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Controller
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June 15, 2005

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

**Re: Controller's Discussion of the Mayor's Fiscal Year 2005-06
Proposed Budget [Revenue Letter - Fiscal Year 2005-06]**

Dear Members of the Board:

On May 31, 2005, Mayor Gavin Newsom issued his FY 2005-06 Proposed Budget to the Board of Supervisors. Overall, the Mayor's FY 2005-06 General Fund Proposed Budget of \$2.44 billion reflects projected growth of \$107.50 million (4.6 percent) from the FY 2004-05 original budget. This growth is the result of 6.0 percent growth in regular annual revenues partially offset by lower net operating transfers of \$76.68 million from funds outside of the General Fund. The total FY 2005-06 Proposed Budget of \$5.31 billion reflects projected growth of \$283.66 million (5.6 percent). **The growth assumptions included in the Mayor's Proposed Budget appear to be reasonable given current trends including a continued, albeit lagging economic rebound for the Bay Area.**

This report provides a high-level budgetary overview with particular focus on the sources of funds included in the Mayor's Proposed Budget. This report also :

- analyzes sources of funds with emphasis on discretionary revenues, prior-year fund balance, prior-year reserves, key one-time revenues, key fee and fine changes, and State budget impact;
- provides high-level summaries of the two major General Fund subsidized departments, the Department of Public Health and the Human Services Agency;
- reports that Charter-mandated baselines and funding requirements are met;
- reports on department appropriations that the Controller is reserving pending further information; and
- summarizes selected analyses and annual reporting done by the Controller's Office, including the 911 Fee and the Downtown Park Fund.

While the Bay Area economy continues to be in an economic recovery, the gradual rebound in business activity has resulted in tempered growth for many of the local revenues. At the same time, citywide costs have continued to climb, in large part due to escalating employee benefit costs related to mandatory pension contributions and health coverage. Key revenue assumptions are detailed in this report and summarized on the following pages.

General Fund Sources of Funds include:

- \$128.94 million of tax, fee and other revenues growth - an overall 6.0 percent budget-to-budget growth in regular revenues for the General Fund including strength in Property Tax, Real Property Transfer Tax, Hotel Room Tax and Utility Users Tax with partially offsetting weakness in Business Taxes and lower Property Sales;
- \$34.07 million reduction in use of reserves as a budgetary source of funds – only \$2.49 million is assumed in the Mayor’s Proposed Budget, which includes \$2.00 million funding of Budget Savings Incentive Reserve and \$0.49 million Recreation and Park’s Savings Reserve;
- an assumption that \$13.9 million of the Governor’s proposed State revenue cuts will be backfilled by the Legislature. If the State budget does not change, the City would need to cut or the Controller would need to reserve programmatic spending of up to \$13.9 million to cover the difference (a detailed list is provided on page 22); and
- an assumption that \$22.9 million in the Governor’s proposed State revenue add-backs will be adopted by the Legislature. If the Legislature makes reductions to these add-backs, the City would need to cut or the Controller would need to reserve programmatic and discretionary spending of up to \$22.9 million to cover any cuts (a detailed list is provided on page 22).

All Funds Sources of Funds (inclusive of the General Fund) include:

- \$5.31 billion of total sources for All Funds, an increase of \$283.66 million (5.6 percent);
- \$252.69 million (5.3 percent) of regular revenues growth for All Funds, including \$123.75 million (4.9 percent) increase for non-General Fund funds¹;
- \$65.04 million (31.2 percent) increase in All Funds prior-year fund balance; and
- \$34.07 million reduction in use of reserves as a budgetary source of funds – only \$2.49 million is assumed in the Mayor’s Proposed Budget, which includes \$2.00 million funding of Budget Savings Incentive Reserve and \$0.49 million Recreation and Park’s Savings Reserve.

Technical adjustments made through June 10 have been noted as have Budget Committee actions related to the MTA and PUC budgets in the applicable sections of this report.

¹Non-General Fund includes special revenue funds, capital project funds, debt service funds, enterprise funds, internal service funds, expendable trust and fiduciary funds.

**Controller's Discussion of the Mayor's Fiscal Year 2005-06 Proposed Budget
[Revenue Letter – FY 2005-06]**

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

Overall, the Mayor's FY 2005-06 Proposed Budget has increased 4.6 and 5.6 percent for the General Fund and All Funds budgets respectively. This includes current-year regular revenue growth of 6.0 percent in the General Fund and 5.3 percent for the All Funds budget.

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

(US\$ millions)

General Fund							
	FY 2004-05		FY 2005-06		Change		
	Original Budget	Mayor's Proposed			\$	%	
Prior-Year							
Fund Balance	\$ 26.27	\$ 115.58	\$ 89.31	340.0%			
Reserves	36.56	2.49	(34.07)	-93.2%			
Subtotal	62.83	118.07	55.24	87.9%			
Current-Year							
Regular Revenues	2,137.28	2,266.22	128.94	6.0%			
Transfers, net	136.23	59.55	(76.68)	-56.3%			
Subtotal	2,273.51	2,325.76	52.26	2.3%			
Total Sources	\$ 2,336.34	\$ 2,443.83	\$ 107.50	4.6%			

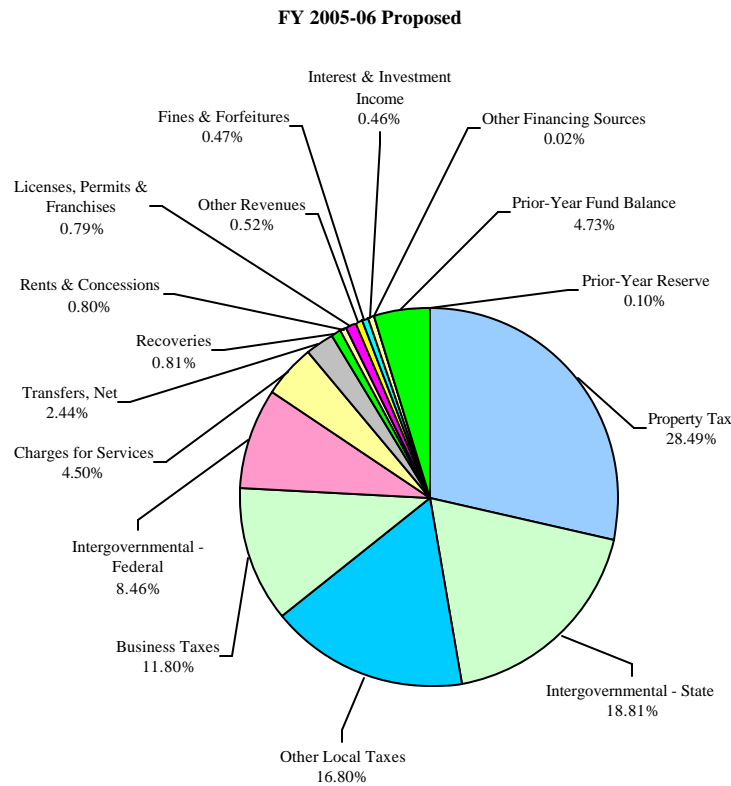
All Funds including General Fund							
	FY 2004-05		FY 2005-06		Change		
	Original Budget	Mayor's Proposed			\$	%	
Prior-Year							
Fund Balance	\$ 203.61	\$ 268.65	\$ 65.04	31.9%			
Reserves	36.56	2.49	(34.07)	-93.2%			
Subtotal	240.18	271.14	30.97	12.9%			
Current-Year							
Regular Revenues	4,783.13	5,035.82	252.69	5.3%			
Transfers, net	n/a	n/a	n/a	n/a			
Subtotal	4,783.13	5,035.82	252.69	5.3%			
Total Sources	\$ 5,023.30	\$ 5,306.96	\$ 283.66	5.6%			

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

	FY 2004-05 AAO	FY 2005-06 AAO	Change	
Property Tax	\$ 645.50	\$ 696.34	\$ 50.85	7.9%
Intergovernmental - State	434.12	459.60	25.48	5.9%
Other Local Taxes	381.45	410.66	29.22	7.7%
Business Taxes	295.23	288.32	(6.91)	-2.3%
Intergovernmental - Federal	176.06	206.79	30.73	17.5%
Charges for Services	101.59	110.00	8.42	8.3%
Recoveries	18.18	19.77	1.58	8.7%
Rents & Concessions	21.86	19.58	(2.27)	-10.4%
Licenses, Permits & Franchises	16.13	19.25	3.12	19.3%
Other Revenues	28.17	12.64	(15.53)	-55.1%
Fines & Forfeitures	12.11	11.48	(0.64)	-5.2%
Interest & Investment	6.30	11.18	4.88	77.5%
Other Financing Sources	0.60	0.60	-	0.0%
Regular Revenues	<u>\$2,137.28</u>	<u>\$2,266.22</u>	<u>\$128.94</u>	<u>6.0%</u>
Transfers, Net	136.23	59.55	(76.68)	-56.3%
Prior-Year Fund Balance	26.27	115.58	89.31	340.0%
Prior-Year Reserve	36.56	2.49	(34.07)	-93.2%
Total Sources	<u><u>\$ 2,336.34</u></u>	<u><u>\$ 2,443.83</u></u>	<u><u>\$ 107.50</u></u>	<u><u>4.6%</u></u>

Summary of Sources – General Fund² (US\$ millions)

General Fund		Sorted by Size		
Sources of Funds	FY 2004-05 Original Budget	FY 2005-06 Mayor's Proposed	FY 2005-06 % of Total	
Property Tax	\$645.50	\$696.34	28.49%	
Intergovernmental - State	434.12	459.60	18.81%	
Other Local Taxes	381.45	410.66	16.80%	
Business Taxes	295.23	288.32	11.80%	
Intergovernmental - Federal	176.06	206.79	8.46%	
Charges for Services	101.59	110.00	4.50%	
Recoveries	18.18	19.77	0.81%	
Rents & Concessions	21.86	19.58	0.80%	
Licenses, Permits & Franchises	16.13	19.25	0.79%	
Other Revenues	28.17	12.64	0.52%	
Fines & Forfeitures	12.11	11.48	0.47%	
Interest & Investment Income	6.30	11.18	0.46%	
Other Financing Sources	0.60	0.60	0.02%	
Regular Revenues	\$2,137.28	\$2,266.22	92.73%	
Transfers, Net	136.23	59.55	2.44%	
Prior-Year Fund Balance	26.27	115.58	4.73%	
Prior-Year Reserve	36.56	2.49	0.10%	
Total Sources	\$2,336.34	\$2,443.83	100.00%	



² A summary comparison of the City's sources to the typical California city and county is attached – Attachment A.

