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Controller
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June 13, 2008

The Honorable Board of Supervisors
City and County of San Francisco
City Hall, Room 244
San Francisco, CA 94102

**Re: Controller's Discussion of the Mayor's Fiscal Year 2008-09 Proposed Budget
[Revenue Letter - Fiscal Year 2008-09]**

Dear Members of the Board:

Charter Section 9.102 requires that the Controller "provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates [in the Mayor's Proposed Budget] and the reasonableness of such estimates and revisions." On June 2, 2008, Mayor Gavin Newsom issued his FY 2008-09 Proposed Budget to the Board of Supervisors. **Overall, the Proposed Budget appears to be reasonable given current trends, including continued growth in key revenue sources.**

This report provides a high-level budgetary overview with particular focus on the sources of funds included in the Mayor's Proposed Budget. Summary points and key assumptions made in the Budget include:

- Overall budgeted revenues are \$6.53 billion, an increase of \$445.59 million or 7.3 percent over the FY 2007-08 Original Budget. General Fund budgeted revenues are \$3.05 billion, an increase of \$128.63 million or 4.4 percent.
- Moderate growth rates over our Nine-Month Report projections of approximately two to five percent are assumed in major tax revenues. Of note is Property Transfer Tax revenue, which is projected to decrease 23.6 percent from FY 2007-08 budgeted levels, and Hotel Tax revenue, which is projected to grow 7.2 percent.
- A current year General Fund balance of \$80.78 million is assumed, an increase of \$39.14 million over the Nine-Month Report projection, largely the result of expenditure close-outs and savings.
- Prior year reserves of \$32.88 million are budgeted, of which \$10.11 are used to balance the General Fund budget.
- One-time sources of \$68.95 million are budgeted, \$53.21 million of which are used to balance the General Fund budget.
- Proposed fee and fine increases total \$113.67 million, including \$28.98 million in Airport charges, \$42.77 million in water and sewer charges, and \$12.35 in General

Fund fee increases. The General Fund fee and fine increases require Board of Supervisors approval.

- Proposed fee and fine increases total \$16.91 million in the MTA in FY 2008-09. These increases do not require Board of Supervisors approval. The Controller's Office will review revenue assumptions for FY 2009-10 in the Revenue Letter for FY 2009-10 and will determine whether or not to reserve any expenditure authority at that time.
- Proposed State budget cuts as of the Governor's May Revise total \$113.39 million, of which \$77.69 million affect the General Fund. The Mayor's Proposed Budget backfills \$44.08 million of these State cuts. No changes to funding from the Federal Budget have been assumed.
- All revenue-driven baselines are funded at voter-approved levels, with the exception of the Children's and Public Education baselines, which are funded above required levels by \$19.86 million and \$0.12 million, respectively.
- Reserves of \$191.93 million have been placed on expenditures pending Board of Supervisors approval of the Laguna Honda Hospital Improvement project financing and debt sale.
- Reserves of \$26.27 million have been placed on expenditures pending voter approval of the San Francisco General Hospital bond this November.
- Additional contingencies have been placed on use of the General Reserve totaling \$20.00 million. Of this, a \$5.00 million contingency has been placed on the General Reserve pending the Board of Supervisors' approval of the Ordinance transferring the Mayor's Election Campaign Fund to the General Fund. An additional \$15.00 million contingency against the General Reserve is due to potential losses of 911 fee revenues included within the Proposed Budget. There is pending litigation challenging the validity of emergency response (911) fees in other cities in California. There is a risk that if the City's fee were challenged, a court could limit or invalidate a portion of the fees collected in the coming fiscal year, and also could require certain refunds be made to telephone customers for prior year amounts.

**Controller's Discussion of the Mayor's Fiscal Year 2008-09 Proposed Budget
[Revenue Letter – FY 2008-09]**

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I. High Level Summary of General Fund & All Funds Sources

Overall, the Mayor's FY 2008-09 Proposed Budget has increased 4.4 and 7.3 percent for the General Fund and All Funds, respectively. This includes regular revenue growth of 4.4 percent in the General Fund and 8.2 percent for All Funds over FY 2007-08 Original Budget levels – growth commensurate with continued modest expansion in certain parts of the Bay Area, including San Francisco.

Budget-to-Budget Sources Summary for General Fund & All Funds

(\$ millions)

All Funds including General Fund

	FY 2007-08		FY 2008-09		Change	
	Adopted Budget	Mayor's Proposed	\$	%	\$	%
Prior-Year						
Fund Balance	\$ 239.38	\$ 205.71	\$ (33.67)	-14.1%		
Reserves	23.50	27.15	\$ 3.65	15.5%		
Subtotal	262.88	232.87	(30.02)	-11.4%		
Current-Year						
Regular Revenues	5,816.90	6,292.51	\$ 475.61	8.2%		
Transfers, net	n/a	n/a	n/a	n/a		
Subtotal	5,816.90	6,292.51	475.61	8.2%		
Total Sources	\$ 6,079.79	\$ 6,525.37	\$ 445.59	7.3%		

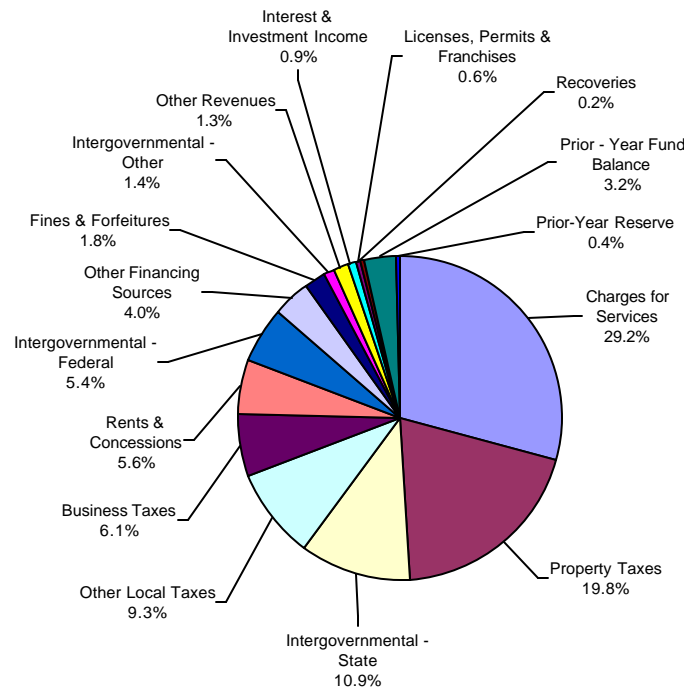
General Fund

	FY 2007-08		FY 2008-09		Change	
	Adopted Budget	Mayor's Proposed	\$	%	\$	%
Prior-Year						
Fund Balance	\$ 118.89	\$ 80.78	\$ (38.12)	-32.1%		
Reserves	23.50	23.64	0.14	0.6%		
Subtotal	142.39	104.42	(37.97)	-26.7%		
Current-Year						
Regular Revenues	2,769.20	2,890.02	120.83	4.4%		
Transfers, net	9.97	55.75	45.78	459.2%		
Subtotal	2,779.16	2,945.77	166.60	6.0%		
Total Sources	\$ 2,921.56	\$ 3,050.19	\$ 128.63	4.4%		

Budget-to-Budget Sources Comparison – All Funds (\$ millions)

Sources of Funds	Sorted by Size			Change from Prior Year	
	FY 2007-08 Budget	FY 2008-09 Proposed Budget	% of Total	\$	%
Charges for Services	\$ 1,807,697,039	\$ 1,903,916,397	29.2%	\$ 96,219,358	5.3%
Property Taxes	1,185,967,251	1,295,106,968	19.8%	109,139,717	9.2%
Intergovernmental - State	706,698,093	709,049,880	10.9%	2,351,787	0.3%
Other Local Taxes	587,968,159	605,344,700	9.3%	17,376,541	3.0%
Business Taxes	360,553,000	395,345,000	6.1%	34,792,000	9.6%
Rents & Concessions	349,113,001	368,428,286	5.6%	19,315,285	5.5%
Intergovernmental - Federal	349,710,238	355,390,484	5.4%	5,680,246	1.6%
Other Financing Sources	77,083,647	261,352,026	4.0%	184,268,379	239.0%
Fines & Forfeitures	104,890,517	115,383,200	1.8%	10,492,683	10.0%
Intergovernmental - Other	71,641,104	88,787,379	1.4%	17,146,275	23.9%
Other Revenues	86,491,988	83,968,550	1.3%	(2,523,438)	-2.9%
Interest & Investment Income	83,984,972	57,391,158	0.9%	(26,593,814)	-31.7%
Licenses, Permits & Franchises	36,355,723	40,199,203	0.6%	3,843,480	10.6%
Recoveries	8,747,404	12,845,943	0.2%	4,098,539	46.9%
Regular Revenues	\$5,816,902,136	\$6,292,509,174	96.4%	\$475,607,038	8.2%
Prior-Year Fund Balance	239,383,275	205,713,489	3.2%	(33,669,786)	-14.1%
Prior-Year Reserve	23,500,000	27,151,745	0.4%	3,651,745	15.5%
Total Sources	\$6,079,785,411	\$6,525,374,408	100.0%	\$445,588,997	7.3%

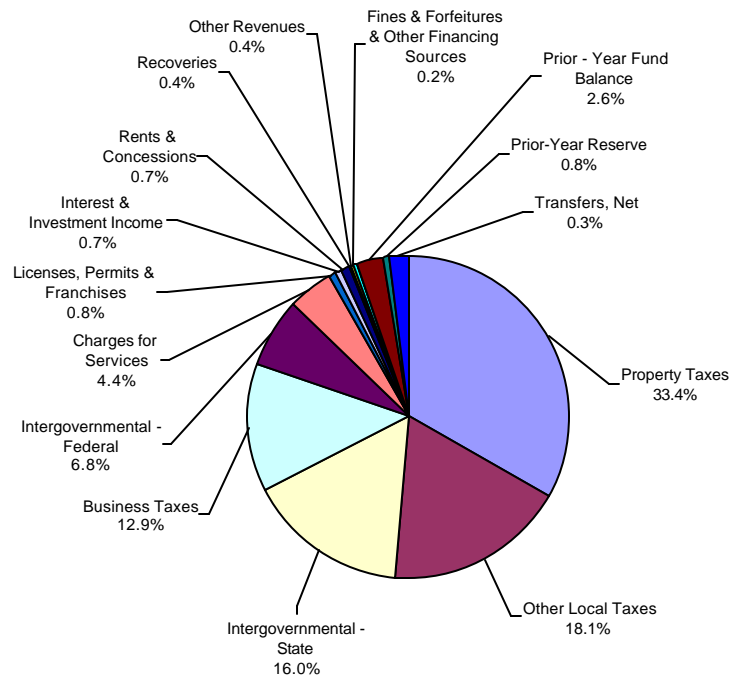
Sources of Funds - All Funds



Budget-to-Budget Sources Comparison – General Fund (\$ millions)

Sources of Funds	Sorted by Size			Change from Prior Year	
	FY 2007-08 Budget	FY 2008-09 Proposed Budget	% of Total	\$	%
Property Taxes	\$ 934,720,000	\$ 1,017,930,000	33.4%	\$ 83,210,000	8.9%
Other Local Taxes	531,920,100	552,588,300	18.1%	20,668,200	3.9%
Intergovernmental - State	494,174,124	487,143,243	16.0%	(7,030,881)	-1.4%
Business Taxes	359,718,000	394,510,000	12.9%	34,792,000	9.7%
Intergovernmental - Federal	214,140,321	205,930,466	6.8%	(8,209,855)	-3.8%
Charges for Services	128,419,856	134,582,652	4.4%	6,162,796	4.8%
Licenses, Permits & Franchises	22,075,274	24,788,882	0.8%	2,713,608	12.3%
Interest & Investment Income	35,480,628	21,366,697	0.7%	(14,113,931)	-39.8%
Rents & Concessions	19,805,661	21,277,171	0.7%	1,471,510	7.4%
Recoveries	8,747,404	12,845,943	0.4%	4,098,539	46.9%
Other Revenues	14,817,478	11,413,839	0.4%	(3,403,639)	-23.0%
Fines & Forfeitures	3,899,000	3,860,893	0.1%	(38,107)	-1.0%
Other Financing Sources	1,278,000	1,783,000	0.1%	505,000	39.5%
Regular Revenues	\$2,769,195,846	\$2,890,021,086	94.7%	\$120,825,240	4.4%
Prior-Year Fund Balance	118,892,036	80,775,251	2.6%	(38,116,785)	-32.1%
Prior-Year Reserve	23,500,000	23,642,704	0.8%	142,704	0.6%
Transfers, Net	9,968,670	55,746,343	1.8%	45,777,673	459.2%
Total Sources	\$2,921,556,552	\$3,050,185,384	100.0%	\$128,628,832	4.4%

Sources of Funds - General Fund



II. SOURCES OF FUNDS

Charter Section 9.102 requires that the Controller “provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates [in the Mayor’s Proposed Budget] and the reasonableness of such estimates and revisions.” The Controller’s Office and the Mayor’s Budget Office have worked together to prepare the Mayor’s Proposed Budget revenue estimates. On June 2, 2008, Mayor Gavin Newsom issued his FY 2008-09 Proposed Budget. The most recent Joint Report, which was published in March 2008, included a projected shortfall of \$338.4 million for FY 2008-09. The Mayor’s FY 2008-09 Proposed Budget closed this shortfall with targeted spending reductions and increased revenue projections.

Sources of funding estimates are largely based on the economic assumptions outlined in the Joint Report issued by the Mayor’s Budget Office, the Controller’s Office, and the Board of Supervisors’ Budget Analyst. Additionally, the Mayor’s Proposed Budget includes updated citywide revenue projections for the City’s major tax revenues reflecting the generally higher base levels outlined in the Controller’s Nine-Month Report as well as additional Hotel Taxes. Finally, we have incorporated substantive technical adjustments impacting revenues as proposed by the Mayor’s Office through June 12 in the applicable sections of this report.

