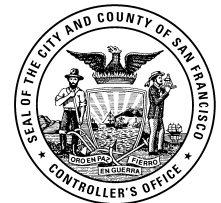


FY 2009-10 Revenue Letter:

**Controller's Discussion
of the Mayor's FY 2009-10
Proposed Budget**



June 10, 2009



City and County of San Francisco

Office of the Controller

Controller's Discussion of the Mayor's FY 2009-10 Proposed Budget

June 10, 2009

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 1, 2009, Mayor Gavin Newsom issued his FY 2009-10 Proposed Budget to the Board of Supervisors. An overview of the revenues is provided in Table 1. **Overall, the Proposed Budget appears to be reasonable given the information currently available.**

Due to continuing uncertainties related to the length of the economic downturn and the State of California's fiscal crisis, our opinion on the Mayor's Proposed Budget must contain important qualifications. These particularly relate to over \$200 million in potential revenue shortfalls related to actions the State may take to close its budget gap.

- **Overview:** As shown in Table 1, the Proposed Budget of \$6.6 billion in sources across all funds represents a \$69 million, or 1.1% increase over prior year. Excluding use of prior year fund balance and reserves, regular revenues are budgeted to decline by \$33 million or -0.5%. General Fund regular revenues are projected to decline -4.1%. As discussed in Appendices 1 and 2, the declines in General Fund revenues are primarily due to the effects of the economic downturn on local and state tax revenues and State cutbacks in assistance to local government, partially offset by federal American Recovery and Reinvestment Act (ARRA) funding outlined in Appendix 3 and the shift of \$43 million in former 911 fee revenue from special revenue funds into the General Fund discussed in Appendix 1.
- **Local tax revenue estimates are reasonable given economic assumptions but require close monitoring during the budget year:** Other local tax revenue budgets appear reasonable, based on the budget's assumption that the local economic downturn in San Francisco's employment, tourism, and retail sales has bottomed out at current reduced levels compared to the prior year, with a slow recovery not beginning until mid-2010. We will watch the actual developments in our local economy carefully throughout the budget year.
- **Potential \$91 million property tax shortfall if State borrows 8% from local governments:** As the Mayor's FY 2009-10 Proposed Budget notes, the estimated property tax revenues could be reduced by \$91 million (\$82 million General Fund) if the State Legislature approves the Governor's May proposal to borrow 8% of local property taxes. If this occurs, we do not yet know whether the City would be able to obtain financing to backfill the shortfall, and what the financing costs might be. See Appendix 1 for more details of assumptions underlying the property tax projections.

- Potential for additional \$125 million in State funding cuts beyond those assumed in the Proposed Budget:** The Mayor's Proposed Budget already addresses, through general fund backfill or program reductions, \$62 million in State budget cuts related to the early FY 2009-10 budget passed by the State Legislature in February 2009. The Mayor's Proposed Budget also reduces state revenue projections by a further \$25 million in anticipation of additional State cuts.

Since February, the State's budget outlook has deteriorated. In the May special election, voters rejected \$6 billion in State budget solutions. State tax receipts have continued to deteriorate below earlier forecasts and the State failed to obtain federal guarantees to support increased State borrowing. In response, the Governor's May budget revisions proposed significant further cuts in programs administered by local governments. These cuts are subject to approval by the State Legislature.

Appendix 2 lays out \$150 million in potential general fund impacts if the Governor's proposed cuts were approved by the Legislature, representing \$125 million more than the allowance already included in the Mayor's Proposed Budget. It is highly unlikely the Legislature will approve all of the Governor's cuts in their current form. This analysis is intended to illustrate the order of magnitude of potential State budget impacts to the City budget and the people the City serves.

Table 1. Overview of Budgeted Sources

note: totals may appear to differ from sum of line items due to rounding

All Funds

	FY 2008-09		FY 2009-10		Change	
	Budget		Proposed		\$	%
Fund Balance	\$	198	\$	253	\$	28.0%
Reserves		33		79		141.3%
Regular Revenues		6,301		6,268		-0.5%
Transfers, net		n/a		n/a		n/a
Total All-Funds Sources	\$	6,531	\$	6,601	\$	1.1%

General Fund

	FY 2008-09		FY 2009-10		Change	
	Budget		Proposed		\$	%
Fund Balance	\$	82	\$	86	\$	5.2%
Reserves		30		79		168.4%
Regular Revenues (1)		2,893		2,775		-4.1%
Transfers, net		50		(49)		-197.1%
Total GF Sources	\$	3,054	\$	2,891	\$	-5.3%

(1) FY 2009-10 regular revenues is \$30 million higher than amount published in Mayor's Proposed Budget due to a technical correction related to federal Stimulus revenues accruing to the general fund.

- **Departmental Revenues are projected to rise by a net of \$92 million, including \$117 million in fee and fine increases offset by other revenue declines.** Appendix 4 details significant Departmental revenue changes. Appendix 5 presents fee and fine increases that are included in companion legislation to the Budget and require approval by the Board of Supervisors. To the extent the Board does not approve these items, the associated sources would not be available.

New fees include a new Cigarette Litter Abatement Fee, which is estimated to provide \$5 million in revenues during the FY 2009-10 budget year. Due to the lack of a final study to establish the nexus between the costs and the fee, the Controller will reserve \$5 million of public works expenditures until the fee is fully implemented.

- **\$165 Million in One-Time Sources are used to balance General Fund-Supported budget, including 50% of the Rainy Day Reserve:** As detailed in Appendix 6, the proposed General Fund budget includes \$86 million in prior year fund balance, \$55 million in use of prior year reserves, and \$24 million in other one-time sources.

The anticipated \$86 million available fund balance represents an increase of \$66 million over the Controller's Nine-Month Report Projection, including \$23 million from a proposal to suspend the Budget Savings Incentive Reserve carryforward and deposits and apply the reserve to fund balance and \$9 million additional savings on the Laguna Honda Hospital replacement project.

The Rainy Day Reserve currently contains \$98 million. After the budgeted withdrawal of 50% (\$49.2 million) for the General Fund and 25% (\$24.5 million) for the San Francisco Unified School District, \$24.6 million will remain available for subsequent years.

- **Voter-approved budgetary baselines and set-asides are funded at voter-approved levels, with limited exceptions.** Appendix 7 provides details on voter-approved mandates that determine minimum levels of revenues, expenditures or service levels for various programs. Items of interest include:
 - **Children's Baseline:** The Children's baseline is funded above required levels by \$22.7 million, primarily due to the budgeted transfer of \$24.6 million Rainy Day Reserve funds to the San Francisco Unified School District.
 - **Police Staffing:** The Proposed Budget includes net funding authority for 1,896 officer positions with sufficient overtime funding to bring the total to 2,118 full time equivalent officer positions, or 147 full time equivalents above the 1,971 baseline requirement. In addition, the Police Department has submitted a grant application for federal Stimulus funds to hire 268 new police officers over three years. Certification of civilianization efforts may reduce the baseline requirement.
 - **Treatment on Demand:** Based on 2008 data, we estimate that funding levels are at least \$7 million to \$13 million below what would be required to meet the new substance abuse "Treatment on Demand" service baseline approved by voters in November 2008. The Department of Public Health is expected to provide a report to the Board by February 1, 2010 with an assessment of the demand for substance abuse treatment and a plan to meet this demand.

- **\$183M in expenditures in the Proposed Budget are reserved by the Controller,** primarily in bond-financed expenditures, as detailed in Appendix 8.
- **Looking Beyond the Budget Year: Budget Gap for FY 2010-11 may exceed \$300 million.** The FY 2010-11 budget will need replace \$165 million in one-time balancing solutions used in the Mayor's FY 2009-10 Proposed Budget. The budget will also have to accommodate net expenditure growth estimated at \$175 million in the March 31, 2009 Joint Report. The gap will be reduced by taking into account the full year effect of any partial year staffing reductions and other ongoing savings measures in the FY 2009-10 budget.

This preliminary outlook will change as we learn more about what will happen with State revenues and federal Stimulus funding, and as we monitor trends in our tax revenues dependent on the local economy. The Controller's office plans to update the Mayor and Board of Supervisors on the FY 2010-11 budget shortfall by September 2009.

Conclusions

Overall, the Proposed Budget appears to be reasonable given the information currently available. The magnitude of the State budget crisis and the Governor's proposed solutions have created a significant level of uncertainty regarding the resources that will be available to support our own budget. In addition, increase in future benefit and retirement contribution costs are likely to place stresses on future year budgets. The Controller's Office will continue to work closely with the Mayor and the Board of Supervisors to share information and calculate the ongoing adjustments that will be necessary to ensure that the City's budget remains balanced.