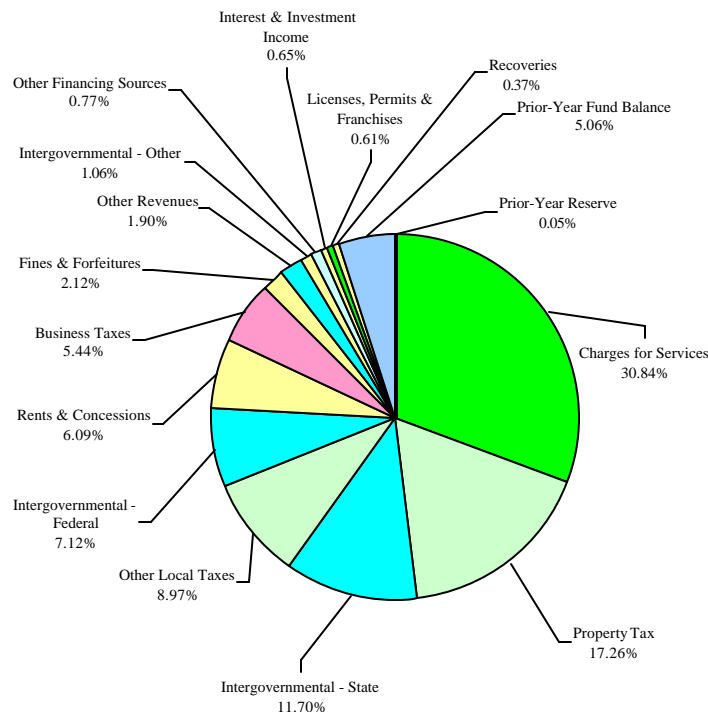
Budget-to-Budget Sources Comparison – All Funds (US\$ millions)

	<u>FY 2004-05 AAO</u>	<u>FY 2005-06 AAO</u>	<u>Change</u>	
Charges for Services	\$ 1,591.24	\$ 1,636.69	\$ 45.45	2.9%
Property Tax	839.65	916.03	76.38	9.1%
Intergovernmental - State	591.92	620.70	28.78	4.9%
Other Local Taxes	445.94	475.87	29.93	6.7%
Intergovernmental - Federal	316.18	377.64	61.46	19.4%
Rents & Concessions	285.48	323.29	37.81	13.2%
Business Taxes	296.01	288.87	(7.14)	-2.4%
Fines & Forfeitures	105.70	112.36	6.66	6.3%
Other Revenues	96.44	100.75	4.31	4.5%
Intergovernmental - Other	49.87	56.36	6.49	13.0%
Other Financing Sources	87.31	40.63	(46.68)	-53.5%
Interest & Investment	34.66	34.26	(0.40)	-1.2%
Licenses, Permits & Franchises	24.46	32.61	8.14	33.3%
Recoveries	18.27	19.77	1.50	8.2%
Regular Revenues	\$4,783.13	\$5,035.82	\$252.7	5.3%
Prior-Year Fund Balance	203.61	268.65	65.04	31.9%
Prior-Year Reserve	36.56	2.49	(34.07)	-93.2%
Total Sources	<u>\$5,023.30</u>	<u>\$5,306.96</u>	<u>\$ 283.66</u>	<u>5.6%</u>

Summary of Sources – All Funds³ (US\$ millions)

All Funds	Sorted by Size		
	FY 2004-05 Original Budget	FY 2005-06 Mayor's Proposed	FY 2005-06 % of Total
Sources of Funds			
Charges for Services	\$1,591.24	\$1,636.69	30.84%
Property Tax	839.65	916.03	17.26%
Intergovernmental - State	591.92	620.70	11.70%
Other Local Taxes	445.94	475.87	8.97%
Intergovernmental - Federal	316.18	377.64	7.12%
Rents & Concessions	285.48	323.29	6.09%
Business Taxes	296.01	288.87	5.44%
Fines & Forfeitures	105.70	112.36	2.12%
Other Revenues	96.44	100.75	1.90%
Intergovernmental - Other	49.87	56.36	1.06%
Other Financing Sources	87.31	40.63	0.77%
Interest & Investment Income	34.66	34.26	0.65%
Licenses, Permits & Franchises	24.46	32.61	0.61%
Recoveries	18.27	19.77	0.37%
Regular Revenues	\$4,783.13	\$5,035.82	94.89%
Prior-Year Fund Balance	203.61	268.65	5.06%
Prior-Year Reserve	36.56	2.49	0.05%
Total Sources	\$5,023.30	\$5,306.96	100.00%

FY 2005-06 Proposed



³ A summary comparison of the City's sources to the typical California city and county is attached – Attachment B.

II. SOURCES OF FUNDS

Charter Section 9.102 requires that the Controller “provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates [in the Mayor’s Proposed Budget] and the reasonableness of such estimates and revisions.” The Controller’s Office and the Mayor’s Budget Office have worked together to prepare the Mayor’s Proposed Budget revenue estimates. On May 31, 2005, Mayor Gavin Newsom issued his FY 2005-06 Proposed Budget to the Board of Supervisors. The most recent Joint Report, which was published in March 2005, included a projected shortfall of \$102.2 million for FY 2005-06. The Mayor’s FY 2005-06 Proposed Budget closes the \$102.2 million shortfall primarily with savings and increased revenue (some of which are one-time in nature) in FY 2004-05, along with higher revenue growth than was previously assumed in the March 2005 estimates.

The sources of funding estimates are largely based on the Joint Report issued by the Mayor’s Budget Office, the Controller’s Office, and the Board of Supervisors’ Budget Analyst and the Controller’s Nine-Month Report. In addition, the Mayor’s Proposed Budget 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, as well as enterprise revenue projections.

Overall, discretionary revenues budgeted in the General Fund are projected to grow 2.4 percent from the FY 2004-05 estimated year-end levels as summarized in Chart A on the following page.

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

	FY 2004-05		FY 2005-06		
	Original Budget	Year-end Projection	Mayor's Proposed Budget	% Change from PY Budget Projection	
Property Taxes (1)	\$645.50	\$ 676.20	\$ 696.34	7.9%	3.0%
Business Taxes	295.23	278.00	288.32	-2.3%	3.7%
Sales Tax	90.93	96.46	102.78	13.0%	6.6%
Utility Users Tax	66.29	68.85	70.92	7.0%	3.0%
Property Transfer Tax	70.00	114.50	80.00	14.3%	-30.1%
Hotel Room Tax (2)	94.42	110.28	121.41	28.6%	10.1%
Parking Tax	32.13	31.84	33.12	3.1%	4.0%
Public Safety Sales Tax	62.87	66.67	70.00	11.3%	5.0%
VLF Gap Loan Repayment (50%)	-	-	14.87	n/a	n/a
Prop J & K (Sales & Gross Receipts Tax)	25.00	-	-	-100.0%	n/a
Total - Discretionary Revenues	\$1,382.37	\$ 1,442.80	\$ 1,477.77	6.9%	2.4%
\$ Change from Prior Column		\$ 60.43	\$ 34.97		

NOTES

(1) The proposed budget is adjusted for growth in assessed valuation, delinquencies, projected assessment appeals and estimated tax increment required for Redevelopment Agency projects.

(2) Includes both General Fund Unallocated (discretionary) and General Fund Allocated Hotel Room Tax revenues. Of the \$121.41 million budgeted in FY 2005-06, \$97.14 million is Unallocated (discretionary). Of the \$94.42 million budgeted in FY 2004-05, \$70.15 million was Unallocated (discretionary).

Discussion of Budget Estimates for General Fund Discretionary Revenues

Property Taxes: The General Fund share of property tax revenue in FY 2005-06 is projected to grow to \$696.34 million (7.9 percent) over the prior-year budget, or 3.0 percent from FY 2004-05 year-end projection. Approximately 57 percent of Property Taxes accrue to the General Fund. The remainder is either shifted to Schools under the State's ERAF program (approximately 25 percent), the City's Library Preservation, Children's or Open Space funds, or accrues to other local jurisdictions such as BART, the San Francisco Unified School District, and the San Francisco Community College. In addition to the Proposition 13's one percent countywide rate, debt service related to voter-approved bonds is paid from a property tax rate add-on, as calculated annually by the Controller. This add-on was 0.144 percent for FY 2004-05 for a total property tax rate of 1.144 percent.

A portion of property tax is also allocated to the Redevelopment Agency⁴ related to the degree assessment valuations have grown in established redevelopment project areas. The Redevelopment Agency's budget is largely funded through property tax allocations, which would otherwise accrue to the General Fund and other taxing entities. For FY 2005-06, tax increment funding allocated to the Redevelopment Agency is projected to increase to \$70.56 million from \$55.19 million in FY 2004-05 – a \$15.37 million increase. The incremental impact to the General Fund of this \$15.37 million increase is \$9.5 million (57% of property tax increment). Of the total \$70.56 million, the net impact to the General Fund is \$40.00 million.

Preliminary working roll estimates from the Assessor's Office indicate that the FY 2005-06 secured tax roll is likely to increase between 5.5 to 6.5 percent from the FY 2004-05 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 2004-05 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 Agency and major transactions. Finally, changes due to State budgetary shifts, like ERAF, are considered.

Property tax delinquencies decreased from prior-recession highs of 4.02 percent to 1.38 percent for FY 2003-04, 1.61 percent for FY 2004-05. The Mayor's FY 2005-06 Proposed Budget includes assumed delinquency rate of 1.57 percent – in line with recent experience and an improving economy.

Business Taxes: Business taxes are budgeted at \$288.32 million, which is \$6.91 million (2.3 percent) lower than the \$295.23 million budgeted in FY 2004-05. However, this would still represent a 3.7 percent increase compared to FY 2004-05 year-end projections. This proposed budget is based on slow growth in employment with moderate wage increases tied to cost of living adjustments and increased collections of delinquent revenues.

⁴ The gross tax increment assumed for the Redevelopment Agency is \$70.56 million in FY 2005-06, compared to \$55.19 million in FY 2004-05, \$38.23 million in FY 2003-04, and \$43.53 million in FY 2002-03.

Business tax revenue is comprised of business license registration fees and payroll taxes with the latter being the predominant source. The revenue reduction reflects a lagging recovery in jobs growth in the Bay Area. For the 2004 calendar year, employment growth did occur throughout the year, though average annual employment was negative year-over-year for our region. Labor growth assumed in the prior-year budget did not materialize as originally assumed so the Mayor's Proposed Budget includes a lower starting base.

On a related note, the Mayor's FY 2005-06 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 2005-06 debt service on the judgement bonds is \$6.75 million, compared to \$6.77 million in FY 2004-05. The judgement bonds are fixed rate and payable through FY 2010-11, assuming no prepayment or subsequent refunding occurs.

Sales Tax: Sales tax in FY 2005-06 is expected to generate \$102.78 million in revenue up by \$6.32 million (6.6 percent) from the FY 2004-05 year-end projection, or \$11.85 million (13.0 percent) from FY 2004-05 original budget. Sales activity in San Francisco has been positive for all quarters in 2004 whereas the 9-county Bay Area has witnessed positive activity since the fourth quarter of 2003 and the State since the third quarter of 2002. San Francisco sales tax continues to be more dependent on tourism than most other cities in California; any sustained increase will be dependent on tourism, business travel and jobs growth. Chart B summarizes the most up-to-date sales tax activity for San Francisco, the Bay Area and California. The January through March 2005 quarter actuals will be available in the middle of June, whereas actuals for the April through June 2005 quarter will be available in September.

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

Fiscal Year	Calendar Quarter	San Francisco	9 County Bay Area	California
FY 2004-05	2004 Q4 *	1.60%	7.69%	11.36%
	2004 Q3	0.78%	1.67%	4.93%
FY 2003-04	2004 Q2	8.39%	6.61%	7.68%
	2004 Q1*	3.00%	8.00%	10.19%
	2003 Q4*	-0.84%	2.84%	4.23%
	2003 Q3	-1.55%	-1.40%	2.52%
FY 2002-03	2003 Q2	-3.30%	-2.30%	5.00%
	2003 Q1	-1.98%	-3.01%	4.61%
	2002 Q4	-1.70%	-4.40%	0.80%
	2002 Q3	-5.00%	-3.10%	3.10%
FY 2001-02	2002 Q2	-9.70%	-8.40%	-1.30%
	2002 Q1	-17.80%	-12.70%	-3.70%
	2001 Q4	-17.00%	-13.50%	-2.00%
	2001 Q3	-20.30%	-11.50%	-1.20%

* San Francisco growth column has been adjusted to reflect estimated underlying sales activity. Growth in cash collections may differ due to prior quarter allocation adjustments.

