

City and County of San Francisco

Office of the Controller

FY 2009-10 Six-Month Budget Status Report



February 9, 2010



City and County of San Francisco

Office of the Controller

FY 2009-10 Six-Month Budget Status Report

February 9, 2010

Summary

The Controller's Office provides periodic budget status updates to the City's policy makers during the course of each fiscal year, as directed by Charter Section 3.105. This report provides expenditure and revenue information and projections as of December 31, 2009. This report updates the projections provided in the Controller's FY 2009-10 First Quarter Budget Status Report (Three-Month Report), published November 16, 2009.

The Three-Month Report projected a general fund shortfall of \$28.1 million, comprised of a \$36.5 million net shortfall in general revenues, a \$9.6 million net Departmental shortfall, and \$8.0 million in approved and pending supplementals requesting General Fund Reserve appropriations.

Since the Three-Month report, the Mayor proposed a mid-year balancing plan to address the shortfall and restore a \$25 million General Fund Reserve. The plan was amended by the Board of Supervisors and approved on February 3, 2010.

This report takes into account the recent actions by the Mayor and the Board and provides updates to revenue and expenditure projections based on data available since the preparation of the balancing plan.

As shown in Table 1, this report projects an ending General Fund balance of \$29.6 million.

Summary of General Fund Budget

The Controller's Office projects an available General Fund balance of \$29.6 million at the end of FY 2009-10, as summarized below.

Table 1. FY 2009-10 Projected General Fund Ending Balance (\$ Millions)

A. Starting Balance	3-Month	6-Month	Change
Better than anticipated starting balance	\$ 1.0	\$ 0.9	\$ (0.1)
Budgeted General Fund reserve	25.0	25.0	-
	<u>26.0</u>	<u>25.9</u>	<u>(0.1)</u>
B. Citywide Revenues and Baselines			
Citywide Revenues	(39.1)	(37.1)	2.0
Change to Baseline Revenue Transfers	2.6	1.9	(0.7)
	<u>(36.5)</u>	<u>(35.2)</u>	<u>1.3</u>
C. Departmental Operations			
Mid-year balancing plan revenues and expenditure savings		35.7	35.7
Updated Departmental Operations Savings (Shortfall)	(9.6)	4.7	14.3
	<u>(9.6)</u>	<u>40.4</u>	<u>50.0</u>
D. Use of General Fund Reserve	(8.0)	(1.4)	6.6
E. Ending Balance	<u>\$ (28.1)</u>	<u>\$ 29.6</u>	<u>\$ 57.8</u>

A. General Fund Starting Balance

The General Fund available fund balance at the end of FY 2008-09 was \$95.4 million. The FY 2009-10 budget assumed and appropriated \$94.5 million of this balance, leaving a surplus of \$0.9 million available for use in the current fiscal year. Combined with a budgeted General Fund Reserve of \$25.0 million in the adopted budget, the starting balance available for appropriation in FY 2009-10 was \$25.9 million.

B. Citywide Revenues and Baseline Transfers

As shown in Table 2, Citywide revenues have improved by \$2.0 million since the Three-Month Report, due to an improved outlook for property tax, payroll tax, property transfer tax, and hotel room tax, offset by a significantly worse outlook for statewide Health and Welfare Realignment sales tax and vehicle license fee revenues distributed to the City. More information on these revenue trends are provided in Appendix 2.

Table 2. General Fund Citywide Revenues Variances to Budget (\$ Millions)

Note: includes SF General Hospital fund sales tax/VLF realignment revenue variances

	3-Month	6-Month	Change
Property Tax	(35.0)	(33.1)	1.9
Payroll Tax	(24.8)	(18.2)	6.6
Sales Tax - Local 1% and Public Safety	(4.4)	(5.2)	(0.8)
Health & Welfare Sales Tax/VLF Realignment	(4.2)	(15.9)	(11.7)
Hotel Room Tax	28.0	30.3	2.3
Property Transfer Tax	6.1	13.5	7.3
Other General Revenues	(4.8)	(8.4)	(3.7)
Subtotal General Revenues	(39.1)	(37.1)	2.0

Table 3 shows that as a result of the improvement in discretionary revenues, projections for baseline and parking tax in-lieu transfers to the MTA, Library and Public Education Enrichment Fund are increased by a net \$0.7 million compared to the Three-Month Report, although still below budgeted levels.

Table 3. General Fund Baseline Transfers Variances to Budget (\$ Millions)

Note: positive variances denotes general fund savings due to reduced transfer requirements. This will appear as a shortfall to the recipient of the transfer

	3-Month	6-Month	Change
Reduced GF baseline transfer to MTA	2.1	1.3	(0.8)
Reduced Parking Tax In Lieu Transfer to MTA	-	0.2	0.2
Reduced GF baseline transfer to Library	0.5	0.3	(0.2)
Reduced GF baseline transfer to Public Ed Fund	-	0.2	0.2
Total	2.6	1.9	(0.7)

C. Departmental Operations

We project net departmental operations savings of \$4.7 million beyond the \$35.7 million in the Mid-Year Balancing Plan. This is summarized in Table 4 below and further detailed and discussed in Appendix 3.

Table 4. FY 2009-10 Departmental Operating Summary

General Fund Differences to Revised Budget after Mid-Year Balancing Plan (\$ Millions)

	Revenue Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Surplus / (Deficit)
Net Shortfall Departments			
Elections	\$ (3.1)	\$ (1.5)	\$ (4.6)
Superior Court	-	(3.3)	(3.3)
General City Responsibility	4.0	(5.0)	(1.0)
Fire Department	(1.8)	-	(1.8)
Public Defender	-	(1.8)	(1.8)
Sheriff	(0.2)	(1.3)	(1.5)
Recreation and Parks	(0.9)	-	(0.9)
Juvenile Probation	(0.8)	-	(0.8)
Subtotal Departments with Net Deficits	\$ (2.7)	\$ (12.9)	\$ (15.6)
Net Surplus Departments			
Human Services	\$ (8.6)	\$ 27.3	\$ 18.7
Public Health (including SFGH and Laguna Honda General Fund subsidies)	(0.7)	2.0	1.3
Controller	-	0.3	0.3
Public Works	(2.6)	2.6	-
Subtotal Departments with Net Surpluses	\$ (11.9)	\$ 32.3	\$ 20.3
Combined Total	(14.6)	19.3	4.7

These projections assume that supplemental appropriations submitted by Superior Court and Public Defender, and pending supplementals from Sheriff and Public Health, will be approved to cover anticipated expenditure shortfalls. For all other Departmental shortfalls the Mayor's Office and the Controller's Office will continue to work with departments to develop a plan to bring expenditures in line with revenues by year-end without requiring supplemental appropriations.

These projections also assume the release of \$45.0 million on the Budget and Finance Committee reserve pending the Controller's estimate of the impact of the State budget on that of the City and County. A summary of this reserve by department is detailed in Table 5 below.