Overall, discretionary General Fund revenues are projected to grow 7.3 percent from the FY 2007-08 budgeted levels or 6.1 percent from the Controller’s 9-Month Report projection. Of note is the 23.6 percent reduction to Transfer Tax revenues as compared to the FY 2007-08 budget, which are budgeted lower because the drop in commercial transactions from FY 2006-07 was larger than originally expected in the second half of FY 2007-08. General Fund Hotel Room Tax revenues are budgeted to increase 26.6 percent over the prior year due both to growth in occupancy and room rates as well as changes in the allocation of the Hotel Tax, as outlined below.

Chart A: General Fund Discretionary Revenue Summary (\$ millions)

	FY 2007-08		FY 2008-09				
	Revised Budget	9-Month Year-end Projection	Mayor's Proposed Budget	Change from PY			
				Budget		Projection	
				\$	%	\$	%
Property Taxes (1)	\$934.72	\$961.01	\$ 1,017.93	\$ 83.21	8.9%	\$ 56.92	5.9%
Business Taxes	359.72	373.15	394.51	34.79	9.7%	21.36	5.7%
Sales Tax	111.55	113.55	119.23	7.68	6.9%	5.68	5.0%
Utility Users Tax	80.21	81.15	82.77	2.56	3.2%	1.62	2.0%
Property Transfer Tax	123.52	91.57	94.31	(29.21)	-23.6%	2.74	3.0%
Hotel Room Tax (2)	148.87	163.51	188.42	39.56	26.6%	24.92	15.2%
Parking Tax	64.82	64.41	65.37	0.55	0.8%	0.97	1.5%
Public Safety Sales Tax	73.27	70.97	73.81	0.54	0.7%	2.84	4.0%
Motor Vehicle In-Lieu (MVL)	5.29	4.77	4.96	(0.33)	-6.3%	0.19	4.1%
Total - Discretionary Revenues	\$1,901.96	\$1,924.08	\$ 2,041.32	\$ 139.35	7.3%	\$117.24	6.1%

NOTES

- (1) The proposed budget is adjusted for growth in assessed valuation, delinquencies, projected assessment appeals and estimated tax increment required for Redevelopment Agency projects.
- (2) Includes both General Fund Unallocated (discretionary) and General Fund Allocated Hotel Room Tax revenues. Of the \$188.42 million budgeted in FY 2008-09, \$159.12 million is Unallocated (discretionary).

Discussion of Budget Estimates for General Fund Discretionary Revenues

Property Taxes: The FY 2008-09 General Fund share of property tax revenue is projected to be \$1,017.93 million, which is \$83.21 million (8.9 percent) more than the FY 2007-08 Budget or 5.9 percent more than the FY 2007-08 9-Month Report projection. The projection continues to assume a decrease in the amount of the backlog commensurate with levels experienced over the last twelve months.

Of Proposition 13's one percent countywide tax rate, approximately 57 percent of property taxes accrue to the General Fund, and amounts equal to 3.0, 2.5 and 2.5 percent accrue to the City's Children's Fund, the Open Space Fund and the Library Preservation Fund respectively. Additionally, another 25 percent is indirectly shifted from the City's General Fund to Schools through the State's Educational Revenue Augmentation Fund (ERAF) program. The remainder is directly allocated to other local taxing entities such as BART, the San Francisco Unified School District, the San Francisco Community College, and the Bay Area Air Quality Management District. In addition to the Proposition 13's one percent countywide rate, debt service related to voter-approved bonds is paid from a property tax rate add-on, as calculated annually by the Controller. This add-on was 0.141 percent for FY 2007-08 for a total property tax rate of 1.141 percent.

A portion of property tax is also allocated to the Redevelopment Agency related to the degree assessment valuations have grown in established redevelopment project areas.¹ The Redevelopment Agency's budget is largely funded through property tax allocations, which would otherwise accrue to the General Fund and other taxing entities. For FY 2008-09, tax increment funding allocated to the Redevelopment Agency is projected to increase to \$89.35 million from \$78.54 million in FY 2007-08 or a \$10.81 million increase. The incremental impact to the General Fund of this \$10.81 million increase is \$6.16 million (57 percent of property tax increment). The General Fund allocation of property tax assumes the expiration of the Golden Gateway and Western Addition project areas on January 1, 2009.

Preliminary working roll estimates from the Assessor's Office are indicative of the FY 2008-09 secured tax roll increasing approximately 7.1 percent from the FY 2007-08 certificate values, which is consistent with the Mayor's Proposed Budget assumptions. For purposes of projecting the General Fund property tax revenues, several additional factors are taken into consideration. First, some changes in the Assessor's working roll are already reflected in the FY 2007-08 year-end projection, due to mid-year reassessments and subsequent supplemental tax revenues. Second, anticipated appeals, refunds, reassessments, delinquencies, prior-year collections, tax increment allocations to the Redevelopment Agency and major transactions are considered. Finally, changes in the assessment processing backlog and changes due to State budgetary shifts, like the State Sales Tax shift (i.e., the *Triple Flip*) and Vehicle License Fee Swap, are considered.

Property tax delinquencies decreased from prior-recession highs of 4.02 percent in the early nineties to 1.55 percent for FY 2006-07. The Mayor's FY 2008-09 Proposed Budget includes an assumed overall delinquency rate of 1.33 percent given recent experience.

¹ The gross tax increment assumed for the Redevelopment Agency is projected to be \$89.35 in FY 2008-09, compared to \$78.54 million in FY 2007-08, \$71.24 million in FY 2006-07, \$70.56 million in FY 2005-06, \$55.19 million in FY 2004-05, and \$38.23 million in FY 2003-04.

Business Taxes: Business taxes are budgeted at \$394.51 million, which is \$34.79 million (9.7 percent) more than the \$359.72 million budgeted in FY 2007-08, or \$21.36 million (5.7 percent) more than the FY 2007-08 year-end projections. The Proposed Budget is based on moderate growth in employment of approximately 1.0 to 2.0 percent and 3.0 to 4.0 percent wage increases. Business tax revenue is comprised of business license registration fees and payroll taxes with the latter totaling \$384.56 million.

The Mayor's FY 2008-09 Proposed Budget continues to include the debt service for the business tax (gross receipts) judgment bonds pertaining to the litigation settlement previously adopted by the Board of Supervisors. FY 2008-09 debt service on the judgment bonds is \$7.26 million. The judgment bonds are fixed rate and payable through FY 2010-11, assuming no prepayment or subsequent refunding occurs.

Sales Tax: Sales tax in FY 2008-09 is expected to generate \$119.23 million in revenue, up by \$7.68 million (6.9 percent) from the FY 2007-08 original budget and \$5.68 million (5.0 percent) from FY 2007-08 year-end projections. San Francisco sales tax continues to be more dependent on tourism than most other cities in California. Growth in tourism, as well as increased employment, accounts for a significant portion of the 5.0 percent underlying sales activity growth assumed in the FY 2008-09 budget.

Utility Users Tax: Utility users tax revenue is budgeted at \$82.77 million in FY 2008-09, which is \$2.56 million (3.2 percent) over the FY 2007-08 Original Budget or \$1.62 million (2.0 percent) over the FY 2007-08 9-Month Report projection. Growth is primarily related to increased commercial and cellular telephone usage. On a related note to this revenue, on May 25, 2006, the US Treasury Department announced that it would eliminate the three percent Federal Excise Tax on long-distance telephone calls and refund about \$13 billion collected to taxpayers. The City continues to evaluate the US Treasury's reinterpretation of the Federal Excise Tax provisions to see if there may be any adverse impact to our local telephone utility users tax.

Real Property Transfer Tax: Real property transfer tax is budgeted at \$94.31 million, which is \$29.21 million (23.6 percent) less than the FY 2007-08 budget level of \$123.52 million, and \$2.74 million over the FY 2007-08 9-Month Projection. The FY 2007-08 budget was 15 percent less than the FY 2006-07 revenue projected in that year's 9-Month Report, anticipating a decline in transactions. FY 2004-05, FY 2005-06 and FY 2006-07 all witnessed unprecedented sales activity in the commercial real estate sector in particular. The table below summarizes recent history for this revenue by transaction size and illustrates the high levels of revenue generated in recent years due to the transactions in excess of \$1 million in purchase price.

Chart B: Real Property Transfer Tax Revenues by Transaction Size (\$ millions)

Fiscal Year	Real Property Transfer Tax Revenue (\$ millions)					Transaction Count			
	@ 0.50%	@ 0.68%	@ 0.75%	Timing	Total	@ 0.50%	@ 0.68%	@ 0.75%	Total
	<\$250K	>\$250K	>\$1 M	Differences	Revenue*	<\$250K	>\$250K	>\$1 M	
FY 1997-98	\$ 2.77	\$ 19.34	\$ 22.89	\$ (0.99)	\$ 44.01	4,363	6,449	673	11,485
FY 1998-99	\$ 2.05	\$ 23.20	\$ 31.87	\$ (0.99)	\$ 56.13	3,424	7,425	925	11,774
FY 1999-00	\$ 1.18	\$ 25.51	\$ 41.57	\$ 1.62	\$ 69.88	2,019	7,368	1,360	10,747
FY 2000-01	\$ 0.46	\$ 22.87	\$ 38.96	\$ 0.05	\$ 62.34	665	6,076	1,362	8,103
FY 2001-02	\$ 0.41	\$ 25.38	\$ 21.21	\$ 0.28	\$ 47.27	625	6,760	1,270	8,655
FY 2002-03	\$ 0.48	\$ 29.31	\$ 21.37	\$ 0.31	\$ 51.48	693	7,513	1,311	9,517
FY 2003-04	\$ 0.74	\$ 37.78	\$ 41.05	\$ (0.72)	\$ 78.85	1,180	9,460	2,237	12,877
FY 2004-05	\$ 0.65	\$ 37.16	\$ 78.89	\$ 0.10	\$ 116.80	1,176	8,699	3,056	12,931
FY 2005-06	\$ 0.46	\$ 31.44	\$ 98.33	\$ 1.05	\$ 131.28	931	7,400	3,355	11,686
FY 2006-07	\$ 0.41	\$ 29.25	\$ 114.31	\$ 0.00	\$ 143.98	800	7,225	3,003	11,028
FY 2007-08 Budget	\$ 0.42	\$ 27.18	\$ 95.92	\$ -	\$ 123.52	680	7,160	2,640	10,480
FY 2007-08 Projection	\$ 0.47	\$ 25.47	\$ 65.64	\$ -	\$ 91.57	851	6,494	3,070	10,414
FY 2008-09 Budget	\$ 0.48	\$ 26.23	\$ 67.60	\$ -	\$ 94.31	842	6,429	3,039	10,310

\$1M+ Segment ... Slowdown in Commercial Transactions

Through May Actuals									
FY 2006-07 YTD	\$ 0.37	\$ 26.65	\$ 89.19		\$ 116.21	712	6,599	2,641	9,952
FY 2007-08 YTD	\$ 0.43	\$ 22.54	\$ 56.33		\$ 79.30	757	5,931	2,123	8,811
YTD Change	16.9%	-15.4%	-36.8%		-31.8%	6.3%	-10.1%	-19.6%	-11.5%

* Adjusted for timing differences between Recorder's System and revenue recognition requirements.

Investors have historically bought and held commercial buildings for a number of years, so the recent revenue peaks in FY 2005-06 and FY 2006-07 were not assumed to be sustainable in the FY 2007-08 budget. The FY 2008-09 proposed budget assumes transaction values and counts similar to projected FY 2007-08 levels. Revenues through May, 2008 are down 31.8 percent over the same period prior year. The Controller's Office monitors transfer tax collection rates and transaction volumes closely to provide updates throughout the fiscal year.

Chart C: Real Property Transfer Tax Revenues (\$ millions)

Fiscal Year	Budget	Actual / Projected*	Annual Growth		Over / (Under) Budget
			\$ Change	% Change	
FY 1982-83	\$ 7.50	\$ 11.85			\$ 4.35
FY 1983-84	\$ 11.30	\$ 12.96	\$ 1.11	9.3%	\$ 1.66
FY 1984-85	\$ 12.80	\$ 13.87	\$ 0.92	7.1%	\$ 1.07
FY 1985-86	\$ 16.00	\$ 18.79	\$ 4.91	35.4%	\$ 2.79
FY 1986-87	\$ 18.00	\$ 19.06	\$ 0.27	1.4%	\$ 1.06
FY 1987-88	\$ 20.00	\$ 19.19	\$ 0.13	0.7%	\$ (0.82)
FY 1988-89	\$ 17.00	\$ 24.79	\$ 5.60	29.2%	\$ 7.79
FY 1989-90	\$ 21.00	\$ 20.72	\$ (4.07)	(16.4%)	\$ (0.28)
FY 1990-91	\$ 21.00	\$ 13.70	\$ (7.02)	(33.9%)	\$ (7.31)
FY 1991-92	\$ 18.00	\$ 13.80	\$ 0.10	0.8%	\$ (4.20)
FY 1992-93	\$ 16.00	\$ 13.07	\$ (0.73)	(5.3%)	\$ (2.94)
FY 1993-94	\$ 13.70	\$ 15.86	\$ 2.79	21.4%	\$ 2.16
FY 1994-95	\$ 18.96	\$ 20.04	\$ 4.18	26.4%	\$ 1.08
FY 1995-96	\$ 20.43	\$ 22.97	\$ 2.93	14.6%	\$ 2.54
FY 1996-97	\$ 23.44	\$ 33.57	\$ 10.61	46.2%	\$ 10.13
FY 1997-98	\$ 32.21	\$ 44.01	\$ 10.43	31.1%	\$ 11.80
FY 1998-99	\$ 42.35	\$ 56.13	\$ 12.13	27.6%	\$ 13.78
FY 1999-00	\$ 42.00	\$ 69.88	\$ 13.75	24.5%	\$ 27.88
FY 2000-01	\$ 52.77	\$ 62.34	\$ (7.55)	(10.8%)	\$ 9.57
FY 2001-02	\$ 48.00	\$ 47.27	\$ (15.07)	(24.2%)	\$ (0.73)
FY 2002-03	\$ 45.15	\$ 51.48	\$ 4.21	8.9%	\$ 6.33
FY 2003-04	\$ 55.00	\$ 78.85	\$ 27.37	53.2%	\$ 23.85
FY 2004-05	\$ 70.00	\$ 116.80	\$ 37.95	48.1%	\$ 46.80
FY 2005-06	\$ 83.00	\$ 131.28	\$ 14.48	12.4%	\$ 48.28
FY 2006-07	\$ 105.00	\$ 143.98	\$ 12.70	9.7%	\$ 38.98
9-Month Projection FY 2007-08*	\$ 123.52	\$ 91.57	\$ (55.0)	(37.5%)	\$ (31.95)
Budget FY 2008-09	\$ 94.31	\$ 94.31	\$ 2.7	2.2%	\$ -

Hotel Room Tax: Hotel room tax revenue allocated to all funds is estimated to be \$241.18 million in FY 2008-09, which is a 14.7 percent increase budget to budget and a 7.2 percent increase from the FY 2007-08 year-end projection.

