



Edward Harrington
Controller
Monique Zmuda
Deputy Controller

June 14, 2004

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

Re: Controller's Discussion of Fiscal Year 2004-05 Proposed Budget

Dear Members of the Board:

The Controller's Office has prepared a review of the Mayor's FY 2004-05 Proposed Budget. This letter addresses the following issues:

- provides an analysis of the major sources of funds in the Mayor's Proposed Budget;
- reports on the required baselines for Children's Services, the Library, Municipal Transportation, including Municipal Railway (MUNI) and Parking & Traffic, and City Services Auditor;
- reports on department appropriations that our office is reserving pending the receipt of actual revenue by the departments; and
- summarizes selected analyses and reporting done by the Controller, including the annual 911 Fee analysis and the Downtown Park Fund report.

The Proposed Budget being the single, largest annual policy document includes the following:

- overall, 3.7 percent growth in total General Fund sources, 6.8 percent growth in discretionary revenues, and 2.0 to 6.0 percent growth in general tax revenues – levels commensurate with a gradual, moderate recovery;
- \$25.0 million in new business and sales tax revenues, which require voter approval;
- \$30.0 million funding of the General Reserve – of particular note as it exceeds the \$25 million in tax proposals by \$5 million;
- \$28.7 million in State discretionary revenue reductions included in the Governor's Proposed Budget;
- \$20.5 million in programmatic State revenues and appropriation authority that have been slated for elimination in the Governor's Proposed Budget. If the State budget does not change, the City would need to cut or the Controller would need to reserve programmatic spending. (a detailed list is provided on page 16);
- the California, voter-approved Proposition 57 and the related *Triple Flip* of local Sales Tax, local Property Taxes and State Proposition 98 School Funding (with the first two components, Sales Tax and Property Tax, impacting the City's Budget); and
- the assumption of a permanent roll-back of the Motor Vehicle License Fee (VLF) and the elimination of the discretionary revenue backfill to local governments (in part, but not fully offset by Property Tax shifts).

The Controller's discussion of the FY 2004-05 Proposed Budget is organized as follows:

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I. High Level Summary of Sources

Summary of Sources – Budget to Budget Change

General Fund

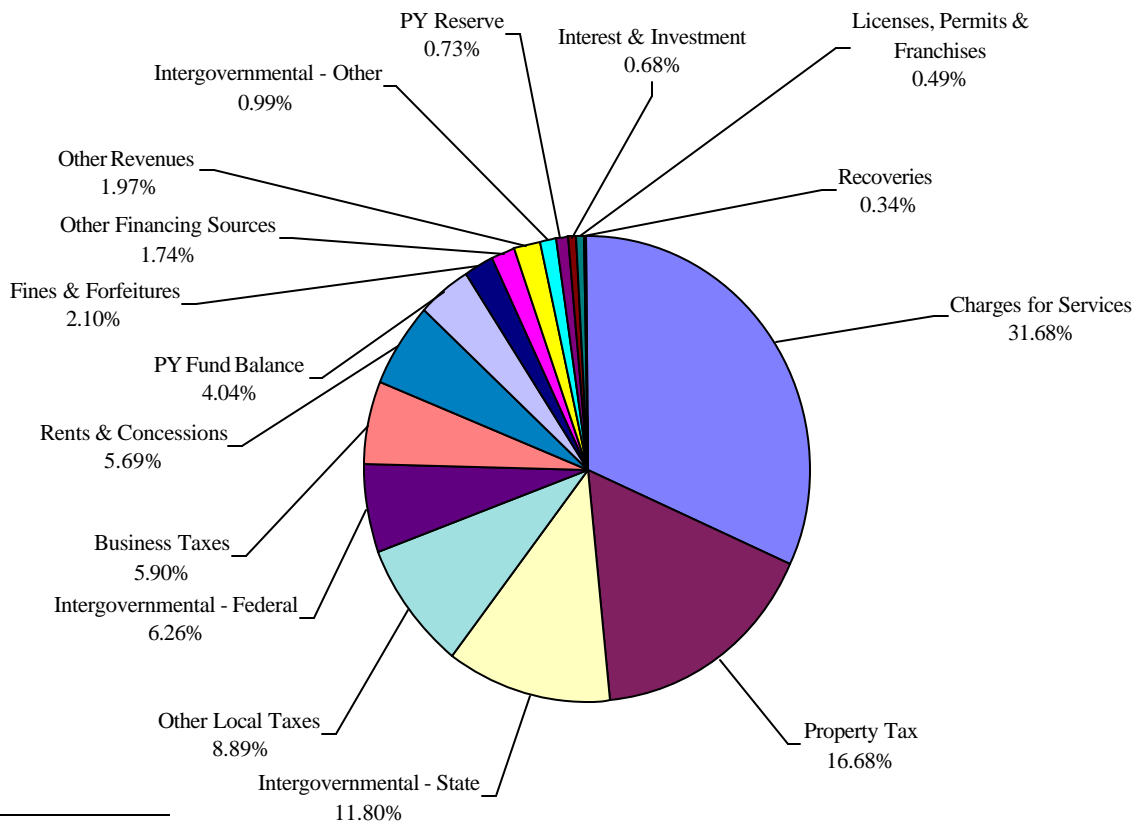
	FY 2003-04		FY 2004-05		Change	
	Original Budget		Proposed		\$	%
Prior Year						
Fund Balance	\$ 47,059,038		\$ 17,900,000		\$ (29,159,038)	-62.0%
Reserves	\$ 11,423,818		\$ 29,560,078		\$ 18,136,260	158.8%
Regular Revenues	\$ 2,053,549,406		\$ 2,137,250,268		\$ 83,700,862	4.1%
Transfers, net	\$ 132,710,845		\$ 142,373,105		\$ 9,662,260	7.3%
Total Sources	\$ 2,244,743,107		\$ 2,327,083,451		\$ 82,340,344	3.7%

All Funds

	FY 2003-04		FY 2004-05		Change	
	Original Budget		Proposed		\$	%
Prior Year						
Fund Balance	\$ 186,317,048		\$ 202,635,612		\$ 16,318,564	8.8%
Reserves	\$ 11,423,818		\$ 36,560,078		\$ 25,136,260	220.0%
Regular Revenues	\$ 4,601,770,653		\$ 4,777,973,886		\$ 176,203,233	3.8%
Transfers, net	n/a		n/a		n/a	n/a
Total Sources	\$ 4,799,511,519		\$ 5,017,169,576		\$ 217,658,057	4.5%

Summary of Sources – All Funds¹

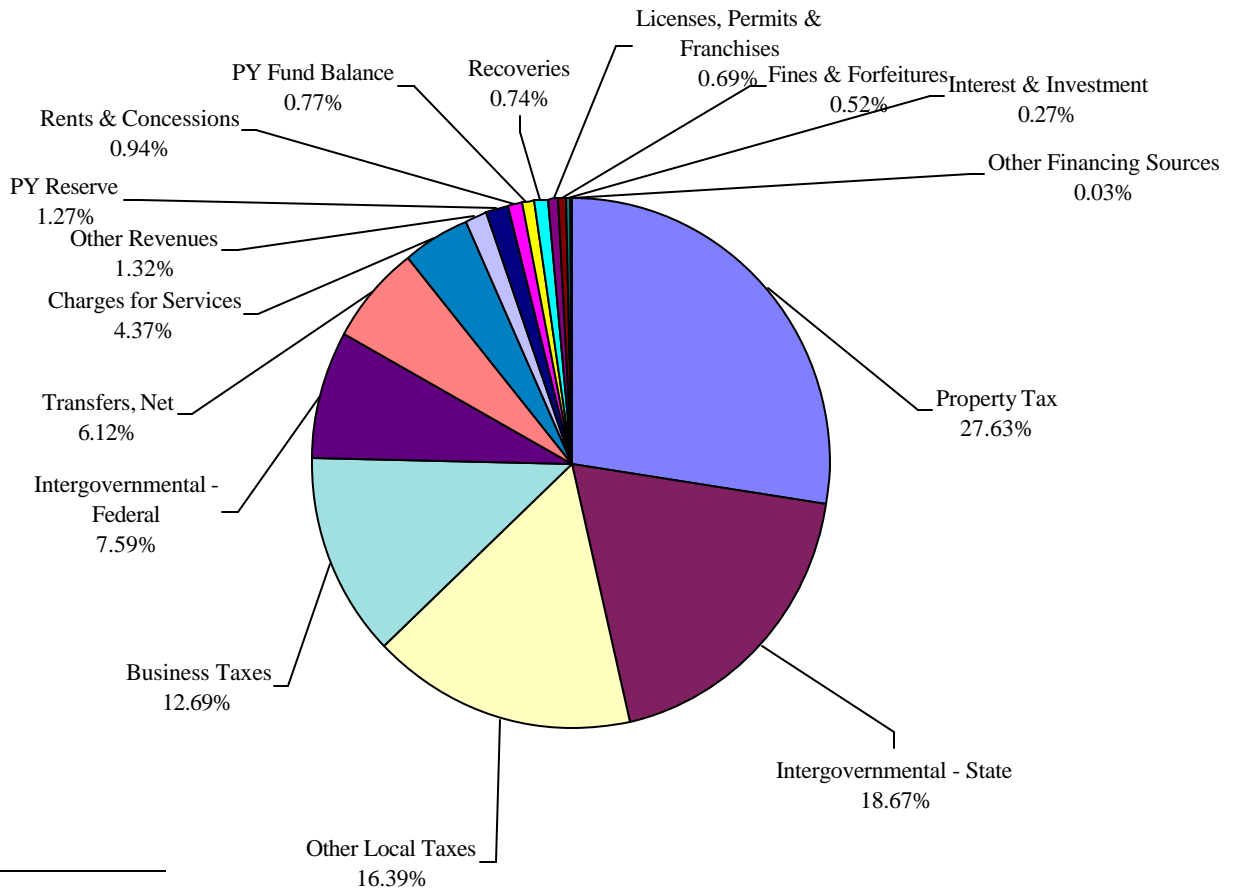
All Funds	Sorted by Size	
FY 2004-05		
Sources of Fund	Mayor's Proposed Budget	% of Total
Charges for Services	\$ 1,589,492,784	31.68%
Property Tax	837,113,107	16.68%
Intergovernmental - State	592,223,200	11.80%
Other Local Taxes	445,944,971	8.89%
Intergovernmental - Federal	313,962,089	6.26%
Business Taxes	296,005,000	5.90%
Rents & Concessions	285,480,823	5.69%
Fines & Forfeitures	105,600,592	2.10%
Other Financing Sources	87,296,406	1.74%
Other Revenues	99,031,553	1.97%
Intergovernmental - Other	49,873,478	0.99%
Interest & Investment	34,219,626	0.68%
Licenses, Permits & Franchises	24,464,138	0.49%
Recoveries	17,266,119	0.34%
Total Sources	4,777,973,886	95.23%
PY Fund Balance	202,635,612	4.04%
PY Reserve	36,560,078	0.73%
	\$ 5,017,169,576	100.00%