Table 5. Budget and Finance Committee Departmental Reserves (\$ millions)

Department	FY 2009-10 Reserved Amount
Police	\$ 11.9
Public Health	11.9
Human Services	7.0
Fire Department	6.5
Sheriff	4.9
Emergency Management	1.6
City Administrator	1.2
	\$ 45.0

D. Reserves

General Fund Reserve: To date, \$1.4 million has been appropriated from the budgeted \$25.0 million General Fund Reserve. The \$1.4 million represents a use of \$0.2 million for the Emergency Aid Relief supplemental appropriation, a use of \$1.4 million as part of the Mid-Year Balancing Plan, and a deposit of \$0.2 million into the reserve as part of the State Budget Reserve supplemental appropriation.

Budget Savings Incentive Reserve: This projection assumes that deposits into the Citywide Budget Savings Incentive Reserve (authorized by Administrative Code Section 10.20) will be suspended for FY 2009-10.

Recreation & Parks Savings Incentive Reserve: As the Recreation & Parks Department is not anticipated to have operating savings, no deposits are projected for the Recreation & Park Savings Incentive Reserve established by Charter Section 16.107.

Rainy Day Economic Stabilization Reserve: Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve funded by excess revenue growth in good years, which can be used to support the City General Fund and San Francisco Unified School District operating budgets in years when revenues decline. The Rainy Day Economic Stabilization Reserve began the year with \$98.3 million. As prescribed in the FY 2009-10 budget, \$49.2 million was withdrawn from the Reserve into the General Fund and another \$24.6 million from the Rainy Day Economic Stabilization Reserve is budgeted to be allocated to the San Francisco Unified School District to offset the impact of declining State aid, resulting in a current balance of \$24.6 million.

E. Ending Available General Fund Balance = \$29.6 Million

Based on the above assumptions and projections, this report anticipates an ending available General Fund balance for FY 2009-10 of \$29.6 million.

F. Other Funds

Special revenue funds are used for departmental activities that have dedicated revenue sources or legislative requirements that mandate the use of segregated accounts outside the General Fund. Some of these special revenue funds received General Fund baseline transfers and other subsidies.

Enterprise funds are used primarily for self-supporting agencies, including the Airport, Public Utilities Commission and the Port. The Municipal Transportation Agency receives a significant General Fund subsidy.

Projected General Fund Support requirements for these funds are included in the Department budget projections in Appendix 2. Appendix 4 provides a table of selected special revenue and enterprise fund balance projections and a discussion of significant issues associated with their operations.

G. Projection Uncertainty Remains

Major uncertainty factors regarding these projections for the General Fund include:

- The potential for continued fluctuations in tax revenues in the final six months of the fiscal year,
- Property tax appeal decisions at both the local level and State Board roll may require us to revise our assumptions regarding current year refunds and set-asides for future refunds,
- The outcome of lawsuits that have stayed State reductions in support of the In-Home Support Services program (further discussed in Appendix 2, Note 6, Human Services), and
- Timing of the federal approval of changes to the State's Medicaid plan to institute a new Hospital Fee, which would result in new revenues to the Department of Public Health (further discussed in Appendix 2, Note 7, Public Health).

We will update the year-end fund balance and budget year revenue projections in the Controller's Nine-Month Budget Status Report, scheduled for issuance in early May, 2010.

H. Appendices

1. General Fund Revenues and Transfers In
2. General Fund Department Budget Projections
3. Salaries and Benefits Reserve Update
4. Other Funds Highlights

Appendix 1. General Fund Revenues and Transfers In

As shown in Table A1-1, total General Fund citywide and Departmental revenues, including San Francisco General Hospital Sales Tax and Vehicle License Fee Realignment revenues are projected to be \$51.8 million under budget as revised by the mid-year balancing plan. \$14.6 million of the revenue shortfall relates to Departmental Operations discussed in Appendix 2. The remaining \$37.1 million shortfall is discussed in this Appendix.

The FY 2009-10 budget assumed a slowing rate of economic decline in the first half of the fiscal year and the beginning of a modest recovery with slow rates of growth in the second half of the year. Tax revenues projected to recover beyond budgeted levels include hotel room and real property transfer taxes. These gains are offset by shortfalls in key sources including property tax, state grants and subventions, payroll tax, and state sales tax and vehicle license fee disbursements. Selected revenue streams are discussed below.

Property Tax. General Fund property tax revenues are projected to be \$33.1 million under budget, a \$2.0 million improvement over the Three-Month Report. The shortfall is primarily due to increased set-asides required from current year revenues in response to appeals filed through December 2009. The \$2.0 million improvement is due to a decrease in the estimated funding required to be set aside for appeals, given updated projections on residential and commercial appeal values, offset by a \$2.0 million reduction in Redevelopment Agency tax increment passthrough revenue and a \$2.0 million increase in projected revenue from supplemental assessments. Our projection will be updated in the Nine-Month Report as more data on awards related to 2009 appeals become available.

Payroll Tax revenues are projected to be \$18.2 million under budget, an improvement of \$6.6 million from the Three-Month Report due to updated estimates of total taxable payroll. Total taxable wages and salaries in the first quarter (January through March) of 2009, adjusted for seasonal variation, declined 10.0% from the preceding quarter, and second quarter (April through June) wages increased 3.7%. Quarter-over-quarter changes in the tax base for the third and fourth quarters are projected to be -2.0%. Information on receipts of tax year 2009 prepayments trued up to year-end results will be available in March and factored into updated projections in the Nine-Month Report.

Table A1-1. Detail of General Fund Revenue and Transfers In

Note: Also displays SF General Hospital Fund Health & Welfare Realignment Sales Tax and VLF Revenues