Utility Users Tax: Utility users tax is projected to generate \$70.92 million, a 7.0 percent increase from the prior-year budget, which reflects underlying rate changes and commodity prices.

Real Property Transfer Tax: Real property transfer tax is budgeted at \$80.00 million, which is \$10.00 million (14.3 percent) more than the FY 2004-05 budget level of \$70.00 million. However, the Proposed Budget is significantly lower than FY 2004-05 year-end projection of \$114.50 million. FY 2004-05 had unprecedented sales activity in the commercial real estate transactions, with projected revenues \$44.50 million better than budget and also \$8.00 million better than the 9-Month Projection. Since large commercial buildings are typically bought and held by investors for a number of years, FY 2004-05 levels, which are partly fueled by historically low interest rates, are not sustainable in the long run. The Controller's Office monitors collection rates closely and provides updates on this revenue source throughout the fiscal year. For FY 2005-06 \$80.0 million estimate appears to be reasonable and consistent with an increasing interest-rate environment given the large number of transactions that occurred in late FY 2003-04 and throughout FY 2004-05.

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

Fiscal Year	Total General Fund Revenue	Annual Growth	
		\$ Change	% Change
FY 1985-86	\$ 18.79		
FY 1986-87	19.06	\$ 0.27	1.4%
FY 1987-88	19.19	0.13	0.7%
FY 1988-89	24.79	5.60	29.2%
FY 1989-90	20.72	(4.07)	-16.4%
FY 1990-91	13.70	(7.02)	-33.9%
FY 1991-92	13.80	0.10	0.8%
FY 1992-93	13.07	(0.73)	-5.3%
FY 1993-94	15.86	2.79	21.4%
FY 1994-95	20.04	4.18	26.4%
FY 1995-96	22.97	2.93	14.6%
FY 1996-97	33.57	10.61	46.2%
FY 1997-98	44.01	10.43	31.1%
FY 1998-99	56.13	12.13	27.6%
FY 1999-00	69.88	13.75	24.5%
FY 2000-01	62.34	(7.55)	-10.8%
FY 2001-02	47.27	(15.07)	-24.2%
FY 2002-03	51.48	4.21	8.9%
FY 2003-04	78.90	27.43	53.3%
Projected FY 2004-05	114.50	35.60	45.1%
Proposed Budget FY 2005-06	80.00	(34.50)	-30.1%

Hotel Room Tax: Hotel room tax revenue is estimated to be \$170.11 million (All Funds and Redevelopment Agency) in FY 2005-06, which is 18.9 percent increase budget to budget, or 7 percent increase from FY 2004-05 year-end projections. The projected increase represents underlying growth of 7 percent after factoring in average daily room rates and occupancy trends. The Mayor's FY 2005-06 Proposed Budget reflects General Fund growth of 10.1 percent since

most other allocations are frozen at FY 2004-05 levels. The Mayor's Proposed Budget continues to assume that the Redevelopment Agency will cover the Low-Income Housing Allocation obligation, as was the case in FY 2004-05, thereby freeing up \$5.90 million for allocation to the General Fund.

Hotel room tax revenue growth is a function of changes in occupancy, average daily room rates and room supply. Hotel occupancy rates have been strengthening especially from a growing rebound in tourism during FY 2004-05 giving way to pricing power and related average daily room revenue growth. The Mayor's Proposed Budget assumes continued economic strengthening, including occupancy growth of 3 to 4 percent, average daily room rate growth of 3 to 4 percent, relatively flat net room supply and 3 to 4 percent growth in 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 32 percent. Chart D illustrates total hotel room tax revenue (including both allocated and discretionary) since FY 1978-79.

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

Fiscal Year	Total Hotel Tax Revenue [1]	Annual Growth		% Adjusted for Tax Rate Change
		\$ Change	% Change	
FY 1978-79	\$ 19.01			
FY 1979-80	23.82	\$ 4.80	25.3%	25.3%
FY 1980-81	32.56	8.74	36.7%	14.8%
FY 1981-82	36.86	4.30	13.2%	13.2%
FY 1982-83	35.27	(1.59)	(4.3%)	(4.3%)
FY 1983-84	38.32	3.05	8.7%	8.7%
FY 1984-85	44.71	6.39	16.7%	16.7%
FY 1985-86	47.98	3.27	7.3%	7.3%
FY 1986-87	53.10	5.12	10.7%	4.3%
FY 1987-88	60.92	7.82	14.7%	8.7%
FY 1988-89	67.10	6.18	10.1%	10.1%
FY 1989-90	63.41	(3.69)	(5.5%)	(5.5%)
FY 1990-91	69.56	6.14	9.7%	9.7%
FY 1991-92	72.03	2.47	3.6%	3.6%
FY 1992-93	76.25	4.21	5.9%	5.9%
FY 1993-94	86.48	10.23	13.4%	5.5%
FY 1994-95	94.10	7.62	8.8%	7.8%
FY 1995-96	102.96	8.86	9.4%	9.4%
FY 1996-97	137.65	34.69	33.7%	18.4%
FY 1997-98	150.16	12.51	9.1%	7.9%
FY 1998-99	161.52	11.36	7.6%	7.6%
FY 1999-00	182.10	20.58	12.7%	12.7%
FY 2000-01	188.38	6.28	3.4%	3.4%
FY 2001-02	132.23	(56.15)	(29.8%)	(29.8%)
FY 2002-03	128.59	(3.64)	(2.7%)	(2.7%)
FY 2003-04	135.02	6.43	5.0%	5.0%
Projection FY 2004-05	158.98	23.96	17.7%	17.7%
Proposed FY 2005-06	170.11	11.13	7.0%	7.0%

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

The amount of hotel room tax budgeted in the General Fund is \$121.41 million, of which \$97.14 million is unallocated or discretionary. Chart E below illustrates how the hotel room tax revenues

are allocated pursuant to the Municipal Code as well as the Mayor's FY 2005-06 Proposed Budget. As in the previous year, the Proposed Budget included hotel room tax allocation changes (as provided under the Municipal Code) as part of the Administrative Provisions of the Annual Appropriation Ordinance.

Chart E: Hotel Room Tax Revenue Allocation, FY 2005-06 (US\$ millions)

	FY 2005-06 Municipal Code		FY 2005-06 Mayor's Proposed	
	\$ Allocation	%	\$ Allocation	%
General Fund Unallocated (discretionary)	\$ 73.04	42.9%	\$ 97.14	57.1%
Moscone / Convention Facilities	37.03	21.8%	26.82	15.8%
Grants for the Arts	17.10	10.0%	13.03	7.7%
War Memorial & Performing Arts	10.11	5.9%	8.41	4.9%
Convention & Visitors Bureau	8.80	5.2%	7.32	4.3%
Yerba Buena Gardens (SFRA)	5.55	3.3%	5.55	3.3%
Fine Arts Museum	5.34	3.1%	4.44	2.6%
Cultural Equity Endowment	2.33	1.4%	1.94	1.1%
Asian Art Museum	2.12	1.2%	1.76	1.0%
Cultural Centers	2.06	1.2%	1.71	1.0%
Academy of Sciences	-	0.0%	1.27	0.7%
Low-Income Housing Programs	6.50	3.8%	0.60	0.4%
Administration (Tax Collector)	0.15	0.1%	0.12	0.1%
TOTAL	\$ 170.11	100%	\$ 170.11	100.0%
Budgeted in General Fund	\$ 102.13	60.0%	\$ 121.41	71.4%
Budgeted outside of the General Fund	67.98	40.0%	48.70	28.6%
	\$ 170.11	100.0%	\$ 170.11	100.0%
Budgeted in CCSF	\$ 164.56	96.7%	\$ 164.56	96.7%
Budgeted in SFRA (Redevelopment)	5.55	3.3%	5.55	3.3%
	\$ 170.11	100.0%	\$ 170.11	100.0%

Parking Tax: Parking tax is expected to increase \$0.99 million (3.1 percent) compared to prior-year budget of \$32.13 million, or a 4.0 percent increase over FY 2004-05 year-end projection of \$31.84 million, which is slightly under budget. This projected level of growth assumes a gradual economic recovery during FY 2005-06 as well as previously approved parking rate increases. Continued compliance by operators as a result of collection efforts by the Treasurer/Tax Collector are also factored into this growth estimate. Parking tax is highly correlated to business activity and employment, which are rebounding slowly. The amount in Chart A includes only the portion of the parking tax accruing to the General Fund. 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: The Mayor's FY 2005-06 Proposed Budget for Public Safety Sales Tax (Proposition 172) is projected to grow 11.3 percent budget to budget, or 5.0 percent budget to FY 2004-05 year-end projection. These revenues are allocated to counties by the State separately from local sales tax discussed on page 12. 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 subventions proposed for FY 2005-06 are projected to increase 4.1 percent compared to FY 2004-05 year-end projection of \$6.65 million. Additionally, the Governor has proposed an early repayment of \$14.87 million related to the Vehicle License Fee (VLF) gap loan (remittances previously deferred by the State to local governments). This represents approximately 50 percent of the City's receivable from the State for prior-year VLF revenue previously shifted by the State to their own General Fund. Vehicle License Fee revenues were diverted by the State in FY 2003-04.

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 2004-05 year-end surplus will not be finalized until the independent audit is completed around November 2005. Given actual revenue collections through May (Real Property Transfer Tax in particular) along with an anticipated lower draw on the Rainy Day Reserve and planned project and reserve close-outs, the Mayor's FY 2005-06 Proposed Budget prior-year fund balance amount is \$115.58 million, which is \$8.62 million less than the \$124.20 million reported in the Nine-Month Report. The assumptions are included below.

Chart F: FY 2004-05 Projected Year-End Surplus Fund Balance Available to Support The Mayor's FY 2005-06 Proposed Budget (US\$ millions)

General Fund	Proposed FY 2005-06
Nine-Month Report Fund Balance Projection	\$ 124.20
Lower Draw on Rainy Day Reserve in FY 2004-05 given Surplus Revenue News	(16.45)
Post 9-Month Report - Additional Changes	
Real Property Transfer Tax - Continued Strength in Commercial Sales	8.00
Offsetting Decrease in Draw on Rainy Day Reserve in FY 2004-05	(8.00)
Baseline Obligation for Library & MTA	(0.90)
Operating Savings	4.63
Project & Reserve Closeouts	4.10
Total Surplus/Fund Balance Available for Appropriation	\$ 115.58

The Mayor's Proposed Budget also includes an estimated \$153.07 million in fund balance for funds other than the General Fund. Of this total, \$129.38 million represents funding for enterprise departments, \$21.90 million for departments supported in whole or part through Special Revenue funding, \$1.53 million of general government capital funds, and the remaining \$0.26 million related to Gift Funds.

Prior-Year Reserves

The Mayor's FY 2005-06 Proposed Budget includes \$2.49 million in reserves established in prior years. A summary of these reserved funds is outlined in Chart G below.

