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Controller
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June 24, 2003

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 2003-04 Budget

Dear Members of the Board:

The Controller's Office has prepared a review of the Mayor's FY 2003-04 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 and the Municipal Transportation Agency, including both MUNI and the Department of Parking & Traffic.
- Reports on department appropriations that our office is reserving pending the receipt of actual revenue by the departments.
- Summarizes selected analyses and reporting done by the Controller, including the annual 911 Fee analysis and the Downtown Park Fund report.

The Controller's discussion of the FY 2003-04 Proposed Budget is organized as follows:

- I. General Fund Sources of Funds
- II. General Fund Subsidized Departments
- III. Baselines
- IV. Self-Supporting Enterprise Departments
- V. Controller's Reserves
- VI. Selected Reporting Requirements
- VII. Conclusion

I. GENERAL FUND 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 2003-04 Proposed Budget revenue estimates. **In my opinion, the revenue estimates contained in the Mayor’s FY 2003-04 Proposed Budget are reasonable based on our knowledge of current and projected economic conditions.** As detailed below, the Proposed Budget assumes a gradual recovery in discretionary General Fund revenues from the FY 2002-03 projected levels.

The revenue estimates are largely based on the 9-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 2003-04 Proposed Budget also includes updated citywide revenue projections for Property Tax, Business Tax, Sales Tax, Utility Users Tax, Property Transfer Tax and Hotel Room Tax from those included in the 9-Month Budget Status and Joint Reports.

Overall, increases in Property, Business and Hotel Room Tax budget estimates are largely offset by decreases in Sales, Utility Users and Property Transfer Tax budget estimates. The net increase from the Joint Report projection for FY 2003-04 is \$8.1 million for the General Fund, which can be principally explained by two factors 1) the drop in property tax increment being proposed for the Redevelopment Agency¹, and 2) the shift in Low-Income Housing’s Hotel Room Tax Allocation to the General Fund since the budget proposes it be backfilled by the Redevelopment Agency.

Discretionary revenues are projected to grow from the FY 2002-03 estimated year-end levels as the economy recovers. Even with this assumption, projected discretionary revenues will not even reach the FY 2002-03 Original Budget levels. Chart A provides both historical and budgeted amounts for the General Fund’s major discretionary revenues.

¹ The Redevelopment Agency’s FY 2002-03 Adopted Budget was based on gross property tax increment of \$43.53 million. The FY 2003-04 Proposed Budget includes \$38.38 million, a \$5.15 million reduction. Approximately 57 percent of this reduction instead accrues to the General Fund, and another 8 percent accrues to the Library, Open Space and Children’s Funds.

Chart A: General Fund Discretionary Revenues

	<u>FY 2001-02</u>	<u>FY2002-03</u>		<u>FY2003-04</u>
	<u>Actual</u>	<u>Original Budget</u>	<u>Year-End Projection (1)</u>	<u>Mayor's Proposed Budget (2)</u>
Property Taxes (3)	\$510,001,280	\$513,235,000	\$521,990,000 2.4%	\$524,564,000 0.5%
Business Taxes (4)	274,125,070	282,110,000	275,690,000 0.6%	288,290,000 4.6%
Sales Tax	111,292,561	130,529,000	117,800,000 5.8%	122,510,000 4.0%
Utility Users Tax	70,779,383	78,208,000	64,850,000 -8.4%	67,440,000 4.0%
Property Transfer Tax	47,265,600	45,150,000	52,000,000 10.0%	55,000,000 5.8%
Hotel Room Tax (5)	72,285,222	97,070,000	76,842,579 6.3%	85,652,000 11.5%
Parking Tax (6)	30,483,302	34,350,000	31,100,000 2.0%	32,655,000 5.0%
Public Safety Sales Tax	70,959,466	71,864,000	63,730,000 -10.2%	65,320,000 2.5%
Motor Vehicle In-Lieu	102,751,257	105,645,000	107,250,000 4.4%	112,610,000 5.0%
Total - Discretionary Revenues	\$1,289,943,141	\$1,358,161,000	\$1,311,252,579	\$1,354,041,000
			\$21,309,438	\$42,788,421
			1.7%	3.3%