Appendices

1. General Fund Regular Revenues	p. 5
2. State Budget Impact	p. 13
3. American Recovery and Reinvestment Act (ARRA) Revenues	p. 15
4. Revenues by Department	p. 16
5. Fee Revenues	p. 20
6. Use of Fund Balance, Prior Year Reserves and Other One-Time Sources	p. 21
7. Baselines and Mandated Funding Requirements	p. 25
8. Expenditure Reserves	p. 29
9. Downtown Park Fund	p. 31

Appendix 1. General Fund Regular Revenues

Table 1-1 provides a summary of the Mayor's FY 2009-10 Proposed Budget's assumptions regarding general fund tax and interest revenues and the change compared to the FY 2008-09 budget. Notes are provided below.

Table 1-1. General Fund Regular Revenues

Sources of Funds	FY 2008-09	FY 2009-10	Change	Notes
	Budget	Proposed Budget		
Property Taxes	\$1,018.9	\$1,057.6	\$38.7	1
Business Taxes	394.6	371.8	(22.7)	2
Sales Tax	119.3	98.2	(21.1)	3
Hotel Room Tax	188.7	116.5	(72.2)	4
Utility Users Tax	82.8	87.0	4.2	5
Parking Tax	65.4	64.1	(1.2)	6
Real Property Transfer Tax	94.3	45.3	(49.0)	7
Stadium Admissions Tax	2.5	2.2	(0.3)	
Access Line Tax	-	42.9	42.9	8
Licenses, Permits & Franchises	25.0	25.1	0.1	
Fines and Forfeitures	3.9	3.7	(0.2)	
Interest & Investment Income	21.4	11.0	(10.4)	9
Rents & Concessions	21.1	18.7	(2.4)	
Intergovernmental - Federal	206.4	235.9	29.5	
State - Public Safety Sales Tax	73.8	65.1	(8.7)	10
State - Health & Welfare Realignment	170.2	147.3	(22.9)	11
State - Other	243.5	217.3	(26.2)	
Charges for Services	134.9	139.3	4.4	
Recovery of Gen. Govt. Costs	12.8	8.2	(4.7)	
Other Revenues	13.2	17.6	4.4	
Regular Revenues	2,892.6	2,774.7	(117.9)	

1. Property Taxes: The FY 2009-10 General Fund share of property tax revenue is projected to be \$1,057.6 million, which is 4% (\$38.7 million) more than the FY 2008-09 budget and 4% (\$42.8 million) more than the FY 2008-09 Nine-Month Report projection.

Preliminary working roll estimates from the Assessor's Office indicate FY 2009-10 secured tax roll growth of 6.7% from the FY 2008-09 certificate value, despite recent declines in property values. The growth is due to a combination of:

- 2% increases in assessed valuation allowed by Proposition 13 for the large portion of the roll that continues to be assessed under their current market valuation.
- The enrollment of a backlog of supplemental assessments related to property transactions in recent years.
- Enrollment of new construction.

The FY 2009-10 working roll is based on valuations assessed as of January 2009. Property owners will have an opportunity to request appeals of those assessments through September 15, 2009. The Proposed Budget contains an allowance for potential reductions in assessed valuation that may occur through the appeals process. The Controller's Office believes that this allowance is reasonable based on information available at this time.

The Proposed Budget provides funding for a team in the Real Property Division of the Assessors' Office dedicated to addressing increased assessment appeals. This will allow current staff to continue efforts to eliminate the enrollment backlog for properties transacted in prior years by the end of FY 2009-10, bringing in an estimated \$30 million (\$16.3 million General Fund) over projected revenues without the team. The Proposed Budget also includes \$1.3 million (\$0.8 million General Fund) in additional unsecured property tax revenue from the addition of one collections officer in the Treasurer/Tax Collector's Bureau of Delinquent Revenues.

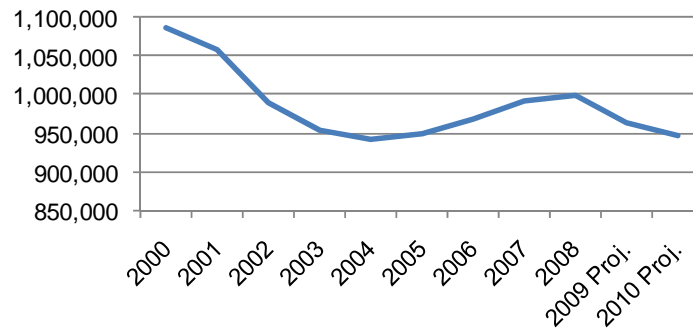
Of Proposition 13's 1% base property tax rate (not including additional amounts to support general obligation debt), approximately 57% is allocated to the General Fund, and 3.0%, 2.5% and 2.5% of the base rate are allocated to the City's Children's Fund, Open Space Fund and Library Preservation Fund, respectively. Twenty-five percent of the base rate is allocated to schools through the State's Educational Revenue Augmentation Fund (ERAF) program. The balance of the base rate is 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 base rate of \$1 per \$100 of assessed value, the FY 2008-09 add-on for debt service was 0.163%, resulting in a total property tax rate of 1.163%. The tax rate ordinances for the FY 2009-10 add-on for debt service are required to be adopted by the Board of Supervisors not later than the last working day of September.

A portion of property tax is also allocated to the Redevelopment Agency from the increase in assessed valuations in redevelopment project areas (tax increment). For FY 2009-10, tax increment funding allocated to the Redevelopment Agency (RDA) is projected to increase to \$95.6 million, an increase of \$5.7 million from FY 2008-09. A portion of the increase is due to shifting costs for public housing capital projects, low-income housing capital projects, operating subsidies for supportive housing, and similar items to the Redevelopment Agency.

The Governor's May revised budget, issued May 14, proposes borrowing 8% of county property taxes to raise approximately \$2 billion for the state. Under the terms of Proposition 1A, the total amount borrowed must be paid back with interest within three years. This would mean an estimated loss of \$81.7 million from the General Fund and \$9.3 million from special revenue funds that receive property tax, for a total loss of \$91.0 million. Due to the uncertainty regarding state budget proposals at the time of publication, the Mayor's Proposed Budget does not include this loss of property tax revenue.

2. Business Taxes: Business taxes are budgeted at \$371.8 million, which is \$22.7 million (5.8%) less than the FY 2008-09 budget and \$25.5 million (6.4%) less than FY 2008-09 year-end projections. Business tax revenues include \$8.6 million in business license registration fees and \$363.2 million in payroll taxes. Overall payroll taxes are projected to decline 8.8%, with the number of jobs declining 4.2% in 2009 and 1.0% in 2010, reaching the bottom in early 2010, as shown in Table 1-2. The change in revenue is larger than the change in jobs because payroll taxes are paid on a calendar year basis. Prepayments of 2009 taxes made in FY 2008-09 and calculated based on 2008 liabilities will be trued up in February 2010.

Table 1-2. San Francisco Metropolitan Division Employment (Marin, San Francisco & San Mateo Counties), CA Employment Development Department



San Francisco’s employment base is more dependent on financial services, business services, restaurants and hotels, and less dependent on construction and manufacturing than other parts of California. A key payroll tax indicator is the unemployment rate. San Francisco unemployment lags the state, but both rates increased in 2008 and jumped dramatically in January 2009. San Francisco’s unemployment rate reached 9.0% in March 2009, its highest rate since 1984.

The Proposed Budget assumes collections of delinquent payroll tax revenue due in prior years will decrease slightly from an estimated \$19 million in FY 2008-09 to \$15 million in FY 2009-10. The budget includes \$10 million in net new revenue from the passage of Proposition Q in November 2008, which require business to report and pay payroll taxes on partnership income and increases the small business exemption level. Finally, the budget assumes reductions in 2009 payroll tax prepayments of \$1 million during FY 2008-09, which reduces projected losses in FY 2009-10 by a like amount.

3. Sales Tax: Local sales tax in FY 2009-10 is expected to generate \$98.2 million in revenue, a decrease of \$21.1 million (17.7%) from FY 2008-09 original budget and \$6.3 million (5.0%) from FY 2008-09 year-end projections. San Francisco sales tax continues to be more dependent on tourism than most other cities in California. Reduced business and personal spending, as well as lower employment, accounts for a significant portion of the weakness assumed in the FY 2009-10 budget.