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

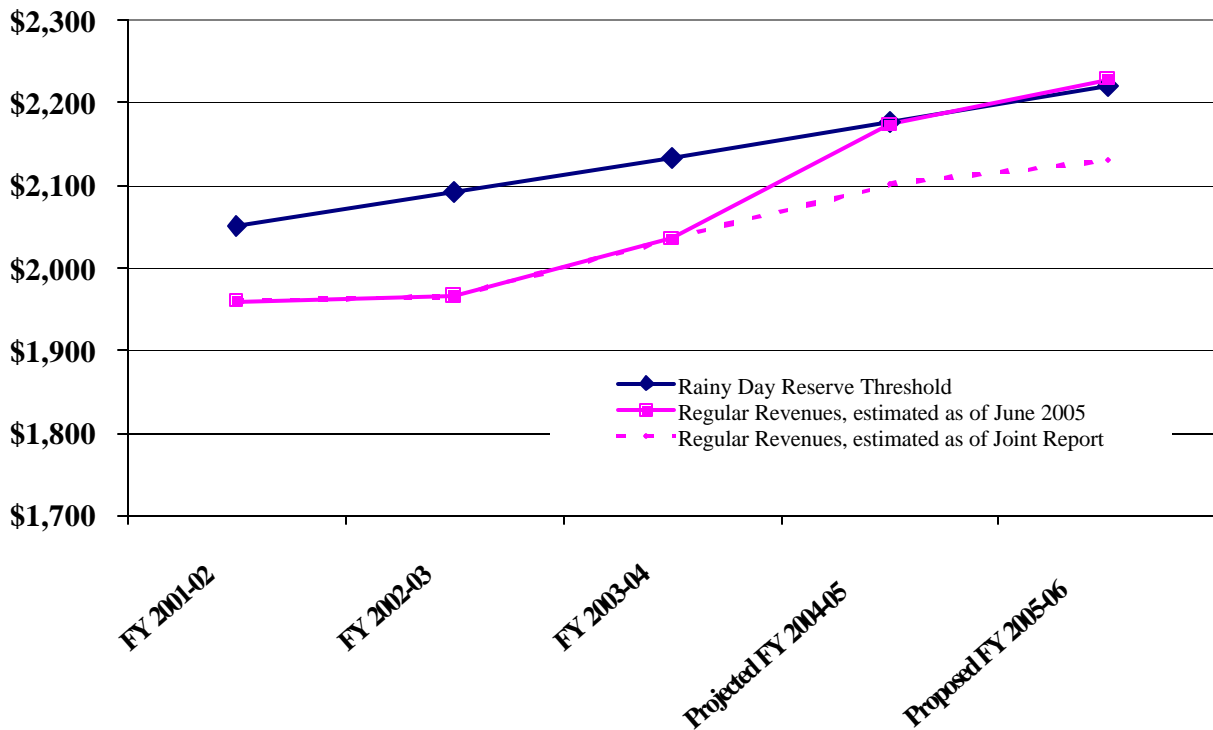
	FY 2005-06 Proposed		
	General Fund	Other Funds	All Funds
Budget Savings Incentive Reserve	\$ 2.00	\$ -	\$ 2.00
Rec & Park's Savings Reserve	0.49	-	0.49
Total	\$ 2.49	\$ -	\$ 2.49

Budget Savings Incentive Reserve: Administrative Code Section 3.17 requires that the greater of \$2.00 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 Mayor's FY 2005-06 Proposed Budget includes the projected balance of \$2.00 million to fund one-time technology and equipment upgrades targeted at increasing operating efficiencies.

Recreation & Park's Savings Reserve: The Mayor's Proposed Budget also includes the use of the projected \$0.49 million in Recreation & Park's net expenditure savings outlined in the Nine-Month Report. Under Section 16.107 of the San Francisco Charter, savings must be retained by the Recreation & Park Department and be dedicated to one-time expenditures. The Mayor's Proposed Budget includes a number of proposed expenditures far exceeding this \$0.49 million for capital, technology and equipment at the Recreation & Park Department in FY 2005-06.

Rainy Day Reserve: The Mayor’s Proposed Budget assumes no use of the Rainy Day Reserves in FY 2005-06. Additionally, while the FY 2004-05 budget assumed that the City would use \$27.57 million in Rainy Day Reserves, due to stronger revenue growth (in Real Property Transfer Tax in particular) the projected use is now estimated to be only \$3.12 million. This results in \$24.45 million of savings that will stay in the Rainy Day Reserve and be available for the next economic downturn. The Unified School District (USD) is projected to use their entire \$7.00 million that was included in the FY 2004-05 budget. A summary graph and chart of revenue growth and Rainy Day Reserve thresholds by fiscal year is provided below.

Chart H: Rainy Day Reserve
Lower Draw Projected for FY 2004-05 & No Anticipated Draw for FY 2005-06
 (US\$ millions)



	Policy Adjusted Revenues	Rainy Day Threshold, Peak +2%	Difference b/n Threshold & Policy Adj Rev	RDR Withdrawals		
				CCSF	USD	Balance
Prior Peak ... FY 2000-01	\$ 2,011.35	\$ -	\$ -			
FY 2001-02	1,959.95	2,051.57	(91.63)			
FY 2002-03	1,965.86	2,092.61	(126.74)			
FY 2003-04	2,035.99	2,134.46	(98.47)			\$ 55.14
Budget FY 2004-05	2,101.77	2,177.15	(75.38)	\$ (27.57)	\$ (7.00)	\$ 20.57
Projected FY 2004-05	2,174.03	2,177.15	(3.12)	\$ (3.12)	\$ (7.00)	\$ 45.02
Proposed FY 2005-06	2,228.85	2,220.69	8.16	\$ -	\$ -	\$ 45.02

While the Mayor’s Proposed Budget assumes no use of the Rainy Day Reserve in FY 2005-06 for either the City or the Schools, public education funding does have an additional \$10 million in new funding as required under Proposition H (March 2004), wherein a new baseline requirement for the Public Education Enrichment Fund was enacted.

Key One-Time Revenues & Transfers-In

The Mayor's FY 2005-06 Proposed Budget includes a number of one-time sources other than Prior-Year Fund Balance and 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 2004-05 budget included \$39.63 million in one-time General Fund sources and \$5.38 million in non-General Fund sources versus the \$31.51 million and \$1.84 million outlined below, respectively.

**Chart I: Key One-Time, Departmental Regular Revenues & Transfers-In
 Included in the Mayor's FY 2005-06 Proposed Budget
 (US\$ millions)**

	FY 2005-06 Proposed		
	General Fund	Non- General Fund	Total
Vehicle License Fee Repayment for the State	\$ 14.87	\$ -	\$ 14.87
Sales of Buildings & Land	7.75	-	7.75
Fines, Penalties & Settlements	6.00	-	6.00
Prior-year Federal Title IVE Foster Childcare Waiver	1.52	-	1.52
Gifts & Private Grants	0.20	1.84	2.04
One-Time Revenue Subtotal	\$ 30.34	\$ 1.84	\$ 32.18
Transfers			
From Building Inspection	1.17	-	1.17
Total - Key One-Time Revenue & Transfer Sources	\$ 31.51	\$ 1.84	\$ 33.34

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

The Mayor's FY 2005-06 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 included in FY 2005-06 Proposed Budget
 (US\$ millions)

Description	Dept	Amount in FY 2004-05 Adopted Budget	FY 2004-05 Projection - Annualized	Amount in FY 2005-06 Proposed Budget	Incremental Fee Revenue Assumed in FY 2005-06 F=E-D
A	B	C	D	E	F=E-D
GENERAL FUND SUPPORTED					
Emergency Medical Service Fees	Fire	\$ 15.23	\$ 14.07	\$ 19.33	\$ 5.26
Garage Rates (as set by MTA)	Rec & Park	7.18	5.47	7.18	1.71
Patient Rates	Public Health	463.59	463.59	464.59	1.00
Right-of-way Assessment	Public Works	1.39	1.54	2.39	0.85
Long-Range Planning Surcharge (New)	City Planning	-	-	0.80	0.80
Encroachment Assessment Fee (New)	Public Works	-	-	0.38	0.38
Delinquent Revenue Administrative Fee (New)	Tax Collector	-	-	0.19	0.19
High Rise Inspection Fee	Fire	0.88	0.80	0.98	0.19
Recovery for Street Fair	Police	0.18	0.07	0.25	0.18
Permit Appeals Board Surcharge	Board of Appeals	0.41	0.33	0.49	0.16
DUI Emergency Response Cost Recovery (New)	Police	-	-	0.15	0.15
Camp Mather Fees	Rec & Park	1.45	1.45	1.60	0.14
Aquatics Fees	Rec & Park	0.25	0.27	0.40	0.13
Community Court Fees (New)	District Attorney	-	-	0.10	0.10
Disability Access Review Fee (New)	Admin Services	-	-	0.10	0.10
BOS - Planning Appeals Surcharge (New)	Board of Supervisors	-	-	0.06	0.06
Return Check Fees	Tax Collector	0.21	0.13	0.18	0.05
Adult Athletics	Rec & Park	0.30	0.38	0.40	0.03
Overtime Fee (Building Inspection)	Fire	0.38	0.61	0.50	(0.11)
Rent Board Fee	Rent Board	3.58	3.54	3.34	(0.20)
	Subtotal	\$ 495.04	\$ 492.25	\$ 503.41	\$ 11.16
OTHER FUNDS					
Wastewater/Sewer Charges (+13%)	PUC - Wastewater	\$ 145.56	\$ 146.52	\$ 165.20	\$ 18.68
Retail Water Rates (+15% Retail)	PUC - Water	73.00	72.81	83.95	11.14
MUNI Fares	MUNI	121.93	121.93	131.32	9.39 (1)
Parking Meters	Parking & Traffic	16.35	14.91	20.78	5.87 (1)
Parking Fines	MUNI	85.65	85.65	90.15	4.51 (1)
Neighborhood Parking Permits	Parking & Traffic	2.96	2.81	5.44	2.63 (1)
Golf Fees (Harding & Golden Gate Park)	Rec & Park	5.02	4.85	5.53	0.68
Apartment License Fee	Building Inspection	3.40	3.40	4.00	0.60
	Subtotal	\$ 453.86	\$ 452.87	\$ 506.37	\$ 53.50
Value of Auto CPI Adjustments	Various			\$ 1.00	\$ 1.00
Total		\$ 948.90	\$ 945.12	\$ 1,010.77	\$ 65.65

(1) Per Budget Committee & MTA Board, MTA's FY 2005-06 proposed fee and fine increases adjusted to (i) withdraw \$0.7 M of increase in senior, disabled & youth discount passes, and withdraw \$3.1 M of increase in adult regular passes; (ii) withdraw \$3.1 M of increase in parking fines; and (iii) withdraw \$2.9 M of increase in parking meter collections. Adjusted also for any timing delays.

State Budget Impact

The Mayor's FY 2005-06 Proposed Budget includes funding from the State for a number of City programs. The State's proposed budget continues to include shifts of an estimated \$293.6 million in Property Tax revenues from the City's General Fund to cover the State's Proposition 98 student funding requirements. These shifts of funding are commonly referred to as ERAF shifts, which is short for the Educational Revenue Augmentation Fund. The State has been diverting local property tax funding since the early 1990s and further increased shifts from the City's property tax for FY 2004-05 and FY 2005-06 by \$25.2 million in each of those two years (ERAF III in table below).