GENERAL FUND (\$ Millions)	FY 2008-09	FY 2009-10				Surplus / (Shortfall)
	Year End Actual	Original Budget	Revised Budget after Mid-Year Balancing Plan	3-Month Projection	6-Month Projection	
PROPERTY TAXES	\$ 1,021.3	\$ 1,058.1	\$ 1,058.1	\$ 1,023.0	\$ 1,025.0	\$ (33.1)
BUSINESS TAXES						
Business Registration Tax	8.7	8.6	8.6	7.8	7.8	(0.8)
Payroll Tax	378.7	363.2	363.2	338.4	345.0	(18.2)
Total Business Taxes	387.3	371.8	371.8	346.2	352.8	(19.0)
OTHER LOCAL TAXES						
Sales Tax	101.7	98.2	98.2	94.5	95.4	(2.9)
Hotel Room Tax	161.7	117.5	116.5	145.5	146.8	30.3
Utility Users Tax	89.8	87.0	87.0	89.8	89.4	2.4
Parking Tax	64.5	64.1	64.1	64.1	63.9	(0.2)
Real Property Transfer Tax	49.0	45.3	45.3	51.4	58.7	13.5
Stadium Admission Tax	2.2	2.2	2.2	2.2	2.3	0.1
Access Line Tax	10.4	42.9	42.9	39.4	39.4	(3.5)
Total Other Local Taxes	479.2	457.2	456.1	486.9	495.7	39.6
LICENSES, PERMITS & FRANCHISES						
Licenses & Permits	8.7	8.8	8.8	8.8	8.8	0.0
Franchise Tax	16.1	16.3	16.3	16.3	15.4	(0.9)
Total Licenses, Permits & Franchises	24.8	25.1	25.1	25.1	24.3	(0.9)
FINES, FORFEITURES & PENALTIES	5.6	3.8	11.1	3.8	7.7	(3.3)
INTEREST & INVESTMENT INCOME	14.7	11.6	11.6	8.8	8.8	(2.8)
RENTS & CONCESSIONS						
Garages - Rec/Park	9.0	8.3	8.3	8.3	7.4	(0.9)
Rents and Concessions - Rec/Park	7.7	8.5	8.8	8.5	8.5	(0.3)
Other Rents and Concessions	1.8	2.6	2.8	2.6	2.6	(0.2)
Total Rents and Concessions	18.5	19.4	19.9	19.4	18.6	(1.3)
INTERGOVERNMENTAL REVENUES						
Federal Government						
Social Service Subventions	175.4	200.6	199.8	203.0	203.0	3.2
Other Grants & Subventions	7.5	35.0	35.1	35.0	35.0	(0.1)
Total Federal Subventions	182.9	235.6	234.9	238.0	238.0	3.1
State Government						
Social Service Subventions	133.5	128.0	125.9	128.4	128.4	2.5
Health & Welfare Realignment - Sales Tax	101.9	100.6	100.6	96.8	92.7	(7.8)
Health & Welfare Realignment - VLF	45.6	46.7	46.7	46.7	42.9	(3.9)
Health/Mental Health Subventions	85.7	96.7	93.2	96.6	96.6	3.4
Public Safety Sales Tax	63.7	65.1	65.1	64.7	62.7	(2.3)
Motor Vehicle In-Lieu	2.7	1.4	1.4	1.4	1.4	-
Other Grants & Subventions	41.9	2.0	18.6	(0.8)	6.3	(12.3)
Total State Subventions	475.0	440.5	451.5	433.8	431.0	(20.5)
CHARGES FOR SERVICES:						
General Government Service Charges	29.3	33.9	33.9	32.2	32.2	(1.7)
Public Safety Service Charges	23.9	26.2	26.2	23.7	21.7	(4.5)
Recreation Charges - Rec/Park	8.8	9.6	9.8	9.6	9.6	(0.2)
MediCal,MediCare & Health Service Charges	50.5	54.1	54.2	53.5	53.3	(1.0)
Other Service Charges	10.0	15.1	15.1	15.1	15.1	-
Total Charges for Services	122.6	138.8	139.2	134.0	131.8	(7.4)
RECOVERY OF GEN. GOV'T. COSTS	13.3	8.2	8.2	7.4	7.4	(0.8)
OTHER REVENUES	7.7	22.7	23.5	22.7	22.0	(1.5)
TOTAL REVENUES	2,752.9	2,792.8	2,811.0	2,749.2	2,763.1	(47.9)
TRANSFERS INTO GENERAL FUND:						
Airport	26.8	26.2	26.9	26.2	26.9	-
Other Transfers	105.5	59.3	59.4	59.3	59.8	0.4
Total Transfers-In	132.3	85.6	86.4	85.6	86.7	0.4
TOTAL GENERAL FUND RESOURCES	\$ 2,885.2	\$ 2,878.4	\$ 2,897.4	\$ 2,834.7	\$ 2,849.8	\$ (47.5)
SF General Hospital Sales Tax Realignment	16.2	16.1	16.1	15.4	14.7	(1.4)
SF General Hospital VLF Realignment	36.6	37.3	37.3	37.5	34.4	(2.9)
TOTAL INCLUDING SFGH REALIGNMENT	\$ 2,938.0	\$ 2,931.8	\$ 2,950.8	\$ 2,887.6	\$ 2,899.0	\$ (51.8)

Local Sales Tax revenues are projected to be \$2.9 million under budget, or 6.2% under prior year actuals. This represents a \$0.8 million improvement from the Three-Month Report. Cash collections for the first quarter of FY 2009-10 were down 17.7% from the same quarter prior year, a slightly larger decline than statewide collections, which declined 14.8%. Table A1-2 displays the recent history of this revenue stream. FY 2009-10 first quarter results marked the ninth quarterly decline in receipts for the state and the fifth quarterly decline in San Francisco, which, along with the Bay Area in general, came later to the recession than other parts of the state, buoyed by tourism and less exposure to the losses in the retail and construction segments caused by the housing market downturn. First quarter receipts reflected continued weakness in construction, high-end retail, business to business and fuel taxes, and a minimal effect of the Cash for Clunkers program.

The 17.7% decline was the largest recent year-over-year decline in local sales tax receipts since the first quarter of FY 2001-02 (which were down 20.3% in the aftermath of 9/11). The General Fund 1% allocation of sales taxes is projected to decline 10% when receipts for the quarter ending December 2009 are trued up, remain flat for the quarter ending March 2010, and increase 2% in the June 2010 quarter. We anticipate that it will take several years for sales tax receipts to return to their prior peak levels of FY 2007-08.

Table A1-2. Sales Tax Revenue, Local 1% Portion – Including ‘Triple Flip’ (\$ Millions)

Fiscal Year	Direct Allocation	Triple Flip Shifts	Total GF Revenue	Annual Growth	
				\$ Change	% Change
FY 2000-01	\$ 138.3		\$ 138.3	\$ 4.9	3.7%
FY 2001-02	116.8		116.8	(21.5)	(15.5%)
FY 2002-03	115.6		115.6	(1.2)	(1.1%)
FY 2003-04	120.6		120.6	5.1	4.4%
FY 2004-05	94.7	\$ 23.6	118.3	(2.4)	(2.0%)
FY 2005-06	103.1	33.8	136.8	18.6	15.7%
FY 2006-07	107.8	35.6	143.5	6.6	4.8%
Prior Peak FY 2007-08	111.4	37.3	148.7	5.3	3.7%
FY 2008-09	101.7	35.8	137.4	(11.3)	(7.6%)
Budget FY 2009-10	98.2	38.2	136.4	(1.0)	(0.7%)
6-Month Est. FY 2009-10	95.4	33.5	128.9	(8.5)	(6.2%)

Hotel Room Tax revenues are projected to be \$30.3 million above budget in the General Fund, \$2.3 million above Three-Month Report projections. Hotel Tax receipts in the first quarter were down 22.5%, a decline that was anticipated due to historically high revenues in the first quarter of the prior year. Table A1-3, monthly occupancy and Average Daily Room rates (ADR), illustrates the declines in both of these measures in July, August and September over the prior year. Occupancy rates have stabilized and show signs of recovering, due in part to continued room rate discounting by hotel operators. Room rates are projected to stabilize and increase more slowly than occupancy, a typical pattern during recoveries given the difficulty of imposing higher rates on consumers accustomed to discounting.

In the first quarter, month-over-month changes in RevPAR (i.e. revenue per available room, or the combined effect of occupancy, ADR, and room supply) averaged -20.2%, adjusted for seasonality. The rate increased 4.8% in October and November, and we project the recovery in RevPAR to moderate, with average month over month increases of 1.4% December through February and just under 1% through year end. After taking into account one-time payments received in FY 2008-09, total hotel tax revenues are projected to decline 8.0% from the prior year. Any such surpluses or shortfalls within a fiscal year are entirely reflected in the General Fund unallocated portion of Hotel Tax as the allocation stipulated in each year's Annual Appropriation Ordinance (AAO) overrides the Municipal Code allocation and can only be changed legislatively.