Table 1-3: Changes in Local and State Sales Tax Receipts from Same Quarter Prior Year

Fiscal Year	Quarter	San Francisco	California
FY 2006-07	3rd Q 2006	-0.5%	+0.9%
	4th Q 2006	+3.0%	-0.1%
	1st Q 2007	+12.5%	+2.7%
	2nd Q 2007	+5.2%	+0.7%
FY 2007-08	3rd Q 2007	+5.1%	-2.8%
	4th Q 2007	+5.2%	0.0%
	1st Q 2008	+3.1%	-2.1%
	2nd Q 2008	+0.6%	-3.1%
FY 2008-09	3rd Q 2008	+6.5%	-3.2%
	4th Q 2008	-8.6%	-10.8%
	<i>1st Q 2009 est</i>	<i>-10.0%</i>	<i>-15.0%</i>
	<i>2nd Q 2009 est</i>	<i>-12.3%</i>	<i>-15.0%</i>
FY 2009-10	<i>3rd Q 2009 est</i>		
	<i>4th Q 2008 est</i>		
	<i>1st Q 2010 est</i>	-6.0%	-2.0%
	<i>2nd Q 2010 est</i>		

4. Hotel Room Tax: Total hotel room tax revenue is estimated to be \$173.1 million in FY 2009-10, a 28.3% decrease budget to budget and a 15.0% decrease from the FY 2008-09 year-end projection. The budget to budget decrease approaches the 29.8% decrease in actuals between FY 2000-01 and FY 2001-02 brought on by the bursting of the dot com bubble and September 11 attacks.

Hotel room tax revenue growth is a function of changes in occupancy, average daily room rates and room supply. Room supply is not projected to change in FY 2009-10. Strong tourist and convention business during the first quarter of FY 2008-09 pushed revenues 11.1% above the same quarter during the prior year. Rapid changes in the financial sector led to losses of 3.4% in the second quarter. As the recession deepened, both business and leisure travelers curtailed travel. Third quarter occupancy rates declined an average of 11.6% per month, and room rates declined an average of 13.1%, leading to a drop in revenue of 14.6%.

The Mayor's Proposed Budget assumes average declines of 15.0% in both occupancy and room rates from April through October 2009, easing to 10.0% for the following three months, and no change in the final five months of FY 2009-10. It is likely that room rates will fall more than occupancy rates as hotel operators continue offering promotions to fill rooms. Table 1-4 illustrates total hotel room tax revenues are projected to be below FY 2005-06 levels.

Table 1-4: Hotel Room Tax Revenues (\$ millions)

Fiscal Year	Total	Annual Growth	
		\$	%
FY 2000-01	\$ 188.4	\$ 6.3	3.4%
FY 2001-02	132.2	(56.2)	(29.8%)
FY 2002-03	128.6	(3.6)	(2.7%)
FY 2003-04	148.2	19.6	15.3%
FY 2004-05	157.9	9.7	6.6%
FY 2005-06	179.5	21.5	13.6%
FY 2006-07	199.8	20.3	11.3%
FY 2007-08	224.5	24.7	12.4%
9-Month Est. FY 2008-09	203.6	(20.9)	(9.3%)
Budget FY 2009-10	173.1	(61.4)	(15.0%)

General Fund hotel tax totals \$116.5 million, of which \$92.5 million is unallocated or discretionary. This is a decrease of \$72.2 million or 38.3% from the FY 2008-09 budget. Table 1-5 below illustrates how hotel room tax revenues are allocated pursuant to the Municipal Code as well as the Mayor's FY 2009-10 Proposed Budget. The Proposed Budget replaces hotel tax funding for low-income housing—capital projects with increased property tax increment to the Redevelopment Agency, as discussed in the property tax section above.

Table 1-5: FY 2009-10 Hotel Room Tax Revenue Allocation (\$ millions)

	FY 2009-10 Municipal Code Allocation	% of Total	FY 2009-10 Proposed Allocation	% of Total	% Change from PY Budget	% Change from 9-Month
General Fund Unallocated (discretionary)	\$ 72.3	41.8%	\$ 92.5	53.5%	-41.9%	-20.4%
Grants for the Arts - Recurring	17.6	10.2%	11.4	6.6%	-25.0%	-25.0%
Grants for the Arts - Non-Recurring	0.3	0.2%	0.2	0.1%	--	-24.8%
Fine Arts Museum	5.6	3.2%	5.6	3.2%	0.0%	0.0%
Asian Art Museum	2.2	1.3%	2.2	1.3%	0.0%	0.0%
Academy of Sciences - Steinhart Aquarium	0.0	0.0%	1.2	0.7%	-25.0%	-25.0%
Administration (Tax Collector)	0.2	0.1%	0.1	0.1%	-25.0%	-25.0%
Cultural Centers	2.1	1.2%	1.5	0.9%	-25.0%	-25.0%
Cultural Equity Endowment	2.4	1.4%	1.7	1.0%	-25.0%	-25.0%
War Memorial & Performing Arts	10.6	6.1%	9.1	5.3%	-9.9%	-9.9%
Moscone / Convention Facilities	38.7	22.4%	34.0	19.6%	0.0%	0.0%
Convention & Visitors Bureau	9.2	5.3%	7.8	4.5%	0.0%	0.0%
Low-Income Housing - Capital Projects	6.1	3.6%	0.0	0.0%	--	--
Low-Income Housing - Rental Assistance	0.6	0.3%	0.5	0.3%	-44.4%	-44.4%
Yerba Buena Gardens (Redevelopment Agency)	5.2	3.0%	5.2	3.0%	--	-1.6%
Total	173.06	100%	173.06	100%	-28.3%	-15.0%
Budgeted in General Fund	102.7	61.2%	116.5	69.4%	-38.3%	-20.0%
Budgeted in Non-General Fund	65.2	38.8%	51.3	30.6%	-2.7%	-2.7%
CCSF Subtotal	167.8	100%	167.8	100%	-30.5%	-15.4%
Budgeted in CCSF	167.8	97.0%	167.8	97.0%	-30.5%	-15.4%
Budgeted in SF Redevelopment Agency	5.2	3.0%	5.2	3.0%	--	-1.6%
Total, All Entities	173.1	100%	173.1	100%	-28.3%	-15.0%

5. Utility Users Tax: Utility user tax revenue is budgeted at \$87.0 million in FY 2009-10, \$4.2 million (5.1%) over the FY 2008-09 Original Budget and \$0.9 million (1.0%) under the FY 2008-09 9-Month Report projection. Residential customers in San Francisco are exempt from utility user taxes except those that apply to cell phone services. Growth in the past three fiscal years has been largely related to increased commercial and cell phone usage. The budget assumes no change in telephone user tax revenue, due to reduced business activity offset by increased cell phone revenues. Gas and electric user tax revenues are projected to decrease 3.0% from FY 2008-09 projections due to business closures and office space consolidations.

6. Parking Tax: Parking tax is expected to decrease \$1.2 million (1.9%) compared to the FY 2008-09 budget, and to be flat from year-end projections. This assumes parking rate increases proposed by the MTA offset by slightly lower occupancy. Parking tax is highly correlated with business activity and employment. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the MTA for public transit as mandated by Charter Section 16.110.

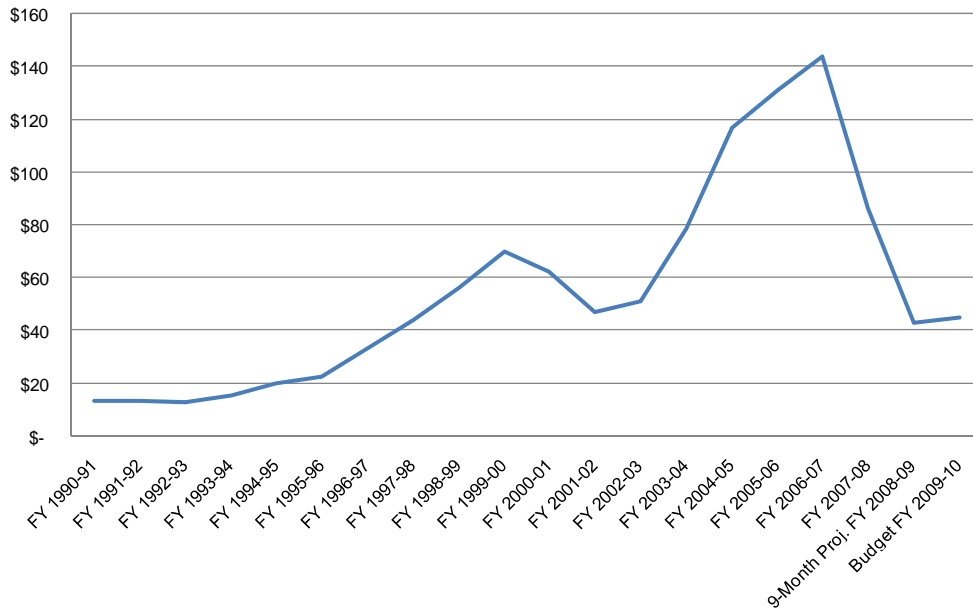
7. Real Property Transfer Tax: Real property transfer tax is budgeted at \$45.3 million, which is \$49.0 million (52%) less than the FY 2008-09 budget and \$2.2 million over the FY 2008-09 9-Month Projection. Table 1-6 summarizes recent history for this revenue by transaction size and illustrates the high levels of revenue generated between FY 2004-05 and FY 2006-07 from sales of high value commercial properties. The value of large commercial property transactions fell by nearly 60% in FY 2008-09 due to the credit crunch and business and investor losses. The number and value of smaller, mostly residential, transactions declined approximately 20%.