¹ A summary comparison to the typical California city and county is attached.

Summary of Sources – General Fund²

General Fund		Sorted by Size	
FY 2004-05			
Sources of Fund	Mayor's Proposed Budget	% of Total	
Property Tax	\$ 642,959,107	27.63%	
Intergovernmental - State	434,418,583	18.67%	
Other Local Taxes	381,445,512	16.39%	
Business Taxes	295,230,000	12.69%	
Intergovernmental - Federal	176,528,191	7.59%	
Transfers, Net	142,373,105	6.12%	
Charges for Services	101,686,330	4.37%	
Other Revenues	30,819,526	1.32%	
Rents & Concessions	21,857,580	0.94%	
Recoveries	17,266,119	0.74%	
Licenses, Permits & Franchises	16,131,917	0.69%	
Fines & Forfeitures	12,010,903	0.52%	
Interest & Investment	6,300,000	0.27%	
Other Financing Sources	596,500	0.03%	
Total Sources	2,279,623,373	97.96%	
PY Fund Balance	17,900,000	0.77%	
PY Reserve	29,560,078	1.27%	
	\$ 2,327,083,451	100.00%	



² A summary comparison to the typical California city and county is attached.

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." My office and the Mayor's Budget Office have worked very closely to prepare the FY 2004-05 Proposed Budget revenue estimates. **In my opinion, the revenue estimates contained in the Mayor's FY 2004-05 Proposed Budget are reasonable based on our knowledge of current and projected economic conditions.** As detailed below, the Proposed Budget assumes a moderate recovery in net discretionary General Fund revenues from the FY 2003-04 projected levels.

The revenue estimates are largely based on the Nine-Month Report and the Joint Budget Report issued by the Mayor's Budget Office, the Controller's Office, and the Board of Supervisors' Budget Analyst. This three-year budget projection report was developed in consultation with economic advisors of the Municipal Fiscal Advisory Committee. The Mayor's FY 2004-05 Proposed Budget also includes updated citywide revenue projections for Property Tax, Business Taxes, Sales Tax, Utility Users Tax, Property Transfer Tax and Hotel Room Tax from those included in the Nine-Month Budget Status and Joint Reports.

Overall discretionary revenues are projected to grow 6.8 percent from the FY 2003-04 estimated year-end levels. Absent further State shifts, the overall discretionary revenue growth would have been 9.0 percent as summarized in Chart A on the following page. Notable discretionary revenue items included in the FY 2004-05 Proposed Budget are as follows:

- overall, 6.8 percent discretionary revenue growth with a 2.0 to 6.0 percent general tax revenue growth – levels commensurate with a gradual, moderate recovery;
- \$28.7 million in State discretionary revenue reductions included in the Governor's Proposed Budget;
- the California, voter-approved Proposition 57 and the related *Triple Flip* of local Sales Tax, local Property Taxes and State Proposition 98 School Funding (with the first two components, Sales Tax and Property Tax, impacting the City's Budget);
- the assumption of a permanent roll-back of the Motor Vehicle License Fee (VLF) and the elimination of the discretionary revenue backfill to local governments (in part, but not fully offset by Property Tax shifts); and
- \$25 million in two proposed tax revenues, including a Business Tax package and a ¼ percent increase in Sales Tax, both of which require voter approval in November.

Chart A: General Fund Discretionary Revenues (millions)

		FY 2003-04	FY 2004-05		
		Year-End Projection (1)	Proposed Budget Adjusted for State Shifts	Mayor's Proposed Budget (2)	Variance from Adjusted to Proposed
Property Taxes (3)		\$527.77	\$540.24	\$642.96	\$102.72
	<i>% Change</i>	1.8%	2.4%	21.8%	
Business Taxes		286.68	295.23	295.23	0.00
	<i>% Change</i>	3.8%	3.0%	3.0%	
Sales Tax		117.00	122.70	92.03	(30.68)
	<i>% Change</i>	1.2%	4.9%	-21.3%	
Utility Users Tax		67.50	66.29	66.29	0.00
	<i>% Change</i>	-5.4%	-1.8%	-1.8%	
Property Transfer Tax		74.08	70.00	70.00	0.00
	<i>% Change</i>	43.9%	-5.5%	-5.5%	
Hotel Room Tax (4)		87.85	94.42	94.42	0.00
	<i>% Change</i>	17.6%	7.5%	7.5%	
Parking Tax (5)		31.50	32.13	32.13	0.00
	<i>% Change</i>	6.0%	2.0%	2.0%	
Public Safety Sales Tax		61.04	62.87	62.87	0.00
	<i>% Change</i>	-5.0%	3.0%	3.0%	
Motor Vehicle In-Lieu		53.83	115.99	15.24	(100.75)
	<i>% Change</i>	-48.2%	3.0%	-71.7%	
Other Local Tax (Business & Sales)			25.00	25.00	0.00
Total - Discretionary Revenues		\$1,307.25	\$1,424.87	\$1,396.17	(\$28.70)
	\$ Change	\$1.38	\$117.62	\$88.92	
	<i>% Change</i>	0.1%	9.0%	6.8%	

NOTES

- (1) Percentage change is the change in FY 2003-04 year-end projection from FY 2002-03 actual revenues.
The year-end projections are updated as of early June 2004 based on actuals to date.
- (2) Percentage change is the change in FY 2004-05 proposed budget from FY 2003-04 year-end projection.
- (3) The proposed budget is adjusted for growth in assessed valuation, delinquencies, projected assessment appeals and estimated tax increment required for Redevelopment Agency projects.
- (4) Includes both General Fund Unallocated (discretionary) and General Fund Allocated Hotel Room Tax revenues.
Of the \$94.42 million, \$70.15 million is Unallocated (discretionary).
- (5) Includes both General Fund Unallocated and Commission on Aging share of parking tax.
Of the \$32.13 million, \$21.42 million is Unallocated (discretionary).

Discussion of Budget Estimates for General Fund Discretionary Revenues

Property Taxes: The General Fund share of property tax revenue is projected to increase by 21.8 percent; however, after adjusting for State funding shifts the underlying growth is 2.4 percent. Preliminary working roll estimates from the Assessor's Office indicate that the FY 2004-05 secured tax roll is likely to increase between 5 to 6 percent from the FY 2003-04 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 2003-04 year-end projection, due to mid-year reassessments and subsequent supplemental tax revenues. Second, we factor in anticipated appeals, refunds, reassessments, delinquencies, prior year collections, tax increment allocations to the Redevelopment Agency³ and major transactions. Finally, changes due to State budgetary shifts, like ERAF⁴, are considered. This final revenue change is typically less than the percentage increase in the value of the tax roll.

Chart B below summarizes property tax delinquencies, which decreased from prior recession highs during the late 1990s. The FY 2004-05 Proposed Budget assumption of 1.72 percent is a level reasonable in our opinion given present economic conditions.

Chart B: Property Tax Delinquencies⁵

	SECURED		UNSECURED		WEIGHTED
	CCSF	Statewide	CCSF	Statewide	AVERAGE CCSF
FY 1990-91	3.73%	4.40%	4.83%	4.40%	3.84%
FY 1991-92	4.00%	4.10%	4.22%	4.57%	4.02%
FY 1992-93	3.23%	4.71%	4.58%	4.74%	3.35%
FY 1993-94	2.81%	4.10%	4.36%	4.60%	2.96%
FY 1994-95	2.52%	3.60%	4.75%	4.40%	2.73%
FY 1995-96	1.92%	3.40%	3.68%	3.20%	2.07%
FY 1996-97	1.68%	3.10%	3.21%	3.80%	1.82%
FY 1997-98	1.45%	2.70%	2.29%	4.00%	1.52%
FY 1998-99	1.35%	3.10%	2.94%	4.00%	1.49%
FY 1999-00	1.42%	3.20%	2.11%	4.00%	1.49%
FY 2000-01	1.33%	2.90%	2.98%	4.50%	1.48%
FY 2001-02	1.46%	2.80%	5.15%	4.90%	1.79%
FY 2002-03	1.55%	2.60%	4.94%	4.80%	1.83%
Projected FY 2003-04	1.45%	2.77%	4.36%	4.73%	1.66%
Proposed Budget FY 2004-05	1.49%	2.72%	4.82%	4.81%	1.72%

³ The gross tax increment assumed for the Redevelopment Agency is \$55.19 million for FY 2004-05, compared to \$38.23 million for FY 2003-04 and \$43.53 million in FY 2002-03.