San Francisco and a number of other jurisdictions in California and the U.S. are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. Final year-end revenue will be either greater or less than our projection depending on the outcome of this suit.

Table A1-3. Hotel Occupancy Rates and Average Daily Room Rates (ADR)

Hotel Occupancy Rates

MONTH	FY 2007-08	FY 2008-09	FY 2009-10	Change - Value	Change - %
July	84.9%	88.8%	84.2%	-4.6%	-5%
August	87.1%	91.8%	87.5%	-4.3%	-5%
September	86.9%	86.6%	87.2%	0.6%	1%
October	86.4%	82.4%	87.5%	5.1%	6%
November	76.0%	68.5%	70.1%	1.6%	2%
December	64.0%	69.1%			
January	64.5%	61.3%			
February	73.9%	59.6%			
March	76.5%	68.4%			
April	77.4%	74.1%			
May	79.8%	73.9%			
June	85.6%	81.2%			
AVG. OCC. RATE - ANNUAL (YTD)	78.6%	75.5%	83.3%		
% Rate Chg from PY	1.7%	-3.1%	7.8%		
% Change from PY	2.2%	-4.0%	10.4%		

Average Daily Room Rates (ADRs)

MONTH	FY 2007-08	FY 2008-09	FY 2009-10	Change - Value	Change - %
July	\$ 183.85	\$ 188.17	\$ 152.84	\$ (35.33)	-19%
August	\$ 185.94	\$ 181.69	\$ 148.60	\$ (33.09)	-18%
September	\$ 200.86	\$ 206.06	\$ 172.74	\$ (33.32)	-16%
October	\$ 213.31	\$ 208.04	\$ 198.42	\$ (9.62)	-5%
November	\$ 192.62	\$ 178.61	\$ 155.02	\$ (23.59)	-13%
December	\$ 156.01	\$ 167.39			
January	\$ 182.11	\$ 171.33			
February	\$ 192.56	\$ 153.03			
March	\$ 184.00	\$ 160.25			
April	\$ 179.77	\$ 154.56			
May	\$ 183.13	\$ 152.73			
June	\$ 197.04	\$ 145.54			
AVERAGE ADR - ANNUAL (YTD)	\$ 187.60	\$ 172.28	\$ 165.52		
\$ Change from PY	\$ 12.09	\$ (15.32)	\$ (6.76)		
% Change from PY	6.9%	-8.2%	-3.9%		

NOTE: Actuals based on a PKF industry sample representing 70-80% of all rooms and revenue.

Real Property Transfer Tax revenues are projected to be \$13.5 million over budget, or 20% above prior year levels and \$7.3 million more than the Three-Month Report. As illustrated in Table A1-5 below, total taxes paid through December were approximately 31.0% above prior year levels, and transaction counts increased 85%. The current year budget assumed a 7.5% reduction versus prior fiscal year receipts. However, experience during the year to date indicates much higher levels of transaction activity, particularly among commercial properties, than initially projected.

Table A1-4 Transfer Tax Revenues and Transaction Counts

Real Property Transfer Tax Revenue (\$ millions)*						
Tax Rate	@ 0.50%	@ 0.68%	@ 0.75%	@ 1.5%	Total	
Fiscal Year	<\$250K	>\$250K	>\$1 M	>\$5 M	Revenue	
FY 2004-05	\$ 0.6	\$ 37.2	\$ 78.9	N/A	\$ 116.8	
FY 2005-06	0.5	31.4	98.3	N/A	131.3	
FY 2006-07	0.4	29.3	114.3	N/A	144.0	
FY 2007-08	0.5	24.7	61.0	N/A	86.2	
FY 2008-09	0.8	19.8	27.1	1.3	48.9	
Through December						
FY 2008-09 YTD	\$ 0.2	\$ 11.3	\$ 16.3	\$ 0.2	\$ 28.0	
FY 2009-10 YTD	1.2	13.1	12.6	9.7	36.7	
Change	397%	16%	-23%	6369%	31%	

*Amounts to be adjusted for timing differences between Recorder's System and revenue recognition requirements at year end.

Transaction Count					
Tax Rate	@ 0.50%	@ 0.68%	@ 0.75%	@ 1.5%	Total
Fiscal Year	<\$250K	>\$250K	>\$1 M	>\$5 M	
FY 2004-05	1,176	8,699	3,056	N/A	12,931
FY 2005-06	931	7,400	3,355	N/A	11,686
FY 2006-07	800	7,225	3,003	N/A	11,028
FY 2007-08	810	6,498	2,951	N/A	10,259
FY 2008-09	1,611	5,332	1,627	11	8,581
Through December					
FY 2008-09 YTD	372	2,958	1,001	1	4,332
FY 2009-10 YTD	3,678	3,419	887	44	8,028
Change	889%	16%	-11%	4300%	85%

Proposition N, passed by the voters in November 2008, increased the Property Transfer Tax rate on transactions valued at over \$5 million from 0.75% to 1.5%. This rate will be in place for the full twelve months of fiscal year 2009-10, amplifying the revenue effect of large transactions. Forty-four transactions in this new tax bracket occurred through December 2009, generating \$9.7 million in transfer tax revenues. Overall, tax revenue from transactions valued at \$1.0 million or more have grown 35.5% over the same period prior year. This revenue has traditionally been one

of the General Fund's most volatile taxes and is highly dependent on investor interest, economic cycles, interest rates, credit availability, and in the past several years, the strength of the dollar against other currencies.

Utility Users Tax revenues are projected to be 0.5% below prior year actual revenues, \$0.5 million below the Three-Month Report projection. This represents a \$2.4 million increase over the budget, which assumed a 3.2% decline from the prior year. A decline in gas and electric user tax of approximately 3.0% due to falling natural gas prices and reduced consumption is partially offset by a 10.0% increase in water user's tax due to the net effect of a 15.0% rate increase July 1, 2009 tempered by conservation efforts and decreased commercial usage. Telephone user taxes are projected to remain at prior year levels as the effect of the November 2008 Proposition O expansion of the tax base to include fees and bundled services effective April 2009 is annualized and offset by declines in office and other usage.

Interest & Investment Income is projected to be \$2.8 million under budget, or 40.0% below prior year actuals. The projection is unchanged from the Three-Month Report. The budget assumed a 25.0% decline in average monthly interest rates, to 1.9%, due to historically low Federal Funds rates maintained since December 2008. However, average interest rates through December were 50.0% below the prior year and earnings declined by 42.0%. Projected revenues assume average monthly interest rates of 1.4% and a slight year over year increase in cash balances.

Health & Welfare Realignment revenues in the General Fund are projected to be under budget by a total of \$11.7 million, which is \$7.9 million less than projected in the Three-Month Report due to continued weakness in both statewide sales tax and vehicle license fee revenue. The Sales Tax portion of Realignment revenues, which are based on statewide Sales Tax receipts, are projected to be 9% below prior year actuals, or \$7.8 million below budget by year-end. Current trends in receipts of the Vehicle License Fee (VLF) portion of Realignment revenues show the City 5.6% below prior year actual revenues year to date, and are projected to decline 6% through the year end, ending \$3.9 million under budget. The portion of a vehicle's value that is subject to the 0.65% fee ranges from 100% for new vehicles to 15% for vehicles 11 years or older, thus the value of new car sales is the most important variable in determining VLF revenue. VLF revenue from new car registrations is a function of new car sales and prices. First quarter statewide sales tax from new vehicles declined 9.5% from the prior year, and used car sales taxes declined 12.3%. This level of decline is expected to continue through 2009 and moderate in the first half of 2010. The San Francisco General Hospital Share of Realignment sales tax and license fee is projected to be a combined \$4.3 million under budget.