Chart K1 Summary of State Budget Shifts (net) & Proposed Program Reductions
 (US\$ millions)

STATE BUDGET	<u>FY 2005-06</u>
<u>State Discretionary Funding Assumed in Mayor's Proposed Budget</u>	
ERAF I & II - City's Share of Recurring Shift (approximately 1/4 of countywide 1% tax rate)	\$ (264.3)
ERAF III - City's Share (FY 2005-06, Year 2 of 2)	\$ (25.2)
ERAF III - Redevelopment Agency's Share (FY 2005-06, Year 2 of 2)	\$ (4.1)
Subtotal Property Tax Shifts Related to ERAF	\$ (293.6)
 VLF Gap Loan Repayment (approximately 50% of total due from State)	 \$ 14.9
Subtotal - Discretionary, non-Program Funding	\$ (278.8)
 <u>Program Reductions included in the Governor's Proposed Budget (pending Legislature)</u>	
In-Home Supportive Services (IHSS) Reductions	\$ (12.3)
SB90 State Mandated Program Suspensions and Repeals	
Handicapped & Disabled Kids (Special Education Program Cuts)	\$ (1.8)
All Other SB 90 Programs	\$ (8.1)
SB90 - Handicapped & Disabled Kids, One-Time Prior Year Reimbursements	\$ 2.1
Proposition 42 - Additional Public Works Revenue for Roads	\$ 5.7
less assumed lower Capital Program Advances	\$ (5.7)
CalWORKs Reductions (\$0.6M Administration, \$0.8M Provider Services)	\$ (1.4)
Food Stamp Administration Allocation Reduction	\$ (0.2)
Subtotal - Programmatic Reductions	\$ (21.7)
Subtotal - State Reductions, General Fund Supported Operations	\$ (300.4)
 Other State Items, Non-General Fund Supported Operations	
Proposition 42 - Transportation Funding for MTA	\$ 5.9
 State Budget Reductions - Total Effective Impact To CCSF - All Funds	 \$ (294.5)

The table on the previous page summarized the total estimated effective impact to the City & County's budget from all proposed changes in the Governor's budget as well as existing State shifts. However, a number of the programmatic reductions proposed in the Governor's budget are assumed to be restored by the Legislature in the Mayor's Proposed Budget. Additionally, a number of the Add-Backs included in the Governor's Proposed Budget are already assumed in the Mayor's Proposed Budget. These are summarized in the table below.

If program reductions are not restored by the Legislature, then up to \$13.9 million of programmatic cuts or reserves will be needed to keep the City's budget balanced. Additionally, if the Legislature reduces any of the proposed Add-Backs included in the Governor's Proposed Budget, then up to \$22.9 million of reserves may be needed. As additional information becomes available, and as we are able to verify State revenue allocations, we will advise the Board of those changes.

Chart K2 Programmatic Changes included in Governor's Proposed Budget that Could Result in the Need for Increased Appropriation Reserves
(US\$ millions)

General Fund Supported, State Reductions Pending Legislative Action

In-Home Supportive Services (IHSS) Reductions	\$ (12.3)
CalWORKs Reductions (\$0.6M Administration, \$0.8M Provider Services)	\$ (1.4)
Food Stamp Administration Allocation Reduction	\$ (0.2)

Subtotal - Programmatic Reductions **\$ (13.9)**

State Add-Backs Pending Legislative Action

VLF Gap Loan Repayment (approximately 50% of total due from State)	\$ 14.9
SB90 - Handicapped & Disabled Kids, One-Time Prior Year Reimbursements	\$ 2.1
Proposition 42 - Transportation Funding for MTA	\$ 5.9
Proposition 42 - Additional Public Works Revenue for Roads	\$ 5.7
less assumed lower Capital Program Advances	\$ (5.7)

\$ 22.9

III. SELECT GENERAL FUND SUBSIDIZED DEPARTMENTS

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

Public Health

The Department of Public Health [DPH], which consists of both the Community Health Network Division and the Public Health Division, has total net budget sources of funds of \$1.098 billion in FY 2005-06. The \$1.098 billion of total sources is comprised of two major categories: 1) net departmental sources of \$837.95 million, primarily from Federal and State sources such as Medicare, MediCal and net patient revenue, and 2) General Fund support of \$259.74 million.

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

Sources of Funds	FY2004-05	FY2005-06	Increase / (Decrease)	% Increase / (Decrease)
	Revised Budget	Proposed Budget		
Patient Revenues	\$ 483.63	\$ 494.71	\$ 11.07	2.3%
General Fund Support	231.50	259.74	28.25	12.2%
State Intergovernmental	254.35	262.70	8.35	3.3%
Health & Welfare Realignment-MVL	83.56	92.69	9.12	10.9%
Health & Welfare Realignment-Sales Tax	70.25	68.50	(1.76)	-2.5%
Short-Doyle Medi-Cal	48.65	48.60	(0.05)	-0.1%
State Alcohol Funds	19.70	19.65	(0.05)	-0.2%
Community Mental Health	11.62	11.82	0.20	1.7%
Prop 99 - Tobacco Tax	2.91	2.70	(0.21)	-7.2%
Other State	17.65	18.75	1.09	6.2%
Federal Intergovernmental	76.12	76.03	(0.09)	-0.1%
Fund Balance	1.52	5.50	3.98	261.9%
Other Service Charges/Recoveries	66.63	64.66	(1.97)	-3.0%
Other Revenue	8.80	9.72	0.92	10.5%
Licenses & Fines	5.91	6.62	0.71	12.0%
Departmental Transfer Adjustment	(98.22)	(82.00)	16.22	-16.5%
Total Sources of Funds	\$ 1,030.24	\$ 1,097.69	\$ 67.45	6.5%

Patient revenues increase of \$11.07 million (2.3 percent) consists of:

- +\$5.77 million in net patient service revenues from Medicare, MediCal and private insurance;
- +\$4.65 million in net revenues from SB855 and SB1255, including
 - +8.65 million in additional SB1255 revenue, and
 - -\$4.00 million in net SB855 revenue decrease, including
 - -\$20.22 million in SB855 revenue growth, offsetting by
 - +\$16.22 million in SB855 expense savings; and
- +\$0.65 million in additional capitated fees and health plan settlements.

State intergovernmental revenues show an \$8.35 million (3.3 percent) increase as a result of

- +\$7.36 million in additional Health and Welfare Realignment revenue;
- +\$1.09 million in additional other State grants and subventions;
- +\$0.20 million in additional Community Mental Health revenues;
- -\$0.05 million decrease in Short-Doyle MediCal revenues;
- -\$0.05 million decrease in State alcohol revenues; and
- -\$0.21 million decrease in Prop 99 – Tobacco Tax.

The use of fund balance is proposed to increase from \$1.52 to \$5.50 million, consistent with the projected FY 2004-05 year-end balance. This \$5.50 million is budgeted to fund capital projects and one-time efficiencies.

Others service charges and recoveries decrease by \$1.97 million (3.0 percent), prior-year revised budget to budget. The decrease is primarily due to work orders recoveries between departments and within DPH:

- -\$0.92 million in decreased work orders with other departments primarily due to a reduction in work orders with Human Services; and
- -\$1.05 million in decreased work orders between DPH divisions for work performed by the various divisions using grant funding.

Other revenue reflects an increase of \$0.92 million (10.5 percent) as a result of

- +\$0.90 million in increased revenue from Environmental Health fees due to the annualization of the fee increase approved in FY 2004-05; and
- +\$0.02 million in additional revenue from employee parking due to the assumed impact of increasing MUNI fares.

Licenses and fines show an increase of \$0.71 million (12.0 percent) primarily due to the annualization of the FY 2004-05 fees increase for the Eating Places program in Environmental Health.

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 2005-06 Proposed Budget of \$572.05 million. This total is an increase of \$21.41 million (3.9 percent) FY 2004-05 revised budget to budget.

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

Sources of Funds	FY 2004-05	FY 2005-06	Increase / (Decrease)	% Increase / (Decrease)
	Revised Budget	Proposed Budget		
Federal & State Operating	\$ 202.07	\$ 219.89	\$ 17.82	8.8%
Federal & State Aid	114.13	117.33	3.20	2.8%
State Health & Welfare Realignment	51.46	57.46	5.99	11.6%
Subtotal Federal & State	367.66	394.68	27.01	7.3%
Interdepartmental Recovery / Transfers	22.22	15.62	(6.60)	-29.7%
Other Revenue	19.79	6.85	(12.94)	-65.4%
Subtotal Transfers & Other Revenue	42.01	22.47	(19.53)	-46.5%
Total Non-GF Support Sources	409.67	417.15	7.48	1.8%
General Fund Support	140.97	154.90	13.92	9.9%
Total Sources of Funds	\$ 550.64	\$ 572.05	\$ 21.41	3.9%

The FY 2005-06 Proposed Budget shows an increase of \$17.82 million (8.8 percent) in Federal and State operating revenues. Major revenue increases include:

- +\$4.90 million in CalWIN;
- +\$4.56 million in anticipated reallocated Federal and State funds to support reimbursements from prior-year expenditures;
- +\$2.99 million in MediCal eligibility;
- +\$2.99 million in Federal grants; and
- +\$2.38 million in MediCal client services to provide access to healthcare.

Federal and State revenues to support payments to aid recipients are projected to increase by approximately \$3.20 million in FY 2005-06 over the FY 2004-05 revised budget. This increase is primarily due to increased reimbursements assumed for In-Home Supportive Services (IHSS) programs, a cost-of-living adjustment increase for CalWORKS, and increased costs in Adoptions.

Interdepartmental recoveries and transfers are projected to decrease by \$6.60 million (29.7 percent) in FY 2005-06. The decrease is largely due to shifting the current year Human Services Care fund budget of \$10.05 million out of transfers and into the General Fund support category. FY 2005-06 Proposed Budget includes \$14.06 million for the Human Services Care Fund. Offsetting increases include a fund balance carryforward and an increase in the recovery of reimbursement costs of health benefits for IHSS workers.

After adjusting for all budgetary transfer and Parking Tax reallocations, the net impact on General Fund Support will be a decrease of \$6.84 million budget-to-budget.

	Original FY 2004-05	Revised FY 2004-05	Original FY 2005-06	Change from...	
				Original FY 2004-05	Revised FY 2004-05
GF Support Sources, net					
Parking Tax	\$ 10.71	\$ -	\$ -	\$ (10.71)	\$ -
Care Fund Transfer	\$ 10.05	\$ 10.05	\$ -	\$ (10.05)	\$ (10.05)
GF Support	\$ 140.97	\$ 151.68	\$ 154.90	\$ 13.92	\$ 3.21
TOTAL	\$ 161.74	\$ 161.74	\$ 154.90	\$ (6.84)	\$ (6.84)

Other revenue is decreasing by \$12.94 million (65.4 percent) mainly as a result of the transfer of \$10.71 million in dedicated Parking Tax revenue, which is now backfilled as general fund support, and \$2.40 million in bequests and grants.

IV. BASELINES & MANDATED FUNDING REQUIREMENTS

The Mayor's FY 2005-06 Proposed Budget includes required funding for baselines and other mandated funding requirements. Chart N identifies the required and proposed levels of appropriation funding for Key & New Baselines & Mandated Requirements. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending.

Chart N: Key & New Baseline & Mandated Funding Requirement
 (US\$ millions)

Baseline	FY 2005-06 Required Baseline	FY 2005-06 Mayor's Proposed	Surplus / (Shortfall) Contribution
<u>Revenue-Driven</u>			
MTA - Municipal Railway	\$ 102.4	\$ 102.4	\$ -
MTA - Parking & Traffic	37.0	37.0	-
Subtotal-MTA	139.4	139.4	-
Children	77.1	77.1	-
Library	33.7	33.7	-
Key Revenue-Driven Baselines	\$ 250.2	\$ 250.2	\$ -
<u>Expenditure-Driven</u>			
Police Staffing 1,971 Full Duty Officers	201.2	201.2	-
Public Education Enhancement Fund	10.0	10.0	-
City Services Auditor	9.1	9.1	-
Key Expenditure-Driven Baselines	\$ 220.3	\$ 220.3	\$ -
Total	\$ 470.5	\$ 470.5	\$ -

REVENUE-DRIVEN BASELINES

Municipal Transportation Baselines

Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the Municipal Transportation Agency [MTA]. Consistent with the Charter, in FY 2000-01 a Base Amount of funding was established. Charter subsection (c)(1) requires the Controller's Office to adjust the Base Amount from year to year by the percent increase or decrease in aggregate City discretionary revenues. Beginning in FY 2002-03, this Charter section also 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.