Hotel room tax revenue growth is a function of changes in occupancy, average daily room rates and room supply. Both occupancy and room rates have been increasing from tourist and convention business during FY 2007-08. The Mayor's Proposed Budget assumes continued, gradual increases, including further occupancy growth of approximately 1.0 percent, average daily room rate growth of approximately 5.0 percent, and 1.0 percent growth in net room supply. Hotel room tax revenues experienced significant growth during the 1990s, but that boom cycle ended by FY 2001-02 with revenues declining nearly 30 percent. Chart D illustrates total hotel room tax revenues (including both allocated and discretionary) once again are on track to exceed the prior boom's peak.

Chart D: Hotel Room Tax Revenues (\$ millions)

	Fiscal Year	Total	Annual Growth	
			\$ Change	% Change
Prior Peak	FY 2000-01	\$ 188.38	\$ 6.28	3.4%
	FY 2001-02	\$ 132.23	\$ (56.15)	(29.8%)
	FY 2002-03	\$ 128.59	\$ (3.63)	(2.7%)
	FY 2003-04	\$ 148.23	\$ 19.64	15.3%
	FY 2004-05	\$ 157.94	\$ 9.71	6.6%
	FY 2005-06	\$ 179.47	\$ 21.53	13.6%
	FY 2006-07	\$ 199.77	\$ 20.30	11.3%
9-Month Projection FY 2007-08	\$ 224.99	\$ 25.22	12.6%	
Budget FY 2008-09	\$ 241.18	\$ 16.19	7.2%	

The amount of hotel room tax budgeted in the General Fund is \$188.42 million, of which \$159.12 million is unallocated or discretionary. Chart E below illustrates how Hotel Room Tax revenues are allocated pursuant to the Municipal Code as well as the Mayor’s FY 2008-09 Proposed Budget. As in the previous year, the Proposed Budget includes some allocation changes (as compared to the Municipal Code) as part of the Administrative Provisions of the Annual Appropriation Ordinance.

Chart E: Hotel Room Tax Revenue Allocation, FY 2008-09 (\$ millions)

	FY 2008-09 Municipal Code \$ Allocation	% of Total	FY 2008-09 Proposed \$ Allocation	% of Total	% Chg. from PY Budget	% Chg. from 9-Month
General Fund Unallocated (discretionary)	113.73	47.2%	159.12	66.0%	32.4%	23.7%
Moscone / Convention Facilities	49.94	20.7%	33.95	14.1%	7.2%	0.2%
Grants for the Arts	22.31	9.2%	15.39	6.4%	0.0%	-6.5%
War Memorial & Performing Arts	13.39	5.6%	10.13	4.2%	3.0%	-3.7%
Convention & Visitors Bureau	11.66	4.8%	7.77	3.2%	-10.1%	-15.9%
Yerba Buena Gardens (SFRA)	5.32	2.2%	-	0.0%	-100.0%	-100.0%
Low-Income Housing - Capital Projects	8.00	3.3%	-	0.0%	-100.0%	-100.0%
Fine Arts Museum	7.07	2.9%	5.62	2.3%	0.07	0.2%
Cultural Equity Endowment	3.09	1.3%	2.29	0.9%	0.0%	-6.5%
Asian Art Museum	2.81	1.2%	2.23	0.9%	7.2%	0.2%
Cultural Centers	2.73	1.1%	2.02	0.8%	0.0%	-6.5%
Academy of Sciences - Steinhart Aquarium	-	0.0%	1.61	0.7%	7.2%	0.2%
Low-Income Housing - Rental Assistance	0.60	0.2%	0.90	0.4%	0.0%	-6.5%
Administration (Tax Collector)	0.21	0.1%	0.15	0.1%	7.2%	0.2%
TOTAL	241.18	100.0%	241.18	100.0%	14.7%	7.2%
Budgeted in General Fund	152.28	63.1%	188.42	78.1%	26.6%	18.3%
Budgeted in Non-General Fund	83.59	34.7%	52.76	21.9%	-5.9%	-12.1%
CCSF Subtotal	235.86	97.8%	241.18	100.0%	17.7%	10.0%
Budgeted in SFRA (Redevelopment)	5.32	2.2%	-	0.0%	-100.0%	-100.0%

The Mayor’s FY 2008-09 Proposed Budget allocation of hotel tax includes growth of 7.2 percent for dedicated purposes including Convention Facilities, the Asian Art Museum, the Academy of Sciences Steinhart Aquarium, and administration. For General Fund funded departments, increased hotel tax allocations were offset by reductions of like amounts of General Fund appropriations. Additionally, the Mayor’s Proposed Budget reflects replacing hotel tax funding for Low Income Housing – Capital Projects and the Redevelopment Agency’s Yerba Buena Gardens with increased property tax increment, as discussed in the property tax section above.

Parking Tax: Parking tax is expected to increase \$0.55 million (0.8 percent) compared to the FY 2007-08 budget of \$64.82 million. This projection assumes no change to parking rates and occupancy at slightly above current fiscal year levels. Parking tax is highly correlated to business activity and employment, which are rebounding gradually. The amount in Chart A includes 100 percent of the parking tax, however, an amount equivalent to 80 percent is transferred to the MTA for public transit as mandated by Charter Section 16.110.

Public Safety Sales Tax: The Mayor’s FY 2008-09 Proposed Budget for Public Safety (Proposition 172) Sales Tax is \$73.81 million, or 0.7 percent more than the FY 2007-08 Original Budget and 4.0 percent more than the FY 2007-08 year-end projection. These revenues are allocated to counties by the State separately from local sales tax discussed earlier, and are used to fund police and fire services. The growth of Public Safety Sales Tax revenue allocations are a function of both statewide and local sales tax activity and can vary from the local sales tax growth.

Motor Vehicle In-Lieu: Motor vehicle in lieu subventions proposed for FY 2008-09 are projected to decrease by \$0.33 million from the FY 2007-08 budget level to \$4.96 million.

Prior-Year Fund Balance

Each year, the budget includes the City’s estimated year-end surplus from the prior year as a source of funds. The reconciliation of the FY 2007-08 year-end surplus will not be finalized until the independent audit is completed around November 2008. Given actual revenue collections, anticipated required deposits into the Rainy Day Reserve’s capital and economic stabilization accounts, baseline requirements and planned project close-outs, the Mayor’s FY 2008-09 Proposed Budget assumes available General Fund prior-year fund balance of \$80.78 million. This fund balance projection is higher than previously projected in large part due to mid-year savings targeted by the Mayor’s Office as well as updated revenue and litigation assumptions. We concur with this updated projection. A summary of key anticipated changes to the fund balance are outlined below.

Chart F: FY 2007-08 Projected Year-End Surplus General Fund Fund Balance Available to Support The Mayor’s FY 2008-09 Proposed Budget (\$ millions)

General Fund	Mayor's Proposed FY 2008-09
Nine-Month Report Fund Balance Projection	\$ 41.64
Litigation Reserve Close-Outs	27.00
Redevelopment Agency Loan Repayment & Supplemental	1.77
Deferred Credits Recognized, Department Revenues & Other Revenue Reserves	2.65
e-Procurement Project - Partial Close-out	0.50
Mayoral Election - Candidate Matching Funds - Partial Close-out	5.00
Additional Departmental Operating Savings	0.47
Inactive Project Closeouts	2.08
Baseline Obligation for Children's Services, the Library, MUNI & Parking & Traffic	(0.33)
Subtotal - Changes Since 9-Month Report	\$ 39.14
Total Available Fund Balance	\$ 80.78

The Mayor’s Proposed Budget also includes an estimated \$124.93 million in balance in funds other than the General Fund. Of this total, \$106.73 million represents enterprise department funding and \$18.20 million for departments supported in whole or part through Special Revenue funding.

Prior-Year Reserves

The Mayor’s FY 2008-09 Proposed Budget includes using \$32.88 million in reserves established in prior years. A summary of these reserved funds is outlined in Chart G below.

Chart G: Use of Prior-Year Reserves (\$ millions)

	FY 2008-09 Proposed		
	General Fund	Other Funds	All Funds
Rainy Day Reserve's Economic Stabilization Acct - Allocated to City & County	\$ -	\$ -	\$ -
Rainy Day Reserve's Economic Stabilization Acct - Allocated to USD	-	19.26	19.26
Subtotal - Rainy Day	-	19.26	19.26
Rainy Day Reserve's Capital & One-Time Spending Account	0.24	-	0.24
Baseline Reserves (Children's Services)	1.49	-	1.49
Budget Savings Incentive Reserve	5.42	2.52	7.94
Rec & Park's Savings Reserve	2.97	-	2.97
Public Health Prior-Year Reserve	-	0.99	0.99
	\$ 10.11	\$ 22.77	\$ 32.88

Rainy Day Reserve: The Mayor’s Proposed Budget assumes the entire use of \$0.24 million from the Rainy Day Reserve’s Capital & One-Time Spending Account in FY 2008-09. At this time, the projected FY 2007-08 year-end balances for both the Rainy Day Reserve’s Economic Stabilization Account and the Capital & One-Time Spending Account are projected to be \$117.56 million and \$0.24 million respectively.

Charter Section 9.113.5 allows the Board of Supervisors and Mayor to appropriate funds from the Reserve to the San Francisco Unified School District if the Controller projects that inflation-adjusted per-pupil revenues for the District will be reduced in the budget year and the District has noticed a significant number of layoffs. These conditions have been met, and \$19.26 million is assumed to be withdrawn from the Economic Stabilization Account and allocated to the District given current State revenue figures. This figure will be revised as additional information on State revenue becomes available.

All of the remaining \$98.30 million in the Economic Stabilization Account is assumed to remain on deposit and be available during the City’s next economic downturn. The combined effect of growth in some tax revenues with projected decreases in intergovernmental and other revenues mean the City is projected to be under the deposit threshold by \$25.83 million in the budget year.

Baseline Reserves: The Mayor’s Proposed Budget assumes the use of \$1.49 million from the Children’s Baseline Reserve. This represents use of the entire Baseline Reserve for Children’s services as currently projected.

Budget Savings Incentive Reserve: The Mayor's Proposed Budget assumes use of \$7.94 million of projected Budget Savings Incentive Reserves, of which \$5.42 million is in the General Fund and \$2.52 million is in the Convention Facilities Fund, which is General Fund Supported. The City's previous Budget Savings Incentive Reserve requirements were most recently amended by Ordinance 210-06 in August 2006, which required that 25 percent of departments' year-end savings be carried forward and used to encourage cost saving strategies and to fund one-time expenditures. The Proposed Budget assumes use of these reserves through the process outlined in Ordinance 210-06, including a resolution enumerating expenditures for one-time purposes and efficiency measures.

Recreation & Park's Savings Reserve: The Mayor's Proposed Budget assumes the use of \$2.97 million from the Recreation and Park Department's Savings Reserve. As noted under Section 16.107 of the San Francisco Charter, any savings must be retained by the Recreation & Park Department and be dedicated to one-time expenditures.

Public Health Prior-Year Reserve: The Mayor's Proposed Budget assumes the use of \$0.99 million from the Department of Public Health's Prior-Year Reserve.

Key One-Time Revenues & Transfers-In

The Mayor’s FY 2008-09 Proposed Budget includes a number of one-time sources other than the Prior-Year Fund Balance and Reserves discussed above. Chart H below summarizes key one-time revenue and transfer-in sources.

**Chart H: Key One-Time, Departmental Revenues
 Included in the Mayor’s FY 2008-09 Proposed Budget (\$ millions)**

	FY 2008-09 Proposed		
	General Fund Supported	Non-General Fund Supported	Total All Funds
<u>Revenues</u>			
Sales of Buildings & Land	\$ 5.61	\$ -	\$ 5.61
Land Sales to Redevelopment Agency	4.61	-	-
Steam Loop Sale to PUC	1.00	-	-
Gifts and Grants	0.12	1.58	1.71
Loan Repayments - Redvelopment Agency	0.30	-	0.30
<u>Transfers</u>			
	\$ 47.17	\$ -	\$ 47.17
Community Health Services Fund	0.90	-	-
DPH - Repayment of SFGH Rebuild Upfront Costs	28.82	-	-
DPH - Laguna Honda Hospital COPs revenues offsetting General Fund expenditures	15.23	-	-
PUC - Capital Improvements at Camp Mather	2.00	-	-
PUC - Auxiliary Water Supply System	0.21	-	-
<u>Project Deappropriation</u>			
	\$ -	\$ 14.16	\$ 14.16
Film Rebate Program	-	1.05	-
Lease Financings - Swap into COPs for Savings	-	13.11	-
Total One-Time Sources	\$ 53.21	\$ 15.75	\$ 68.95

Key Fee & Fine Changes Assumed in the Mayor's Proposed Budget

The Mayor's FY 2008-09 Proposed Budget assumes various fee and fine increases. The table below highlights key assumptions and associated revenue changes.