NOTES

- (1) Percentage change is the change in FY 2002-03 year-end projection from FY 2001-02 actual revenues.
The FY 2002-03 year-end projections are based on the Controller's 9-Month Report, dated May 1, 2003.
- (2) Percentage change is the change in FY 2003-04 proposed budget from FY 2002-03 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) Projected growth of 4.6 percent assumes the expiration of New Jobs Tax Credits as of December 31, 2002.
- (5) Includes both General Fund Unallocated (discretionary) and General Fund Allocated Hotel Room Tax revenues.
Of the \$85.65 million, \$60.78 million is Unallocated (discretionary).
- (6) Includes both General Fund Unallocated and Commission on Aging share of parking tax.
Of the \$32.66 million, \$21.77 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 0.5 percent. Preliminary estimates from the Assessor's Office indicate that the FY 2003-04 tax roll is likely to increase between 4.5 to 5.0 percent, compared to the 4.7 percent assumed in the Mayor's Proposed Budget. This is due to secured growth of 6.0 to 6.5 percent, unsecured growth of -5.0 to -8.0 percent, and some growth in exemptions from the FY 2002-03 certified tax roll. For purposes of projecting the General Fund property tax revenues, several additional factors are taken into consideration. First, some of the increase in the Assessor's tax roll is already reflected in the FY 2002-03 year-end projection, due to mid-year reassessments and subsequent supplemental tax revenues. In addition, we factor in likely appeals, refunds, reassessments, delinquencies, tax increment allocation to the Redevelopment Agency² and major property transactions. Typical for this revenue, the final result is a percentage revenue increase that is less than the percentage increase in the value of the tax roll.

As illustrated in Chart B below, property tax delinquencies decreased from prior recession highs during the late 1990s. The FY 2003-04 budget includes the assumption of a 3.16 percent (weighted average) delinquency rate, which is a level reasonable in our opinion given the present economic conditions.

Chart B: Property Tax Delinquencies³

	SECURED		UNSECURED		WEIGHTED
	CCSF	Statewide	CCSF	Statewide	AVERAGE
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%
Projected FY 2002-03	2.50%	3.50%	5.00%	5.25%	2.71%
Proposed Budget FY 2003-04	3.00%	4.00%	5.00%	5.25%	3.16%

² The gross tax increment assumed for the Redevelopment Agency is \$38.38 million for FY 2003-04, compared to \$43.53 million in FY 2002-03.

³ 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 4.6 percent. This projection continues to include the elimination of the gross receipts tax, the reduction of the business registration fees that were linked to gross receipts, as well as the December 31, 2002 sunset of the New Jobs Tax Credit program. FY 2003-04 is the first year that the General Fund will realize the full impact of that sunset.

On a related note, the FY 2003-04 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 2003-04 debt service on the judgement bonds is \$7.26 million, compared to the same amount in FY 2002-03 and \$7.08 million in FY 2001-02. The judgement bonds are fixed rate bonds with a maximum annual debt service of \$7.26 million, and payable through FY 2010-11, assuming no prepayment or refunding occurs.

Sales Tax: Sales tax revenue growth is projected to be 4.0 percent. The drop in FY 2001-02 receipts from FY 2000-01 clearly illustrated the dependency of this revenue on tourism, business travel and the recent economic activity related to the dot-com bubble. A 4.0 percent growth rate is slightly less than the growth rate being assumed in the Governor's May Revise (4.2 percent); however, it appears consistent with the assumed gradual return of tourism, business travel and a gradual recovery in the Bay Area. The economic slowdown has affected various regions of California differently (e.g., the Bay Area has seen a larger decline in sales tax receipts than has Southern California and other areas that have been growing). Chart C summarizes the most up-to-date sales tax activity for San Francisco, the Bay Area and California that we have. The April through June 2003 period will not be known until September 2003.

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

Calendar Quarter	San Francisco	9 County Bay Area	California
1st Quarter 2003	-1.98%	-3.01%	4.61%
4th Quarter 2002	-1.70%	-4.40%	0.80%
3rd Quarter 2002	-5.00%	-3.10%	3.10%
2nd Quarter 2002	-9.70%	-8.40%	-1.30%
1st Quarter 2002	-17.80%	-12.70%	-3.70%
4th Quarter 2001	-17.00%	-13.50%	-2.00%
3rd Quarter 2001	-20.30%	-11.50%	-1.20%
2nd Quarter 2001	-8.70%	-5.00%	0.00%

Utility Users Tax: Utility users tax revenue growth is projected to be 4.0 percent overall. This is comprised of both moderate volume and commodity price changes for telecommunications, electricity, natural gas, steam and water. Telecommunication-related revenue growth also includes the estimated impact of the implementation of the Uniform Sourcing Act, which requires cellular telephone providers to subject usage charges to the City's tax levy. Water-related revenues, which represent approximately 2.0 percent of utility user tax revenues, are projected to be relatively flat.