Table 1-6. Real Property Transfer Tax Revenues by Transaction Size (\$ millions)

Tax Rate Fiscal Year	@ 0.50% <\$250K	@ 0.68% >\$250K	@ 0.75% >\$1 M	@ 1.5% >\$5 M	Total Revenue
FY 2004-05	\$ 0.6	\$ 37.2	\$ 78.9	N/A	\$ 116.8
FY 2005-06	0.5	31.4	98.3	N/A	131.3
FY 2006-07	0.4	29.3	114.3	N/A	144.0
FY 2007-08	0.5	24.7	61.0	N/A	86.2
FY 2008-09 Projection	0.5	17.7	23.8	1.0	43.1
FY 2009-10 Projection	0.5	18.6	24.1	2.0	45.3

Home prices in San Francisco have fallen, though less than in eastern Bay Area counties, and the number of sales of foreclosed properties is comparatively low. A slight increase in transaction volume is projected to increase FY 2009-10 revenue 5.0% above FY 2008-09 projections. Table 1-7 provides a 20-year history of transfer tax showing projected revenues reverting to long-term trend levels.

Table 1-7. Real Property Transfer Tax Revenues (\$ millions)



8. Access Line Tax Proposition O, passed by San Francisco voters in November 2008, replaced the Emergency Response fee with an Access Line Tax of equivalent value. Fee revenue was placed in a special revenue fund for emergency communications services (911), however, the tax that replaced it provides general purpose revenue that is deposited into the General Fund. Access Line Tax revenues for FY 2009-10 are budgeted to remain at FY 2008-09 year-end projected levels of \$42.9 million.

9. Interest & Investment Income General Fund interest and investment income is projected to decrease \$10.4 million (48.7%) from the FY 2008-09 budget and \$1.5 million (12%) from FY 2008-09 projected year-end levels. This assumes average monthly interest rates will drop 12.0%, from 2.29% in FY 2008-09 to 1.93% in FY 2009-10, and that monthly average cash levels will remain flat. State budget proposals to borrow property tax from counties and eliminate or delay payments to local governments could substantially reduce the amount of cash available for investing and related interest income. In addition, the FY 2009-10 budgeted use of fund balance and prior year reserves will also reduce cash balances and interest income. Staff in the Treasurer’s Office and Controller’s Office will monitor cash flow and provide periodic updates to interest revenue projections.

10. State - Public Safety Sales Tax: Public Safety (Proposition 172) sales tax revenue is expected to decrease \$8.7 million (11.8%) from the FY 2008-09 budget, and to be flat from year-end projections. These revenues are allocated to counties by the State separately from the local one percent sales tax discussed above, and are used to fund police and fire services. Statewide sales taxes are projected to decrease 2.0% in FY 2009-10. Disbursements are made to counties based on the County Ratio, which is the county’s percent share of total statewide sales taxes in the most recent calendar year. The FY 2009-10 budget assumes the increase in San Francisco’s ratio will offset the decline in statewide sales receipts.

11. State – Health & Welfare Realignment Realignment allocations from the state are derived from statewide sales tax and motor vehicle license fee (VLF) receipts. Total General Fund realignment revenues are expected to decrease \$22.9 million. Sales tax realignment revenues are projected to decrease \$16.6 million (14.2%) from the FY 2008-09 budget, or 2.0% from FY 2008-09 projected receipts. VLF revenues are expected to decline \$6.3 million (11.8%) from the FY 2008-09 budget, or flat from projected FY 2008-09 receipts.

Appendix 2. State Budget Impacts

In 2009, the State of California has faced a severe fiscal crisis due to the impact of the economic downturn on State revenues following years of imbalanced budgets held together with borrowing and use of one-time sources. In February 2009, the State Legislature passed an early budget through FY 2009-10 that closed a projected \$42 billion gap with \$12.5 billion in temporary tax increases, \$15 billion in spending reductions, \$6 billion in proposed borrowing from future lottery profits and transfers from special funds (subject to voter approval in a May special election). The Mayor's proposed FY 2009-10 budget accommodates \$62 million in program reductions included in the Legislature's February budget (see Table 2-1).

Table 2-1. City Budget Impact from State's February 2009 Budget (\$ millions)

Municipal Transportation Agency (MTA) - State Transit Assistance Reductions	(\$42)
Human Services Agency - Reduction in State 35% support for In-Home Support Services Wages from \$11.10 to \$10.10 per hour	(\$16)
Public Health - Medi-cal Safety Net Care Pool Reductions	(\$2)
Various Public Safety Departments - State reductions to Public Safety grant programs	(\$2)
<hr/>	
Total Local Impact of February 2009-10 State Budget Reductions included in Mayor's Proposed 2009-10 Budget)	(\$62)

As of June 2009, the State faces a new \$24 billion budget gap as a result of voter rejection of \$6 billion worth of proposed State budget-balancing measures in the May special election, continued declines in revenue estimates by a further \$13 billion, and due to the Governor withdrawing plans to borrow \$5 billion from financial markets after failing to get federal loan guarantees. The Governor has proposed dramatic cuts in State spending and borrowing from local government to close that \$24 billion gap, with impacts on the San Francisco budget that could amount to up to over \$240 million. These cuts are subject to approval by the State Legislature and it is not possible to predict at this point what the final impact of the cuts will be. The Governor's proposals are presented in Table 2-2.

The Mayor's Proposed FY 2009-10 Budget includes an allowance for \$25 million in reductions in State revenue beyond the cuts announced in the Legislature's February budget. To the extent that the Legislature approves a budget that includes cuts in funding to San Francisco beyond \$25 million, the budget will need to be adjusted to accommodate those cuts. The Controller's Office will continue to work closely with the Mayor's Office and the Board of Supervisors to share information and calculate the ongoing adjustments that will be necessary to ensure that the City's budget remains balanced.

Table 2-2. Potential City Budget Impact from Governor's May Revise Proposals Subject to State Budget Approval (\$ millions)

Item	Amount	Notes
1. Borrow \$2 billion from local jurisdictions with promise to repay with interest within 3 years.	(\$91)	Potential for local borrowing to backfill against State promise to repay- unknown financial market response
2. Eliminate CalWorks aid to Families	(\$102)	\$36M cost for continuing local aid to families under County-funded cash assistance programs, \$29M to backfill childcare, \$4M to backfill mental health/substance abuse services, and \$33M to backfill lost administrative revenue to the Human Services Agency
3. In-Home Support Services Program reduction in State wage support to \$8.60/hour.	(\$9)	Local cost based on assumption would backfill state fund to maintain existing wage levels for In-Home Support Service workers
4. Eliminate Cash Assistance Program for Immigrants (CAPI)	(\$3)	Local cost to transfer ~675 clients to county-funded cash assistance programs
5. Eliminate Healthy Families Program	(\$5)	12,000 children would lose coverage if no backfill. \$5 million local backfill can leverage federal funds to maintain coverage.
6. Reduce AIDS Drug Assistance and HIV education and prevention funding	(\$6)	Assuming backfill with local funds of programs serving over 2,000 individuals.
7. Reduced Medi-cal funding for drug treatment, new immigrants and skilled nursing facilities	(\$5)	Assumes backfill with local funds.
8. Eliminate Prop 63 substance abuse treatment funding	(\$3)	Assumes backfill with local funds for programs serving approximately 340 individuals.
9. Redirect 75% gas tax funds for debt service payments	(\$16)	Would result in reduced revenue of \$13 million to Public Works and \$3 million to the MTA.
10. Reduce state prison population and change sentencing options, potentially diverting prisoners to county jails	unknown	May increase county jail population up to 4% given current conviction trends
Total	(\$240)	

Appendix 3. American Recovery and Reinvestment Act (ARRA) Revenues

The Mayor's FY 2009-10 Proposed Budget includes \$73 million in anticipated revenues to be received from the American Recovery and Reinvestment Act, or ARRA, also known as the federal Stimulus Package. These funding streams are time-limited and are not expected to be available past September 30, 2011.