⁴ ERAF is the Educational Revenue Augmentation Fund, a funding mechanism used by the State to cover its Prop 98 educational funding requirements.

⁵ Source: San Francisco Treasurer/Tax Collector, California Controller's Office, San Francisco Controller's Office (Projected)

Business Taxes: Business taxes are projected to increase by 3.0 percent. This projection is based on slow growth in employment with moderate wage increase due to cost of living adjustment and increased collections of delinquent revenues. The proposed Business Tax package is shown separately in the Other Local Taxes section on page 12.

On a related note, the FY 2004-05 Proposed Budget continues to include the debt service for the business tax (gross receipts) judgement bonds pertaining to the litigation settlement previously adopted by the Board of Supervisors. FY 2004-05 debt service on the judgement bonds is \$6.77 million (reflecting savings from the refinancing that occurred during FY 2003-04), compared to \$7.26 million in both FY 2003-04 and FY 2002-03. The judgement bonds are fixed rate bonds with a maximum annual debt service of \$7.25 million, and payable through FY 2010-11, assuming no prepayment or subsequent refunding occurs.

Sales Tax: Sales tax revenue is projected to be down by 21.3 percent due to State budget shifts related to the *Triple Flip*⁶, which is slated to begin July 1, 2004. After adjusting for this State shift, the Mayor's Proposed Budget assumes growth of 4.9 percent. Chart C summarizes the most up-to-date sales tax activity for San Francisco, the Bay Area and California. The January through March 2004 quarter actuals will be available in the middle of June, whereas actuals for the April through June 2004 quarter will be available in September.

Chart C: Sales Tax Activity – Quarterly Change from Same Quarter in the Prior Year

Sales Tax Activity			
CY Quarterly Change from Prior Year's Same Quarter			
Calendar Quarter	San Francisco	9 County Bay Area	California
4 th Quarter 2003*	-0.84%	2.84%	4.23%
3 rd Quarter 2003	-1.55%	-1.40%	2.52%
2 nd Quarter 2003	-3.30%	-2.30%	5.00%
1 st Quarter 2003	-1.98%	-3.01%	4.61%
4 th Quarter 2002	-1.70%	-4.40%	0.80%
3 rd Quarter 2002	-5.00%	-3.10%	3.10%
2 nd Quarter 2002	-9.70%	-8.40%	-1.30%
1 st Quarter 2002	-17.80%	-12.70%	-3.70%
4 th Quarter 2001	-17.00%	-13.50%	-2.00%
3 rd Quarter 2001	-20.30%	-11.50%	-1.20%
2 nd Quarter 2001	-8.70%	-5.00%	0.00%

* SF growth reflects prior year adjustments.

⁶ The *Triple Flip* is a funding shift related to the reallocation of local Sales Tax revenues, local Property Tax revenues and State Proposition 98 School Funding. The first two (of three) revenue reallocations or shifts, i.e. the local Sales Tax and local Property Tax, impact the City's Budget and are reflected in the FY 2004-05 Proposed Budget. The dedication of ¼ percent of local Sales Tax revenues is in turn used to pay voter-approved debt service

Utility Users Tax: Utility users tax revenue is projected to decline by 1.8 percent overall. The FY 2004-05 Proposed Budget assumes a flat projection of water-related revenues, which represent approximately 2.0 percent of utility users tax revenues, a 3 percent growth in telecommunications, and a combined 6.3 percent drop in natural gas and electricity. The net decline in energy is driven by PG&E's bankruptcy court approved restructuring plan, which includes average electric rate reductions of 9 to 15 percent for commercial utility users.

Real Property Transfer Tax: Real property transfer tax revenues are expected to slightly decline in FY 2004-05 as interest rates begin to rise. FY 2003-04 revenues exceeded budget by over \$15 million; however, continued growth from this level is not sustainable given projected increases in interest rates. Transaction activity has shown double-digit increases since September 2003, as has resulting monthly revenues through FY 2003-04. A \$70.0 million proposed budget estimate appears reasonable and consistent with recent transaction activity assuming that the Federal Reserve will not aggressively increase rates until mid FY 2004-05.

Chart D: Real Property Transfer Tax Revenues

Fiscal Year	Total General Fund Revenue (\$1,000s)	Annual Growth	
		\$ Change (\$1,000s)	% Change
FY 1985-86	\$ 18,785		
FY 1986-87	\$ 19,056	\$ 271	1.4%
FY 1987-88	\$ 19,185	\$ 129	0.7%
FY 1988-89	\$ 24,788	\$ 5,603	29.2%
FY 1989-90	\$ 20,717	\$ (4,071)	(16.4%)
FY 1990-91	\$ 13,695	\$ (7,022)	(33.9%)
FY 1991-92	\$ 13,798	\$ 103	0.8%
FY 1992-93	\$ 13,065	\$ (733)	(5.3%)
FY 1993-94	\$ 15,857	\$ 2,792	21.4%
FY 1994-95	\$ 20,038	\$ 4,181	26.4%
FY 1995-96	\$ 22,968	\$ 2,930	14.6%
FY 1996-97	\$ 33,573	\$ 10,605	46.2%
FY 1997-98	\$ 44,007	\$ 10,434	31.1%
FY 1998-99	\$ 56,133	\$ 12,126	27.6%
FY 1999-00	\$ 69,882	\$ 13,749	24.5%
FY 2000-01	\$ 62,335	\$ (7,547)	(10.8%)
FY 2001-02	\$ 47,266	\$ (15,069)	(24.2%)
FY 2002-03	\$ 51,475	\$ 4,209	10.0%
Projected FY 2003-04	\$ 74,080	\$ 22,605	43.9%
Proposed Budget FY 2004-05	\$ 70,000	\$ (4,080)	(5.5%)

pertaining to the \$15 billion of bonds authorized under the California Economic Recovery Bond Act (Proposition 57), which voters approved in March 2004.

Hotel Room Tax: Overall hotel room tax revenue growth is projected to be 6.0 percent. The FY 2004-05 Proposed Budget reflects General Fund growth of 7.5 percent as the net impact of proposed allocations makes the number slightly higher. The FY 2004-05 Proposed Budget continues to assume that the Redevelopment Agency will cover the Low-Income Housing Allocation obligation, as was the case in FY 2003-04, thereby freeing up \$5.14 million for allocation to the General Fund. The *Interim Consolidated Budget and Annual Appropriation Ordinance* includes authorizing language in Administration Provision Section 11.11 on page 123.

Hotel room tax revenue growth is a function of changes in occupancy, average daily room rates and room supply. The FY 2004-05 Proposed Budget assumes occupancy growth of 2.0 to 3.0 percent, average daily room rate growth of 2.0 to 3.0 percent, relatively flat net room supply and increased collections pertaining to hotel guest parking charges. 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. They have been weak ever since. Chart E illustrates total hotel room tax revenue (including both allocated and discretionary) since FY 1978-79. By ordinance, a portion of the hotel room tax is allocated for specific purposes. For the portion that is allocated for specific purposes, generally the year-to-year change cannot exceed 10 percent.

Chart E: Hotel Room Tax Revenues

Fiscal Year	Total Hotel Tax Revenue (\$1,000s) [1]	Annual Growth		% Adjusted for Tax Rate Change
		\$ Change (\$1,000s)	% Change	
FY 1978-79	\$ 19,014			
FY 1979-80	\$ 23,819	\$ 4,805	25.3%	25.3%
FY 1980-81	\$ 32,558	\$ 8,739	36.7%	14.8%
FY 1981-82	\$ 36,858	\$ 4,301	13.2%	13.2%
FY 1982-83	\$ 35,272	\$ (1,587)	(4.3%)	(4.3%)
FY 1983-84	\$ 38,323	\$ 3,051	8.7%	8.7%
FY 1984-85	\$ 44,711	\$ 6,388	16.7%	16.7%
FY 1985-86	\$ 47,981	\$ 3,270	7.3%	7.3%
FY 1986-87	\$ 53,099	\$ 5,119	10.7%	4.3%
FY 1987-88	\$ 60,921	\$ 7,821	14.7%	8.7%
FY 1988-89	\$ 67,102	\$ 6,181	10.1%	10.1%
FY 1989-90	\$ 63,414	\$ (3,688)	(5.5%)	(5.5%)
FY 1990-91	\$ 69,557	\$ 6,143	9.7%	9.7%
FY 1991-92	\$ 72,032	\$ 2,475	3.6%	3.6%
FY 1992-93	\$ 76,246	\$ 4,214	5.9%	5.9%
FY 1993-94	\$ 86,481	\$ 10,235	13.4%	5.5%
FY 1994-95	\$ 94,101	\$ 7,620	8.8%	7.8%
FY 1995-96	\$ 102,960	\$ 8,859	9.4%	9.4%
FY 1996-97	\$ 137,649	\$ 34,689	33.7%	18.4%
FY 1997-98	\$ 150,163	\$ 12,514	9.1%	7.9%
FY 1998-99	\$ 161,518	\$ 11,355	7.6%	7.6%
FY 1999-00	\$ 182,102	\$ 20,584	12.7%	12.7%
FY 2000-01	\$ 188,377	\$ 6,275	3.4%	3.4%
FY 2001-02	\$ 132,226	\$ (56,152)	(29.8%)	(29.8%)
FY 2002-03	\$ 128,590	\$ (3,635)	(2.7%)	(2.7%)
Projection FY 2003-04	\$ 135,020	\$ 6,430	5.0%	5.0%
Proposed FY 2004-05	\$ 143,121	\$ 8,101	6.0%	6.0%

[1] Adjusted to match revenues with period of activity.