Chart I: Key Fee & Fine Changes included in FY 2008-09 Proposed Budget (\$ millions)

Description	Amount in FY 2008-09 Proposed Budget	Incremental Fee Revenue Assumed in FY 2008-09
GENERAL FUND SUPPORTED		
SSN Truncation Fee	\$ 0.07	\$ 0.07
Redemption & Second Notice Fees		0.08
Planning - Inclusionary Housing	0.61	0.15
Planning - Environmental Review	0.61	0.88
Planning - Fee Adjustment	13.74	0.11
Food Product & Marketing Fee	6.47	0.89
Hazardous Waste Fees	3.23	0.33
Patient Revenues	531.64	3.34
Health Inspection Fees	0.90	0.90
Plan Checking Fees - Environmental Health	0.91	0.12
Medical Waste Fees	0.23	0.05
Ambulance Permit Fees - Increase Permit Application Fee	0.14	0.13
Ambulance Permit Fees - New Ambulance Provider	0.01	0.01
Newsrack Fees	0.16	0.09
Prevention Plan Check Fee	3.29	0.69
Original Permit License & Ambulance Fees	1.05	0.54
Ambulance Fees	19.46	1.66
Overtime Service Fee	1.00	0.40
Fire Residential Inspection Fee	0.53	0.53
Aquatics Fees	0.45	0.08
Athletic League Fees	0.14	0.14
Conservatory of Flowers Fees & County Fair Building Rental	0.20	0.08
Randall Museum Rentals	0.02	0.00
Japanese Tea Garden	1.88	0.53
Redemption & Second Notice Fees	0.56	0.56
Subtotal, General Fund Supported	588.40	12.35
OTHER FUNDS		
Street Artist Certification Fee	0.21	0.05
City Planning Code Enforcement	0.46	0.08
Report of Residential Record Fee	1.49	1.04
Central Permit Bureau Fee	1.17	0.17
Plan Checking	9.23	1.41
Building Permits	17.62	2.69
Plumbing Permit Issuance Fee	3.63	1.38
Electrical Permit	5.80	2.80
Rent Board Fee	4.81	0.32
Taxi Permit Transfer & Motor Vehicle Fees	2.10	0.48
Various Rental and Concession Fees	1.85	0.13
Wastewater/Sewer Charges (+9%)	212.71	18.87
Retail Water Rates (+15% Retail)	241.05	23.90
Subtotal, PUC	453.76	42.77
Airport Fees - Airlines - Landing Fees, Terminal Rentals	254.88	11.81
Airport Fees - Non Airlines - Parking, Concessions, Rentals	254.39	17.17
Subtotal, AIR	509.27	28.98
Traffic Fines - Parking	101.90	15.13
Traffic Fines - Boot Program	0.92	0.57
Special Traffic Permit	0.39	0.21
Neighborhood Parking Permits	6.31	1.00
Subtotal, MTA	109.53	16.91
Subtotal, Other Funds	\$ 1,120.92	\$ 99.20
Value of Auto CPI Adjustments	2.12	2.12
Total	\$ 1,711.45	\$ 113.67

State Budget Impact

The Governor's January budget includes reductions of \$41.08 million assumed in the Mayor's Proposed Budget. This includes \$13.20 million in lower revenues to the City from State mandated costs (SB 90); \$7.00 million in lower Health and Welfare Realignment revenue due to decreased statewide sales tax and vehicle licensing fund growth; \$11.63 million in program reductions to the Department of Public Health related to reduction in MediCal payments, substance abuse programs and child support services; \$5.84 million in program reductions in the Human Services Agency related to CalWorks, Medical Administrative funding, child welfare and adult protective services funding and casebad changes; and \$1.40 million in other public safety and criminal justice program reductions.

The Governor's May Revise for FY 2008-09 includes additional reductions to the City's budget of an estimated \$72.61 million. These reductions have generally not been assumed in the Mayor's Proposed Budget. This includes \$27.80 million in reductions in the Human Services Agency related to lower match for payment to In-Home Supportive Services workers and cash assistance for immigrants; \$36.00 million in the Municipal Transportation Agency related to reductions in Gasoline Sales Tax funding; and lower Health and Welfare Realignment revenue due to additional decreases in statewide sales tax and vehicle licensing fund growth than was assumed in the Governor's Budget released in January 2008. Additional cuts of \$3.0 million for State mandated cost reimbursement (SB 90) have been assumed in the budget.

The summary table below outlines key program changes between the Governor's Proposed Budget in January and May Revise.

Chart J: Summary of State Budget Changes (\$ millions)

Dept	State Budget Item	January Budget with Mid-Year Cuts	May Revise Incremental Change	TOTAL INCREASE (DECREASE)
CCSF GENERAL FUND - PROGRAM FUNDING CUTS				
Human Services	Adult protective services 10% cut	(0.26)	-	(0.26)
	CALWORKS COLA/CAAP grants	(1.48)	1.00	(0.48)
	CALWORKS administrative funding due to caseload changes	(1.00)	-	(1.00)
	10% reduction to MediCal Administrative Funding	(0.76)	-	(0.76)
	IHSS cut to county administrative funding and redetermination change	(0.45)	-	(0.45)
	Reduction to IHSS Match	0.00	(25.30)	(25.30)
	Child Welfare Service Allocations reduction	(1.90)	-	(1.90)
	CAPI - Cash Assistance Program to Immigrants	0.00	(3.50)	(3.50)
	Subtotal - Human Services Agency (HSA)	(5.84)	(27.80)	(33.64)
Public Health	10% reduction to MediCal payments - Managed care	(0.70)	(0.01)	(0.71)
	10% reduction to MediCal payments - Distinct Part Nursing (LHH)	(5.30)	(0.05)	(5.35)
	Shifting Safety Net Care Pool funds to CCS	(1.90)	-	(1.90)
	Funding Reduction for County Administration for CCS and CHDP	(0.23)	-	(0.23)
	AIDS cut-reduced support to local programs	(0.50)	-	(0.50)
	Prop 99 (CHIP) cut	(0.75)	-	(0.75)
	S - CHIP Cut	0.00	(0.75)	(0.75)
	Early Periodic Screening, Diagnosis, and Treatment (EPSDT) reduction in state maximum allowance	(0.75)	-	(0.75)
	Mental Health Managed Care reduction	(0.10)	-	(0.10)
	State Perinatal GF, Drug Court and other substance abuse	(0.16)	-	(0.16)
	Rate cut for drug MediCal providers	(0.72)	-	(0.72)
	Prop 36 treatment for non-violent drug offenders	(0.32)	-	(0.32)
	Healthy Families	(0.20)	-	(0.20)
	Subtotal - Human Services Agency (HSA)	(11.63)	(0.81)	(12.44)
Juvenile Probation	Juvenile Probation Camps Funding	(0.34)	-	(0.34)
Mayor's Office of Criminal Justice	Juvenile Justice Crime Prevention Act	(0.26)	-	(0.26)
Public Safety Departments	20-month early release of non-violent prisoners/no active parole supervision	0.00	TBD	0.00
	Prop 36 treatment for non-violent drug offenders	(0.80)	-	(0.80)
Citywide	Health and Welfare Realignment - Lower Sales & VLF Growth Statewide	(7.00)	(5.00)	(12.00)
	Interest Income from Deferred Payments	(2.00)	-	(2.00)
	SB90 Revenue Delay (assumes no accrual) -- one time 07-08 cost only	(13.20)	(3.00)	(16.20)
	General Fund Program Loss Subtotal	(41.08)	(36.61)	(77.69)
			CCSF Required to Backfill	(40.41)
CCSF GENERAL FUND - PROGRAM FUNDING INCREASES				
Human Services Agency District Attorney/Sheriff	MediCal-eliminate 12-mon. continuous eligibility for children and quarterly reporting for adults	0.00	-	0.00
	Re-entry program - net zero	0.00	-	0.00
	County Food Stamps administrative funding	0.30	-	0.30
	General Fund Program Increase Subtotal	0.30	0.00	0.30
	CCSF GENERAL FUND TOTAL	(40.78)	(36.61)	(77.39)
CCSF - OTHER FUND - PROGRAM FUNDING CUTS				
Municipal Transportation Agency	"Spillover" Sales Tax on Gasoline - MTA Operating Loss	0.00	(10.00)	(10.00)
	"Spillover" Sales Tax on Gasoline - MTA Capital Funding Loss	0.00	(26.00)	(26.00)
	NON-GENERAL FUND TOTAL	0.00	(36.00)	(36.00)
	TOTAL PROJECTED CITY IMPACT	(40.78)	(72.61)	(113.39)

III. SELECT GENERAL FUND SUBSIDIZED DEPARTMENTS

Several departments, in addition to receiving General Fund support, have revenue sources specific to their functions. Departments with significant non-General Fund revenues include the Department of Public Health, which operates the City’s two hospitals, San Francisco General Hospital (SFGH) and Laguna Honda Hospital (LHH); and the Human Services Agency. Increases or decreases in their departmental revenue sources may directly affect their General Fund support. Revenue projections were developed individually by the departments and reviewed by the Controller’s Office for overall reasonableness. These departments’ sources of funds are discussed below.

Public Health

The Department of Public Health (DPH) has total net budget sources of funds of \$1,554.99 million in FY 2008-09. The \$1,554.99 million of total sources is comprised of two major categories: 1) net departmental sources of \$1,161.57 million (up \$200.45 million or 20.9 percent from FY 2007-08 Original Budget levels) primarily from the sale of bond proceeds for Laguna Honda Hospital Improvements and the San Francisco General Hospital Rebuild and growth in State revenues, as well as 2) General Fund support of \$393.42 million (up \$23.48 million or 6.3 percent from the FY 2007-08 Original Budget).

Chart K: Public Health’s Sources of Funds (\$ millions)

Sources of Funds	FY2007-08	FY2008-09	Change from Original	
	Original Budget	Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
Patient Revenues	\$ 528.30	\$ 531.64	\$ 3.34	0.6%
Departmental Transfer Adjustment	(32.00)	(39.33)	(7.33)	22.9%
Adjusted Patient Revenues	496.30	492.32	(3.99)	-0.8%
General Fund Support	369.94	393.42	23.48	6.3%
State Intergovernmental	307.30	330.36	23.06	7.5%
Health & Welfare Realignment-MVL	93.20	93.20	-	0.0%
Health & Welfare Realignment-Sales Tax	73.22	73.22	-	0.0%
Short-Doyle Medi-Cal	56.28	61.02	4.74	8.4%
Community Mental Health Services	21.54	38.81	17.28	80.2%
Health Care Coverage Initiative	21.03	24.98	3.94	18.7%
State Alcohol Funds	19.66	19.46	(0.20)	-1.0%
California Children Services	6.25	6.25	-	0.0%
Prop 99 - Tobacco Tax	2.75	2.49	(0.26)	-9.5%
State Mandated Program Reimbursements	3.80	-	(3.80)	-100.0%
Other State	9.58	10.93	1.35	14.1%
Bond Proceeds	-	213.82	213.82	100.0%
Federal Intergovernmental	62.28	60.86	(1.42)	-2.3%
Fund Balance & Prior Year Reserves	-	0.99	0.99	100.0%
Other Service Charges	10.25	11.02	0.77	7.5%
Recoveries	61.01	29.51	(31.50)	-51.6%
Other Revenue	16.42	13.16	(3.26)	-19.9%
Licenses & Fines	7.56	9.53	1.97	26.1%
Total Sources of Funds	\$ 1,331.06	\$ 1,554.99	\$ 223.93	16.8%
High-Level Summary				
Net Departmental Sources	\$ 961.12	\$ 1,161.57	\$ 200.45	20.9%
General Fund Support	369.94	393.42	23.48	6.3%
Total Sources of Funds	\$ 1,331.06	\$ 1,554.99	\$ 223.93	16.8%

Key Net Increases in Public Health Revenues

The growth in the Public Health sources budget is mainly due to the sale of bond proceeds for the Laguna Honda Hospital Improvement project and the San Francisco General Hospital rebuild, growth in General Fund Support, and State Intergovernmental revenue growth. The Proposed Budget includes \$37.55 million in Healthy San Francisco (also referred to as the San Francisco Health Access Program) revenue. Compared to the \$25.44 million in the FY 2007-08 Original Budget, this represents a growth of \$12.11 million attributed to the increased number of enrolled participants in the program. These Healthy San Francisco revenues are subsumed within the above revenues.

In FY 2008-09, DPH will receive \$185.00 million of bond proceeds for the Laguna Honda Improvement project and \$28.82 million for planning expenditures associated with the San Francisco General Hospital Rebuild. The \$28.82 million will be used to pay back the General Fund for funding the costs incurred for the San Francisco General Hospital Rebuild.

General Fund Support is proposed to increase \$23.48 million or 6.3 percent from the FY 2007-08 Original Budget.

State Intergovernmental revenues are proposed to increase \$23.06 million or 7.5 percent from the FY 2007-08 Original Budget as a result of:

- +\$17.29 million in Community Mental Health revenues;
- +\$4.74 million in Short-Doyle Medi-Cal revenue;
- +\$3.94 million in Health Care Coverage Initiative revenues;
- +\$1.35 million in net increases for other State revenues;
- -\$0.20 million in State Alcohol Funds revenues;
- -\$0.26 million in Tobacco Tax revenue; and
- -\$3.80 million in Health & Welfare Realignment revenue.

Licenses and Fines are proposed to increase by \$1.97 million (26.1 percent) primarily due to CPI adjustments and increases in Environmental Fees.

DPH proposes to use \$0.99 million in prior year reserves in FY 2008-09 to support costs in the Community Health Services Special Revenue Fund.

Key Net Decreases in Public Health Revenues

Recoveries are projected to decrease by \$31.50 million (51.6 percent). The decreases are primarily due to the deletion of two major work orders: 1) a work order with the Sheriff Department for \$29.5 million to provide Jail Health Services and 2) a work order with the Human Services Agency for the Homeless Outreach Team. These services are now funded directly in the Department's budget through service contracts.

Patient revenues (net of departmental transfer adjustments) consisting of Medicare, Medi-Cal, private insurance, capitated fees, health plan settlements and Safety Net Care Pool funding, are proposed to decrease by \$3.99 million or 0.8 percent from the FY 2007-08 Original Budget levels. This net change consists of an increase in San Francisco General Hospital patient revenues by \$7.74

million, offset by other patient revenue decreases of \$4.40 million in other areas. The departmental transfer adjustment further reduces these revenues by \$39.33 million to remove the double counting of revenues budgeted in San Francisco General Hospital and also transferred to the General Fund.

Other Revenues are projected to decrease \$3.26 million (19.9 percent) primarily due to services no longer being provided directly by DPH. This includes \$2.68 million in Substance abuse funding no longer being appropriated in the Department’s budget. These funds are budgeted outside of the City’s budget at the University of California in San Francisco (UCSF), which has no impact on service levels. A reduction of \$0.58 million in HIV programs provided by San Francisco General Hospital and UCSF contributes to the balance of the reduction.