Municipal Railway (MUNI): The Mayor's FY 2005-06 Proposed Budget includes MUNI Baseline funding at the \$102.4 million required level. In the budget year, the baseline funding to MUNI is mainly affected by the growth in discretionary revenues.

Parking and Traffic: The Mayor's FY 2005-06 Proposed Budget includes Parking and Traffic Baseline funding at the \$37.0 million required level, adjusted for lower Parking Fines.

Children's Baseline

The Mayor's FY 2005-06 Proposed Budget includes Children's Baseline funding at \$77.1 million required level.

Library Baseline

The Mayor's FY 2005-06 Proposed Budget includes Library Baseline funding at the \$33.7 million required level.

EXPENDITURE-DRIVEN BASELINES & MANDATES

Police Staffing Baseline

The Mayor's FY 2005-06 Proposed Budget includes \$201.2 million for Police Staffing Baseline. Charter Section 4.127 mandates a police minimum staffing baseline of not less than 1,971 full-duty officers. This minimum staffing level may be adjusted downward pursuant to Charter Section 16.123, which provides that the Mayor and Board may convert a position from a sworn officer to civilian through the budget process. Reductions are permitted if the Controller and the Chief of Police jointly certify that the reduction will not decrease the number of police officers dedicated to neighborhood community policing, patrol and investigation and will not substantially interfere with the delivery of police services or the ability of the Police Department to protect the public in the event of an emergency. To date, 72 uniformed positions have been exchanged for civilian positions, effectively dropping the 1,971 requirement to 1,899 assuming those 72 positions are funded in the budget, which they are for FY 2005-06. The estimated cost of funding this Police Staffing Baseline is based on average salary and fringe costs of \$85,596 and \$16,475 respectively for Q3 sworn officers for FY 2005-06.

City Services Auditor Baseline

The Mayor's FY 2005-06 Proposed Budget includes \$9.1 million for the City Services Auditor Baseline (\$4.70 million of this is General Fund). This Baseline was approved by voters in November 2003 and mandates that 2/10ths of one percent of the budget be used to fund the auditing of City services. FY 2004-05 was the first year for the City Services Auditor to receive baseline funding.

Public Education Enhancement Fund Baseline

The Mayor's FY 2005-06 Proposed Budget includes \$10.0 million for the Public Education Enhancement Fund. This funding, which was passed by voters in March 2004 (Proposition H), requires increasing support to education initiatives beginning \$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 FY 2005-06, \$3.3 million is included in Children and Families Commission's budget for preschool programs, and \$6.7 million is included in Children, Youth and Their Families' budget, for transfer to the Unified School District.

RESULTING GENERAL FUND DISCRETIONARY SPENDING CAPACITY

After factoring in the above baselines and Charter-mandated spending as well as grant and federal, state and local employment provisions, the General Fund has an 'effective' level of discretionary spending capacity of less than half of total General Fund revenues and transfers-in sources. Said another way, only about \$1 billion of the total \$5 billion total City budget is available for general discretionary spending. A high-level summary of the General Fund's revenue and transfer-in sources less required set-asides, baselines and other earmarked funding provisions is summarized on the following page.

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

	Proposed FY 2005-06
General Fund Revenues & Transfers-In	\$ 2,372.6
Federal & State Dedicated Funding	
State Health, Welfare, Social Services	\$ (367.8)
Federal Health, Welfare, Social Services	\$ (206.8)
Voter-Approved Baselines & Required Programs	
Police Staffing Baseline, 1971 officers	\$ (201.2)
Baseline for Public Transportation, MUNI & PTC	\$ (139.4)
Baseline for Children's Services	\$ (77.1)
Baseline for Public Libraries	\$ (33.7)
Baseline for Public Education Enhancement Fund (Prop H, March 2004)	\$ (10.0)
Baseline for City Services Auditor	\$ (4.7)
Baseline for Municipal Symphony	\$ (1.4)
Office of Economic Analysis (Prop I, Nov. 2004)	\$ (0.5)
Employee Benefit Costs	
Health & Dental Benefit Costs (Charter)	\$ (102.5)
Pension Benefits - Req. Employer Match Only (Charter)	\$ (65.9)
Retiree Health Requirements (Charter)	\$ (47.6)
Social Security - Employer Portion Only (6.2% of salary)	\$ (29.2)
Medicare - Employer Portion Only (1.45% of salary)	\$ (13.3)
Other Operating Costs	
Debt Service & Lease Revenue Bond Commitments	\$ (15.6)
Estimated Discretionary Spending Capacity	\$ 1,055.95
% Discretionary Spending Capacity	44.5%

V. SELF-SUPPORTING ENTERPRISE DEPARTMENTS

Enterprise departments such as the Airport, the Municipal Transportation Agency [MTA] (which includes Municipal Railway [MUNI] and Parking and Traffic), the Port, and the Public Utilities [PUC] (which includes Hetch Hetchy, Wastewater, and Water), are supported by user fees and are generally not supported by the City's General Fund. As is summarized in Chart P total enterprise sources of funds are projected to increase by \$2.02 million. The underlying assumptions of the FY 2005-06 Proposed Budget for these enterprises are highlighted in the narrative following Chart P.

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

Enterprise	FY2004-05 Original Budget	FY2005-06 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
AIRPORT	\$ 576.02	\$ 551.83	\$ (24.19)	-4.2%
MUNICIPAL TRANSPORTATION AGENCY				
MUNI	484.03	516.01	31.98	6.6%
Parking & Traffic	75.85	76.20	0.35	0.5%
Subtotal -MTA	\$ 559.88	\$ 592.22	\$ 32.33	5.8%
Adjusted for Budget Committee Actions				
MUNI (Budget Committee)	484.03	511.34	27.31	5.6%
Parking & Traffic (Budget Committee)	75.85	74.19	(1.66)	-2.2%
Subtotal -MTA (Budget Committee)	\$ 559.88	\$ 585.53	\$ 25.65	4.6%
PORT	55.43	66.07	10.65	19.2%
PUBLIC UTILITIES				
Hetch Hetchy	154.55	146.87	(7.68)	-5.0%
Wastewater	190.38	217.64	27.26	14.3%
Water	239.66	209.99	(29.67)	-12.4%
PUC Bureaus *	0.44	0.44	-	0.0%
Subtotal - Public Utilities	\$ 585.02	\$ 574.94	\$ (10.09)	-1.7%
TOTAL	\$ 1,776.35	\$ 1,778.37	\$ 2.02	0.1%

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

AIRPORT
 (US\$ millions)

	FY2004-05	FY2005-06	\$	%
	Original	Proposed	Increase /	Increase /
	Budget	Budget	(Decrease)	(Decrease)
Airport				
Operating Revenues	\$ 491.15	\$ 523.04	\$ 31.90	6.5%
Other Sources [^]	84.87	28.79	(56.09)	-66.1%
Total	\$ 576.02	\$ 551.83	\$ (24.19)	-4.2%

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

The Mayor's FY 2005-06 Proposed Budget for the Airport includes \$24.19 million (4.2 percent) less in total sources of funds. Key changes in the Airport's sources of funds include a \$31.90 million (6.5 percent) increase in operating revenues and a \$56.09 million (66.1 percent) decrease in other sources.

Compared to FY 2004-05, the FY 2005-06 Proposed Budget reflects these major revenue changes:

- +\$9.90 million in concessions;
- +\$8.12 million in ground transportation;
- +\$6.05 million in Passenger Facility Charge (PFC);
- +\$4.08 million in parking;
- +\$4.36 million in utilities;
- +\$3.86 million in terminal and other rentals;
- +\$1.23 million in services;
- +\$1.14 million in interest income;
- -\$1.02 million in landing fee;
- -\$4.03 million in operating fund balance; and
- -\$52.35 million in PFC fund balance.

Concession revenue, which directly affects the transfer into the General Fund, is projected to increase 14.2 percent from budgeted FY 2004-05 levels. The FY 2005-06 Proposed Budget includes concession-related transfers to the General Fund of \$21.94 million, an increase of \$2.73 million over the FY 2004-05 original budget. This increase assumes a continued strong growth in air passenger traffic and concessions. Passenger Facility Charge revenue is proposed to increase \$6.05 million (11.4 percent). This revenue is derived from the \$4.50 fee assessed on all enplaning passengers.

The \$56.09 million decrease in other sources is primarily due to \$52.35 million decrease in PFC fund balance.

MUNICIPAL TRANSPORTATION AGENCY

(US\$ millions)

	FY2004-05 Original Budget	FY2005-06 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
<u>Municipal Transportation Agency</u>				
MUNI				
Operating Revenues	\$ 366.96	\$ 388.79	\$ 21.83	5.9%
Other Sources ^	117.07	127.22	10.15	8.7%
MUNI	\$ 484.03	\$ 516.01	\$ 31.98	6.6%
Parking & Traffic				
Operating Revenues	\$ 37.46	\$ 47.91	\$ 10.45	27.9%
Other Sources ^	38.39	28.30	(10.10)	-26.3%
Parking & Traffic	\$ 75.85	\$ 76.20	\$ 0.35	0.5%
TOTAL (June 1 Proposed)	\$ 559.88	\$ 592.22	\$ 32.33	5.8%
Pending Tech. Adj. - MUNI		\$ (4.67)		
Pending Tech. Adj. - Parking & Traffic		\$ (2.02)		
TOTAL (Budget Committee Actions)	\$ 559.88	\$ 585.53	\$ 25.64	4.6%

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

The FY 2005-06 Original Proposed Budget for the Municipal Transportation Agency [MTA] grows by \$32.33 million (5.8 percent) in total revenue sources, including a growth of \$32.28 million (8.0 percent) in operating revenues over prior-year original budget. However, the Original Proposed Budget has been adjusted downward by \$6.69 million to include subsequent Budget Committee and MTA Board actions. After adjustment, MTA budget grows by \$25.64 million (4.6 percent).

Major revenue changes, including Budget Committee actions, are summarized below.

Municipal Railway [MUNI] – Operating Revenues +\$17.16 million (\$21.83 M less \$4.67 M)

- +\$9.39 million in total fare revenues⁵,
- +\$2.74 million in parking fines,
- +\$2.36 million in parking garages revenue,
- +\$1.17 million intergovernmental revenue, and
- +\$1.50 million in all other net changes.

⁵ Total Fare Revenues include Passenger Fare Revenue, Paratransit Revenue, and MUNI Feeder Service to BART Stations.

Parking and Traffic – Operating Revenues +\$8.43 million (\$10.45 M less \$2.02 M)

- +\$5.86 million in parking meters collections,
- +\$1.54 million in neighborhood parking permits revenue, and
- +\$1.03 million in all other net changes.

MUNI

Total Fare Revenues: Total fare revenues, which include passenger fare revenue, paratransit revenue, and MUNI feeder service to BART stations. MUNI's FY 2005-06 Budget Committee operating revenue reflects an increase of \$9.39 million budget to budget.

Passenger Fare Revenue: Passenger fare revenues are projected to increase by \$9.32 million (7.9 percent), consisting of all passenger fares excluding paratransit and MUNI feeder service to BART stations (shown separately below). Passenger fares include cash fares, adult fast passes, senior, youth and disabled discount passes, weekly passes, passports, BART/MUNI transfers, tokens, and the Class Pass program. The proposed increase reflects 10 months of additional revenue received due to raising adult cash fares from \$1.25 to \$1.50, discount cash fares from \$0.35 to \$0.50, and cable car fares from \$3.00 to \$5.00.