The City is applying for and may receive substantial additional ARRA funding beyond the amounts included in the Proposed Budget. If these applications are successful, they will come before the Board for approval through accept and expend resolutions. Table 3-1 summarizes the ARRA funds included in the Proposed Budget.

Table 3-1. American Recovery and Reinvestment Act Revenues included in the Mayor's Proposed FY 09-10 Budget (\$ millions)

Federal Medical Assistance Percentage (FMAP) Formula Increase: Public Health and Human Services	\$46.4
Homelessness Prevention: Human Services Agency and Mayor's Office of Housing	11.6
Employment Programs: Human Services Agency and Economic and Workforce Development	9.5
Community Development Block Grant Funds: Mayor's Office of Housing	5.7
Nutrition Programs: Human Services Agency	0.3
Total	\$73.4

Note: The City expects to receive an additional \$34 Million in ARRA FMAP reimbursement related to FY 2008-09 expenditures. As mentioned in the Controller's FY 2008-09 Nine-Month Report, we expect to count these revenues as receivables for FY 2008-09. As such, they contribute to the FY 2009-10 Proposed Budget as a component of the starting fund balance.

Appendix 4. Revenues by Department

Table 4-1. Revenues by Department, All Funds* (\$ millions)

Department	FY 2008-09	FY 2009-10	\$ Change	Notes
	Orig Budget	Proposed		
Academy of Sciences	\$ 1.6	\$ 1.2	\$ (0.4)	1
Adult Probation	0.3	0.5	0.2	2
Airport Commission	693.3	789.6	96.2	3
Arts Commission	5.9	4.6	(1.4)	4
Asian Art Museum	3.1	3.1	0.0	
Assessor / Recorder	2.6	2.6	0.0	
Board of Appeals	0.8	0.8	0.0	
Board of Supervisors	0.2	0.2	0.0	
Child Support Services	14.4	15.0	0.6	
Children And Families Commission	11.2	8.8	(2.4)	5
Children, Youth & Their Families	49.6	49.3	(0.2)	
City Planning	20.4	17.0	(3.4)	6
Controller	0.4	0.4	0.0	
Department of Building Inspection	50.0	40.0	(10.0)	7
Department of Emergency Management	46.0	1.2	(44.9)	8
Department of The Status Of Women	0.2	0.2	-	
District Attorney	5.9	5.8	(0.0)	
Economic And Workforce Development	6.5	13.7	7.2	9
Elections	0.1	3.2	3.2	10
Environment	10.1	9.8	(0.3)	
Ethics Commission	0.2	0.1	(0.1)	11
Fine Arts Museum	10.2	7.8	(2.4)	12
Fire Department	69.7	64.1	(5.6)	13
GSA - City Administrator	100.1	93.4	(6.6)	14
GSA - Public Works	50.1	80.2	30.1	15
GSA - Technology	2.5	1.6	(0.9)	16
Health Service System	-	0.3	0.3	17
Human Resources	0.0	-	(0.0)	
Human Services	439.6	442.5	2.9	18
Juvenile Probation	5.7	7.3	1.6	19
Mayor	5.9	17.5	11.6	20
Municipal Transportation Agency	535.3	536.1	0.8	21
Police	48.9	43.1	(5.8)	22
Port	70.6	87.0	16.4	23
Public Defender	0.1	0.1	-	
Public Health	1,174.9	1,100.7	(74.2)	24
Public Library	38.3	42.8	4.6	25
Public Utilities Commission	650.6	646.8	(3.8)	26
Recreation And Park Commission	91.8	169.2	77.4	27
Rent Arbitration Board	5.2	5.4	0.2	
Retirement System	17.9	19.4	1.5	
Sheriff	7.4	5.8	(1.6)	28
Superior Court	4.8	4.9	0.0	
Treasurer/Tax Collector	8.8	10.1	1.3	29
War Memorial	12.5	12.4	(0.1)	30
Subtotal, Departmental Revenues	4,273.5	4,365.6	92.1	
General City Responsibility	154.9	188.7	33.7	
General Fund Unallocated	2,103.0	2,046.5	(56.5)	
Total Revenues	6,531.5	6,600.8	69.3	

* Excludes Work Order Recoveries, General Fund Support, and Revenue Transfers In

Notes to Revenues by Department

1. **Academy of Sciences -\$0.4 million** Decrease of \$0.4 million in Hotel Tax Revenue.
2. **Adult Probation +\$0.2 million** Increase of \$0.2 million in Charges for Services and \$0.1 million in Federal and State Grant Revenue.
3. **Airport +\$96.2 million** Increases of \$54.0 million for the use of Fund Balance, \$28.4 million of Federal grant revenue, \$7.7 million for interest earnings, \$4.3 million from bond proceeds, and \$1.7 million from other state grants and subventions.
4. **Arts Commission -\$1.4 million** Decrease of \$1.1 million in Hotel Tax Revenue, \$0.4 million in Fund Balance in the Public Arts Fund, offset by \$0.1 million in all other revenue.
5. **Children and Families Commission -\$2.4 million** Decrease of \$1.2 million for the use of prior year fund balance and a decrease of \$1.1 million for tobacco tax funding.
6. **City Planning Commission -\$3.4 million** Decrease of \$3.4 million in charges for services.
7. **Department of Building Inspection -\$10.0 million** Decrease in revenue of \$14.7 million, offset by increase of \$4.7 million in various fees, including \$1.7 million from increased apartment licensing fees, record retention fees and a new technology surcharge for ongoing maintenance of the Permit Tracking System.
8. **Department of Emergency Management -\$44.9 million** Decrease of \$42.0 million in Charges for Services due to the conversion of the 911 Access Fee into the Access Line Tax and \$2.8 million in Fund Balance.
9. **Economic and Workforce Development +\$7.2 million** Increases of \$6.6 million in Federal Stimulus Revenue, \$0.4 million in other Federal Grant Revenue, and \$0.2 million in Charges for Services.
10. **Elections +\$3.2 million** Increase of \$3.1 million in State Revenue for reimbursement of costs related to the May 19, 2009 Special Election.
11. **Ethics Commission -\$0.1 million** Decrease of \$0.1 million in Ethics fees and fines.
12. **Fine Arts Museum -\$2.4 million** Decreases of \$2.2 million in Museum Admission fees and \$0.2 million in Budget Savings Incentive Reserve.
13. **Fire Department -\$5.6 million** Decreases of \$4.4 million in State Public Safety Sales Tax Allocation and \$3.1 million of prior year reserves used for capital projects in the previous fiscal year, offset by \$1.6 million in ambulance billing revenues.
14. **GSA – City Administrator -\$6.6 million** Decreases of \$3.9 million in Hotel Tax Revenue, \$1.7 million in Rents and Concessions, \$5.0 million in Proceeds from Certificates of Participation, and \$3.3 million in Budget Savings Incentive Reserve, offset by an increase of \$7.5 million in Other Revenues primarily due to an \$8.0 million capital contribution from the Moscone Center Joint Venture in the Convention Facilities Fund.