The amount of hotel room tax budgeted in the General Fund is \$94.42 million, of which \$70.15 million is unallocated or discretionary. Chart F below illustrates how the hotel room tax revenues are allocated for FY 2004-05.

Chart F: Hotel Room Tax Revenue Allocation, FY 2004-05

	FY 2004-05		FY 2004-05	
	Admin. Code		Mayor's Proposed	
	\$ Allocation	%	\$ Allocation	%
General Fund Unallocated (discretionary)	\$ 57,537,000	40.2%	\$ 70,149,632	49.0%
Moscone / Convention Facilities	\$ 31,918,000	22.3%	\$ 26,751,459	18.7%
Grants for the Arts	\$ 15,073,000	10.5%	\$ 13,031,115	9.1%
War Memorial & Performing Arts	\$ 8,911,000	6.2%	\$ 8,407,000	5.9%
Convention & Visitors Bureau	\$ 7,760,000	5.4%	\$ 7,321,000	5.1%
Yerba Buena Gardens (SFRA)	\$ 5,620,029	3.9%	\$ 5,620,029	3.9%
Low-Income Housing Programs	\$ 5,735,000	4.0%	\$ 600,000	0.4%
Fine Arts Museum	\$ 4,707,000	3.3%	\$ 4,440,000	3.1%
Cultural Centers	\$ 1,814,000	1.3%	\$ 1,711,000	1.2%
Cultural Equity Endowment	\$ 2,054,000	1.4%	\$ 1,938,000	1.4%
Asian Art Museum	\$ 1,867,000	1.3%	\$ 1,761,000	1.2%
Academy of Sciences	\$ -	0.0%	\$ 1,272,765	0.9%
Administration (Tax Collector)	\$ 125,000	0.1%	\$ 118,000	0.1%
TOTAL	\$ 143,121,029	100%	\$ 143,121,000	100.0%
Budgeted in General Fund	\$ 83,177,000	58.1%	\$ 94,421,512	66.0%
Budgeted outside of the General Fund	59,944,029	41.9%	48,699,488	34.0%
	\$ 143,121,029	100.0%	\$ 143,121,000	100.0%
Budgeted in CCSF	\$ 137,501,000	96.1%	\$ 137,500,971	96.1%
Budgeted in SFRA (Redevelopment)	5,620,029	3.9%	5,620,029	3.9%
	\$ 143,121,029	100.0%	\$ 143,121,000	100.0%

Parking Tax: Parking tax revenues are projected to increase 2.0 percent. This projected level of growth assumes a moderate economic recovery during FY 2004-05 with limited rate increases. Increased compliance by operators as a result of collection efforts by the Treasurer/Tax Collector are also factored into this growth estimate. The amount in Chart A includes only the portion of the parking tax accruing to the General Fund and the Commission on Aging. Chart A does not include the portion of parking tax revenue that accrues to the Municipal Transportation Agency, as it is budgeted in MUNI's enterprise fund.

Public Safety Sales Tax: Public safety sales tax (Proposition 172) is projected to grow 3.0 percent. These revenues are allocated to counties by the State separately from local sales tax discussed on page 8. Public safety sales tax revenues depend on the State's allocation formula, which includes both statewide and local sales tax activity.

Motor Vehicle In Lieu: Motor vehicle in lieu (MVL) subventions are projected to decline 71.7 percent due to the Governor's Proposed Budget which assumes that the reduction in the car tax will be on-going and no longer be backfilled by the State. However, the Governor's Proposed Budget also assumes a partial restoration of Property Taxes from ERAF to cover this loss of MVL revenue. In recent history, new vehicle sales and registrations have helped to keep this revenue growing.

Other Local Taxes: The Mayor's Proposed Budget also assumes two new tax revenue sources: 1) a Business Tax package which reinstates a Gross Receipts tax at 1/10th of 1.0 percent of gross receipts along with the closure of the partnership compensation loophole for the Payroll Expense Tax (with estimated revenues of \$15 to \$20 million for FY 2004-05), and 2) a ¼ percent increase to the Sales Tax (with estimated revenues of \$7 to \$8 million). This sales tax proposal would increase the San Francisco Sales Tax from 8.50 percent to 8.75 percent – a level equivalent to Alameda County. Both of these tax proposals are subject to voter approval in November 2004.

With this revenue uncertainty, the Mayor's FY 2004-05 Proposed Budget also includes a \$30 million General Reserve, which is \$5 million more than the \$25 million in new tax revenues subject to voter approval. Until the November election, the Controller will certify funding availability of up to \$5 million from the General Reserve. If voters approve one or both of the tax proposals in November, the Controller will certify additional funding from the General Reserve.

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 final reconciliation of the FY 2003-04 year-end surplus will not be known until the independent audit is completed around November 2004. However, given actual revenue collections through May (Real Property Transfer Tax in particular), the projected year-end fund balance is projected to be slightly higher than assumed in the FY 2004-05 Proposed Budget.

The Mayor's Proposed Budget includes \$17.90 million of projected year-end surplus to support General Fund expenditures in FY 2004-05. With a few exceptions, the Mayor's Office relies on the Controller's Nine-Month Report for the projected FY 2003-04 fund balance. The Mayor's Proposed Budget amount is \$12.04 million over the \$5.86 million reported in the Nine-Month Report. The assumptions are included below.

**Chart G: FY 2003-04 Projected Year-End Surplus
 Fund Balance Available to Support FY 2004-05 Proposed Budget (millions)**

	Proposed FY 2004-05
Nine-Month Report Fund Balance Projection	\$ 5.86
Reduction in Departmental Shortfalls from Nine-Month Projection	4.50
Health Service System - Timing Change to Match Billing Cycle	4.00
Work Order Savings between Police & MTA	3.00
Other Savings, Project, Encumbrance & Reserve Closeouts	0.54
Total Surplus/Fund Balance Available for Appropriation	\$ 17.90

Use of Reserves

The Mayor's FY 2004-05 Proposed Budget includes \$36.56 million in reserves established in prior years. A summary of these reserved funds is outlined in Chart H below.

Chart H: Use of Prior Year Reserves (millions)

	FY 2004-05 Proposed		
	General Fund	Other Funds	All Funds
Rainy Day Reserve - for City	\$ 27.56		27.56
Rainy Day Reserve - for Schools		\$ 7.00	7.00
Subtotal	27.56	7.00	34.56
Budget Incentive Reserve	2.00		2.00
Total	\$ 29.56	\$ 7.00	36.56

Rainy Day Reserve: The Rainy Day Reserve was approved by voters in November 2003. The City's previous Charter-mandated Cash Reserve was replaced with the new Rainy Day Reserve, which afforded the use of these funds in the event of economic downturns. Given the prolonged downturn and lackluster recovery to date, the City appears to be able to use \$34.56 million of these reserves for the upcoming FY 2004-05. The maximum estimated draw for both the City and Schools has been assumed in the Mayor's Proposed Budget.

Budget Incentive Reserve: Administrative Code Section 3.17 requires that the greater of \$2 million or 10 percent of departments' year-end balances be set aside in a savings incentive account to be used only to *reduce the cost of service delivery and make departmental activities more efficient*. The FY 2004-05 Proposed Budget includes the projected balance of \$2 million for technology and equipment upgrades.

Key One-Time Revenues & Transfers In

The FY 2004-05 Proposed Budget includes a number of one-time sources other than the Fund Balance and Prior Year Reserves, which were already discussed above. Chart I below summarizes key one-time revenue and transfer in sources. As a point of comparison, the FY 2003-04 budget included \$43.57 million in one-time General Fund sources versus the \$39.63 million outlined below.

**Chart I: Key One-Time, Departmental Regular Revenues & Transfers In
 Included in the FY 2004-05 Proposed Budget
 (millions)**

	FY 2004-05 Proposed		
	General Fund	Non-General Fund	Total
Sales of Buildings & Land	\$ 26.15	\$ -	\$ 26.15
Gifts & Private Grants		3.48	3.48
Fines, Penalties & Settlements	6.45	1.90	8.35
Naming Rights - Front-Loaded Contract Assumed	3.00		3.00
High Earner Contributions to City's General Fund	2.50		2.50
Gifts & Private Grants	1.00		1.00
Garage Revenues - Capital Funding Closed to Operations	0.53		0.53
Total - Key One-Time Revenue & Transfer Sources	\$ 39.63	\$ 5.38	\$ 45.01

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

The FY 2004-05 Proposed Budget assumes various fee and fine increases. The table below highlights the key assumptions and associated revenue changes.