Paratransit Revenue: Paratransit revenues are projected to remain flat in FY 2005-06. These are comprised of Lift Van, Group Van, ADA Access, and Taxi Service. Taxicab scrip is purchased by paratransit users at a discounted price from MUNI's paratransit broker.

MUNI Feeder Service to BART Stations: Since 1986, BART has made annual payments to MUNI to recognize the feeder service that MUNI provides to BART stations. The original payment was determined by the Regional Financial Plan and is adjusted each year based on the percentage change in BART sales tax revenue. In FY 2005-06, this revenue is projected to be \$2.42 million based on the reimbursement formula. This represents a 3.0 percent increase or about \$0.07 million more than the prior-year budget.

Parking Fines: Under Proposition M, passed in 1993, MUNI receives dedicated revenue from parking citations, except for citations issued on Recreation and Park and Port Authority properties. Parking fines including Budget Committee actions are projected to grow by \$2.74 million (3.2 percent).

Parking Garages (MUNI): In accordance with Proposition M passed in 1993, MUNI receives dedicated revenues from seven parking garages, which include Golden Gateway Garage, Mission Bartlett Garage, Moscone Center Garage, Sutter-Stockton Garage, Moscone Commercial Garage, 5th and Mission Garage, and Ellis-O'Farrell Garage. In FY 2005-06, MUNI's parking garages revenue is projected to grow \$2.36 million (13.3 percent).

PARKING AND TRAFFIC

Parking Meter Rates: Parking and Traffic proposed to increase the parking meter rates in all on-street and off-street parking areas in the City as in the table on the next page.

<u>Area</u>	<u>Parking Meter Rates (per hour)</u>			
	<u>Current</u>	<u>Proposed</u>	<u>\$ Change</u>	<u>% Change</u>
1 – Downtown Core	\$2.00	\$3.00	\$1.00	50%
2 – Ring Around Downtown	\$1.50	\$2.50	\$1.00	66%
3 – Outlying Commercial Areas	\$1.00	\$1.50	\$0.50	50%
4 – Fisherman’s Wharf	\$1.50	\$2.50	\$1.00	66%
Off-Street	\$1.00	\$1.50	\$0.50	50%

The proposed rate increases will generate \$5.86 million in additional parking meters collections. This reflects the original estimated amount of \$7.33 million adjusted down by \$2.90 million for reductions made by the Board plus \$1.43 million in higher base revenue projections as discussed at the Budget Committee.

Neighborhood Parking Permits: Parking and Traffic proposed to increase residential parking permits revenue as follows:

<u>Permit</u>	<u>From</u>	<u>To</u>	<u>\$ Change</u>	<u>% Change</u>
Annual Permit – if purchased in the first 6 months of the permit year	\$27.00	\$60.00	\$33.00	122%
Annual Permit – if purchased in the last 6 months of the permit year	\$13.50	\$30.00	\$16.50	122%
Temporary Permit per week (up to 4 weeks)	\$10.00	\$20.00	\$10.00	100%
Temporary Permit per 4 weeks	\$20.00	\$40.00	\$20.00	100%
Visitor Permit per day (New)	\$0	\$ 5.00	\$ 5.00	N/A
Visitor Permit for 2 consecutive weeks	\$10.00	\$20.00	\$10.00	100%
Visitor Permit for 8 consecutive weeks	\$40.00	\$50.00	\$10.00	25%

The proposed fee increases will generate \$1.54 million in additional neighborhood parking permits revenue, which reflects the original \$2.09 million increase less a projected lower base revenue of \$0.55 million. August 1, 2005 is the assumed implementation date.

PORT

(US\$ millions)

	FY2004-05	FY2005-06	\$	%
	Original	Proposed	Increase /	Increase /
	Budget	Budget	(Decrease)	(Decrease)
Port				
Operating Revenues	\$ 52.38	\$ 55.59	\$ 3.21	6.1%
Other Sources [^]	3.05	10.49	7.44	244.4%
Total	\$ 55.43	\$ 66.07	\$ 10.65	19.2%

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

The Mayor's FY 2005-06 Proposed Budget for the Port includes a projected increase in the Port's operating revenues of \$3.21 million (6.1 percent). Operating highlights are provided below for the major operating divisions.

Commercial Property: The majority of the Port's Operating revenues come from the leasing of its facilities. The San Francisco commercial real estate market was significantly impacted by the national and regional recession. But over the last 12 months the office market has stabilized. During the same period, demand for space along the waterfront has remained higher than the city as a whole. Recent leasing activity has lowered the Port's office vacancies to less than 5 percent, well below the citywide vacancy rate of approximately 17 to 20 percent. Port warehouse and industrial space demand has remained strong and rents have been increasing. In the retail sector, the Port has seen growth in its percentage lease income with budgeted revenues growing by 10 percent.

Maritime: The Port continues to promote all of its maritime industries; however, cruise and cargo generate the majority of maritime revenues. In FY 2005-06 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 81 in FY 2004-05. Overall cruise revenues are projected to increase 28 percent in FY 2005-06. With respect to cargo, the Port has refocused their efforts to concentrate on breakbulk and bulk cargo at Piers 80, 92, and 94. The strongest area of cargo growth has been in bulk aggregate, imported for Bay area construction projects.

PUBLIC UTILITIES

(US\$ millions)

	FY2004-05	FY2005-06	\$	%
	Original	Proposed	Increase /	Increase /
	Budget	Budget	(Decrease)	(Decrease)
<u>Public Utilities</u>				
Hetch Hetchy				
Operating Revenues	\$ 99.44	\$ 101.53	\$ 2.10	2.1%
Other Sources ^	55.11	45.34	(9.78)	-17.7%
Hetch Hetchy	\$ 154.55	\$ 146.87	\$ (7.68)	-5.0%
Wastewater				
Operating Revenues	\$ 148.87	\$ 166.92	\$ 18.06	12.1%
Other Sources ^	41.51	50.72	9.20	22.2%
Wastewater	\$ 190.38	\$ 217.64	\$ 27.26	14.3%
Water				
Operating Revenues	\$ 188.24	\$ 168.92	\$ (19.33)	-10.3%
Other Sources ^	51.41	41.07	(10.34)	-20.1%
Water	\$ 239.66	\$ 209.99	\$ (29.67)	-12.4%
PUC Bureaus *				
Other Sources ^	\$ 0.44	\$ 0.44	\$ -	0.0%
TOTAL	\$ 585.02	\$ 574.94	\$ (10.09)	-1.7%

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

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

The Mayor's FY 2005-06 Proposed Budget for Public Utilities includes revenues from the three utility enterprises: the Water Enterprise (water), the Wastewater Enterprise (wastewater), and Hetch Hetchy (power). Total operating revenues of the three enterprises for FY 2005-06 are projected to be \$437.37 million, a total increase of \$0.83 million budget to budget. The operating revenue change is primarily due to a reduction in water sales revenue by \$19.33 million offset by increases in Hetchy & Wastewater. These projections, budget-to-budget comparisons, are explained more fully below.

Hetch Hetchy: Hetch Hetchy's operating revenues are expected to increase by \$2.10 million as a result of an estimated \$2.60 million increase in power sales revenues, and a \$0.54 million decrease in interest earnings. Other sources, mostly fund balance, are budgeted to decrease \$9.78 million.

The Mayor's Budget Office has proposed two technical adjustments, in addition to the amounts summarized in the previous tables, (i) to increase Hetchy's appropriations from their fund balance by \$13.50 million for spending in solar and energy efficiency projects, and (ii) to increase funding for solar projects at the Airport and Public Utilities by \$12.50 million to be funded by Certificates of Participation (COP) proceeds.

Wastewater: Wastewater's operating revenues reflect an \$18.06 million increase primarily due to a \$18.68 million increase in retail sewer rates, a \$0.96 million increase in other sewer charges, and a \$1.58 million decrease in interest earnings. Other sources are budgeted to increase \$9.20 million due primarily to an increase of \$11.14 million in use of fund balance less a decrease in the amount of bond proceeds. The new rates will be effective July 1, 2005 and will generate an expected 13 percent increase in rate-related revenue.

Water: Water's FY 2005-06 operating revenues are expected to decrease by \$19.33 million, and other sources are budgeted to decrease by \$10.34 million. The decline in revenues is primarily due to a \$17.17 million decrease in water sales revenue, and a \$2.30 million decrease in interest earnings. The decline in other sources is primarily from a \$44.14 million decrease in debt proceeds, offset by a \$33.31 million increase in use of fund balance. Rates for retail water sales will be increased on July 1, 2005 by 15 percent and are projected to generate \$11.14 million as assumed in the proposed budget.

On a related note, suburban (wholesale) water revenues are currently budgeted assuming an approximate 30 percent rate reduction instead of the 9.4 percent rate decrease that became effective April 1, 2005. The Department has been discussing the possibility of revenue-related technical adjustment with the Mayor's Budget Office. If this adjustment were adopted by the Board, our estimate of the impact is a \$22.04 million increase in wholesale water revenues (budget basis) with corresponding offset in the use of fund balance, resulting in a net budgetary impact of zero.

VI. RESERVES

CONTROLLER'S APPROPRIATION RESERVES

Occasionally, departments will include a revenue source where some additional action is required in order to secure the revenues. Other times departments may include revenue assumptions that appear to be too optimistic. In the latter case, the Controller will reserve expenditures equal to revenues until revenues are realized. In the case where further legislative action is needed (for example a Board-approved fee increase is pending), the Controller will reserve a like amount of expenditure authority until the fee increase is approved.

In the Mayor's FY 2005-06 Proposed Budget, the Controller will reserve \$41.68 million in expenditure appropriation pending fee adoptions, of which \$9.58 million is in the General Fund and \$32.10 million is in other funds including Golf Fund and Wastewater Enterprise Fund. Chart Q lists those reserves and the action required for the department to expend funds that are supported by the proposed revenue.

Chart Q: Controller's Appropriation Reserves (US\$ millions)

FY 2005-06			
Department	Reserve	Explanation for Reserve	Required Action
GENERAL FUND			
Fire Department	\$ 5.26	EMS Fees	Pending Fee Adoption
Public Health	1.00	Patient Rates	Pending Fee Adoption
Public Works	0.85	Right-of-way Assessment	Pending Fee Adoption
City Planning	0.80	Long-Range Planning Surcharge (New)	Pending Fee Adoption
Public Works	0.38	Encroachment Assessment Fee (New)	Pending Fee Adoption
Treasurer/Tax Collector	0.19	Delinquent Revenue Administrative Fee (New)	Pending Fee Adoption
Fire Department	0.19	High Rise Inspection Fee	Pending Fee Adoption
Police	0.18	Recovery for Street Fair	Pending Fee Adoption
Board of Appeals	0.16	Permit Appeals Board Surcharge	Pending Fee Adoption
Police	0.15	DUI Emergency Response Cost Recovery (New)	Pending Fee Adoption
Recreation & Park	0.13	Aquatics Fees	Pending Fee Adoption
District Attorney	0.10	Community Court Fees (New)	Pending Fee Adoption
GSA - Administrative Services	0.10	Disability Access Review Fee (New)	Pending Fee Adoption
Board of Supervisors	0.06	BOS - Planning Appeals Surcharge (New)	Pending Fee Adoption
Recreation & Park	0.03	Adult Athletics	Pending Fee Adoption
Subtotal	\$ 9.58		
OTHER FUNDS			
Public Utilities	31.42	Wastewater Enterprise Bond Proceeds	Pending Proceeds from Sale of Bonds
Recreation & Park	0.68	Golf Fees (Harding & Golden Gate Park)	Pending Fee Adoption
Subtotal	\$ 32.10		
Total	\$ 41.68		

OTHER RESERVES INCLUDED IN PROPOSED BUDGET

The Mayor’s FY 2005-06 Proposed Budget also includes \$61.67 million in reserves as outlined in the chart below. These appear to be prudent and reasonably reflect anticipated Memoranda of Understanding (MOUs) and Litigation costs.