Real Property Transfer Tax: Real property transfer tax revenues are expected to increase 5.8 percent in FY 2003-04. From December 2001 through January 2003, the number of real estate transactions generating real estate transfer tax revenues increased year-over-year for each month. However, since February 2003, the monthly year-over-year activity has turned negative compared to the same monthly periods in 2002. Most activity has been in the mid-market, that is, transactions between \$250,000 and \$1,000,000. With some weakness still present in the high-end segment, a \$55.0 million proposed budget estimate appears reasonable and consistent with recent transaction activity and forty-year lows for mortgage rates.

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%)
Projection FY 2002-03	\$ 52,000	\$ 4,734	10.0%
Proposed Budget FY 2003-04	\$ 55,000	\$ 3,000	5.8%

Hotel Room Tax: Overall hotel room tax revenue growth is projected to be 5.0 percent. The FY 2003-04 Proposed Budget shows General Fund projected growth of 11.5 percent. This difference is explained by the shift of the Low-Income Housing Allocation to the General Fund. The FY 2003-04 Proposed Budget assumes that the Redevelopment Agency will backfill the Low-Income Housing Allocation obligation, thereby freeing up an additional \$4.97 million for allocation to the General Fund. The *Interim Consolidated Budget and Annual Appropriation Ordinance* include the authorizing language under Administration Provision Section 11.13 on page 127.

Hotel room tax revenue growth is the result of occupancy rate growth of 2.0 to 3.0 percent, average daily room rate growth of 1.0 to 2.0 percent and approximately 0.5 to 1.0 percent growth in room supply. Hotel room tax revenues experienced significant growth during the 1990s, but that boom cycle ended in FY 2001-02 with revenues declining nearly 30 percent. They have been weak ever since. Chart E on the following page 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.⁴

⁴ Article 7 of San Francisco's Business and Tax Regulations Code outlines the annual adjustments required for the allocated portions of the hotel room tax. Most allocated portions of the hotel room tax revenue allocations are limited by a 10 percent cap (either up or down) in the change from the prior year. See Section 5.515 for details.

Chart E: Hotel Room Tax Revenues⁵

Fiscal Year	Total Hotel Tax Revenue All Funds (\$1,000s)	Annual Growth		
		\$ Change (\$1,000s)	% Change	% Change Adjusted for Hotel Room Tax Rate Changes
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	\$ (56,151)	(29.8%)	(29.8%)
Projected FY 2002-03	\$ 132,226	\$ -	0.0%	9.6%
Proposed Budget FY 2003-04	\$ 138,837	\$ 6,611	5.0%	5.0%

The net result is that for FY 2003-04 the amount of hotel room tax budgeted in the General Fund is \$85.65 million, of which \$60.78 million is Unallocated or discretionary. Chart F on the following page illustrates how the hotel room tax revenues are allocated for FY 2003-04.

⁵ Adjusted to match revenues with period of activity.

Chart F: Hotel Room Tax Revenue Allocation, FY 2003-04

	FY 2003-04		FY 2003-04		Budgeted in GF
	Admin. Code		Mayor's Proposed		
	\$ Allocation	%	\$ Allocation	%	
General Fund Unallocated (discretionary)	\$ 55,814,000	40.2%	\$ 60,779,000	43.8%	Yes
Moscone / Convention Facilities	\$ 30,709,000	22.1%	\$ 30,709,000	22.1%	No
Grants for the Arts	\$ 14,231,000	10.3%	\$ 14,231,000	10.3%	Yes
War Memorial & Performing Arts	\$ 8,644,000	6.2%	\$ 8,644,000	6.2%	No
Convention & Visitors Bureau	\$ 7,527,000	5.4%	\$ 7,527,000	5.4%	No
Yerba Buena Gardens (SFRA)	\$ 5,705,305	4.1%	\$ 5,705,305	4.1%	No
Low-Income Housing Programs	\$ 5,565,000	4.0%	\$ 600,000	0.4%	No
Fine Arts Museum	\$ 4,565,000	3.3%	\$ 4,565,000	3.3%	Yes
Cultural Centers	\$ 2,151,000	1.5%	\$ 2,151,000	1.5%	Yes
Cultural Equity Endowment	\$ 1,993,000	1.4%	\$ 1,993,000	1.4%	Yes
Asian Art Museum	\$ 1,811,000	1.3%	\$ 1,811,000	1.3%	Yes
Administration (Tax Collector)	\$ 122,000	0.1%	\$ 122,000	0.1%	Yes
TOTAL	\$ 138,837,305	100.0%	\$ 138,837,305	100.0%	
Budgeted in General Fund	\$ 80,687,000	58.1%	\$ 85,652,000	61.7%	
Budgeted outside of the General Fund	58,150,305	41.9%	53,185,305	38.3%	
	\$ 138,837,305	100.0%	\$ 138,837,305	100.0%	
Budgeted in CCSF	\$ 133,132,000	95.9%	\$ 133,132,000	95.9%	
Budgeted in SFRA	5,705,305	4.1%	5,705,305	4.1%	
	\$ 138,837,305	100.0%	\$ 138,837,305	100.0%	