Federal Intergovernmental revenues are projected to decrease by \$1.42 million (2.3 percent) primarily due to changes in the following grants:

- -\$0.87 million reduction for Health Education to eliminate disparities in infant mortality rates;
- -\$0.47 million reduction for expansion of treatment capacity for methamphetamine users;
- -\$0.43 million reduction for STD prevention and intervention activities;
- -\$0.18 million reduction for development of materials, field testing, and provision of technical assistance in AIDS surveillance training;
- -\$0.18 million reduction for Child Health Disability prevention services;
- -\$0.16 million reduction for TB control and prevention; and
- +\$1.00 million increase in a Department of Justice grant for the Community Justice Center.

Human Services Agency

The Human Services Agency, comprised of the Department of Human Services (DHS) and the Department of Aging and Adult Services (DAAS), has a total FY 2008-09 Proposed Budget of \$673.70 million. This total is an increase of \$21.09 million (3.2 percent) over the FY 2007-08 Original Budget.

Chart L: Human Services Agency Sources of Funds (\$ millions)

<u>Sources of Funds</u>	FY 2007-08		FY 2008-09		Change from PY Original Budget	
	Original Budget	Proposed Budget	Original Budget	Proposed Budget	\$	%
Federal and State Operating	\$ 323.82	\$ 315.82	\$ 323.82	\$ 315.82	\$ (8.00)	-2.5%
Federal & State Aid	48.00	53.01	48.00	53.01	5.01	10.4%
State Health & Welfare Realignment	63.87	63.87	63.87	63.87	-	0.0%
Subtotal - Federal & State Revenue	435.69	432.69	435.69	432.69	(3.00)	-0.7%
Interdepartmental Recovery	21.38	26.59	21.38	26.59	5.21	24.4%
Other Revenue	5.19	9.08	5.19	9.08	3.89	74.8%
Subtotal - Recovery & Other Revenue	26.57	35.67	26.57	35.67	9.10	34.2%
Total Revenues All Funds	462.26	468.37	462.26	468.37	6.10	1.3%
General Fund Support	190.35	205.34	190.35	205.34	14.98	7.9%
Total Sources of Funds	\$ 652.61	\$ 673.70	\$ 652.61	\$ 673.70	\$ 21.09	3.2%

The FY 2008-09 Proposed Budget shows a decrease of \$3.00 million (0.7 percent) in Federal and State revenues. Major changes include:

- +\$3.44 million in SSI/SSP CAAP Interim Assistance Reimbursement revenues,
- +\$3.00 million in IHSS Public Authority Title XIX Share revenues,
- +\$2.65 million in Federal Direct Grant revenues,
- +\$1.89 million in Stage 1 Childcare Federal Aid revenues,
- -\$4.30 million in Foster Care Federal and State Aid revenues, and
- -\$10.24 million in prior year revenue closeouts in Federal and State grants.

Other revenues are projected to increase by \$3.89 million (74.8 percent) over the FY 2007-08 Original Budget. The growth is due to an increase in administrative and attorney fees collected from the closing of cases that generate higher fees in the Public Guardian program, and an increase in interest revenues. Additionally, the increase includes a transfer in from Laguna Honda Hospital to fund the Community Living Trust Fund. This transfer replaces the General Fund transfer that was previously funding this project and does not represent growth in the fund.

Interdepartmental recoveries are projected to increase by \$5.21 million (24.4 percent) in FY 2008-09. These largest recovery increases include: \$2.43 million for a work order recovery with San Francisco General Hospital due to an increase in enrollments in the In-Home Support Services (IHSS) provider's health benefits program, \$1.30 million for a work order with the Department of Children, Youth and Their Families for childcare services, and \$1.37 million for a work order with the Mayor's Office for the One-Stop Workforce Center operations and program.

IV. BASELINES & MANDATED FUNDING REQUIREMENTS

The Mayor's FY 2008-09 Proposed Budget includes required funding for baselines and other mandated funding requirements. The chart below identifies the required and proposed levels of appropriation funding for Key Baselines & Mandated Spending Requirements. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending.

Chart M: Key Baseline & Mandated Funding Requirements (\$ millions)

Baselines & Set-Asides	FY 2008-09					
	Required Baseline	Mayor's Proposed	Surplus / (Shortfall) Contribution	Change from PY Original Budget		
				\$	%	
Revenue-Driven						
Municipal Transportation Authority	\$ 195.72	\$ 195.72	\$ -	\$ 38.83	24.7%	
<i>MTA - Municipal Railway</i>	143.25	143.25	-	27.99	24.3%	
<i>MTA - Parking & Traffic</i>	52.46	52.46	-	10.84	26.1%	
Children's Services	106.30	126.15	19.86	21.80	20.9%	
Library Preservation	46.27	46.27	-	8.24	21.7%	
Public Education Baseline Services	5.86	5.98	0.12	(0.48)	-7.4%	
Property Tax Related Set-Asides						
Municipal Symphony	1.74	1.74	-	0.10	6.4%	
Children's Fund Set-Aside	43.39	43.39	-	3.44	8.6%	
Library Preservation Set-Aside	36.26	36.26	-	2.86	8.6%	
Open Space Set-Aside	36.26	36.26	-	2.86	8.6%	
Key Revenue-Driven Baselines & Set-Asides	471.78	491.76	19.98	116.48	28.1%	
Expenditure-Driven						
Public Education Enrichment Funding	33.75	33.75	-	3.75	12.5%	
<i>Unified School District</i>	22.50	22.50	-	2.50	n/a	
<i>First Five Commission</i>	11.25	11.25	-	1.25	12.5%	
City Services Auditor	11.62	11.62	-	0.73	6.7%	
Human Services Homeless Care Fund	13.60	13.60	-	(0.47)	-3.3%	
Key Expenditure-Driven Baselines	58.97	58.97	-	7.76	14.1%	
Staffing-Driven						
Police Minimum Staffing	Requirement Exceeded					
Fire Neighborhood Firehouse Funding	Requirement Met					
Total Baseline Spending	\$ 530.75	\$ 550.73	\$ 19.98	\$ 124.24	26.5%	

REVENUE-DRIVEN BASELINES

Municipal Transportation Baselines. Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the Municipal Transportation Agency (MTA). Consistent with the Charter, in FY 2000-01 a Base Amount of funding was established. Charter subsection (c)(1) requires the Controller's Office to adjust the Base Amount from year to year by the percent increase or decrease in aggregate City discretionary revenues. Beginning in FY 2002-03, this Charter section also established a level of funding (required baseline) for the Parking and Traffic Commission based upon FY 2001-02 appropriations. These Baseline amounts can also vary if a new source of revenue is generated, in

which case the new revenues are effectively divided equally between the Municipal Transportation Fund and the City's discretionary revenues.

Municipal Railway (MUNI): The Mayor's FY 2008-09 Proposed Budget includes MUNI Baseline funding at the \$143.25 million required level. In the budget year, the baseline funding to MUNI is mainly affected by the growth in discretionary revenues.

Parking and Traffic: The Mayor's FY 2007-08 Proposed Budget includes Parking and Traffic Baseline funding at the \$52.46 million required level. In the budget year, the baseline funding to MUNI is affected by the growth in discretionary revenues.

Children's Baseline. The Mayor's FY 2008-09 Proposed Budget includes Children's Baseline funding of \$126.15 million. The required baseline for FY 2008-09 is \$106.30 million, including the \$1.49 million funded through Baselines Reserves discussed above in the reserves section. All combined the result is total surplus funding of \$19.86 million in the FY 2008-09 Proposed Budget. This level of surplus funding is largely due to the Rainy Day Reserves allocation of \$19.26 million to the School District for FY 2008-09. The Mayor's Proposed Budget contains a technical error in designating Children's Baseline funding. The Controller will correct this designation by adjusting \$21.12 into the Children's Baseline.

Library Baseline. The Mayor's FY 2008-09 Proposed Budget includes Library Baseline funding at the \$46.27 million required level.

Public Education Services Baseline. Proposition H passed by voters in March 2003 required not only enhancement funding for public education but also baseline funding established pursuant to FY 2002-03 appropriation levels, which were to be adjusted in subsequent years according to changes in aggregate discretionary revenues. The Mayor's FY 2008-09 Proposed Budget includes increased funding for Public Education Services and is proposing to surplus fund the baseline requirement by \$0.12 million. These appropriations are shown in the budget in the Department of Children, Youth & Their Families.

Municipal Symphony Baseline. The Mayor's FY 2008-09 Proposed Budget includes Municipal Symphony Baseline funding at the \$1.74 million required level. San Francisco Charter Section 16.106(1) mandates that the City provide an appropriation equivalent to 1/8 of \$0.01 of each \$100 in assessed valuation of property tax for the symphony orchestra. The appropriation is budgeted at the Arts Commission.

Other Property Tax-Related Set-Asides. Voters have also mandated three property tax-related set-asides, including amounts equivalent to 3.0 percent of property tax revenues for Children's Services, 2.5 percent for Library Preservation and 2.5 percent for Open Space. The Mayor's FY 2008-09 Proposed Budget includes required set-aside funding of \$43.39 million for Children's Services, and \$36.36 million for both Libraries and Open Space.

EXPENDITURE-DRIVEN BASELINES & MANDATES

Public Education Enrichment Funding. The Mayor's FY 2008-09 Proposed Budget includes \$33.75 million for the Public Education Enrichment Fund. This funding, which was passed by voters in March 2004 (Proposition H), requires increasing support to education initiatives

beginning with \$10 million for FY 2005-06, \$20 million for FY 2006-07, \$30 million for FY 2007-08, \$45 million for FY 2008-09, and \$60 million for FY 2009-10. In any year of the measure, if the joint budget report as prepared by the Controller, the Mayor's Budget Director and the Board of Supervisors' Budget Analyst projects a budgetary shortfall of \$100 million or more, the Mayor and the Board of Supervisors may reduce the City's contribution to the Public Education Enrichment Fund by up to 25 percent. The FY 2008-09 Proposed Budget includes this reduction. The City must pay back the \$11.25 million difference by 2018 unless voters extend the measure or authorize a substantially similar measure.

In addition to the Enhancement Funding discussed here, the City is required to fund the Public Education Services Baseline, which was discussed previously.

City Services Auditor Baseline. The Mayor's FY 2008-09 Proposed Budget includes \$11.62 million for the City Services Auditor Baseline. This Baseline was approved by voters in November 2003 and mandates that 2/10ths of one percent of the budget be used to fund the auditing of City services. FY 2004-05 was the first year for the City Services Auditor to receive baseline funding.

Human Services Homeless Care Fund. Also known as Care not Cash, the Human Services Homeless Care Fund, Proposition N, was passed by voters in November 2002 and first budgeted in FY 2003-04. The City is required to credit the fund with the difference between the average annual maximum cash grant for each program and the average annual special allowance or other residual cash payment provided by the City for each individual in the program that the City expects will be provided with in-kind benefits in lieu of the full cash grant during the year. These funds are to be used on homeless outreach and service programs. In FY 2008-09, funding will equal \$13.60 million, a 3.3 percent decrease from FY 2007-08 funding of \$14.07 million.

STAFFING-DRIVEN BASELINES & MANDATES

Police Staffing Baseline. San Francisco Charter Section 4.127 mandates a police minimum staffing baseline of not less than 1,971 full-duty officers. This minimum staffing level may be adjusted downward pursuant to Charter Section 16.123, which provides that the Mayor and Board may convert a position from a sworn officer to civilian through the budget process. Reductions are permitted if the Controller and the Chief of Police jointly certify that the reduction will not decrease the number of police officers dedicated to neighborhood community policing, patrol and investigation and will not substantially interfere with the delivery of police services or the ability of the Police Department to protect the public in the event of an emergency. To date the Chief of Police has not certified the civilianization plan.

After excluding full-duty officers assigned to the Airport, the Mayor's FY 2008-09 Proposed Budget includes net funding authority for 1,984 full-duty officers by fiscal year end. This projection excludes officers currently in the academy, on modified duty, and on leave, and reflects three planned academy classes in FY 2008-09 and an assumption of 100 retirements and separations during the fiscal year. Therefore, by fiscal year end, the number of full-duty officers would exceed the 1,971 baseline by 13 officers.

While the Police Chief has not certified the civilianization plan, the Mayor's FY 2008-09 Proposed Budget assumes 116 positions previously filled by officers will be filled by civilians, including 12 civilianized in FY 2004-05, 25 civilianized in FY 2005-06, 16 in FY 2006-07, 44 in

FY 2007-08, and an additional 19 in FY 2008-09. If those 116 positions were approved and the required joint certification provided, the required baseline of 1,971 full-duty officers would be reduced to 1,855 and the number of full-duty officers included in the Proposed Budget would exceed the baseline requirement by 129 officers.

Neighborhood Firehouse Baseline. In November 2005, San Francisco voters passed the Neighborhood Firehouse Protection Act (Proposition F), which established new baseline service level requirements for San Francisco firehouse operations. The Act included minimum baseline requirements for the 24-hour staffing of 42 firehouses, the Arson / Fire Investigation Unit, no fewer than 4 ambulances, and 4 Rescue Captains (medical supervisors). The \$184.78 million Neighborhood Firehouse baseline requirement has been met, and the Proposed Budget contains \$21.06 million more than required.

RESULTING GENERAL FUND DISCRETIONARY SPENDING CAPACITY

After factoring in the above key baselines, set asides, and Charter-mandated spending as well as grant and federal, state and local employment provisions, the General Fund has an ‘effective’ level of discretionary spending capacity of approximately 40 percent of total General Fund revenues and transfer-in sources. Said another way, only about \$1.21 billion of the total \$6.53 billion total City budget is available for general discretionary spending. A high-level summary of the General Fund’s revenue and transfer-in sources less required set-asides, baselines and other earmarked funding provisions is shown below.