**Chart J: Key Fee & Fine Changes, Non-Enterprise Departments
 Included in the FY 2004-05 Proposed Budget
 (millions)**

FEES & SERVICE CHARGES

Description	Amount in FY 2003-04 Adopted Budget	Amount in FY 2004-05 Proposed Budget	Incremental Fee Revenue assumed in FY 2004-05
911 Fee	\$ 22,150,000	\$ 33,764,000	\$ 10,769,682
Planning Fees	\$ 8,990,783	\$ 10,163,787	\$ 1,478,131
Patient Rates	\$ 460,400,000	\$ 461,400,000	\$ 1,000,000
City Parking Facility Rates		\$ 757,860	\$ 757,860
Indigent Ability-to-Pay Fees		\$ 400,000	\$ 400,000
High-Rise Inspection & Plan Review Fees	\$ 2,193,205	\$ 2,384,400	\$ 191,195
Annual License & Permit Fees	\$ 468,000	\$ 648,000	\$ 180,000
Hazardous Waste Management Fee	\$ 1,509,420	\$ 1,660,589	\$ 151,169
Removal of Remains Fee	\$ 175,000	\$ 300,000	\$ 125,000
Permit Appeals Board Surcharge	\$ 336,118	\$ 411,860	\$ 75,742
Cremation Fee		\$ 70,000	\$ 70,000
Farmers Market Fees	\$ 278,400	\$ 337,400	\$ 59,000
Civic Design Fee (Internal)		\$ 50,000	\$ 50,000
Hazardous Materials Fees	\$ 416,163	\$ 457,841	\$ 41,678
Storage & Toxicology Preparation		\$ 20,000	\$ 20,000
Med. Waste Generator Reg., Permit, Inspect.	\$ 53,876	\$ 69,282	\$ 15,406
Sealing of Records Fee		\$ 12,000	\$ 12,000
Rent Board Fee	\$ 4,567,000	\$ 4,378,043	\$ (188,957)
Value of Auto CPI Adjustments		\$ 964,000	\$ 964,000
Total	\$ 501,541,415	\$ 518,252,512	\$ 16,171,906

FINES

Description	Amount in FY 2003-04 Adopted Budget	Amount in FY 2004-05 Proposed Budget	Incremental Fine Revenue assumed in FY 2004-05
Traffic Fines - Moving, Late Payment	\$ 1,502,050	\$ 1,700,000	\$ 197,950
Total	\$ 1,502,050	\$ 1,700,000	\$ 197,950

State Budget Impact

The FY 2004-05 Proposed Budget includes funding from the State for a number of City programs. While the State's proposed budget is still pending before the Legislature and is subject to revision as well as line-item veto by the Governor, the projected impact on the City, based on the Governor's May Revise, is estimated to be slightly less than \$55 million. To cover this estimated reduction in State funding, the Mayor's FY 2004-05 Proposed Budget includes \$32.7 million in net revenue reductions, including discretionary revenue reductions of \$28.7 million, SB 90 reimbursement reductions of \$2.2 million, and a \$1.8 million State Revenue Reserve in Public Health. **This leaves programmatic revenues of approximately \$20.5 million that will need to be cut or reserved unless the State backfills what is slated for reduction in the Governor's Proposed Budget (see Chart K below) since the Mayor's FY 2004-05 Proposed Budget includes both these revenues and appropriation.** As additional information becomes available, and as we are able to verify State revenue allocations, we will advise the Board of those changes.

Chart K Programmatic Revenue Reductions included in Governor's Proposed Budget (millions)

Potential Additional Reserves Required Absent Legislative Backfill of Governor's Proposed Reductions

FY 2004-05

Department	Potential Reserve	Explanation of Potential Reserve
Aging & Adult Services	\$ 100,000	Social Services Block Grant Funding
Human Services	\$ 12,800,000	IHSS - Wages, Benefits, and Domestic Services Funding
Human Services	\$ 1,000,000	CalWORKS Funding
Human Services	\$ 1,000,000	Stage 1 Childcare Funding
Human Services	\$ 700,000	Food Stamps Administrative Allocation Funding
Human Services / Public Health	\$ 700,000	Children's System of Care Funding
Human Services	\$ 300,000	Child Welfare Services Augmentation Funding
Subtotal - Human Services	\$ 16,500,000	
Juvenile Probation	\$ 2,300,000	TANF Funding
Juvenile Probation / Sheriff	\$ 600,000	STC Correction Officer Training
Public Health	\$ 100,000	MediCAL Pharmacy Funding
Public Health	\$ 200,000	Early Periodic Screening & Diagnostic Treatment Funding
Child Support Services	\$ 700,000	County Share of Child Support Collections Reimbursement
Potential State Reductions	\$ 20,500,000	

III. 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 reasonableness. These departments' sources of funds are discussed below.

PUBLIC HEALTH

The Department of Public Health has total net budget sources of funds of \$1,017.55 million in the FY 2004-05 Proposed Budget. Total sources are comprised of two major categories: 1) net departmental sources of \$797.52 million, primarily from Federal and State sources such as Medicare, Medi-Cal and net patient revenue, and 2) General Fund Support of \$220.03 million.

Chart L: Public Health's Sources of Funds (millions)

Sources of Funds	FY2003-04 Revised Budget	FY2004-05 Proposed Budget	Increase / (Decrease)	% Increase / (Decrease)
Patient Revenues	\$ 460.40	\$ 482.15	\$ 21.75	4.7%
General Fund Support	253.70	220.03	(33.66)	-13.3%
State Intergovernmental	256.90	254.27	(2.63)	-1.0%
Health & Welfare Realignment-MVL	78.48	83.56	5.08	6.5%
Health & Welfare Realignment-Sales Tax	70.25	70.25	-	0.0%
Short-Doyle MediCAL	45.23	48.52	3.30	7.3%
State Alcohol Funds	19.41	19.70	0.29	1.5%
Community Mental Health	11.91	11.62	(0.29)	-2.4%
Prop 99 - Tobacco Tax	2.81	2.91	0.10	3.7%
Other State	28.81	17.70	(11.11)	-38.6%
Federal Intergovernmental	78.65	85.43	6.78	8.6%
Fund Balance	1.50	1.50	-	0.0%
Other Service Charges	44.26	58.02	13.76	31.1%
Other Revenue	7.91	8.45	0.54	6.8%
Licenses & Fines	6.96	5.91	(1.05)	-15.1%
Departmental Transfer Adjustment	(98.22)	(98.22)	-	0.0%
Total Sources of Funds	\$ 1,012.05	\$ 1,017.55	\$ 5.50	0.5%

Overall, Public Health's sources of funds are projected to increase approximately \$5.5 million or 0.5 percent in FY 2004-05 over the FY 2003-04 revised budget. Key revenue decreases are General Fund Support, State Intergovernmental, and Licenses and Fines. General Fund support has dropped \$33.66 million or 13.3 percent. Key increases include Patient Revenues, Federal

Intergovernmental, Other Service Charges, and Other Revenue. Patient Revenues show an increase of \$21.75 million or 4.7 percent consisting of the following:

- +\$8.4 million in additional Capitated Fees / Health Plan Settlements, which includes
 - +\$2.1 million for the transfer of pharmacy benefits from the San Francisco Health Plan to DPH for Healthy Workers,
 - +\$2.5 million for growth projected for Healthy Workers and Healthy Kids, and
 - +\$3.8 million in increased premiums paid by the Federal Government for Healthy Workers;
- +\$7.6 million in additional patient service revenue net of bad debt;
- +\$4.7 million in additional SB 855 - Disproportionate Share Hospital Program revenues; and
- +\$1.1 million in additional SB 1255 - Emergency Services & Supplemental Payment Fund revenues.

State Intergovernmental revenues show a \$2.63 million or 1 percent decrease as a result of the following changes:

- -\$11.11 million decrease in Other State Grants and Subventions that is primarily due to the inclusion of carryforwards and transfers in the FY 2003-04 revised budget, which are excluded from the FY 2004-05 budget,
- -\$0.29 million decrease in Community Mental Health funding,
- +\$0.10 million in additional Prop 99 – Tobacco Tax,
- +\$0.29 million increase State Alcohol Funds,
- +\$3.30 million in additional Short-Doyle Medi-Cal revenue, and
- +\$5.08 million in additional Health and Welfare Realignment revenue.

Federal Intergovernmental revenue reflects a \$6.78 million or 8.6 percent in additional grant funding primarily for HIV/AIDS services of \$2.1 million, Housing and Urban Health services of \$1.8 million, Maternal and Child Health services of \$3.5 million, less \$0.62 million of other federal revenue net reductions.

Other Service Charges reflect an increase of \$13.76 million or 31.1 percent primarily for the jail health workorder with the Sheriff for the Public Health Department to provide services during the first half of the fiscal year. Also included in the FY 2004-05 amount is \$3.0 million in revenue for sale of the Sunset Mental Health Center. However, the Department has reported that this item may be restored by the Mayor's Office through a technical adjustment.

Other Revenue reflects an increase of \$0.54 million or 6.8 percent primarily due to the exclusion of carryforwards and transfers in the FY 2004-05 Proposed Budget. Licenses and fines show a decrease of \$1.05 million or 15.1 percent primarily due to the exclusion of carryforwards and transfers in the FY 2004-05 Proposed Budget.

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 2004-05 Proposed Budget of \$540.81 million. This total is an increase of \$18.99 million compared to the FY 2003-04 revised budget. The increased revenue is derived from the following: federal and state operating and aid revenues and state Health and Welfare Realignment revenues totaling \$14.82 and recoveries, transfers and other revenues totaling \$9.83 million. The total non-General Fund revenue increase of \$24.65 is offset by a \$5.66 million reduction in General Fund Support.