Public Safety Sales Tax revenues are projected to be \$2.3 million under budget, or 1.5% below prior year actuals and \$1.9 million below Three-Month Report estimates. This is due to an estimated 8.0% decline in the statewide sales tax base for this subvention partially offset by a 6.9% increase in San Francisco's share of taxable sales.

Appendix 2. General Fund Department Budget Projections

Table A2-1. General Fund Supported Operations

GENERAL FUND (\$ millions)	Uses Revised Budget	Sources Mid-Year Balancing Plan	Uses Mid-Year Balancing Plan	Uses Revised Budget After Mid-Year Balancing Plan	Uses Projected Year-End	Revenue Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Surplus / (Deficit)	Notes
PUBLIC PROTECTION									
Adult Probation	12.4	-	(0.5)	11.9	11.9	-	-	-	
Superior Court	31.2	-	(0.0)	31.2	34.4	-	(3.3)	(3.3)	1
District Attorney	32.8	-	(0.1)	32.7	32.7	-	-	-	
Emergency Management	45.8	-	(0.3)	45.5	45.5	-	-	-	
Fire Department	257.9	0.7	(1.3)	256.7	256.7	(1.8)	-	(1.8)	2
Juvenile Probation	33.6	-	(0.2)	33.5	33.5	(0.8)	-	(0.8)	3
Public Defender	23.4	-	(0.0)	23.4	25.2	-	(1.8)	(1.8)	4
Police	396.1	-	(6.4)	389.7	389.7	-	-	-	
Sheriff	145.5	-	(0.1)	145.3	146.6	(0.2)	(1.3)	(1.5)	5
PUBLIC WORKS, TRANSPORTATION & COMMERCE									
Public Works	48.8	-	(1.0)	47.9	45.3	(2.6)	2.6	-	
Economic & Workforce Development	13.1	-	(0.5)	12.7	12.7	-	-	-	
Municipal Transportation Agency	0.2	-	-	0.2	0.2	-	-	-	
Board of Appeals	0.8	-	(0.0)	0.8	0.8	-	-	-	
Public Utilities Commission	0.1	-	(0.0)	0.1	0.1	-	-	-	
HUMAN WELFARE & NEIGHBORHOOD DEVELOPMENT									
Children, Youth & Their Families	26.4	-	(0.0)	26.3	26.3	-	-	-	
Human Services	641.5	(0.4)	(3.9)	637.7	610.3	(8.6)	27.3	18.7	6
Environment	3.2	-	(0.0)	3.2	3.2	-	-	-	
Human Rights Commission	0.7	-	(0.0)	0.7	0.7	-	-	-	
County Education Office	0.1	-	-	0.1	0.1	-	-	-	
Status of Women	3.3	-	(0.0)	3.3	3.3	-	-	-	
COMMUNITY HEALTH									
Public Health	526.7	-	(5.7)	521.0	523.2	(0.7)	(2.2)	(2.9)	7
Subsidy Transfer to SF General Hospital Fund	124.2	-	(0.8)	123.5	112.2	-	11.3	11.3	7
Subsidy Transfer to Laguna Honda Hospital Fund	39.8	-	(0.1)	39.7	46.8	-	(7.1)	(7.1)	7
CULTURE & RECREATION									
Asian Art Museum	6.6	-	(0.0)	6.6	6.6	-	-	-	
Arts Commission	9.5	-	(0.1)	9.5	9.5	-	-	-	
Fine Arts Museum	10.9	-	(0.0)	10.8	10.8	-	-	-	
Law Library	0.7	-	(0.0)	0.7	0.7	-	-	-	
Recreation and Parks	71.9	0.4	(1.0)	70.9	70.9	(0.9)	-	(0.9)	8
Academy of Sciences	4.3	-	(0.1)	4.2	4.2	-	-	-	
GENERAL ADMINISTRATION & FINANCE									
City Administrator	57.0	0.2	(0.5)	56.5	56.5	-	-	-	
Assessor / Recorder	15.9	-	(0.0)	15.9	15.9	-	-	-	
Board of Supervisors	11.9	-	(0.1)	11.8	11.8	-	-	-	
City Attorney	8.4	-	(0.3)	8.1	8.1	-	-	-	
Controller	27.0	-	(0.4)	26.6	26.3	-	0.3	0.3	9
City Planning	23.2	-	(0.1)	23.1	23.1	-	-	-	
Civil Service Commission	0.5	-	(0.0)	0.5	0.5	-	-	-	
Ethics Commission	6.2	-	(0.1)	6.1	6.1	-	-	-	
Human Resources	15.8	-	(0.2)	15.6	15.6	-	-	-	
Health Service System	0.3	0.1	(0.0)	0.3	0.3	-	-	-	
Mayor	16.2	-	(0.2)	15.9	15.9	-	-	-	
Elections	12.6	-	(0.4)	12.2	13.8	(3.1)	(1.5)	(4.6)	10
Retirement System	1.6	-	-	1.6	1.6	-	-	-	
Technology	5.2	-	-	5.2	5.2	-	-	-	
Treasurer/Tax Collector	24.0	-	(0.4)	23.6	23.6	-	-	-	
GENERAL CITY RESPONSIBILITIES									
GENERAL CITY RESPONSIBILITIES	142.1	8.0	(1.9)	140.3	145.3	4.0	(5.0)	(1.0)	11
TOTAL GENERAL FUND	2,879.5	9.1	(26.7)	2,852.8	2,833.5	(14.6)	19.3	4.7	
Baseline Transfer to Municipal Railway Fund	129.5	-	-	129.5	128.3	-	1.2	1.2	
Baseline Funding to Parking & Traffic Fund	48.8	-	-	48.8	48.4	-	0.4	0.4	
Baseline Funding to Library Preservation Fund	42.2	-	-	42.2	41.9	-	0.4	0.4	
Parking Tax In Lieu Transfer to Municipal Railway Fund	51.3	-	-	51.3	51.1	-	0.2	0.2	
Baseline Funding for Public Education	-	-	-	-	0.2	-	0.2	0.2	
Total Baselines and Transfers	271.8	-	-	271.8	269.8	-	2.4	2.4	
TOTAL GENERAL FUND SUPPORTED IMPACT	3,151.3	9.1	(26.7)	3,124.7	3,103.3	(14.6)	21.7	7.1	
Reserves	161.5	-	(1.4)	160.0	-	-	-	-	

1. Superior Court

The Superior Court projects a deficit of \$3.3 million in indigent defense expenditures associated with increased felony caseloads. A supplemental proposing the use of General Fund Reserve to fund this shortfall is pending at the Board of Supervisors.