Chart N: How Much of General Fund is Available for Discretionary Spending? (\$ millions)

	Proposed FY 2008-09 US\$ Millions
General Fund Revenues & Transfers In	\$ 3,007.4
Federal & State Dedicated Funding	
State Health, Welfare, Social Services	\$ (408.4)
Federal Health, Welfare, Social Services	\$ (205.9)
State Public Safety Sales Tax (1/2% for CA Prop 172)	\$ (73.2)
Voter-Approved Baselines & Required Programs	
Police Staffing Baseline	\$ (225.9)
Fire Operations Baseline, (Prop F, November 2005)	\$ (184.8)
Baseline for Public Transportation, MUNI & PTC	\$ (195.7)
Baseline for Children's Services	\$ (106.3)
Baseline for Public Libraries	\$ (46.3)
Baseline for Public Education Enrichment Fund (Prop H, March 2004)	\$ (33.8)
Baseline for Human Services Homeless Care Fund (Prop N, Nov. 2002)	\$ (13.6)
Baseline for Public Education Fund (Prop H, March 2004)	\$ (5.9)
Baseline for City Services Auditor (Prop C, November 2003)	\$ (6.1)
Baseline for Municipal Symphony	\$ (1.7)
Office of Economic Analysis (Prop I, Nov. 2004)	\$ (0.3)
Employee Benefit Costs	
Health & Dental Benefit Costs (Charter)	\$ (140.6)
Pension Benefits - Req. Employer Match Only (Charter)	\$ (67.0)
Retiree Health Requirements (Charter)	\$ (56.1)
Social Security - Employer Portion Only (6.2% of salary)	\$ (36.1)
Medicare - Employer Portion Only (1.45% of salary)	\$ (17.5)
Unemployment Coverage (new rate of 0.0% of salary for FY 2007-08)	\$ (1.2)
Paid Sick Leave (Prop F, November 2006)	\$ (8.6)
Other Operating Costs	
Debt Service & Lease Revenue Bond Commitments	\$ (32.3)
Estimated Discretionary Spending Capacity	\$ 1,214.0
% Discretionary Spending Capacity of General Fund	40.4%
% Discretionary Spending Capacity of Total Budget	18.6%

V. SELF-SUPPORTING ENTERPRISE DEPARTMENTS

Enterprise departments such as the Airport, the Municipal Transportation Agency [MTA] (which includes Municipal Railway [MUNI] and Parking and Traffic), the Port, and the Public Utilities Commission [PUC] (which includes Hetch Hetchy, Wastewater, and Water), are supported by user fees and are generally not supported by the City's General Fund. As is summarized in the chart below, total enterprise sources of funds are projected to increase by \$172.85 million. The underlying assumptions of the FY 2008-09 Proposed Budget for these enterprises are highlighted in the narrative following the chart immediately below.

Chart O: Enterprise Sources of Funds (\$ millions)

Enterprise	FY2007-08 Original Budget	FY2008-09 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
AIRPORT	\$ 620.67	\$ 644.24	23.56	3.8%
PORT	\$ 67.14	\$ 68.85	\$ 1.71	2.5%
PUBLIC UTILITIES				
Hetch Hetchy	144.08	141.57	(2.51)	-1.7%
Wastewater	247.91	254.37	6.46	2.6%
Water	234.98	281.57	46.59	19.8%
PUC Bureaus, net of PUC recoveries *	0.44	0.44	-	0.0%
Subtotal - Public Utilities	\$ 627.41	\$ 677.95	\$ 50.54	8.1%
MUNICIPAL TRANSPORTATION AGENCY				
MUNI - Municipal Railway	587.51	668.26	80.75	13.7%
Parking & Traffic	98.63	114.91	16.28	16.5%
Subtotal -MTA	\$ 686.14	\$ 783.17	97.03	14.1%
TOTAL	\$ 2,001.36	\$ 2,174.21	\$ 172.85	8.6%

Note: * PUC Bureaus are predominantly funded by the Wastewater, Water and Hetch Hetchy funds. The remaining \$0.44 M shown here is a recovery from MUNI through an interdepartmental workorder for information technology services.

AIRPORT (\$ millions)

	FY2007-08 Original Budget	FY2008-09 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
<u>Airport</u>				
Operating Revenues	\$ 547.37	\$ 583.01	\$ 35.64	6.5%
Other Sources [^]	73.31	61.23	(12.08)	-16.5%
Total	\$ 620.67	\$ 644.24	\$ 23.56	3.8%

Note: [^]

Other Sources include Non-operating Funds, Settlements, Proceeds of Bonds/Debts, Expenditure Recovery, Other Transfer-In, Fund Balance, Departmental Transfer Adjustment, and General Fund Support if applicable.

The Mayor's FY 2008-09 Proposed Budget for the Airport includes a \$23.56 million (3.8 percent) increase in total sources of funds. Key changes in the Airport's sources of funds include a \$35.64 million (6.5 percent) increase in operating revenues offset by a \$12.08 million (16.5 percent) decrease in other sources.

Compared to FY 2007-08, the FY 2008-09 Proposed Budget reflects these major revenue changes:

Operating Revenues +\$35.64 million

- +\$11.66 million in other net charges;
- +\$11.20 million in Ground Transportation;
- +\$8.48 million in Airline Terminal Rentals;
- +\$4.70 million in Public Parking;
- +\$3.33 million in Airline Landing Fees;
- +\$3.03 million in Terminal Concessions;
- -\$1.75 million in Airline Support and Non-Airline Rentals; and
- -\$5.01 million in Interest Income.

Other Sources & Non-Operating Funds -\$12.08 million

- +\$3.20 million from the return of one-time FY 2007-08 revenue associated with excess deposits related to lower bond fund reserve requirements;
- -\$0.40 million in Passenger Facility Charges;
- -\$0.98 million in State grants;
- -\$2.45 million in Fund Balance, Transfers and other miscellaneous revenues;
- -\$5.61 million in Settlements; and
- -\$5.84 million in Federal grants.

Passenger growth of 8.1 percent budget-to-budget accounts for much of the revenue increase at the Airport. The projected increase in Public Parking revenue is primarily due to a raise in long-term parking rates from \$13 to \$14 per day, additional parking capacity and increased passenger activity. Ground Transportation increases are for similar reasons, reflecting rate increases and passenger growth. The Terminal Concessions revenue increase is primarily attributable to

continuing sales growth resulting from increased passenger traffic, new retail locations in the domestic terminals and the registered traveler lease. The increase in projected Airline Terminal Rentals revenue increase results from a rate increase and Landing Fees revenue increase reflects higher air traffic levels offset by a slight rate decrease. The decline in interest income reflects the decrease in short-term interest rates.

The FY 2008-09 Proposed Budget includes a 15.0 percent concession-related transfer of \$26.42 million to the General Fund, an increase of \$2.69 million (11.3 percent) over the FY 2007-08 Original Budget level.

PORT (\$ millions)

	FY2007-08	FY2008-09	\$	%
	Original	Proposed	Increase /	Increase /
	Budget	Budget	(Decrease)	(Decrease)
Port				
Operating Revenues	\$ 61.61	\$ 64.54	\$ 2.93	4.8%
Other Sources [^]	5.54	4.32	\$ (1.22)	-22.0%
Total	\$ 67.14	\$ 68.85	\$ 1.71	2.5%

Note: [^] Other Sources include Proceeds of Bonds/Debts, Expenditure Recovery, Other Transfer-In, Fund Balance, Departmental Transfer Adjustment, and General Fund Support if applicable.

The Mayor’s FY 2008-09 Proposed Budget for the Port includes a projected increase in the Port’s total revenues by \$1.71 million (2.5 percent). Highlights are provided below for the major operating divisions.

Commercial: The majority of the Port’s operating revenues come from the leasing of its facilities. FY 2008-09 commercial revenue is projected to increase by \$2.70 million, or 7.4 percent, over the FY 2007-08 budget. The increase is mainly driven by the high demand for space along the waterfront and increased tourism.

Parking: The parking revenue budget increased by \$0.90 million, or 9.1 percent compared to FY 2007-08. This is primarily due to increased tourism and a strong demand for parking along the waterfront.

Maritime: The Port promotes a wide array of maritime industries, with a project revenue increase of \$0.33 million, or 2.9 percent. Cargo, cruise and ship repair generate the majority of maritime revenues. Overall cruise revenues are projected to exceed \$1.56 million in FY 2008-09. With respect to cargo, the Port continues to focus its efforts on breakbulk and bulk cargo at Piers 80, 92, and 94. The strongest area of cargo growth has been in bulk aggregate, imported for Bay Area construction projects. The projected increases in commercial, parking and maritime revenues are partially offset by a projected decrease in use of fund balance of \$0.97 million (12.4 percent), decrease in interest revenue of \$0.78 million (36.9 percent), decrease in expenditure recoveries of \$0.04 million (17.3 percent) and decrease in other operating revenues of \$0.23 million (11.9 percent).

PUBLIC UTILITIES (\$ millions)

	FY2007-08	FY2008-09	\$	%
	Original	Proposed	Increase /	Increase /
	Budget	Budget	(Decrease)	(Decrease)
<u>Public Utilities</u>				
Hetch Hetchy				
Operating Revenues	\$ 109.03	\$ 110.84	\$ 1.81	1.7%
Other Sources ^	35.04	30.72	(4.32)	-12.3%
Hetch Hetchy	\$ 144.08	\$ 141.57	\$ (2.51)	-1.7%
Wastewater				
Operating Revenues	\$ 200.50	\$ 216.30	\$ 15.80	7.9%
Other Sources ^	47.41	38.08	(9.34)	-19.7%
Wastewater	\$ 247.91	\$ 254.37	\$ 6.46	2.6%
Water				
Operating Revenues	\$ 239.69	\$ 259.55	\$ 19.86	8.3%
Other Sources ^	(4.71)	22.01	26.73	-567.4%
Water	\$ 234.98	\$ 281.57	\$ 46.59	19.8%
PUC Bureaus *				
Other Sources ^	\$ 0.44	\$ 0.44	\$ -	0.0%
TOTAL	\$ 627.41	\$ 677.95	\$ 50.54	8.1%

Notes: ^ Other Sources include Proceeds of Bonds/Debts, Expenditure Recovery, Other Transfer-In, Fund Balance, Departmental Transfer Adjustment, and General Fund Support if applicable.

* The \$0.44 million is a recovery from MUNI - an interdepartmental workorder between PUC Bureaus and MUNI for information technology services.

The Mayor's FY 2008-09 Proposed Budget for Public Utilities includes revenues from the three utility enterprises: Hetch Hetchy (power), the Wastewater Enterprise, and the Water Enterprise. Total operating revenues of these enterprises for FY 2008-09 are projected to be \$110.84 million, \$216.30 million, and \$259.55 million, respectively. Operating revenue growth is primarily due to the rate increases adopted by the Public Utilities Commission on June 12, 2007.

Hetch Hetchy: Hetch Hetchy's operating revenues are expected to increase by \$1.81 million, mainly due to increases in estimated interest revenue. Other sources are budgeted to decrease \$4.32 million as a result of a decrease in budgeted use of fund balance, and decreases in interdepartmental recoveries.

Wastewater: Wastewater's FY 2008-09 operating revenues reflect a \$15.80 million increase, or 7.9 percent, primarily due to a 9.0 percent increase in wastewater rates effective July 1, 2008. Other sources are budgeted to decrease \$9.34 million due primarily to decrease in the use of bond proceeds.

Water: Water's FY 2008-09 operating revenues are expected to increase by \$19.86 million, primarily due to a 15 percent increases water rates effective July 1, 2008. Other sources are budgeted to increase by \$26.73 million, due primarily an increase in the use of fund balance.

MUNICIPAL TRANSPORTATION AGENCY TWO-YEAR BUDGET

San Francisco Charter Section 8A.106, passed by voters in Proposition A in November of 2007, requires the Municipal Transportation Agency in each even-numbered year to submit a proposed budget for the next two fiscal years. In odd-numbered years, the agency may submit budget amendments for any appropriations requested over those approved in the two-year budget or as may be required by law. The Controller’s Office will review revenue assumptions for FY 2009-10 in the Revenue Letter for FY 2009-10 and will determine whether or not to reserve any expenditure authority at that time.

Municipal Transportation Agency FY 2008-09 (\$ millions)

	FY2007-08	FY2008-09	\$	%
	Original	Proposed	Increase /	Increase /
	Budget	Budget	(Decrease)	(Decrease)
<u>Municipal Transportation Agency</u>				
MUNI				
Operating Revenues	\$ 388.66	\$ 444.94	\$ 56.28	14.5%
Other Sources ^	198.85	223.31	24.47	12.3%
MUNI	\$ 587.51	\$ 668.26	\$ 80.75	13.7%
Parking & Traffic				
Operating Revenues	\$ 49.69	\$ 53.69	\$ 4.00	8.1%
Other Sources ^	48.94	61.22	12.28	25.1%
Parking & Traffic	\$ 98.63	\$ 114.91	\$ 16.28	16.5%
TOTAL (June 1 Proposed)	\$ 686.14	\$ 783.17	\$ 97.03	14.1%

Note: ^ Other Sources include Proceeds of Bonds/Debts, Expenditure Recovery, Other Transfer-In, Fund Balance, Departmental Transfer Adjustment, and General Fund Support if applicable.

The FY 2008-09 Proposed Budget for the Municipal Transportation Agency (MTA) grows by \$97.03 million (14.1 percent) in total revenue sources from \$686.14 million to \$783.17 million, including in the Municipal Railway Fund (MUNI) an increase of \$56.28 million in operating revenues and \$24.47 million in other sources over FY 2007-08 Original Budget levels. In the Parking and Traffic Fund, operating revenues are increasing by \$4.00 million (8.1 percent) and other sources are increasing by \$12.28 million (25.1 percent). Major revenue changes are summarized below.

Municipal Railway Fund (MUNI) – Operating/Grants Revenues -\$56.28 million

- +\$17.90 million in State Transit Assistance (STA) operating revenue;
- +\$15.13 million in Parking Traffic Fines;
- +\$11.43 million in Urban Mass Transportation Federal Grants;
- +\$6.21 million in Muni Regular Passes;
- +\$4.95 million in Transit Advertising;

- +\$2.60 million in earned interest; -\$0.32 million in Transit Development Act (TDA) Sales Tax funding;
- +\$1.00 million in other local grants;
- +\$0.33 million in miscellaneous net changes;
- -\$0.44 million in State sales tax AB1107;
- -\$0.81 million in Bring Tolls; and
- -\$1.70 million in Garage revenues.

Municipal Railway Fund (MUNI) – Other Sources +\$24.47 million

- +\$28.26 million in General Fund Transfer in lieu of Parking Tax
- +\$12.43 million in Baseline Contribution Transfers from General Fund;
- -\$6.45 million in all other net changes including departmental transfer adjustments;
- -\$9.77 million in Fund Balance.