Chart M: Human Services Agency Sources of Funds (millions)

Sources of Funds	FY 2003-04	FY 2004-05	Increase / (Decrease)	% Increase / (Decrease)
	Revised Budget	Proposed Budget		
Federal & State Operating	\$ 193.96	\$ 197.71	\$ 3.75	1.9%
Federal & State Aid	107.03	110.65	3.62	3.4%
State Health & Welfare Realignment	44.01	51.46	7.45	16.9%
Subtotal Federal & State	345.00	359.82	14.82	4.3%
Interdepartmental Recovery / Transfers	15.71	22.41	6.70	42.6%
Other Revenue	16.71	19.84	3.13	18.7%
Subtotal Transfers & Other Revenue	32.42	42.25	9.83	
Total Non-GF Support Sources	377.42	402.07	24.65	6.5%
General Fund Support	144.40	138.74	(5.66)	-3.9%
Total Sources of Funds	\$ 521.82	\$ 540.81	\$ 18.99	3.6%

The FY 2004-05 Proposed Budget shows an increase of \$3.75 million in Federal and State operating revenues. Federal and State revenues to support payments to aid recipients are projected to increase by approximately \$3.62 million in FY 2004-05 over the FY 2003-04 revised budget. This increase is primarily due to increased caseloads in the CalWORKS and In-Home Supportive Services (IHSS) programs.

Interdepartmental recoveries and transfers are projected to increase by \$6.70 million in FY 2004-05. Projected increases include a \$2.94 million recovery of the reimbursement for the cost of health care for IHSS workers and a \$10.01 million transfer from the Human Services Care Fund. Offsetting decreases include the elimination of the \$4.95 million recovery for Adult and Aging Services, as a result of the DHS-DAAS consolidation, the loss of \$1.15 million in one-time revenue transfers related to Mayor's Office of Community Development's programmatic recoveries, and \$0.15 million in other net decreases.

IV. BASELINES

The FY 2004-05 Proposed Budget includes five baselines: 1) the Children's Baseline, 2) the Library Baseline, 3) the MTA - Municipal Railway Baseline, 4) the MTA - Parking & Traffic Baseline (which first appeared in the FY 2002-03), and 5) the City Services Auditor Baseline (new in FY 2004-05). Chart N identifies the required funding for each baseline, which is based on the projected aggregate City discretionary revenues for the first four baselines and 2/10^{ths} of 1.00 percent of appropriations for the City Services Auditor.⁷

Chart N: Baselines (millions)

Baseline	FY 2004-05 Required Baseline	FY 2004-05 Mayor's Proposed	Surplus / (Shortfall) Contribution
Children	\$ 73.24	\$ 76.40	\$ 3.16
Library	31.98	31.98	-
MTA - Municipal Railway	98.85	98.85	-
MTA - Parking & Traffic	35.14	35.14	-
City Services Auditor	8.05	8.05	-
	\$ 247.27	\$ 250.42	\$ 3.16

CHILDREN'S BASELINE

The FY 2004-05 Proposed Budget includes Children's Baseline funding at \$76.40 million. This is \$3.16 million greater than the \$73.24 million required baseline. This surplus is primarily explained by the additional \$7.00 million of funding from the Rainy Day Reserve less \$3.50 million in service billings to the Unified School District, both assumed in the FY 2004-05 Proposed Budget. Proposition D, adopted by the voters on November 7, 2000, amended Charter Section 16.108 and required the City to maintain a baseline level of appropriation for children's services at no less than the level of City appropriations budgeted in Fiscal Year 2000-01.⁸

⁷ Discretionary revenue calculations include the discretionary portion of the VLF and discretionary State reallocations/shifts included in the Governor's Proposed Budget. These amounts reflect a pending technical adjustment from the Mayor's Office.

⁸ The original Charter Section 16.108 (established by Proposition J in 1991) required the Controller's Office to establish the Children's Baseline on FY 1991-92 appropriations. In addition to designating FY 2000-01 as the new base year, Proposition D slightly broadens the criteria for the inclusion of City appropriations in the children's baseline.

LIBRARY BASELINE

The FY 2004-05 Proposed Budget includes Library Baseline funding at the \$31.98 million required level. The Charter specifies that the Library Preservation Fund shall receive at least a minimum level of funding (required baseline) from the General Fund (Section 16.109). This minimum funding level is adjusted by any change in aggregate city appropriations from the base year. As a result, as General Fund revenues increase, the minimum baseline funding level for the Library Preservation Fund also increases.

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 establishes 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.

MTA - Municipal Railway (MUNI): The FY 2004-05 Proposed Budget includes MUNI Baseline funding at the \$98.85 million required level. In the budget year, the baseline funding to MUNI is mainly affected by the growth in discretionary revenues.

MTA - Parking & Traffic: The FY 2004-05 Proposed Budget includes Parking & Traffic Baseline funding at the \$35.14 million required level. Since FY 2002-03 was the first year for the Parking & Traffic Department to receive baseline funding, the FY 2003-04 budget year is the first year that the Parking & Traffic Baseline reflects changes in discretionary revenues.

CITY SERVICES AUDITOR BASELINE

The FY 2004-05 Proposed Budget includes \$8.05 million for the City Services Auditor Baseline – new in FY 2004-05. This Baseline was approved by voters in November 2003 and mandates that 2/10ths of 1.0 percent of the budget be used to fund the auditing of city services. These funds are included in the Controller's budget for FY 2004-05 as are corresponding work orders with departments.

V. SELF-SUPPORTING ENTERPRISE DEPARTMENTS

Enterprise departments such as Airport, Public Utilities Commission (which includes Hetch Hetchy, Water, and Clean Water Departments), and the Port are supported by user fees and are generally not supported by the City's General Fund. As is summarized in Chart O, total enterprise sources of funds are projected to increase by \$93.91 million. Operating revenues are projected to increase for only the PUC and the Port. The underlying assumptions of the FY 2004-05 Proposed Budget for these departments are highlighted in the narrative following Chart O.

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

Enterprise	FY2003-04 Revised Budget	FY2004-05 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
Airport Commission				
Operating Revenues	\$ 573.06	\$ 544.15	\$ (28.92)	-5.0%
Other Sources [^]	(5.47)	34.74	40.21	-735.5%
Subtotal	\$ 567.59	\$ 578.89	\$ 11.30	2.0%
Port				
Operating Revenues	\$ 50.65	\$ 52.17	\$ 1.52	3.0%
Other Sources [^]	8.05	3.11	(4.94)	-61.4%
Subtotal	\$ 58.70	\$ 55.28	\$ (3.42)	-5.8%
Public Utilities Commission				
Operating Revenues	\$ 433.82	\$ 515.03	\$ 81.21	18.7%
Other Sources [^]	84.23	89.05	4.83	5.7%
Subtotal	\$ 518.05	\$ 604.08	\$ 86.03	16.6%
TOTAL	\$ 1,144.34	\$ 1,238.25	\$ 93.91	8.2%

[^] Other Sources include Expenditure Recovery, Fund Balance, Departmental Transfer Adjustment, and General Fund Support if applicable. A detailed breakdown of these items is provided in the FY 2004-05 Proposed Budget Book and Interim AAO. For FY 2004-05, PUC's Total Proposed Budget of \$604.08 is adjusted here for a pending technical adjustment by the Controller to reflect an intra-departmental transfer adjustment of \$109.39 million, which corrects for a double counting of transfer sources.

AIRPORT

The Airport's FY 2004-05 Proposed Budget includes \$11.30 million more in total sources of funds. Key changes in the Airport's sources of funds include a \$28.92 million reduction in operating revenues principally due to a projected \$33.15 million decline in airline landing fees and terminal rents. These reflect reductions in proposed aviation landing fees and terminal rental rates deemed necessary to enhance the Airport's competitiveness with other Bay Area airports, and with other west coast airports serving as international gateways.

Compared to FY 2003-04, the FY 2004-05 Proposed Budget reflects these major revenue declines:

- \$17.42 million in landing fees,
- \$15.73 million in terminal rents,
- \$ 1.38 million in utility sales, and
- \$ 0.23 million in interest income.

Concession revenue, which directly affects the transfer into the General Fund, is projected to increase 3.9 percent from budgeted FY 2003-04 levels. Therefore, the FY 2004-05 Proposed Budget includes concession-related transfers to the General Fund of \$19.2 million, an increase of \$0.7 million over the FY 2003-04 budget. This increase assumes a modest recovery in air passenger traffic and trends. Passenger Facility Charge (PFC) revenue is proposed to increase \$3 million. This revenue is derived from the \$4.50 fee assessed on all enplaning passengers.

The \$40.21 million increase in Other Sources is principally explained by the use of \$76.78 million in fund balance by the Airport. FY 2004-05 Proposed Budget has \$34.74 million of Other Sources, reflecting \$42.19 million Department Transfer Adjustment made to net out Police's and Fire's appropriation authority to directly budget in the Police and Fire departments instead. Given this, the primary change in Other Sources is mainly the result of budgeting \$76.78 million of fund balance in FY 2004-05 to fund capital projects and operating costs not otherwise covered by operating revenues.

PORT

The Port's FY 2004-05 Proposed Budget includes \$3.42 million less in total sources of funds. The Port's operating revenues are projected to increase \$1.52 million or 3 percent; however, other sources decrease by \$4.94 million due mainly to a reduction in fund balance. Operating highlights are provided below for the major operating divisions.