2. Fire Department

The Fire Department projects to end the fiscal year with a net \$1.8 million shortfall, due to a \$1.8 million projected shortfall in fire prevention fees and other revenues. This projection assumes the City will receive \$0.7 million for the sale of the 909 Tennessee Fire House and will have \$1.3 million in savings as part of the Mid-Year Balancing Plan.

3. Juvenile Probation

Juvenile Probation projects to end the fiscal year with a net deficit of \$0.8 million. The Department projects a revenue shortfall of \$0.8 million driven by the State projecting a 15% reduction in the portion of vehicle license fee collection revenue passed through to counties. The Department projects expenditures to be on budget which includes savings in the Mid-Year Balancing Plan of \$0.2 million.

4. Public Defender

The Public Defender projects to end the fiscal year with a \$1.8 million deficit. This projection represents \$1.4 million above budgeted levels to maintain current staffing and a further \$0.4 million requested by the Public Defender to hire into vacant unfunded positions. A supplemental proposing the use of General Fund Reserve to fund this shortfall is pending at the Board of Supervisors.

5. Sheriff

The Sheriff is projected to end the fiscal year with a net \$1.5 million deficit. The Department projects a \$1.3 million expenditure deficit due to an under recovery for security provided in the Superior Courts. This projection assumes \$2.0 million in salaries and fringe benefit savings from the amended Deputy Sheriffs' Association labor contract. The Department also projects a \$0.2 million revenue shortfall. The Sheriff plans to submit a \$1.3 million supplemental to cover the expenditure deficit.

6. Human Services

The Human Services Agency projects to end the fiscal year with a \$18.7 million surplus. The Department projects expenditure savings of \$27.3 million, consisting of:

- \$10.1 million savings representing nine months of reduced In-Home Support Services (IHSS) worker county share of wages due to litigation staying the State from their budgeted reduction in State support for those wages. This litigation is further discussed below.
- \$5.7 million savings in aid program savings due to a lower than budgeted caseload for foster care aid and CalWorks Aid, and
- \$11.2 million savings in child welfare programs due primarily to non-receipt of budgeted grants, an updated projection of the impact of deleted caseworker positions based on FY 2009-10 time studies, and a reduction in Transitional Housing Program-Plus expenditures to align with the FY 2009-10 state allocation and available county general funds.

The \$8.6 million revenue shortfall estimate is from the Department's updated projections of federal and state reimbursements for prior year claims. This projected surplus includes \$3.5 million in reductions associated with the Mid-Year Balancing Plan. Note that an additional shortfall of \$3.5 million in Health and Welfare Realignment revenue allocated to the Human Services Agency is not displayed in this departmental projection but is instead reflected in the overall Citywide revenue projection.

In-Home Supportive Services (IHSS) Litigation: In response to legal challenges, a federal court has stayed the State's planned reduction in the level of support provided to counties for IHSS worker wages. As long as the stay remains in effect, or if the State loses its case, the effect will save the Human Services Agency approximately \$1 million per month. This projection assumes 9 months of savings. If the stay remains in effect beyond March 2010 or if the State loses its case, there could be up to \$3 million further savings to the City. If the State were to win a ruling allowing the retroactive imposition of their wage support reduction back to July 1, 2009, that would result in an additional cost to the City of \$10.1 million. Separate litigation related to eligibility changes imposed by the State on IHSS clients could also have a substantial impact on the City's expenditure levels in this program, but the Human Services Agency does not currently have an estimate as to the magnitude of the potential savings or additional costs of alternative outcomes of this litigation.

Pending Human Services Supplemental with No General Fund Impact

There is currently a supplemental appropriation for \$2.8 million pending at the Board of Supervisors that includes additional Federal and State revenues to support In-Home Support Services administration and fraud prevention, food stamps eligibility, and older youth adoption activities.

7. Public Health

The Department of Public Health projects to end the fiscal year with a net surplus of \$1.3 million. The net surplus includes a \$2.9 million deficit for non-hospital operations in the General Fund, a \$11.3 million surplus for San Francisco General Hospital, and a \$7.1 million shortfall for Laguna Honda Hospital.

The Department intends to submit a supplemental appropriation request to use surplus patient revenues from San Francisco General Hospital to cover the projected expenditure shortfalls in all Public Health funds.

Table A2-2 summarizes the Department's projected net surplus:

Table A2-2. Department of Public Health (DPH) FY 2009-10 Projected Surplus / (Deficit)

Fund	Sources		Net Surplus / (Deficit)
	Surplus / (Shortfall)	Uses Savings / (Deficit)	
Public Health General Fund	\$ (0.7)	\$ (2.2)	\$ (2.9)
San Francisco General Hospital	24.8	(13.5)	11.3
Laguna Honda Hospital	(0.5)	(6.6)	(7.1)
Total All Funds	\$ 23.6	\$ (22.3)	\$ 1.3

An additional shortfall of \$12.3 million allocated to the Department of Public Health from Health and Welfare Realignment revenue is not displayed in this departmental projection but is instead reflected in the overall Citywide revenue projection.

Non-Hospital Operations in the General Fund

The Department of Public Health projects a \$2.9 million deficit in its non-hospital operations in the General Fund, of which \$0.7 million is for a revenue shortfall and \$2.2 million is for an expenditure shortfall. The revenue shortfall consists of a projected \$0.5 million decrease in the transfer from the San Francisco General Hospital Fund to the General Fund for the Health Care Coverage Initiative and a projected \$0.2 million shortfall in net patient service revenues. The expenditure shortfall consists of a projected \$1.9 million shortfall in mental health, \$1.0 million for jail health, \$0.8 million for health at home, offset by \$1.2 million expenditure savings in primary care, \$0.2 million in substance abuse, and \$0.1 million for public health. The projected \$2.9 million shortfall includes \$5.7 million of savings as part of the Mid-Year Balancing Plan.

San Francisco General Hospital

The Department of Public Health projects a \$11.3 million surplus for the San Francisco General Hospital. The Department estimates a \$24.8 million revenue surplus comprised of a \$28.8 million favorable variance in net patient service revenue (\$15.2 million surplus in patient service revenue, \$6.0 million in prior year settlements to Medi-Cal Waiver payments, and \$7.6 million in projected payments from the Safety Net Care Pool) offset by a projected \$4.0 million shortfall in projected revenue from the Health Care Coverage Initiative that provides funding for the Healthy San Francisco program. The additional net patient revenue and safety net care pool is related to higher census levels than were assumed in the budget. The revenue surplus is offset by a \$13.5 million deficit from cost overruns in salaries and fringe benefits, which includes \$0.8 million of savings included as part of the Mid-Year Balancing Plan. A supplemental appropriation of additional net patient revenue will be submitted to cover the projected expenditure deficit.

Laguna Honda Hospital

The Department projects a \$7.1 million deficit for Laguna Honda Hospital, made up of a projected \$6.6 million in salary expenditures over budget and \$0.5 million revenue shortfall in net patient revenues and parking lot fee collections. The projected shortfall includes \$0.1 million savings as part of the Mid-Year Balancing Plan. The Department will submit a supplemental appropriation of additional net patient revenue from San Francisco General Hospital to cover the projected expenditure deficit.