Parking and Traffic Fund – Operating Revenues +\$4.00 million

- +\$1.50 million in earned interest
- +\$1.00 million in Neighborhood Parking Permits;
- +\$0.92 million in Red Light and Traffic Fines;
- +\$0.39 million in all other net changes;
- +\$0.13 million in Garage revenues; and
- +\$0.06 million in Parking Card Meter Revenue.

Parking and Traffic Fund – Other Sources +\$12.28 million

- +\$7.04 million in all other net changes including departmental transfer adjustments.
- +\$4.36 million in Baseline Contribution Transfers from General Fund;
- +\$2.00 million in proceeds from Lease Revenue Bonds; and
- -\$1.12 million in Fund Balance.

MUNICIPAL RAILWAY (MUNI) FY 2008-09

Passenger/Paratransit Fare Revenues

The FY 2008-09 Proposed Budget includes a \$6.40 million increase in passenger fare and paratransit fare revenues. The majority of this increase is based on a projection using FY 2007-08 actual revenues from MUNI regular passes. There are no proposed changes to Passenger fares in FY 2008-09, and paratransit fares remain unchanged at \$1.65 per trip for lift and group vans.

Garage Rate Revenues

MUNI Fund receives dedicated revenues from seven parking garages, which include Golden Gateway Garage, Mission Bartlett Garage, Moscone Center Garage, Sutter-Stockton Garage, Moscone Commercial Garage, 5th and Mission Garage and Ellis-O'Farrell Garage. The FY 2008-09 Proposed Budget includes a projected decrease of \$1.70 million based on actual revenues collected to date in FY 2007-08. There are no garage rate increases included in the Proposed Budget.

Other Revenues

The following fee and fine increases are reflected in the FY 2008-09 Proposed Budget:

- Fines for parking violations, which range from \$13.00 to \$275.00, increase by \$10.00 (or an increase of between 3.6 percent and 76.9 percent).

PARKING AND TRAFFIC FY 2008-09

Parking Meter Revenues

The FY 2008-09 Proposed Budget includes a \$0.06 million increase in revenue from Parking Card Meter collections based on FY 2007-08 collection levels for on-street and off-street parking areas in the City. There are no meter rate increases proposed in FY 2008-09.

Garage Rate Revenues

Parking and Traffic receives dedicated revenues from seven parking garages, which include Lombard Street Garage, Performing Arts Garage, Polk-Bush Garage, St. Mary's Square Garage, Vallejo Street Garage, SFGH Campus Garage, and Japan Center Garage, as well as other parking lots. The FY 2008-09 Proposed Budget includes growth of \$0.13 million in garage revenue based on actual revenues collected to date in FY 2007-08. There are no garage rate increases included in the Proposed Budget.

Other Revenues

The following fee increases are reflected in the FY 2008-09 Proposed Budget:

- Special Traffic Permits increase from \$100.00 to \$132.00 for the base permit (or an increase of 32.0 percent from FY 2007-08) and from \$20.00 to \$26.00 (30.0 percent) for the daily fee. In addition, a late fee of \$150.00 is established in FY 2008-09.
- Neighborhood Parking Permits for residences and businesses increase from \$60.00 to \$74.00 for annual permits and from \$37.00 to \$38.00 for 6-month permits (23.3 percent).
- Temporary Parking Permits and Two Week Visitor Parking Permits increase from \$20.00 to \$25.00 (25.0 percent); Four Week Visitor Parking Permits increase from \$30.00 to \$37.00 (23.3 percent); Six Week Visitor Parking Permits increase from \$40.00 to \$49.00 (22.5 percent); and Eight Week Visitor Parking Permits increase from \$50.00 to \$62.00 (24.0 percent).
- Contractors' parking permits increase from \$500.00 to \$617.00 per year and from \$250.00 to \$309.00 per six months (or an increase of 23.5 percent)
- Farmers' quarterly parking permits increase from \$93.00 to \$115.00 (23.7 percent)
- Temporary Street Closure Permits for neighborhood block parties increase between \$50.00 and \$200.00 (or an increase of 33.0 to 100.0 percent) and permits for all other events increase between \$225.00 and \$375.00 (or an increase of 100.0 percent).
- Color Curb Fees increase between \$40.00 and \$516.00 (35.0 percent).
- Boot Removal Fee increases from \$75.00 to \$205.00 (173.3 percent).
- A Quarterly Parking Meter Usage fee is established of \$200.00 and a Daily fee is established of \$16.00.

**MUNICIPAL TRANSPORTATION AGENCY TWO-YEAR BUDGET
 FY 2009-10 (\$ millions)**

	FY2008-09 Proposed Budget	FY2009-10 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
<u>Municipal Transportation Agency</u>				
MUNI				
Operating Revenues	\$ 444.94	\$ 455.35	\$ 10.41	2.3%
Other Sources ^	223.31	242.24	18.93	8.5%
MUNI	\$ 668.26	\$ 697.59	\$ 29.33	4.4%
Parking & Traffic				
Operating Revenues	\$ 53.69	\$ 69.13	\$ 15.44	28.8%
Other Sources ^	61.22	49.94	(11.29)	-18.4%
Parking & Traffic	\$ 114.91	\$ 119.06	\$ 4.15	3.6%
TOTAL (June 1 Proposed)	\$ 783.17	\$ 816.65	\$ 33.48	4.3%

Note: ^ Other Sources include Proceeds of Bonds/Debts, Expenditure Recovery, Other Transfer-In, Fund Balance, Departmental Transfer Adjustment, and General Fund Support if applicable.

The FY 2009-10 Proposed Budget for the Municipal Transportation Agency (MTA) grows by \$33.48 million (4.3 percent) in total revenue sources from \$783.17 million in the FY 2008-09 Proposed Budget to \$816.65 million in FY 2009-10. In the Municipal Railway Fund (MUNI) operating revenues increase by \$10.41 million (2.3 percent) and other sources increase by \$18.93 million (8.5 percent) over FY 2008-09 Proposed Budget levels. In the Parking and Traffic Fund, operating revenues are increasing by \$15.44 million (28.8 percent), while other sources are decreasing by \$11.29 million (18.4 percent). Major revenue changes are summarized below.

Municipal Railway Fund (MUNI) – Operating/Grants Revenues - \$10.41 million

- +\$12.10 million in MUNI Regular Passes;
- +\$6.84 million in Transit Advertising;
- +\$2.08 million in MUNI Discount Passes;
- +\$1.90 million in Parking Traffic Fines;
- +\$1.90 million in Transit Cash Fares;
- +\$1.50 million in Cable Car Passports and Souvenir Tickets;
- +\$1.02 million in Transit Senior Discount Passes;
- +\$0.73 million in Garage revenues;
- +\$0.10 million in Paratransit Revenue;
- +\$0.05 in Proof of Payment Fines;
- -\$1.80 million in Bring Tolls; and
- -\$16.00 million in Urban Mass Transportation Federal Grants.

Municipal Railway Fund (MUNI) – Other Sources +\$18.93 million

- +\$12.43 million in Baseline Contribution Transfers from General Fund;

- +\$3.52 million in Fund Balance;
- +\$2.20 million in all other net changes including departmental transfer adjustments;
- +\$0.78 million in General Fund Transfer in lieu of Parking Tax

Parking and Traffic Fund – Operating Revenues +\$15.44 million

- +\$13.00 million in Parking Meter Collections;
- +\$1.50 million in earned interest;
- +\$0.32 million in Other Public Safety Charges;
- +\$0.25 million in Special Traffic Permits;
- +\$0.16 million in Other General Government Charges;
- +\$0.08 million in all other net changes;
- +\$0.08 million in Garage revenues; and
- +\$0.05 million in Parking Card Meter Revenue.

Parking and Traffic Fund – Other Sources -\$11.29 million

- +\$1.99 million in Baseline Contribution Transfers from General Fund;
- -\$2.00 million in proceeds from Lease Revenue Bonds;
- -\$5.30 million in Fund Balance;
- -\$5.98 million in all other net changes including departmental transfer adjustments.

MUNICIPAL RAILWAY (MUNI) FY 2009-10

Passenger/Paratransit Fare Revenues

The FY 2009-10 Proposed Budget includes a \$18.72 million increase in passenger fare and paratransit fare revenues. The majority of this increase is due to proposed increases in fares for monthly MUNI passes, as described below. There are no proposed changes for paratransit fares, which remain unchanged at \$1.65 per trip for lift and group vans.

Garage Rate Revenues

MUNI Fund receives dedicated revenues from seven parking garages, which include Golden Gateway Garage, Mission Bartlett Garage, Moscone Center Garage, Sutter-Stockton Garage, Moscone Commercial Garage, 5th and Mission Garage and Ellis-O’Farrell Garage. The FY 2009-10 Proposed Budget includes a projected increase of \$0.73 million based on assumed changes in demand and implementation of the SF Park project, discussed below.

Other Revenues

The following fee and fine increases are reflected in the FY 2009-10 Proposed Budget:

- Adult Monthly MUNI Passes increase from \$45.00 to \$55.00 (or an increase of 22.2 per cent from FY 2008-09), while Discount Monthly MUNI Passes for Youths, Seniors, and People with Disabilities increase from \$10.00 to \$15.00 (or an increase of 50.0 percent)

PARKING AND TRAFFIC FY 2009-10

Parking Meter Revenues

The FY 2009-10 Proposed Budget includes a \$13.05 million increase in Parking Meter Collections and Parking Card Meter revenue, due primarily to the planned implementation of the SF Park project, a new parking management program that will use meters with in-pavement sensors and an electronic payment system to allow for more convenient payment options and flexible meter pricing. This pilot program, which has been approved by the SFMTA Board, authorizes the agency to change meter rates based on the time of day and the day of the week in order to achieve certain parking occupancy rates. The projected increase in revenue is based partly on the experience of the Port, which has implemented a similar program.

Garage Rate Revenues

Parking and Traffic receives dedicated revenues from seven parking garages, which include Lombard Street Garage, Performing Arts Garage, Polk-Bush Garage, St. Mary's Square Garage, Vallejo Street Garage, SFGH Campus Garage, and Japan Center Garage, as well as other parking lots. The FY 2008-09 Proposed Budget includes growth of \$0.08 million in garage revenue based on assumed changes in demand and implementation of the SF Park project, discussed above.

Other Revenues

The following fee increases are reflected in the FY 2009-10 Proposed Budget:

- Special Traffic Permits increase from \$132.00 to \$136.00 for the base permit (or an increase of 3.0 percent from FY 2008-09) and from \$26.00 to \$28.00 (7.7 percent) for the daily fee. In addition, the late fee increases from \$150.00 to \$155.00 (3.3 percent).
- Neighborhood Parking Permits for residences and businesses increase from \$74.00 to \$76.00 for annual permits and from \$37.00 to \$38.00 for 6-month permits (or an increase of 2.7 percent).
- Temporary Parking Permits and Two Week Visitor Parking Permits increase from \$25.00 to \$26.00 (4.0 percent); Four Week Visitor Parking Permits increase from \$37.00 to \$38.00 (2.7 percent); Six Week Visitor Parking Permits increase from \$49.00 to \$50.00 (2.0 percent); and Eight Week Visitor Parking Permits increase from \$62.00 to \$64.00 (3.2 percent).
- Contractors' parking permits increase from \$617.00 to \$636.00 per year and from \$309.00 to \$318.00 per six months (or an increase of 2.9 percent).
- Farmers' quarterly parking permits increase from \$115.00 to \$118.00 (2.6 percent)
- Temporary Street Closure Permits all events other than neighborhood block parties increase by \$25.00 (or an increase of 3.3 percent to 5.5 percent).
- Color Curb Fees increase by \$40.00 to \$516.00 (26.1 percent).
- Boot Removal Fee increases from \$205.00 to \$215.00 (4.9 percent).
- Quarterly Parking Meter Usage fee increases from \$200.00 to \$212.50 (6.3 percent) and the Daily Parking Meter Usage fee increases from \$16.00 to \$17.00 (6.3 percent).

VI. RESERVES

CONTROLLER’S APPROPRIATION RESERVES

Prior to certifying revenues, the Controller places certain items on reserve pending some additional action in order to secure the revenues. The chart below details the reserves and the action required for the department to subsequently expend funds.

Chart P: Controller’s Appropriation Reserves (\$ millions)

Department	Reserve	Explanation for Reserve	Required Action
DPH Laguna Honda Hospital Improvements, Equip., Debt Svc	185.00	Certificates of Participation	Board of Supervisors approval of Laguna Honda Hospital Financing and debt sale
DPH Community Housing Subsidy	3.13	Certificates of Participation	
DSS Community Living Trust Fund	3.00	Certificates of Participation	
Various Depts Capital Projects	26.27	SFGH Bond Refund of Planning Costs	Voter approval of San Francisco General Hospital Bond Proposal
PUC Wastewater Infrastructure Repairs	23.76	Wastewater Revenue Bonds	Sale of Revenue Bonds
GSA-DPW Street Resurfacing, Sidewalk Repair	18.35	Certificates of Participation	Board of Supervisors approval of gas tax financing and debt sale for road-related work
GSA-ADM Curb Ramp Improvements	5.00	Certificates of Participation	
MTA Lease Financing	2.00	Lease Finance Bonds	Sale of Lease Finance Bonds
REC Clean and Safe Bonds, Various Projects	2.00	Revenue Bonds	Sale of G.O. Bonds
ECN One-Stop Workforce Operations & Program	1.37	Grant Revenues	Receipt of Grant Revenues
Total	<u>\$ 269.87</u>		

OTHER RESERVES INCLUDED IN PROPOSED BUDGET

The Mayor’s FY 2008-09 Proposed Budget also includes \$43.33 million in General Fund reserves as outlined in the chart below. These appear to be prudent and reasonably reflect anticipated Memoranda of Understanding (MOUs) and Litigation costs, workorder recoveries and general contingency reserves.