Commercial Property: The leasing of Port facilities continues to generate the majority of its operating revenues. The San Francisco commercial real estate market was significantly impacted by the dotcom implosion and national recession. To date the office market remains soft, with significant vacancies and decreased rates. However, demand for space along the waterfront has shown recent improvements. Leasing activity has kept the Port office vacancies to less than 10 percent, well below the citywide vacancy rate of approximately 19 to 20 percent. Citywide the

lower demand for office space has resulted in lower office rental rates; however, the Port reports a slight increase in new lease rates. Port warehouse and industrial space demand has remained strong and rents have been increasing. In the retail sector, the Port has seen little change in its percentage lease income. Percentage-based leases, unlike fixed leases, are based partly on the tenant's gross sales and are a common component of our agreements with retail business tenants. The stagnate growth in income from these leases is not surprising in light of the continued sluggish economy and continued weakness in tourist-related business throughout San Francisco.

Maritime: The Port continues to promote all of its maritime industries; however, cruise and cargo generate the majority of maritime revenues. In FY 2004-05 three cruise lines (Princess Cruise, Celebrity Cruises, and Crystal Cruises) are scheduled to participate in the Volume Incentive Program, guaranteeing a minimum of 12,000 passengers. Total cruise calls were 89 in FY 2003-04, an increase of 25 over the prior year. Increases have been primarily attributable to the addition of Celebrity's California coastal cruises. Overall cruise revenues are projected to increase 15 percent in FY 2004-05. With respect to cargo, the Port has been able to maintain its existing container carriers at Pier 80 while increasing breakbulk volumes. The strongest area of cargo growth has been in bulk aggregate, imported for Bay area construction projects.

PUBLIC UTILITIES COMMISSION (PUC)

The FY 2004-05 Proposed Budget for the San Francisco Public Utilities Commission includes three utility enterprises: the Water Enterprise (water), the Clean Water Enterprise (sewer), and Hetch Hetchy (power). Total operating revenues of the three enterprises for FY 2004-05 are projected to be \$515.03 million, approximately \$81.21 million more than the revised budget for FY 2003-04. The huge revenue increase is primarily due to \$78.3 million anticipated proceeds from bond sales. Until bond proceeds are realized, the Controller will reserve associated spending authority. Water Enterprise revenues are expected to remain relatively flat, Clean Water Enterprise revenues are expected to increase due to a proposed 11 percent increase in rates, and Hetch Hetchy revenues are expected to drop by approximately 8.5 percent due to lower power revenues. These projections are explained more fully below.

Hetch Hetchy: Hetch Hetchy's operating revenues are expected to decrease by approximately \$11 million from the FY 2003-04 revised budget as a result of an estimated \$9.9 million decrease in the sale of electricity and power, and a \$1.1 million decrease in interest earnings.

Hetch Hetchy revenues result from the sale of power to the City's General Fund and enterprise departments, the Modesto Irrigation District (MID) and Turlock Irrigation District (TID) and the Western States Power Pool (WSPP). The rates paid by these customers are in accordance with existing rate policies and contractual requirements. City enterprise department rates are based on comparable PG&E rates and General Fund departments pay a substantially lower flat rate.

The decrease in Hetchy Hetchy operating revenue is the result of several factors. First, having re-emerged from bankruptcy PG&E has significantly reduced its rates, which translates directly into

reduced revenues from enterprise departments of \$5.1 million. Moreover, though a renegotiated MID contract has reduced certain financial risks to Hetch Hetchy, it has also resulted in decreased revenue.

Water Enterprise: The Water Enterprise's FY 2004-05 operating revenues, excluding proceeds from other debt, are expected to increase approximately \$3.2 million over the FY 2003-04 revised budget.

Rates for retail water sales were last increased on July 1, 2002. Historically, retail water sales have varied from an increase of 1.9 percent in FY 1998-99 to a decrease of 3.2 percent in FY 2001-02 with a negative one percent compounded rate of change over the past five years as a result of decreased economic activity in San Francisco. Suburban resale water usage has shown considerable variation. Annual changes in suburban water sales have ranged from a decrease of 2.1 percent to an increase of 6.5 percent. In general, suburban customers use more water for landscape irrigation than do urban customers, and suburban resale water sales are more sensitive to changes in temperature and rainfall.

No change in the rate applicable to retail water sales is contemplated for FY 2004-05. Though not reflected in the revenue projections, the San Francisco Public Utilities Commission will consider an increase in suburban resale water rates of 2.7 percent effective July 1, 2004. If approved, the increase would generate an additional \$2.6 million in revenue.

Clean Water Enterprise: Clean Water Enterprise operating revenues, excluding proceeds from bond sales, reflect a \$10.8 million increase from the FY 2003-04 revised budget due to an expected rate increase in retail sewer services charges. A sewer service charge rate increase of 11 percent is assumed in the FY 2004-05 Proposed Budget. Sewer service charges were last increased was July 1, 1996.

Sewer service charges are assessed on the basis of water use, with the assumption that 90 percent of the volume of water measured at the customer meter is returned to the sewerage system as sanitary waste. Customers who can demonstrate a higher rate of consumptive uses can apply for a lower flow factor (i.e. percentage of metered water returned to the sewerage system). Current projections assume a 0.5 percent increase in metered usage for sewer customers.

VI. RESERVES

CONTROLLER APPROPRIATION RESERVES

Occasionally, departments will include a revenue source where some additional action is required in order to secure the revenues or revenue assumptions appear to be overly optimistic. In those cases, the Controller will reserve expenditures equal to revenues until the required action is taken or actual data for a partial year can be reviewed. In the FY 2004-05 Proposed Budget, the Controller will reserve \$84.55 million in expenditures. Chart P lists those reserves and the action required for the department to expend funds that are supported by the proposed revenue. In addition to those identified below, the PUC has assumed a sewer rate increase of 11 percent, which is proposed to bring in \$14.7 million in FY 2004-05 revenue. If this increase is not approved, the Controller's Office will establish additional reserves against Clean Water appropriation to the extent the increase is either delayed or less than the 11 percent assumption.

Chart P: Controller's Reserves

FY 2004-05		
Department	Reserve	Explanation for Reserve and Required Action
Public Utilities Commission	\$ 78,284,000	Pending Proceeds from Sale of Bonds
Recreation & Park	\$ 3,000,000	Pending Naming Rights Contract Approval
City Planning	\$ 1,188,000	Pending Fee Increase Approval
Police	\$ 600,000	Pending 6-Months of Actuals for the False Alarm Penalty
Recreation & Park	\$ 530,000	Pending Portsmouth Square Garage's Board Approval
Public Defender	\$ 400,000	Pending Implementation with the Courts & Fee Legislation
Public Works	\$ 300,000	Pending 6-Months of Actuals for Street Space & Right of Way Fees
Human Services, Aging	\$ 146,000	Pending 6-Months of Actuals for Public Administrator & Guardian Fees
Treasurer / Tax Collector	\$ 100,000	Pending 6-Months of Actuals for Vehicle Citation Fee
Total	\$ 84,548,000	

Additionally, as we noted earlier in Chart K on page 17, the FY 2003-04 Proposed Budget assumes that \$20.5 million of State revenues that the Governor proposed cutting in his proposed budget. A summary is provided below, and to the extent that the Legislature fails to backfill these cuts, additional reserves and programmatic reductions will be needed.

Potential Additional Reserves Required Absent Legislative Backfill of Governor's Proposed Reductions

FY 2004-05

Department	Potential Reserve	Explanation of Potential Reserve
Aging & Adult Services	\$ 100,000	Social Services Block Grant Funding
Human Services	\$ 12,800,000	IHSS - Wages, Benefits, and Domestic Services Funding
Human Services	\$ 1,000,000	CalWORKS Funding
Human Services	\$ 1,000,000	Stage 1 Childcare Funding
Human Services	\$ 700,000	Food Stamps Administrative Allocation Funding
Human Services / Public Health	\$ 700,000	Children's System of Care Funding
Human Services	\$ 300,000	Child Welfare Services Augmentation Funding
Subtotal - Human Services	\$ 16,500,000	
Juvenile Probation	\$ 2,300,000	TANF Funding
Juvenile Probation / Sheriff	\$ 600,000	STC Correction Officer Training
Public Health	\$ 100,000	MediCAL Pharmacy Funding
Public Health	\$ 200,000	Early Periodic Screening & Diagnostic Treatment Funding
Child Support Services	\$ 700,000	County Share of Child Support Collections Reimbursement
Potential State Reductions	\$ 20,500,000	

OTHER RESERVES INCLUDED IN THE MAYOR'S PROPOSED BUDGET

The Mayor's FY 2004-05 Proposed Budget also includes \$72.45 million in reserves as outlined in the chart below. These appear to be prudent and reasonably reflect anticipated Memoranda of Understanding and Litigation costs as well as provide coverage of the \$25.00 million in tax proposals included in the Mayor's Proposed Budget.

Chart Q: Proposed Reserves (millions)

General Reserve	\$ 30.00
Salaries & Benefits	34.45
Litigation & Contingency	8.00
	<u>\$ 72.45</u>

VII. SELECTED 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 Emergency Communications Department included \$33.76 million in 911 Fee revenue in the FY 2004-05 Proposed Budget. This reflects a \$11.64 million increase from the \$22.15 million included in the FY 2003-04 original budget. Approximately \$3.60 million of the \$6.65 million fee revenue increase for FY 2003-04 was related to the full-year impact of a mid-year proposed increase in the 911 Fee during FY 2003-04 – that is, going from \$1.25 to \$1.75 per telephone line equivalent.⁹ The FY 2004-05 Proposed Budget assumes an additional 911 Fee increase of 57 percent, that is, going from \$1.75 to \$2.75 per month per line equivalent. Trunk lines would increase from \$13.13 to \$20.63 per month (one trunk line is equivalent to 7.5 single access lines), and super trunk lines from \$236.25 to \$371.25 (one high-capacity trunk is equivalent to 135 single access lines).