AB 1383/AB188 - Hospital Fee

The State has submitted a State Plan Amendment to the Center for Medicare and Medicaid Services (CMS) and is in negotiation with CMS. If approved by CMS, the Hospital Fee would increase MediCal rates to private hospitals and fund a \$590 million grant to designated public hospitals, including San Francisco General Hospital Medical Center (SFGH). While the outcome of this process is uncertain, it could result in \$30 - 40 million to SFGH for the 2009-10 fiscal year as its share of the \$590 million grant. The Hospital Fee would likely expire on December 31, 2010. Potential revenues from the fee have not been included in this report's projections since the plan amendment has not yet been approved by the federal government and timing of any receipt of the fees remains uncertain.

8. Recreation and Park

The Recreation and Park Department projects to end the fiscal year with a \$0.9 million deficit in anticipated parking meter revenues because the parking meters have not yet been installed. This projection includes \$0.4 million in additional revenues assumed in the Mid-Year Balancing Plan.

9. Controller

The Controller projects to end the fiscal year with expenditure savings of \$0.3 million in salary and fringe benefit savings. These savings are in addition to the \$0.4 million savings as part of the Mid-Year Balancing Plan.

10. Elections

The Department of Elections projects to end the fiscal year with a net deficit of \$4.6 million. The Department projects a revenue shortfall of \$3.1 million due to the State not reimbursing costs associated with the May 19, 2009 special election. The Department projects a \$1.5 million expenditure deficit due to reductions in work order recoveries. This projection includes a \$0.4 million in savings as part of the Mid-Year Balancing Plan.

11. General City Responsibility

The projected \$1.0 million shortfall in General City Responsibility includes a \$4.0 million revenue surplus and a \$5.0 million expenditure deficit. The \$4.0 million revenue surplus includes additional funds from the San Bruno Jail settlement revenue beyond those assumed in the Mid-Year Balancing Plan. The \$5.0 million expenditure deficit includes:

- \$4.1 million deficit from the shortfall in the Salaries and Benefits due to high levels of one-time payouts resulting from retirements and layoffs as detailed in Appendix 3,
- \$3.4 million deficit to cover the anticipated shortfall in the Cigarette Litter Abatement special revenue fund (see Appendix 4, note 2),
- \$1.9 million savings from a reduced transfer to the Convention Facilities special revenue fund due to debt service savings, and
- \$0.6 million savings from a reduced transfer to the Library Preservation fund to reflect a reduced baseline transfer as detailed in Appendix 4, note 6.

Appendix 3. Salary and Benefits Reserve Update

Table A3-1. Salary and Benefits Reserve (\$ millions)

SOURCES

Adopted AAO Salary and Benefits Reserve	\$ 13.2
SEIU - Education Fund	0.4
Total Sources	\$ 13.7

USES

Transfers to Departments

Police Wellness, Premium, and Compensatory Time Payouts	\$ 5.6
Public Health Wellness, Premium, and Compensatory Time Payouts	3.9
Fire Wellness, Premium, and Compensatory Time Payouts	3.9
Other Departments Wellness, Premium, and Compensatory Time Payouts	2.0
SEIU "As-Needed" Temporary Healthcare (DHR)	1.0
Various Depts - Local 21 Life Insurance	0.2
Visual Display Terminal Insurance - Quarters 1-2	0.1
Total Transfers to Departments	\$ 16.7

Remaining Allocations

Training and Tuition Reimbursement (Fire Fighters, SEIU employees, Various)	\$ 0.8
Police Officers Association Recruitment Committee	0.3
Visual Display Terminal Insurance - FY 2009-10 Quarters 3 - 4	0.1
Total Remaining Allocations	\$ 1.1

Total Uses	\$ 17.8
-------------------	----------------

Net Surplus / (Shortfall)	\$ (4.1)
----------------------------------	-----------------

APPENDIX 4. OTHER FUNDS HIGHLIGHTS

Table 4-1 Other Fund Highlights

	Prior Year		FY 2009-10					Estimated Year-end Fund Balance	Note
	FY 2008-09 Year-End Available Fund Balance	Fund Balance Used in FY 09-10 Budget	Starting Available Fund Balance	Sources Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Operating Surplus / (Deficit)			
<u>SELECT SPECIAL REVENUE FUNDS</u>									
Building Inspection Operating Fund	\$1.7	\$1.2	\$0.5	\$2.6	\$0.2	\$2.7	\$3.3	1	
Cigarette Litter Abatement Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	2	
Children's Fund	\$0.0	\$0.7	(\$0.7)	(\$1.6)	\$0.1	(\$1.5)	(\$2.2)	3	
Convention Facilities Fund	(\$0.3)	\$0.0	(\$0.3)	\$0.0	\$0.3	\$0.3	\$0.0	4	
Golf Fund	(\$0.6)	\$0.0	(\$0.6)	\$0.5	\$0.1	\$0.6	\$0.0	5	
Library Preservation Fund	\$14.1	\$1.3	\$12.7	(\$2.2)	\$2.8	\$0.6	\$13.3	6	
Open Space Fund	\$5.4	\$5.4	\$0.0	(\$1.3)	\$0.0	(\$1.3)	(\$1.3)	7	
<u>SELECT ENTERPRISE FUNDS</u>									
Airport Operating Fund	\$86.4	\$68.8	\$17.5	\$0.0	\$0.0	\$0.0	\$17.5	8	
MTA – ALL Funds	\$57.8	\$42.2	\$15.6	(\$12.0)	(\$4.9)	(\$16.9)	(\$1.4)	9	
Port Operating Fund	\$26.4	\$7.8	\$18.6	\$0.0	\$6.0	\$6.0	\$24.6	10	
PUC – Hetch Hetchy Operating Fund	\$102.5	\$29.9	\$72.6	\$6.9	\$10.2	\$17.1	\$89.7	11	
PUC – Wastewater Operating Fund	\$23.9	\$0.0	\$23.9	(\$17.1)	\$12.3	(\$4.8)	\$19.1	12	
PUC – Water Operating Fund	\$56.5	\$3.5	\$53.0	(\$20.9)	\$0.5	(\$20.4)	\$32.6	13	

Notes to Special Revenue and Enterprise Funds

Select Special Revenue Funds

1. Building Inspection Fund

The Building Inspection Department operating fund began the year with \$0.5 million in available fund balance after adjusting for the \$1.2 million appropriated in the FY 2009-10 budget. The Department projects operating revenues net of refunds to be \$2.6 million over budget. Expenditures are projected to be under-expended by \$0.2 million in non-personal services and materials and supplies. This results in a projected ending fund balance of \$3.3 million.

2. Cigarette Litter Abatement Fund

This new fund began with no starting balance and includes a \$4.5 million revenue budget for the newly implemented cigarette litter abatement fee, effective September 1, 2009. The first installment of this fee was due from retailers by February 1, 2010. Collections to date total \$0.3 million from 35% of retailers contacted by the Treasurer/Tax Collector. In addition, in January 2010, a claim (precursor to a lawsuit) was filed in San Francisco Superior Court contesting the fee. Our projection assumes the City will recognize 25% of the budgeted \$4.5 million in the current year, reflecting a projected shortfall of \$3.4 million. This report also assumes that the General Fund will transfer \$3.4 million into the Cigarette Litter Abatement Fund to cover the projected revenue shortfall. The City's FY2009-10 budget included \$1.5 million in expenditure reserves spread among the departments with budgeted recoveries of expenditures from the fee: Environment, Public Works, Port, MTA, Recreation and Parks, and Treasurer/Tax Collector.

