program is already in the ongoing budget. However, additional funds may be needed to operate all of these new systems properly. Any need is unknown at this time and therefore no amount is included in this report.
- Departmental Revenues – We have made no overall assumption in this report about departmental revenues increasing or decreasing. We are aware that the Recreation and Park Department has a revenue shortfall this year of \$2 million. We assume that will continue but will be offset by revenue increases in other departments.
- Workers Compensation – Although through the first six months of the current fiscal year departments have been overspending their workers compensation budget, most departments are able to absorb deficits with other budget savings. We are assuming that corrective actions

can reduce the ongoing effect of this recent increase in workers compensation spending and departments can continue to operate within their budgets. However, workers compensation deficits will require a supplemental appropriation for the Police Department and Sheriff's Department, as projected in the Controller's six-month Budget Status Report, and could contribute to additional funding requirements on an ongoing basis if corrective actions do not reverse current trends.

### Summary

We project a \$1.5 million budget surplus for the next fiscal year. This assumes we continue to provide the current level of services, and we maintain a \$20 million General Fund reserve and a \$25 million capital/facility maintenance program. Several factors could change this forecast in either a negative or positive direction. For example:

- An anticipated settlement with the Bank of America that will benefit the General Fund by as much as \$8.0 million in FY 1999-2000.
- The Controller's six-month report will be updated to cover nine months of FY 1998-1999. Projections of year-end business tax revenues, which were not included in the six-month report and additional expenditure information will be provided.
- Continued overspending for workers compensation could negatively impact future years.
- One-time sources, such as the recovery of property taxes previously transferred to School Districts and the reduction to the transfer from the General Fund to the Moscone Center, will need to be replaced by future revenues or continued revenue growth.

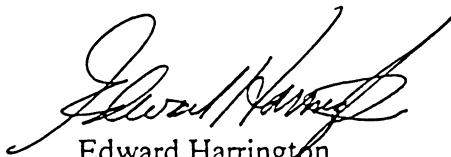
Our projected budget shortfalls for fiscal years 2000-2001 and 2001-2002 are \$26.4 million and \$56.8 million. This report assumes that such revenue shortfalls are corrected in the year they first appear. We also acknowledge that projections several years ahead are less certain than those for the immediate future.

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

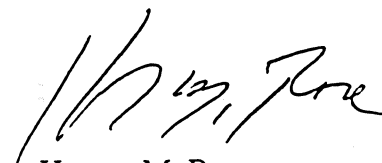
Respectfully submitted,



Matthew H. Hymel  
Budget Director  
Mayor's Office



Edward Harrington  
Controller



Harvey M. Rose  
Budget Analyst  
Board of Supervisors

### Attachments

cc: Honorable Louise Renne, City Attorney  
Gloria Young, Clerk of the Board

**Attachment I**  
**Projected Changes in Budgeted Sources and Uses**  
**Joint Budget Report 1999-2000**

	1999-2000	2000-2001	2001-2002
<b>Sources:</b>			
GF Revenue Growth	\$ 62.6	\$ 48.6	\$ 55.4
Airport Concession Revenues	13.0	3.3	3.4
State/Federal MOU-related revenues	1.9	2.4	2.5
Prior Year surplus	(15.9)	11.5	10.0
Replenish GF Reserve	(20.0)	(20.0)	(20.0)
<b>Salary/Benefit-Related Items:</b>			
Known MOU provisions	(26.1)	(16.2)	
Unknown MOU provisions	(12.7)	(33.4)	(50.5)
Annualize 1998-99 MOU provisions	(7.6)		
Annualize new positions	(9.1)		
Changes in number of work days	(4.2)	8.4	
Health Service Rates	(1.6)	(1.6)	(1.6)
Increase in Social Security Cap	(1.0)	(1.0)	(1.0)
<b>Health Department Items:</b>			
Non-Salary Inflation	(7.0)	(7.2)	(7.4)
Laguna Honda GF subsidy	(6.2)		
SF General Hospital GF subsidy	(2.6)	(5.9)	(8.5)
Annualization of health programs	(1.9)		
<b>Miscellaneous Items:</b>			
Annualize Muni supplemental	(12.1)		
Other Non-Salary Inflation	(8.6)	(9.9)	(10.3)
Annualize increased EMS coverage	(2.2)		
Extra election	(1.3)	0.7	(0.6)
Sheriff Supplemental	(1.2)		
Trial Court Funding payment to state	1.0		
DHS caseload-driven programs	1.6	(4.1)	(0.2)
Capital Program	4.6		
Reserves	15.0		
Equipment purchases	18.0		
Convention Facilities GF transfer	25.1	(2.0)	(28.0)
<b>Total Estimated Surplus/(Shortfall)</b>	<b>\$ 1.5</b>	<b>\$ (26.4)</b>	<b>\$ (56.8)</b>



ATTACHMENT II

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

	FY96-97 Actual	FY97-98 Actual	FY98-99		Forecast		
			Budget	Projected	FY99-00	FY01-02	
Property Taxes	\$322,474	\$342,050	\$346,027	\$365,297	\$383,562 5.0% (1,000)	\$401,690 5.0%	\$421,774 5.0%
Adjustment for SFRA							
Business Taxes	200,922	222,904	231,263	234,049	245,985 5.1%	262,713 6.8%	278,475 6.0%
Adjustment for Business Tax Credit (1)				(3,742)			
Sales Tax	108,099	112,950	114,135	116,596	120,677 3.5%	124,297 3.0%	128,026 3.0%
Utility Users Tax	55,883	56,604	56,087	53,180	53,180 0.0%	53,180 0.0%	53,180 0.0%
Prop. Transfer Tax (2)	33,573	44,007	42,350	48,276	41,952 -13.1%	41,952 0.0%	41,952 0.0%
Hotel Tax (3)	91,263	99,967	108,996	104,769	108,645 3.7%	112,231 3.3%	122,332 9.0%
Parking Tax	15,973	16,808	17,198	17,396	17,918 3.0%	18,455 3.0%	19,009 3.0%
Public Safety Sales Tax	53,912	58,154	60,538	60,991	63,736 4.5%	66,285 4.0%	68,936 4.0%
Motor Vehicle In-Lieu	69,441	75,121	76,292	78,127	80,861 3.5%	83,287 3.0%	85,786 3.0%
Traffic Fines	49,200	49,677	56,483	56,483	56,483 0.0%	56,483 0.0%	56,483 0.0%
<b>Total - Major Revenues</b>	<b>\$1,000,740</b>	<b>\$1,078,242</b>	<b>\$1,109,369</b>	<b>\$1,131,422</b>	<b>\$1,171,999</b> <b>5.65%</b>	<b>\$1,220,573</b> <b>4.14%</b>	<b>\$1,275,954</b> <b>4.54%</b>
<b>% Change</b>				<b>1.99%</b>			
<b>\$ Change</b>				<b>\$22,053</b> <b>(4)</b>	<b>\$62,630</b> <b>(5)</b>	<b>\$48,574</b>	<b>\$55,381</b>

Notes:

- (1) New business tax credit effective in FY98-99 because prior year revenues were higher than anticipated (i.e., growth was greater than 7.5%). No credits are anticipated in subsequent years because projected growth is less than 7.5%.
- (2) FY99-00 projection equals three-year average revenues, which would result in a decrease from FY98-99.
- (3) Includes all of hotel tax allocated to General Fund departments.
- (4) Increase in FY98-99 revenues are reflected in the beginning balance (prior year surplus) for FY99-00.
- (5) Total growth in FY99-00 revenues is measured against FY98-99 budget.