15. **GSA – Public Works +\$30.1 million** Increases of \$21.8 million in Sale of Land revenue in the Octavia Boulevard Special Revenue Fund, \$11.7 million in State Proposition 42 Gas Tax revenue, \$2.8 million in Federal Grant revenue, \$2.3 million in State Proposition 1B Transportation Bond revenue, and \$0.2 million in all other revenue, offset by a decrease of \$8.7 million in Proceeds from Certificates of Participation. Similar level of funding from State Proposition 42 Gas Tax revenue and Proposition 1B Transportation Bond revenue was also received in FY 2008-09 and appropriated through a supplemental appropriation.
16. **GSA – Technology -\$0.9 million** Decrease of \$0.9 million in Cable TV Franchise Fees.
17. **Health Service System +\$0.3 million** Budgeted \$0.3 million for unused dependent care flexible spending account funds.
18. **Human Services Agency +\$2.9 million** Increase of \$24.4 million in federal grant revenues as part of the ARRA funds offset by decreases of \$17.7 million in State grant revenue and \$3.5 million in Federal grant revenue.
19. **Juvenile Probation +\$1.6 million** Increases of \$5.4 million in State Grants and Subventions and \$0.3 million in Charges for Services, offset by decreases of \$3.4 million in Federal TANF revenue, and \$0.6 million in Federal Title IV-E revenue.
20. **Mayor +\$11.6 million** Increases of \$14.5 million in Federal Stimulus Revenue and \$0.7 million in other Federal Grants, offset by decreases of \$3.3 million in State Grants and \$0.4 million in Hotel Tax revenue.
21. **Municipal Transportation Agency +\$0.8 million** Increases of \$38.6 million in Transit Fare revenue, \$15.9 million in Taxi Medallion and Taxi Permit Transfer fee revenue, \$12.0 million in Parking Meter revenue, and \$9.8 million in Fund Balance; offset by decreases of \$44.0 million in Regional Transit Operating Assistance, \$16.0 million in Federal Grants, \$12.6 million in State Grants, \$2.0 million in Proceeds from Lease Revenue Bonds, and \$1.4 million in Parking Garage revenue. The Controller has reserved \$15.0 million in expenditures pending the receipt of Taxi Medallion revenue.
22. **Police -\$5.8 million** Decreases of \$4.4 million in State Public Safety Sales Tax Allocation, \$0.7 million in Fund Balance, \$0.5 million in Federal Grant revenue, and \$0.3 million in Public Safety Service Charges.
23. **Port +\$16.4 million** Increases of \$13.6 million in Proceeds from Sale of Bonds and \$4.0 million in Fund Balance, offset by decreases of \$0.5 million in Commercial and Industrial Rental revenue and \$0.5 million in Interest revenue.
24. **Public Health -\$74.2 million** Decreases of \$191.2 million of bond proceeds as a result of the loss of one-time funding sources of \$185.0 million for the Laguna Honda Hospital Replacement Project and \$28.8 million to pay back the General Fund for previously funding the San Francisco General Hospital Rebuild project and \$4.5 million for Federal and State grant revenues. Increases of \$49.1 million in tobacco settlement penalty revenues to pay for the Laguna Honda Hospital Replacement Project, \$28.0 million in ARRA federal grant revenues, \$44.5 million for charges for services, and one-time financing of \$22.7 million for the replacement of the San Francisco General Hospital emergency generator.

- 25. Public Library +\$4.6 million** Increases of \$3.3 million of the use of fund balance and \$1.1 million for increases in property taxes.
- 26. Public Utilities Commission -\$3.8 million** Decreases of \$14.3 million of the use of fund balance, \$17.3 million in debt financing sources, and \$4.2 million of interest earnings, offset by increases of \$29.6 million in charges for services and \$2.4 million in other revenues.

For the FY 2009-10 Proposed Budget, and as required under Ordinance 81-09, the SFPUC's Hetch Hetchy Power Enterprise budget includes appropriations necessary to cover the maximum annual payment due under the 25-year Power Purchase Agreement for the Sunset Reservoir Solar Project as part of their Electric System operating budget, which is backed by Power rates, charges and revenues that ensure funding availability to timely meet this commitment. The SFPUC also has satisfied the requirement to hold \$1.8 million in fund balance reserve during each year of the term of the PPA.

- 27. Recreation and Park +\$77.4 million** Increases of \$74.3 million for the 2008 Clean and Safe Neighborhood Park General Obligation bonds and \$2.1 million in the use of fund balance.
- 28. Sheriff -\$1.6 million** Decreases of \$1.5 million in State Grants and Subventions and \$0.1 million in Fund Balance.
- 29. Treasurer/Tax Collector +\$1.3 million** Increases of \$2.0 million in Treasurer/Tax Collector Collection Costs and \$0.3 million in Property Tax Administrative Costs, offset by a decrease of \$0.9 million in Administrative Surcharge revenue.
- 30. War Memorial -\$0.1 million** Decrease of \$1.0 million in Hotel Tax revenue offset by an increase of \$0.9 million in Fund Balance.

Appendix 5. Fee Revenues

The Mayor's FY 2009-10 Proposed Budget assumes various fee and fine increases. Table 5-1 highlights key assumptions and associated revenue changes.

Table 5-1. Key Fee & Fine Changes Assumed in the Mayor's Proposed Budget (\$millions)

Description	Incremental FY 2009-10 Revenue
Medical Examiner Fees	\$ 0.1
Chain Restaurant Fee	0.1
Increase in HCAO Employer Fee	0.1
EMS Fees and Certification of Participation Requirement	0.3
Impose Fee for Vector Control and Healthy Housing Inspections	2.3
Department of Public Health Patient Rate Increases	36.6
Increase in Environmental Fees to full cost recovery	0.8
New Cigarette Litter Abatement Fee	5.0
Public Administrator-Public Guardian Rep. Payee Program Monthly Fee	0.3
Increase & Establish Fire Department Licensing & Street Fair Fees	0.2
Increase EMS fees	1.6
Fire Prevention & Inspection Permit Fees	0.1
Juvenile Hall and Log Cabin Ranch Fees	0.3
Adjust Board of Appeals Permit Surcharges & Filing Fees	0.2
Increase Aquatic Facilities Fees	0.1
New non-resident entrance fee to Botanical Gardens, Conservatory of Flowers, Japanese Tea Garden	0.1
Increase Day Camp Fees	0.1
Increase Kezar Parking Lot Rates	0.2
Increase Fees for Latch Key and Afterschool Programs	0.1
Setting rates for parking in parks	0.2
Subtotal, General Fund Supported Fees	\$ 48.6
Taxi Permit Fees & Pilot Transferable Medallion Program	\$ 16.2
MUNI Transit Fares	37.2
Parking Meters	12.0
Parking Garages & Lots	1.5
Street Artist Certification Fee	0.03
Planning fee for monitoring mitigation measures and conditions of approval	-
Planning Code Enforcement Fund Advertising Fees	0.4
Building Code Fees	1.7
Subtotal, Non-General Fund Supported Fees	\$ 69.1
Total Key Changes	\$ 117.7

Appendix 6. Use of Fund Balance, Prior Year Reserves and Other One-Time Sources

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 2008-09 year-end surplus will not be finalized until the independent audit is completed around November 2009. The Mayor's FY 2009-10 Proposed Budget assumes available General Fund fund balance of \$85.9 million, \$65.8 million more than projected in the Nine-Month Report. The increase is due to project close outs, the assumption that large legal settlements will be funded through settlement bonds, and the proposed suspension of the process for making appropriations from the Budget Savings Incentive Reserve during FY 2009-10 and depositing all amounts in the fund as of June 30, 2009 into the General Fund. This amendment of Administrative Code Section 10.20 requires approval by the Board of Supervisors. Table 6-1 below summarizes key components of estimated fund balance.

Table 6-1. FY 2008-09 Projected Year-End Surplus General Fund Fund Balance Available to Support the Mayor's FY 2009-10 Proposed Budget (\$ millions)

	Mayor's Proposed FY 2009-10
Nine-Month Report Fund Balance Projection	\$ 20.1
Suspend Budget Savings Incentive Reserve Carryforward & Deposit	23.3
Deappropriate Mayoral Campaign Fund	2.3
Community Living Trust Fund Project Savings	1.0
Board Chambers Ramp Project Deappropriation	1.0
City Services Auditor Workorder Closeouts	1.5
Other Deappropriations and Project Closeouts	14.4
Prior Year Public Health Billing Revenue Recognition	6.3
Laguna Honda Hospital Replacement Project Savings	9.0
Federal Stimulus TANF Reimbursement	2.1
Other Departmental Savings	2.2
Implementation of Tourism Improvement District	2.0
Other Departmental Revenue	0.8
Subtotal - Changes Since 9-Month Report	65.8
Total Available Fund Balance	\$ 85.9

The Mayor's Proposed Budget also includes the use of \$167.2 million in balance in funds other than the General Fund. Of this total, \$152.4 million represents enterprise department funding and \$14.8 million for departments supported in whole or part by special revenue funds. Table 6-2 summarizes key components of the use of fund balance outside the General Fund.

**Table 6-2. FY 2008-09 Non-General Fund Fund Balance Available to Support
the Mayor's FY 2009-10 Proposed Budget (\$ millions)**

Department	Fund	Mayor's Proposed FY 2009-10
AIR	Airport Operating Fund	\$ 72.8
AIR	Airport Narcotic Forfeiture/Asset Seizure Fund	0.7
CHF	Child Care Capital Fund	0.3
CRT	Court's Special Revenue Fund	0.7
DAT	District Attorney Special Revenue Fund	0.4
DBI	Building Inspection Fund	1.2
DPT	Muni Operating Fund	24.3
DPT	Muni Transit Impact Development Fund	10.0
ENV	Refuse Collection Service Fund	0.5
HHP	Hetch Hetchy Operating Fund	25.8
LIB	Library Preservation Fund	3.3
MYR	Affordable Housing Fund	0.6
POL	Public Protection Special Revenue Fund	0.1
POL	SFPD Narcotic Forfeiture/Asset Seizure Fund	0.7
PRT	Port Operating Fund	10.1
PTC	Parking & Traffic Operating Fund	8.0
REC	Downtown Park Fund	0.5
REC	Open Space Fund	4.7
REC	Bequests Fund	0.6
RNT	Rent Arbitration Board Fund	0.4
WAR	War Memorial Operating Fund	0.8
WAR	War Memorial Annual Project Fund	0.5
WTR	Water Department Operating Fund	0.1
Total Appropriated Fund Balance		\$ 167.2

Prior Year Reserves

The Mayor's FY 2009-10 Proposed Budget includes using \$79.3 million in reserves established in prior years. A summary of these reserved funds is outlined in Table 6-3 below.