3. Children's Fund

The Children's Fund began the fiscal year with an adjusted negative starting fund balance of -\$0.7 million after adjusting for the \$0.7 million appropriated in the FY 2009-10 budget. The starting shortfall is due to the discovery of obligations related to prior year appropriations from the fund that were not taken into account when the FY 2009-10 budget was developed. Current year revenues are projected to be \$1.6 million under budget due to the projected decrease in Property Tax revenue. This results in a projected negative year-end fund balance of \$2.2 million unless expenditure savings are identified. The Mayor's office is working with the Department on responses to the revenue shortfall and an update will be provided in the Nine-Month Report.

4. Convention Facilities Fund

The Convention Facilities Fund began the fiscal year with a negative \$0.3 million in fund balance. Revenues are projected to be on budget; however, the Department projects an expenditure savings of \$0.3 million. This includes \$0.3 million over spending due to unanticipated increases in facilities maintenance and security costs at Bill Graham Civic Auditorium offset by \$0.6 million in debt service savings. The net result is a projected fiscal year-end zero fund balance. This projection includes a \$2.1 million savings as part of the Mid-Year Balancing Plan.

5. Golf Fund

The Golf Fund began the fiscal year with no appropriated fund balance in the budget and a deficit of \$0.6 million in available fund balance, due mostly to \$0.5 million owed by the Professional Golfers Association (PGA) for the President's Cup. The department received the payment from the PGA in FY 2009-10. The Department expects to make up the remaining shortfall of \$0.1 million by reducing expenditures. The net result is a zero operating surplus and no available fiscal year-end fund balance.

6. Library Preservation Fund

The Library Preservation Fund began the fiscal year with \$12.7 million in available fund balance. The Department projects expenditure savings of \$2.8 million due to savings in salaries and fringe benefits, books and materials, and debt service. The Department projects a revenue shortfall of \$1.6 million due to decreases in the Property Tax allocation and the General Fund baseline contribution. Pursuant to San Francisco Charter Section 16.109, the Department would also return the general fund share of expenditure savings, resulting in further reductions to the required baseline contribution of \$0.6 million, for a total revenue shortfall of \$2.2 million. The net result is an operating surplus of \$0.6 million and an expected fiscal year-end available fund balance of \$13.3 million.

7. Open Space Fund

The Open Space Fund began FY 2009-10 with appropriated fund balance of \$5.4 million. Revenues are anticipated to be under budget by \$1.3 million due to reduced Property Tax allocation. The Department expects to make up the projected shortfall by reducing expenditures in this fund.

Select Enterprise Funds

8. Airport Operating Fund

The Airport Operating Fund began the fiscal year with \$17.5 million in available fund balance. Revenues and expenditures are projected to be on budget, and this includes the Airport committing to an additional annual service payment to the General Fund of \$0.7 million for concession revenue, resulting in a projected fiscal year-end fund balance of \$17.5 million.

9. MTA – All Funds

MTA began the fiscal year with \$15.6 million in available fund balance. The Department projects a net revenue shortfall of \$12.0 million. This consists of a \$12.0 million shortfall in Parking and Traffic fees and fines, \$3.8 million shortfall in Taxi Services, and a \$1.4 million shortfall in the General Fund baseline allocation. These revenue shortfalls are partially offset by a revenue surplus of \$5.2 million in operating grants. The Department projects an expenditure deficit of \$4.9 million, consisting of a \$6.2 million deficit in materials and supplies and a \$3.1 million deficit in insurance and payments to other agencies. The expenditure deficit is partially offset by a \$4.4 million surplus in salaries and fringe benefits due to position eliminations, layoffs, overtime modifications, and schedule realignments. This results in a projected net operating deficit of \$16.9 million and an estimated fiscal year-end negative fund balance of \$1.4 million. The MTA Board plans to meet on February 16, 2010 to discuss

proposed solutions such as labor concessions and fare increases on certain routes as well as other solutions in order to close the budget deficit.

Significant Uncertainty Remains: Please note significant uncertainty remains pertaining to the MTA's net operating projection. This projection assumes that MTA will receive \$11.2 million in Taxi Medallion revenue and \$7.0 million in San Francisco County Transportation Authority revenue by fiscal year-end and also implement a significant number of layoffs for savings of \$3.8 million. If these revenues or personnel reductions are not realized, MTA would have a potential net operating deficit of \$38.9 million and an estimated year-end negative fund balance of \$23.4 million.

10. Port Operating Fund

The Port Operating Fund began the fiscal year with \$18.6 million in available fund balance above the \$7.8 million appropriated in the budget. The Port is projecting to have an operating surplus of \$6.0 million in the current year due to expenditure savings, including debt service resulting from a delay in the issuance of new Port revenue bonds, and better than expected commercial and industrial rents and other revenues. This results in a projected fiscal year-end available fund balance of \$24.6 million.

11. Public Utilities Commission – Hetch Hetchy Operating Fund

The Hetch Hetchy Operating Fund began the fiscal year with \$72.6 million available fund balance above the \$29.9 million appropriated in the budget. The Department projects a net revenue surplus of \$6.9 million including a \$6.6 million award in new allocations of Clean Renewable Energy Bonds and increased power usage from Enterprise departments. Expenditure savings are projected to be \$10.2 million, including \$4.8 million in power purchases, \$4.0 million in general reserve contingency, and \$1.0 million due to lower than anticipated California Independent System Operator market transaction prices. This results in a projected net surplus of \$17.1 million and a fiscal year-end available fund balance of \$89.7 million.

12. Public Utilities Commission – Wastewater Operations Fund

The Wastewater Operations Fund began the fiscal year with \$23.9 million in available fund balance. Revenues are projected to be \$17.1 million lower than budget due to lower water consumption, lower cash balances, and declining interest rates. This shortfall is projected to be offset by \$12.3 million in expenditure savings in a budgeted reserve. This results in a projected net shortfall of \$4.8 million and a fiscal year-end available fund balance of \$19.1 million.

13. Public Utilities Commission – Water Operating Fund

The Water Operating Fund began the fiscal year with an available fund balance of \$53.0 million above the \$3.5 million appropriated in the budget. Revenues are projected to be under budget by \$20.9 million, due to a reduction in water consumption, lower cash balances, and declining interest rates. Expenditures are expected to be under budget by \$0.5 million due to savings from salaries, offset by higher electricity costs. This results in a projected net shortfall of \$20.4 million and a projected fiscal year-end available fund balance of \$32.6 million.

STAFF CONTACTS

Leo Levenson, Director of Budget & Analysis, Leo.Levenson@sfgov.org

Michelle Allersma, Revenue Manager Michelle.Allersma@sfgov.org

Nadia Feeser, Acting Budget Manager, Nadia.Feeser@sfgov.org

Aimee Fribourg, Budget Analyst, Aimee.Fribourg@sfgov.org

Joe Nurisso, Budget Analyst, Joe.Nurisso@sfgov.org