General Reserve: Each year, the City set aside funding to provide for contingencies to cover supplemental appropriations, and other contingencies. The Mayor’s FY 2005-06 Proposed Budget includes \$25.00 million in the General Reserve, \$5.00 million less than prior-year original budget of \$30.00 million.

MOU Reserve: The Mayor’s FY 2005-06 Proposed Budget provides \$27.67 million to cover negotiated salary and fringe benefit cost increases not otherwise budgeted directly in departments. This is a \$5.74 million decrease budget to budget, and is commensurate with projected retirements and pending and approved MOUs.

Litigation and Contingency Reserve: The Mayor’s FY 2005-06 Proposed Budget provides \$9.00 million to cover litigation and contingencies. This is a \$6.00 million increase from the prior year due to the prior year being partially funded with carryforwards.

Chart R: Proposed Reserves (US\$ millions)

	FY 2004-05		FY 2005-06	
	Original Budget	Proposed Budget	Change	
General Reserve	\$ 30.00	\$ 25.00	\$ (5.00)	
Salaries & Benefits	33.40	27.67	(5.74)	
Litigation & Contingency	3.00	9.00	6.00	
Total Reserves	\$ 66.40	\$ 61.67	\$ (4.74)	

VII. SELECT REPORTING REQUIREMENTS

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

911 Fee

The Emergency Communications Department included \$ 38.11 million of 911 Fee revenue in the Mayor's FY 2005-06 Proposed Budget. This reflects a \$4.34 million increase from the \$33.76 million included in the FY 2004-05 original budget. The Mayor's Proposed Budget is based on the current \$2.75 per telephone line equivalent⁶, with an assumed exempt lines factor of 15 percent⁷.

Based on 911 system-related costs budgeted in Emergency Communications, full cost recovery would be approximately equal to \$50.10 million, of which approximately 85 percent (\$42.58 million) could be recovered from non-exempt users of the system. The remaining 15 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 and Tax Regulations Code, the purpose of the ordinance is to require subscribers to telephone service in the City and County to pay a fee which is directly related to the benefit subscribers derive from the improvements to and operation of the 911 system. Furthermore, Section 750 of the Business and Tax Regulations Code states that the fee is intended to recover all costs related to the benefits the improved system will provide to nonexempt telephone subscribers. Because of these Code provisions, the costs associated with exempt lines cannot be shifted or charged to nonexempt users, and must be removed before calculating the per line fee for nonexempt subscribers.

Chart S on the following page summarizes the Controller's findings based on the FY 2005-06 Proposed Budget. In order to have full cost recovery of non-exempt costs (i.e. 85 percent of total 911 system-related costs), on average a \$2.75 monthly 911 Fee would have to be charged for each nonexempt telephone line equivalent. The Mayor's FY 2005-06 Proposed Budget assumes \$2.75 per line per month as presently mandated by the Municipal Code.

The Controller is also required to report on the inflation-adjusted subscriber limit (i.e. the annual, calendar-year fee cap for any single subscriber). For calendar year 2005, the subscriber limit is mandated by the Business and Tax Regulations Code to be \$55,000. This means that no single customer (subscriber) will pay more than \$55,000 for calendar year 2005. The subscriber limit for calendar year 2006 will be adjusted upward to \$56,183 based on consumer price index factor of 2.15 percent⁸.

⁶ Currently, the 911 Fee was based on \$2.75 per line equivalent, with the trunk line fee \$20.62 per month and the high-capacity trunk line fee \$371.15 per month. One trunk line is equivalent to 7.5 single access lines, whereas one high-capacity trunk is equivalent to 135 single access lines.

⁷ Telecommunications providers are not reporting the number of exempt and nonexempt telephone lines, even though the Tax Collector includes these required data fields on the Emergency Response Fee Statement. This lack of reporting by telecommunications providers negatively impacts the City's ability to perform complete analyses as the proportion of exempt and nonexempt lines must be estimated. Given this lack of compliance on the part of telecommunications providers, we believe that it will be helpful for the Tax Collector to explore further enforcement efforts and the potential for further penalty provisions.

⁸ US Bureau of Labor Statistics, CPI-U Urban San Francisco-Oakland-San Jose, CA, All Items, 1982-84=100.

Chart S: 911 Fee Analysis

FY 2005-06 Proposed Budget

Total 911 System Related Costs*	\$	50,098,129
Estimated Eligible Costs Attributed to Non-Exempt Users	\$	42,583,410
Based on Assumption of 15% of Users Exempt & 85% Nonexempt		85.0%

Cost Recovery of Non-Exempt Costs Only	Cost Recovery of Total Costs	\$ Per Line Equivalent Per Month	Estimated Over/(Under) Recovery From Non-Exempt Only (US\$ millions)
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100%	85%	\$	2.75	\$	-	Current Fee since November 2004	<--
91%	77%	\$	2.50	\$	(3.83)		
82%	70%	\$	2.25	\$	(7.67)		
73%	62%	\$	2.00	\$	(11.58)		
64%	54%	\$	1.75	\$	(15.42)	Nov 2003 - Oct 2004	
46%	39%	\$	1.25	\$	(23.17)	Dec 2002 - Oct 2003	
37%	31%	\$	1.00	\$	(27.04)	Dec 1997 - Nov 2002	
18%	15%	\$	0.50	\$	(34.83)	Prior to Dec 1997	

Key Assumptions

Telephone Line Equivalents (Monthly) - Total	1,519,813
% of Telephone Lines Subject to Fee (Nonexempt)	85.0%
Telephone Line Equivalents (Monthly) - Nonexempt	1,291,841
Telephone Line Equivalents (Monthly) - Exempt	227,972

*Not all costs are eligible, as some ECD costs are not related to the 911 system and have been excluded.

CY Annual Cap	Current per Code	CPI Adjusted from Prior CY	Annual CPI
2006		\$ 56,183	2.15%
2005	\$ 55,000	\$ 55,000	

CPI - All Urban	Index	% Change from Dec 2003 Base
Dec-04	199.5	2.15%
Dec-03	195.3	

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. Chart T below outlines the Fund's budget activity for the most recent five-year period as well as the FY 2004-05 and FY 2005-06 projected fund balances. A summary of detailed sources is also provided for a five-year period. At this time, the projected FY 2004-05 year-end fund balance is \$0.63 million. The Proposed Budget includes proposed appropriations of \$0.55 million, including \$0.45 million for SOMA Park and \$0.10 million for Neighborhood Parks and Squares.

Chart T: Downtown Park Fund (US\$ millions)

Fiscal Year	Original Budget		Estimated Fund Balance Available for Appropriation as of June 30
	Sources	Uses	
FY 2005-06 Proposed	\$ 0.55	\$ 0.55	\$ 0.13
FY 2004-05	2.43	2.43	0.63
FY 2003-04	1.20	1.20	
FY 2002-03	0.90	0.90	
FY 2001-02	2.40	2.40	

Sources of Funding Detail by Fiscal Year (excluding fund balance)

	Fees	Interest	Total
FY 2005-06 Proposed	\$ -	\$ -	\$ -
FY 2004-05 Projected	0.11	0.06	0.18
FY 2003-04 Actual	-	0.07	0.07
FY 2002-03 Actual	1.13	0.11	1.24
FY 2001-02 Actual	3.66	0.16	3.82

VIII. CONCLUSION

Overall, the assumptions included in the Mayor's FY 2005-06 Proposed Budget appear to be reasonable. To arrive at this conclusion, the Controller's Office conducted a thorough review of budgeted sources of funds as well as a review of the underlying economic assumptions. As additional information becomes available, we will advise the Board of those changes.

Additionally, the Controller's Office will summarize the impact of any technical adjustments proposed by the Mayor. Two technical adjustments to the Mayor's FY 2005-06 Proposed Budget have been submitted to the Budget Committee by the Mayor's Office through Friday, June 10. The results are a \$12.50 million increase in PUC Hetchy's debt proceeds and \$15.13 million in Hetchy's use of fund balance.

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

Sincerely,

ED HARRINGTON
Controller

Attachments:

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

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

ATTACHMENT A

General Fund Sources Comparison to Average California City and County

General Fund

Sorted by Size

Sources of Fund	FY 2005-06			Average California*	
	Mayor's Proposed Budget (US\$ millions)	% of Total		City	County
Property Tax	\$ 696.34	28.49%		20.93%	11.86%
Intergovernmental - Federal, State & Other	666.39	27.27%		12.71%	63.53%
Other Local Taxes	410.66	16.80%		52.59%	3.06%
Business Taxes	288.32	11.80%		5.89%	0.00% (1)
Charges for Services	110.00	4.50%		0.00%	10.98%
Recoveries	19.77	0.81%		0.00%	0.00% (2)
Rents & Concessions	19.58	0.80%		0.00%	0.00% (3)
Licenses, Permits & Franchises	19.25	0.79%		0.16%	1.04%
Other Revenues	12.64	0.52%		2.17%	4.46%
Fines & Forfeitures	11.48	0.47%		0.84%	2.14%
Interest & Investment	11.18	0.46%		4.70%	1.83%
Other Financing Sources	0.60	0.02%		0.00%	1.10% (4)
Total Sources	\$ 2,266.22	92.73%		100.00%	100.00%
Transfers, Net	59.55	2.44%		0.00%	0.00% (2)
PY Fund Balance	115.58	4.73%		0.00%	0.00% (3)
PY Reserve	2.49	0.10%		0.00%	0.00% (3)
	\$ 2,443.83	100.00%		100.00%	100.00%

Source: California Controller Annual Reports. City data as of FY 2002-03, and County data as of FY 2001-02.

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

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

(1) County Data - Included in Other Local Taxes

(2) Not Applicable

(3) Included in Interest & Investment

(4) City Data - Not Applicable

ATTACHMENT B

All Funds Sources Comparison to Average California City and County

All Funds

Sorted by Size

Sources of Fund	FY 2005-06 Mayor's Proposed Budget		Average California	
	(US\$ millions)	% of Total	City	County
Charges for Services	\$ 1,636.69	30.84%	36.33%	9.64%
Property Tax	916.03	17.26%	6.91%	10.40%
Intergovernmental - Federal, State & Other	1,054.70	19.87%	13.03%	55.75%
Other Local Taxes	475.87	8.97%	20.91%	2.68%
Business Taxes	288.87	5.44%	1.94%	0.00% (1)
Rents & Concessions	323.29	6.09%	0.00%	0.00% (2)
Fines & Forfeitures	112.36	2.12%	1.07%	1.88%
Other Financing Sources	40.63	0.77%	8.38%	0.97%
Other Revenues	100.75	1.90%	6.04%	16.17% (3)
Interest & Investment	34.26	0.65%	4.00%	1.60%
Licenses, Permits & Franchises	32.61	0.61%	1.39%	0.91%
Recoveries	19.77	0.37%	0.00%	0.00% (4)
Total Sources	\$ 5,035.82	94.89%	100.00%	100.00%
PY Fund Balance	268.65	5.06%	0.00%	0.00% (2)
PY Reserve	2.49	0.05%	0.00%	0.00% (2)
	\$ 5,306.96	100.00%	100.00%	100.00%

Source: California Controller Annual Reports. City data as of FY 2002-03, and County data as of FY 2001-02.

* 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