Chart Q: Proposed Reserves (\$ millions)

General Fund	FY 2007-08 Original Budget	FY 2008-09 Proposed Budget	Change
General Reserve	\$ 21.00	\$ 25.00	\$ 4.00
Salaries & Benefits Reserve	24.11	4.83	(19.28)
Litigation Reserve	11.00	11.00	-
Reserve for Technical Adjustments	-	2.50	2.50
Total Reserves - General Fund	\$ 56.11	\$ 43.33	\$ (12.78)

Key General Fund Reserves

General Reserve: Each year, the City sets aside funding to provide for revenue and expenditure uncertainties including funding for supplemental appropriations in the event that additional appropriation needs arise. The Mayor’s FY 2008-09 Proposed budget includes \$25.00 million in the General Reserve. Although this represents an increase of \$4.00 million from the level that was included in the FY 2007-08 budget, \$25.00 million is the level at which the General Fund Reserve has been generally funded in recent budgets.

Given information known today, the Controller’s Office would only be able to certify uses of \$5.00 million against the budgeted \$25.00 million reserve, given revenue risks in the Proposed Budget.

- \$5.00 million in revenue that can not be certified until action by the Board of Supervisors on legislation that would allow the proposed transfer of revenues from the Publicly-Financed Mayoral Campaign Fund to the General Fund.
- \$15.00 million in potential losses of 911 fee revenues included within the Proposed Budget. There is pending litigation challenging the validity of emergency response (911) fees in other cities in California. In April 2008, the California Court of Appeal upheld a trial court decision invalidating an emergency response fee that Union City had imposed to fund its 911 emergency communication response system, because the fee was determined to be a tax adopted without the approval of the voters, as required by the State Constitution. The Union City decision may be subject to review by the California Supreme Court. Because there are no pending claims or litigation against the City challenging the validity of the fee, the proposed budget continues to assume fee revenue collections of \$42.2 million. However, there is a risk that if the City’s fee were challenged in the future, a court could limit or invalidate a portion of the fees collected in

the coming fiscal year, and also could require certain refunds be made to telephone customers for prior year amounts.

Our office will continue to update the Mayor and Board of Supervisors as new information is known regarding these – and other – potential revenue losses.

Salaries and Benefits Reserves: The Mayor’s FY 2008-09 Proposed Budget provides \$4.83 million in the General Fund to cover costs related to adopted Memorandum of Understandings (MOUs) with labor organizations. As most contracts are closed during FY 2008-09, this is a \$19.28 million decrease budget-to-budget because wage and salary increases are budgeted in individual department budgets.

Litigation Reserve: The Mayor’s FY 2008-09 Proposed Budget provides \$11.00 million to cover litigation. This is the same level at which litigation costs were funded in FY 2007-08.

VII. SELECT REPORTING REQUIREMENTS

The Controller is also charged with periodic reporting for various other financial and revenue matters. Included below are financial summaries pertaining to the 911 Fee and the Downtown Park Fund.

911 Fee

The Department of Emergency Management has included \$42.22 million of 911 Fee revenue in the FY 2008-09 Proposed Budget. This reflects a \$1.08 million decrease from the \$43.30 million included in the FY 2007-08 original budget. The Mayor's Proposed Budget is based on the current \$2.75 per telephone line equivalent², with an assumed exempt lines factor of 15 percent³. The legality of this fee has been challenged in other California cities as described in the Reserves section above.

Based on 911 system-related costs budgeted in Emergency Communications, full cost recovery would be approximately equal to \$53.02 million, of which \$45.06 million could be recovered from non-exempt users of the system. The remaining costs are related to the exempt lines serviced by the 911 system. As outlined in the Emergency Response Fee section of the Business and Tax Regulations Code, the purpose of the ordinance is to require subscribers to telephone service in the City and County to pay a fee which is directly related to the benefit subscribers derive from the improvements to and operation of the 911 system. Furthermore, Section 750 of the Business and Tax Regulations Code states that the fee is intended to recover all costs related to the benefits the improved system will provide to nonexempt telephone subscribers. Because of these Code provisions, the costs associated with exempt lines cannot be shifted or charged to nonexempt users, and must be removed before calculating the per line fee for nonexempt subscribers.

The chart on the following page summarizes the Controller's findings based on the FY 2008-09 Proposed Budget. After adjusting for the \$2.84 million of accumulated fund balance used in the FY 2008-09 Proposed Budget, current fee collections of \$2.75 per line are estimated to cover 85 percent of total costs, or 100 percent of eligible, non-exempt costs. The Mayor's FY 2008-09 Proposed Budget assumes level rates at \$2.75 per line per month as presently mandated by the Municipal Code.

The Controller is also required to report on the inflation-adjusted subscriber limit (i.e. the annual, calendar-year fee cap for any single subscriber). For calendar year 2008, the subscriber limit is \$59,252. This means that no single customer (subscriber) will pay more than \$59,252 for calendar year 2008. The subscriber limit for calendar year 2009 will be adjusted upward to \$61,528 based on consumer price index factor of 3.84 percent.⁴

² Currently, the 911 Fee was based on \$2.75 per line equivalent, with the trunk line fee \$20.62 per month and the high-capacity trunk line fee \$371.15 per month. One trunk line is equivalent to 7.5 single access lines, whereas one high-capacity trunk is equivalent to 135 single access lines.

³ Telecommunications providers are not consistently reporting the number of exempt and nonexempt telephone lines, even though the Tax Collector includes these required data fields on the Emergency Response Fee Statement. Thus, the City makes estimates as to the proportion of exempt and nonexempt lines.

⁴ US Bureau of Labor Statistics, CPI-U Urban San Francisco-Oakland-San Jose, CA, All Items, 1982-84=100.

Chart R: 911 Fee Analysis

Total 911 System Related Costs (US\$ millions)	Estimated Eligible Costs Attributed to Non-Exempt Users (US\$ millions)	Percentage of Total
\$53.02	\$45.06	85%

Cost Recovery of Non-Exempt Costs Only	Cost Recovery of Total Costs	\$ Per Line Equivalent Per Month	Estimated Over/(Under) Recovery from Non-Exempt Only (US\$ millions)	
100%	85%	\$2.75	\$0.00	Using fund balance
94%	80%	\$2.75	(\$2.84)	Current Fee Since Nov 2004
85%	72%	\$2.50	(\$6.68)	
77%	65%	\$2.25	(\$10.52)	
68%	58%	\$2.00	(\$14.36)	
60%	51%	\$1.75	(\$18.19)	Nov 2003 - Oct 2004
43%	36%	\$1.25	(\$25.87)	Dec 2002 - Oct 2003
34%	29%	\$1.00	(\$29.71)	Dec 1997 - Nov 2002
17%	14%	\$0.50	(\$37.38)	Prior to Dec 1997

Key Assumptions

Estimated Total Revenue

% of Telephone Lines Subject to Fee (Non-Exempt)	85%	
Telephone Line Equivalents (Monthly) - Total	1,505,090	\$42.22
Telephone Line Equivalents (Monthly) - Non-Exempt	1,279,327	\$42.22
Telephone Line Equivalents (Monthly) - Exempt	225,763	\$0.00

Calendar Year	Annual Cap	\$ Change	% Change	Factor Adjustment
2009*	\$61,528	\$2,276	3.84%	CPI Per Administrative Code
2008*	\$59,252	\$1,971	3.44%	CPI Per Administrative Code
2007*	\$57,281	\$1,098	1.95%	CPI Per Administrative Code
2006*	\$56,183	\$1,183	2.15%	CPI Per Administrative Code
2005	\$55,000	\$15,000		Fixed \$ Per Administrative Code
2004	\$40,000	\$15,000		Fixed \$ Per Administrative Code
2002	\$25,000	\$5,000		Fixed \$ Per Administrative Code
1998	\$20,000			Fixed \$ Per Administrative Code

* Adjusted by CPI-U for the San Francisco, Oakland and San Jose Metropolitan Area

Downtown Park Fund

The San Francisco Planning Code requires that the Controller's Office file annually a report with the Board of Supervisors outlining the amount of money collected in the Downtown Park Fund. The Recreation and Park Commission and the City Planning Commission administer this fund jointly. This fund accrues both fee and interest revenue. Fee revenues are a function of the \$2 per square foot charge on the net addition of gross office floor area for specified C-3 Use District development. This fund is to be used to acquire and develop public recreation and park facilities for use by the daytime population of the C-3 Use Districts.

The charts below summarize the Fund's budget activity for the most recent five-year period and the Proposed Budget. Additionally, a detailed breakdown of sources by fee and interest revenue is provided. At this time, the projected FY 2007-08 year-end fund balance is \$0.71 million. The FY 2008-09 Proposed Budget does not appropriate any sources or uses for this fund. Therefore, we project additional appropriation capacity for FY 2008-09 of \$0.71 million.

Chart S: Downtown Park Fund (\$ millions)

Fiscal Year	Original Budget		Estimated Fund Balance Available for Appropriation as of June 30
	Sources	Uses	
FY 2008-09 Proposed	\$ 0.11	\$ 0.11	\$ 0.71
FY 2007-08 AAO	0.11	0.11	0.71
FY 2006-07	0.34	0.34	
FY 2005-06	0.55	0.55	
FY 2004-05	2.43	2.43	
FY 2003-04	1.20	1.20	

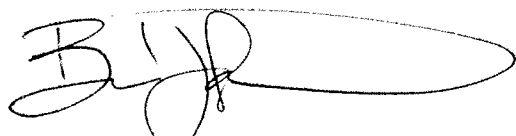
Fiscal Year	Fees		Interest		Total
	\$	-	\$	0.11	
FY 2008-09 Projected	\$ -		\$ 0.11		\$ 0.11
FY 2007-08 Projected	-		0.12		0.12
FY 2006-07 Actual	0.55		0.15		0.70
FY 2005-06 Actual	0.03		0.11		0.14
FY 2004-05 Actual	0.11		0.07		0.19
FY 2003-04 Actual	-		0.07		0.07

VIII. CONCLUSION

Overall, the assumptions included in the Mayor's FY 2008-09 Proposed Budget appear to be reasonable. To arrive at this conclusion, the Controller's Office conducted a thorough review of budgeted sources of funds as well as a review of the underlying economic assumptions. As additional information becomes available, we will advise the Board of those changes.

If you have any questions or concerns regarding the information presented in this report, please contact me or Monique Zmuda, Deputy Controller, at (415) 554-7500.

Sincerely,

A handwritten signature in black ink, appearing to read 'B. Rosenfield', with a long horizontal flourish extending to the right.

BEN ROSENFELD
Controller

Attachments:

- A – General Fund Revenue Comparison to Average California City and County
- B – All Funds Revenue Comparison to Average California City and County

cc: Mayor Gavin Newsom

Nani Coloretti, Mayor's Budget Office, Mayor's Budget Director
Angela Calvillo, Board of Supervisors, Clerk of the Board
Harvey Rose, Board of Supervisors, Budget Analyst

ATTACHMENT A

General Fund Sources Comparison to Average California City and County

General Fund	Sorted by Size			
Sources of Fund	FY 2008-09 Mayor's Proposed Budget (\$ millions)	% of Total	Average California *	
			City	County
Property Tax	\$ 1,017.93	33.37%	20.46%	20.51%
Intergovernmental - Federal, State & Other	693.07	22.72%	3.57%	55.09%
Other Local Taxes	552.59	18.12%	62.68%	3.90%
Business Taxes	394.51	12.93%	5.77%	0.00% (1)
Charges for Services	134.58	4.41%	0.00%	11.48%
Interest & Investment	21.37	0.70%	4.18%	1.98%
Licenses, Permits & Franchises	24.79	0.81%	0.18%	1.25%
Rents & Concessions	21.28	0.70%	0.00%	0.00% (3)
Other Revenues	11.41	0.37%	2.31%	2.45%
Recoveries	12.85	0.42%	0.00%	0.00% (2)
Fines & Forfeitures	3.86	0.13%	0.85%	2.05%
Other Financing Sources	1.78	0.06%	0.00%	1.29% (4)
Total Sources	\$ 2,890.02	94.75%	100.00%	100.00%
Transfers, Net	55.75	1.83%	0.00%	0.00% (2)
PY Fund Balance	80.78	2.65%	0.00%	0.00% (3)
PY Reserve	23.64	0.78%	0.00%	0.00% (3)
	\$ 3,050.19	100.00%	100.00%	100.00%

Source: California Controller Annual Reports data as of FY 2005-06.

* Data comparisons are difficult at best as San Francisco is both a City & County.

* These columns exclude San Francisco. Additionally, not all jurisdictions provide detailed breakdowns to the same level as San Francisco.

(1) County Data - Included in Other Local Taxes

(2) Not Applicable

(3) Included in Interest & Investment

(4) City Data - Not Applicable

ATTACHMENT B

All Funds Sources Comparison to Average California City and County

All Funds	Sorted by Size			
Sources of Fund	FY 2007-08 Proposed Budget (\$ millions)	% of Total	Average California *	
			City	County
Charges for Services	\$ 1,805.25	29.76%	36.58%	10.22%
Intergovernmental - Federal, State & Other	1,107.61	18.26%	8.69%	49.04%
Property Tax	1,184.51	19.53%	7.09%	18.26%
Other Local Taxes	588.00	9.69%	25.96%	3.47%
Business Taxes	360.55	5.94%	2.00%	0.00% (1)
Rents & Concessions	349.11	5.76%	0.00%	0.00% (2)
Other Revenues	112.54	1.86%	6.81%	13.16% (3)
Fines & Forfeitures	104.89	1.73%	1.05%	1.82%
Other Financing Sources	75.79	1.25%	6.72%	1.15%
Interest & Investment	83.98	1.38%	3.48%	1.76%
Licenses, Permits & Franchises	36.29	0.60%	1.62%	1.11%
Recoveries	8.75	0.14%	0.00%	0.00% (4)
Contributions (Retirement & HSS)			0.00%	0.00%
ISF Charges			0.00%	0.00%
Non ISF Charges			0.00%	0.00%
Total Sources	\$ 5,817.27	95.90%	100.00%	100.00%
PY Fund Balance	225.22	3.71%	0.00%	0.00% (2)
PY Reserve	23.50	0.39%	0.00%	0.00% (2)
	\$ 6,065.99	100.00%	100.00%	100.00%

Source: California Controller Annual Reports data as of FY 2005-06.

* Data comparisons are difficult at best as San Francisco is both a City & County.

* These columns exclude San Francisco. Additionally, not all jurisdictions provide detailed breakdowns to the same level as San Francisco.

(1) County Data - Included in Other Local Taxes

(2) Included in Interest & Investment

(3) Including Enterprise Revenues & Special Benefit Assessments

(4) Not Applicable