Table 6.3. Use of Prior Year General Fund Reserves (\$ millions)

Rainy Day Reserve Allocated to City & County	\$ 49.2
Rainy Day Reserve Allocated to School District	24.6
Subtotal - Rainy Day Reserve	73.7
Recreation & Park's Budget Savings Incentive Reserve	5.6
Total	\$ 79.3

Rainy Day Reserve: The FY 2008-09 year-end balance of the Rainy Day Reserve's Economic Stabilization Account is projected to be \$98.3 million. The Mayor's Proposed Budget assumes use of \$49.2 million from the Account in FY 2009-10 for the City. 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. The Proposed Budget assumes \$24.6 million will be withdrawn from the Economic Stabilization Account and allocated to the District. This figure may be revised as additional information on State revenue becomes available.

The Charter allows policymakers to appropriate up to 50% of the balance of the Economic Stabilization Account, but no more than the shortfall in total General Fund revenues, for any lawful governmental purpose in the upcoming budget year. The shortfall in total General Fund revenues, adjusted for policy changes made to increase revenues, is currently calculated to be \$56.7 million, or \$7.6 million more than the amount of the Reserve appropriated in FY 2009-10. If revenues were to come in higher than projected and reduce the shortfall below \$49.2 million, the amount the City may withdraw from the Account would decrease to the level of the shortfall.

Recreation & Park's Savings Reserve: The Mayor's Proposed Budget assumes the use of \$5.6 million from the Recreation and Park Department's Budget Savings Incentive Reserve. Any savings must be retained by the Recreation & Park Department and be dedicated to one-time expenditures under San Francisco Charter Section 16.107.

Key One-Time Revenues & Transfers-In

The Mayor's FY 2009-10 Proposed Budget includes a number of one-time sources other than the Prior-Year Fund Balance and Reserves discussed above. Table 6-4 summarizes key one-time revenue and transfer-in sources.

Table 6-4. Key One-Time Revenues (\$millions)

	General Fund Supported	Non-General Fund Supported	Total All Funds
Sales of Buildings & Land	\$ 10.0	\$ -	\$ 10.0
Sale of Gas Turbine Generators to PUC	10.0	-	10.0
Fines, Penalties & Settlements	\$ -	\$ 49.1	\$ 49.1
Laguna Honda Hospital Tobacco Settlement Proceeds	-	49.1	49.1
Gifts and Grants	-	2.8	2.8
Private grant to support Bank on SF Program		0.4	0.4
Various gifts - teen theatre, turf management, AIDS Memorial Grove		0.6	0.6
Furhman Bequest		1.2	1.2
Various gifts & bequests		0.6	0.6
Transfers	14.0	-	14.0
Transfer in from Convention Facilities Fund	12.4	-	12.4
Primary Care Health Centers	1.6	-	1.6
Other	0.5	-	0.5
Solid Waste Impound Account Savings	0.5	-	0.5
Total One-Time Sources	\$ 24.5	\$ 51.9	\$ 84.4

Appendix 7. Baselines & Mandated Funding Requirements

The Mayor's FY 2009-10 Proposed Budget includes required funding for baselines and other mandated funding requirements. The San Francisco Charter establishes baseline funding levels for a number of city services. These baselines are indexed to overall growth or reduction in aggregate General Fund discretionary revenues. Revenue-driven baselines are based on projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending. Table 7-1 below identifies required and proposed levels of funding. Note that the Children's Services baseline is anticipated to be overfunded by \$23 million due to the \$24.6 million anticipated release from the Rainy Day Reserve to the San Francisco Unified School District to offset per-pupil revenue declines.

Table 7-1. Key Baseline & Mandated Funding Requirements (\$ millions)

Baselines & Set-Asides	FY 2008-09	FY 2009-10			Change from PY	
	Original Bgt	Required Baseline	Mayor's Proposed	Surplus/ (Shortfall)	\$	%
Revenue-Driven Baselines						
Municipal Transportation Authority	\$ 196	\$ 178	\$ 178	\$ -	\$ (18)	-9%
Children's Services	\$ 106	\$ 96	\$ 119	\$ 23	\$ 13	28%
Library Preservation	\$ 46	\$ 42	\$ 42	\$ -	\$ (4)	-4%
Public Education Baseline Services	\$ 6	\$ 6	\$ 6	\$ -	\$ -	0%
Property Tax Related Set-Asides						
Municipal Symphony	\$ 2	\$ 2	\$ 2	\$ -	\$ -	0%
Children's Fund Set-Aside	\$ 43	\$ 45	\$ 45	\$ -	\$ 1	3%
Library Preservation Set-Aside	\$ 36	\$ 37	\$ 37	\$ -	\$ 1	3%
Open Space Set-Aside	\$ 36	\$ 37	\$ 37	\$ -	\$ 1	3%
Expenditure-Driven Baselines						
Public Education Enrichment Funding	\$ 32	\$ 43	\$ 43	\$ -	\$ 11	33%
City Services Auditor	\$ 12	\$ 12	\$ 12	\$ -	\$ -	0%
Human Services Homeless Care Fund	\$ 14	\$ 14	\$ 14	\$ -	\$ -	0%
Staffing and Service-Driven						
Police Minimum Staffing		Requirement met				
Fire Neighborhood Firehouse Funding		Requirement met				
Treatment on Demand		Minimum requirement likely underfunded by \$7 million to \$13 million				
Total Baseline Spending	\$ 529	\$ 512	\$ 535	\$ 23	\$ 5	1%

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 2009-10 Proposed Budget includes MUNI Baseline funding at the \$128.9 million required level.

Parking and Traffic: The Mayor's FY 2009-10 Proposed Budget includes Parking and Traffic Baseline funding at the \$48.6 million required level.

Children's Baseline. Charter Section 16.108 establishes a fund for children's services. Consistent with the Charter, in FY 2000-01 a Base Amount of funding was established, which is adjusted by the percent increase or decrease in aggregate City discretionary revenues. The Mayor's FY 2009-10 Proposed Budget includes Children's Baseline funding of \$119.1 million. The required baseline for FY 2009-10 is \$96.5 million. This reflects surplus funding of \$22.7 million in the FY 2009-10 Proposed Budget. This level of surplus funding is largely due to the Rainy Day Reserves allocation of \$24.6 million to the School District for FY 2009-10.

Library Baseline. Charter Section 16.109 establishes a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a Base Amount of funding was established, which is adjusted by the percent increase or decrease in aggregate City discretionary revenues. The Mayor's FY 2009-10 Proposed Budget includes Library Baseline funding at the \$42.1 million required level.

Public Education Services Baseline. Charter Section 16.123-2 establishes a Public Education Enrichment Fund. Consistent with the Charter, in FY 2001-02 a Base Amount of funding was established, which is adjusted by the percent increase or decrease in aggregate City discretionary revenues. 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 2009-10 Proposed Budget includes increased funding for Public Education Services and is proposing to surplus fund the baseline requirement by \$0.2 million. These appropriations are shown in the budget in the Department of Children, Youth & Their Families.

Municipal Symphony Baseline. 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 Mayor's FY 2009-10 Proposed Budget includes Municipal Symphony Baseline funding at the \$1.9 million required level. The appropriation is budgeted at the Arts Commission.

Other Property Tax-Related Set-Asides. Charter Sections 16.108, 16.109, and 16.107 mandate three property tax-related set-asides, including amounts equivalent to 3.0% of property tax revenues for Children's Services, 2.5% for Library Preservation and 2.5% for Open Space, respectively. The Mayor's FY 2009-10 Proposed Budget includes required funding of \$44.9 million for Children's Services, and \$37.4 million for both Library Preservation and Open Space.

Public Education Enrichment Funding. The Mayor's FY 2009-10 Proposed Budget includes \$42.7 million for the Public Education Enrichment Fund. This funding, which was passed by voters in March 2004 (Proposition H) and included in Charter Section 16.123-2, 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%. The FY 2009-10 Proposed Budget includes this reduction. The City must pay back the \$15.0 million difference by 2018 unless voters extend the measure or authorize a substantially similar measure.