Based on 911 system-related costs budgeted in Emergency Communications, Police, Fire and the Department of Telecommunications & Information Services, full cost recovery would be approximately equal to \$36.7 million, which represents 83 percent of 911 system-related costs. The remaining 17 percent of costs are related to the exempt lines serviced by the 911 system. As outlined in the Emergency Response Fee section of the Business & 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 & 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. Benefits provided to exempt telephone subscribers will be financed through other revenue mechanisms. 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.

Chart R on the following page summarizes the Controller's findings based on the FY 2004-05 Proposed Budget. In order to have full cost recovery of non-exempt costs (i.e. 83 percent of total costs), on average a \$2.80 monthly 911 Fee would have to be charged for each nonexempt telephone line equivalent. The FY 2004-05 Proposed Budget assumes an increase from \$1.75 to \$2.75 per line per month, or 82 percent cost recovery of total costs.

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). The FY 2004-05 subscriber limit is mandated by the Code to be \$35,000. This means that no single customer (subscriber) will pay more than

⁹ When the 911 Fee was based on \$1.25 per line equivalent, the trunk line fee was \$9.38 per month and the high-capacity trunk line fee was \$168.75 per month. Currently, the 911 Fee was based on \$1.75 per line equivalent, with the trunk line fee \$13.13 per month and the high-capacity trunk line fee \$236.25 per month.

\$35,000 for calendar year 2004. Additionally, the proposed 911 Fee legislation would reset the calendar year 2004 cap to \$40,000. As is the case currently, that annual cap would be inflation-adjusted in 2005 and subsequent years.

Chart R: 911 Fee Analysis

Total 911 System-Related Costs*	Estimated Eligible Costs Attributed to Non-Exempt Users	% of Total
\$ 44,256,693	\$ 36,733,055	83.0%

Cost Recovery - of Non-Exempt Costs Only	Cost Recovery - of Total Costs	\$ Per Line Equivalent Per Month	Estimated Incremental Revenue (US\$ millions) - From Non-Exempt Only, Annual
100%	83%	\$ 2.80	\$ 13.70
99%	82%	\$ 2.75	\$ 13.15 <--- Proposed
95%	79%	\$ 2.66	\$ 11.86
90%	75%	\$ 2.52	\$ 10.03
85%	71%	\$ 2.38	\$ 8.19
80%	66%	\$ 2.24	\$ 6.35
75%	62%	\$ 2.10	\$ 4.52
70%	58%	\$ 1.96	\$ 2.68
65%	54%	\$ 1.82	\$ 0.84
63%	52%	\$ 1.75	\$ - <--- Current Fee
60%	50%	\$ 1.68	\$ (0.99)
55%	46%	\$ 1.54	\$ (2.83)
50%	42%	\$ 1.40	\$ (4.67)
45%	37%	\$ 1.26	\$ (6.50)
40%	33%	\$ 1.12	\$ (8.34)

CY Annual Cap	Current	Proposed	CPI Adjusted from Prior CY	Annual CPI
2004	\$ 35,000	\$ 40,000	\$ 25,616	1.09%
2003			\$ 25,341	1.36%
2002	\$ 25,000		\$ 25,000	

Key Assumptions

Telephone Line Equivalents (Monthly) 1,319,238
 % of Telephone Lines Subject to Fee 83%
 *Not all costs are eligible, as some ECD costs are not related to the 911 system.

CPI - All Urban	Index	% Change from December 2001 Base
Dec-03	195.3	2.47%
Dec-02	193.2	1.36%
Dec-01	190.6	

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. The Downtown Park Fund's fund balance is shown in Chart S below. Chart S also outlines the Fund's financial activity for the most recent five-year period. At this time the projected FY 2003-04 year-end fund balance is projected to be \$2.81 million. The FY 2004-05 Proposed Budget includes a use of \$2.43 million for Neighborhood Parks & Squares.

Chart S: Downtown Park Fund (millions)

Fiscal Year	Original Budget		Estimated Fund Balance Available for Appropriation as of June 30
	Sources	Uses	
FY 2004-05 Proposed	\$ 2.43	\$ 2.43	\$ 0.38
FY 2003-04	\$ 1.20	\$ 1.20	\$ 2.81
FY 2002-03	\$ 0.90	\$ 0.90	
FY 2001-02	\$ 2.40	\$ 2.40	
FY 2000-01	\$ -	\$ -	

Detailed Sources & Uses	FY 2003-04 Revised Budget	FY 2004-05 Proposed Budget
SOURCES		
Fund Balance		
Project & Encumbrance Carryforwards	\$ 0.46	
Previously Unappropriated - But Assumed in Budget	1.20	\$ 2.43
Remaining Unappropriated	2.81	0.38
Total SOURCES	\$ 4.47	\$ 2.81
USES		
CRP776 - Downtown Park Fund	0.03	
CRP854 - Mid-Embarcadero Music Concourse	0.43	
CRPNPS - Open Space Neighborhood Parks & Squares	1.20	2.43
	\$ 1.66	\$ 2.43
Remaining Fund Balance - Available for Appropriation	\$ 2.81	\$ 0.38

VIII. CONCLUSION

In preparing this report, the Controller's Office conducted a thorough review of budgeted revenues. As additional information becomes available, and as we are able to verify State revenue allocations, we will advise the Board of those changes. Additionally, the Controller's Office will summarize the impact of any technical adjustments proposed by the Mayor. No technical adjustments to the FY 2004-05 Proposed Budget have been submitted to the Board by the Mayor's Office through Friday, June 11.

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,

ED HARRINGTON
Controller

Attachments:

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

cc: Mayor Gavin Newsom
Ben Rosenfield, Mayor's Budget Office
Gloria Young, Board of Supervisors, Clerk of the Board
Harvey Rose, Board of Supervisors, Budget Analyst

ATTACHMENT A

All Funds Revenue Comparison to Average California City and County

All Funds Sources of Fund	Sorted by Size			Average California	
	FY 2004-05 Mayor's Proposed Budget	% of Total	City	County	
Charges for Services	\$ 1,589,492,784	31.68%	37.25%	9.43%	
Property Tax	837,113,107	16.68%	6.85%	10.63%	
Intergovernmental - State	592,223,200	11.80%	8.06%	35.39%	
Other Local Taxes	445,944,971	8.89%	21.35%	3.13%	
Intergovernmental - Federal	313,962,089	6.26%	5.07%	19.57%	
Business Taxes	296,005,000	5.90%	2.01%	0.00%	(1)
Rents & Concessions	285,480,823	5.69%	0.00%	0.00%	(2)
Fines & Forfeitures	105,600,592	2.10%	1.06%	1.89%	
Other Financing Sources	87,296,406	1.74%	5.25%	0.51%	
Other Revenues	99,031,553	1.97%	6.43%	15.57%	(3)
Intergovernmental - Other	49,873,478	0.99%	0.60%	0.87%	
Interest & Investment	34,219,626	0.68%	4.70%	2.09%	
Licenses, Permits & Franchises	24,464,138	0.49%	1.37%	0.92%	
Recoveries	17,266,119	0.34%	0.00%	0.00%	(4)
Total Sources	4,777,973,886	95.23%	100.00%	100.00%	
PY Fund Balance	202,635,612	4.04%	0.00%	0.00%	(4)
PY Reserve	36,560,078	0.73%	0.00%	0.00%	(4)
	\$ 5,017,169,576	100.00%	100.00%	100.00%	

Source: California Controller Annual Reports. City data as of FY 2001-02, and County data as of FY 2000-01.

* 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

ATTACHMENT B

General Fund Revenue Comparison to Average California City and County

General Fund Sources of Fund	FY 2004-05		Average California*	
	Mayor's Proposed Budget	% of Total	City	County
Property Tax	\$ 642,959,107	27.63%	19.84%	12.23%
Intergovernmental - State	434,418,583	18.67%	12.23%	40.70%
Other Local Taxes	381,445,512	16.39%	52.41%	3.60%
Business Taxes	295,230,000	12.69%	5.83%	0.00% (1)
Intergovernmental - Federal	176,528,191	7.59%	0.43%	23.51% (2)
Transfers, Net	142,373,105	6.12%	0.00%	0.00% (3)
Charges for Services	101,686,330	4.37%	0.00%	10.85%
Other Revenues	30,819,526	1.32%	2.83%	2.90%
Rents & Concessions	21,857,580	0.94%	0.00%	0.00% (4)
Recoveries	17,266,119	0.74%	0.00%	0.00% (3)
Licenses, Permits & Franchises	16,131,917	0.69%	0.24%	1.06%
Fines & Forfeitures	12,010,903	0.52%	0.78%	2.17%
Interest & Investment	6,300,000	0.27%	5.42%	2.40%
Other Financing Sources	596,500	0.03%	0.00%	0.59% (5)
Total Sources	2,279,623,373	97.96%	100.00%	100.00%
PY Fund Balance	17,900,000	0.77%	0.00%	0.00% (4)
PY Reserve	29,560,078	1.27%	0.00%	0.00% (4)
	\$ 2,327,083,451	100.00%	100.00%	100.00%

Source: California Controller Annual Reports. City data as of FY 2001-02, and County data as of FY 2000-01.

* 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) Including Other Agencies
- (3) Not Applicable
- (4) Included in Interest & Investment
- (5) City Data - Not Applicable