City Services Auditor Baseline. Charter Section F1.113 establishes the Controller's Audit Fund and a baseline amount. This Baseline was approved by voters in November 2003 and mandates that 0.2% of the budget be used to fund audits of City services. FY 2004-05 was the first year for the City Services Auditor to receive baseline funding. The Mayor's FY 2009-10 Proposed Budget includes \$12.3 million for the City Services Auditor Baseline.

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. Prop N established the Human Services Care Fund in Administrative Code Section 10.100-77. 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 2009-10, funding will equal \$13.7 million, a 0.5% decrease from FY 2008-09 funding of \$13.6 million.

Police Staffing Baseline. San Francisco Charter Section 4.127 mandates a police minimum staffing baseline of not less than 1,971 full-duty officers. After excluding officers assigned to the Airport, in the Academy, on modified duty or on leave, and assuming a certain amount of attrition, the Mayor's FY 2009-10 Proposed Budget includes net funding authority for 1,896 full-duty officers by fiscal year end, or 75 less than the minimum staffing level of 1,971 officers. However, if funding for overtime hours is counted towards the minimum staffing level, the Proposed Budget includes net funding authority for 2,118 full-time equivalent police officers positions, or 147 more than the baseline requirement.

The Charter-mandated minimum staffing level may be reduced in cases where civilian hires result in the return of a full-duty officer to active police work, pursuant to Charter Section 16.123 (Proposition C). This voter-approved proposition provides that the Mayor and Board may convert a position from a sworn officer to a civilian through the budget process. The Mayor's Proposed Budget assumes 78 additional civilian positions added since FY 2003-04 remain funded in the FY 2009-10 budget. If those 78 positions were approved and joint certification by the Controller and the Chief of Police provided, the required baseline of 1,971 full-duty officers would be reduced to 1,893.

In July 2009, 26 of the 30 officers currently in the Academy are expected to be sworn into field training (assuming some attrition). The Mayor's Proposed Budget also assumes two lateral Academy class totaling 30 recruits will be conducted during FY 2009-10; however, these recruits will not be sworn into field training until FY 2010-11. The department projects that there will be 80 retirements and separations during FY 2009-10.

Further funding above the baseline may occur if the Police Department is successful with their application to the COPS Hiring Recovery Program (CHRP) of the American Recovery and Reinvestment Act (ARRA), to support the salary and fringe expenses to hire 268 new police officer positions for three years. The total funding requested to support these new officer positions for the three-year period is \$89.4 million. The positions requested in the proposal include 95 officer positions that would have been part of May and June 2009 Academy classes, but have been eliminated from the department's budget because of mid-year budget reductions. The additional 173 requested positions are needed in order to offset officer attrition and support the department's community policing strategies. This potential COPS funding is not included in the Proposed Budget.

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 as detailed in Charter Section 2A.97. The Act included minimum baseline requirements for 24-hour staffing of 42 firehouses, the Arson and Fire Investigation Unit, no fewer than 4 ambulances, and 4 Rescue Captains (medical supervisors). The \$198.0 million Neighborhood Firehouse baseline requirement has been met. The department estimates the Proposed Budget contains \$13.3 million more than required.

Treatment on Demand Baseline: In November 2008, voter-approved Proposition T created Section 19.23A of the Administrative Code, which required the Department of Public Health to maintain an "adequate level of free and low cost medical substance abuse services and residential treatment slots" to meet the overall demand for these services. The measure requires that the City not reduce funding, staffing or the number of substance abuse treatment slots available for as long as slots are filled or sought. The measure also requires the Department to report to the Board of Supervisors by February 1st of each year with an assessment of the demand for substance abuse treatment and present a plan to meet this demand. At the time of the election, the Controller's Office estimated that \$7 million to \$13 million in additional funding above FY 2008-09 budgeted levels would be required to meet the baseline service levels.

The Department's first report related to the Treatment on Demand mandate is expected by February 2010. Until a report is produced, the Controller's Office cannot determine whether the mandated level of service has been achieved. Absent recent data, we assume that the mandated service levels remain underfunded by at least the \$7 million - \$13 million amount estimated in November 2008.

Appendix 8. Expenditure 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 expend funds.

Table 8-1. Controller's Appropriation Reserves (\$ millions)

Department	Amount	Explanation for Reserve & Required Action
AIR Airport Commission--FY 2009-10 Capital Plan	\$ 7.5	Pending sale of commercial paper
CHF Unified School District Rainy Day Reserve Draw	24.6	Pending calculation of Rainy Day Reserve draw eligibility
DPH Public Health--San Francisco General Hospital Emergency Generator Replacement	22.7	Pending sale of Lease Revenue Bonds
DPW Street Cleaning Costs	5.0	Pending final nexus study for Cigarette Litter Abatement Fee
GSA-DPW Public Works - Street Reconstruction & Renovation	2.3	Pending final allocation of State Proposition 1B Bond Revenue
GSA-DPW Public Works - Street Reconstruction & Renovation	9.7	Pending sale of Certificates of Participation
MTA Municipal Transportation Agency - Various Non-personnel services and Materials & Supplies	15.0	Pending revenue from the issuance of taxi medallions
PRT Port Commission Capital Projects	13.6	Pending sale of Clean and Safe Park Bond Proceeds
PUC Public Utilities Commission--Hetch Hetchy Water Capital Projects	6.5	Pending sale of debt proceeds
REC Recreation and Park - Clean and Safe Bond Projects	76.1	Pending revenue from bond proceeds
Total	\$ 182.8	

Other Reserves Included in Proposed Budget

The Mayor’s FY 2009-10 Proposed Budget also includes \$20.2 million in General Fund reserves as outlined in Table 8-2 below. These appear to be prudent and reasonably reflect anticipated Memoranda of Understanding (MOUs) and litigation costs and general contingency reserves.

Table 8-2. Proposed Reserves (\$ millions)

General Fund	FY 2008-09 Original Budget	FY 2009-10 Proposed Budget	Change
General Reserve	\$ 20.1	\$ 25.0	\$ 4.9
Salaries & Benefits Reserve	1.6	14.5	12.9
Litigation Reserve	11.0	11.0	-
Reserve for Technical Adjustments	-	2.5	2.5
Total Reserves - General Fund	\$ 32.8	\$ 53.0	\$ 20.2

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 2009-10 Proposed Budget includes \$25.0 million in the General Reserve, the level at which the General Fund Reserve has been generally funded in recent budgets.

Salaries and Benefits Reserve: The Mayor’s FY 2009-10 Proposed Budget provides \$14.5 million in the General Fund to cover costs related to adopted Memorandum of Understandings (MOUs) with labor organizations. This is a \$12.8 million budget-to-budget increase because the majority of MOU required payments in FY 2008-09 were funded through FY 2007-08 MOU Reserve savings.

Appendix 9: Downtown Park Fund

The San Francisco Planning Code requires that the Controller's Office file an annual 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 jointly administer this fund. The fund receives fee revenue and associated interest from a \$2 per square foot charge on the net addition of gross office floor area for specified C-3 Use District development. The fund is designated for the acquisition and development of public recreation and park facilities for use by the daytime population of the C-3 Use Districts.

As of June 10, 2009, the fund contains \$4.4 million in assets. Projects within the fund have \$2.2 million in spending authority, leaving \$2.2 million unappropriated fund balance. Any unspent appropriations will carry forward to future years. The FY 2009-10 budget anticipates \$0.1 million in interest revenue accruing to the funds, no new fee revenue, and includes \$0.6 million spending authority for a project titled "Union Square Plaza ADA Remediation," for a net drawdown on the fund balance of \$0.5 million. This leaves \$1.7 million unappropriated fund balance remaining in the fund. Table 9-1 summarizes the fund's revenues over a five year period.

Table 9-1, Downtown Park Fund Revenue (\$ Millions)

	Fees	Interest	Total
FY 2009-10 Budgeted	\$ -	\$ 0.1	\$ 0.1
FY 2008-09 Projected	-	0.1	0.1
FY 2007-08 Actual	-	0.1	0.1
FY 2006-07 Actual	0.5	0.2	0.7
FY 2005-06 Actual	0.0	0.1	0.1

STAFF CONTACTS

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

Thomas DiSanto, Budget Manager, Thomas.DiSanto@sfgov.org

Nadia Feeser, Budget Analyst, Nadia.Feeser@sfgov.org

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

Rick Wilson, Budget Analyst, Rick.Wilson@sfgov.org