Parking Tax: Parking tax revenues are projected to increase 5.0 percent. This projected level of growth assumes a moderate economic recovery during FY 2003-04 with limited rate increases. Increased compliance by operators as a result of strong 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 2.5 percent. These revenues are allocated to counties by the State separately from local sales tax discussed on page 5. 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 grow 5 percent. In recent history, new vehicle sales and registrations have helped to keep this revenue growing. The FY 2003-04 Proposed Budget reflects continuing and moderate growth from new vehicle sales. In 1999, the State began reducing vehicle license fees (VLF), and by 2001 the reduction totaled 67.5 percent. Local governments did not feel the effect of these reductions in their allocations from the State, however, because the reductions were "backfilled" with other State General Fund revenue. Although the Governor's May Revise of the FY 2003-04 proposed budget does not include backfill of the VLF offset to local governments, the Governor assumes that the operation of a "trigger" in the VLF-reduction legislation will eliminate the reduction and return fees to their full level. The potential risk, however, appears to be the amount of time from when the "trigger" is pulled and

when the State bureaucracy can actually bill and collect based on the full VLF fee level. That delay (that is, the anticipated transition period) is estimated to be up to 90 days at this time. This means the amount 'at-risk' for the City is approximately \$17.72 million, for the 90-day period covering July through September 2003. The assumed loss of \$17.72 million in VLF Backfill is included in the State Budget Impact section discussed on page 13.

Current Year-End Surplus

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 2002-03 year-end surplus will not be known until the independent audit is completed around November 2003.

The Mayor's Proposed Budget includes \$47.54 million of projected year-end surplus to support General Fund expenditures in FY 2003-04. With a few exceptions, the Mayor's Office relies on the Controller's Nine-Month Report for the projected FY 2002-03 fund balance. The Mayor's Proposed Budget amount is \$1.60 million over the \$45.94 million reported in the Nine-Month Report. Differences from the Controller's Nine-Month estimate are summarized below.

Chart G: FY 2002-03 Projected Year-End Surplus
Fund Balance Available to Support FY 2003-04 Proposed Budget (US\$ millions)

Nine-Month Report Estimated Fund Balance	\$ 45.94
MOU, Litigation and Contingency Reserve Closeouts	4.71
Additional Savings at Department of Public Health	3.00
Closing Naming Rights Project in Business & Economic Development	2.00
SEIU Early Give-back of Retirement Contribution	1.07
Child Support Services Fund Balance Due to General Fund	1.05
Additional Savings at Department of Human Services	0.89
Aging and Adult Services Fund Balance Due to General Fund	0.78
Fire Station One Property Sale Delay	(3.00)
Spear Street Property Sale Delay to Redevelopment	(8.90)
Total Surplus/Fund Balance Available for Appropriation	\$ 47.54

Use of Reserves

The Mayor's Proposed Budget includes \$11.21 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 (US\$ millions)

Emergency Reserve Elimination	\$	4.20
Budget Incentive Reserve		4.11
Rec & Park - Proposition C Reserve		1.80
Nurses' MOU Reserve		1.10
Total	\$	11.21

Emergency Reserve: The San Francisco Administrative Code Section 10.03 outlines the City's legal basis for an Emergency Reserve Fund. Unlike the Cash Reserve, which includes a Charter-mandated funding requirement⁶, the Emergency Reserve does not have a similar requirement. The \$4.20 million included in the FY 2003-04 Proposed Budget is the same amount that the Emergency Reserve Fund has had since FY 1993-94.

Budget Incentive Reserve: Administrative Code Section 3.17 requires that 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 2003-04 Proposed Budget includes the projected balance of \$4.11 million for technology and equipment upgrades.

Recreation & Parks' Proposition C Reserve: The Mayor's Proposed Budget includes the use of the projected \$1.80 million in Park & Recreation expenditure savings outlined in the Nine-Month Report. Under Section 16.107 of the San Francisco Charter, Proposition C reserves must be retained by the Recreation & Parks Department and be dedicated to one-time expenditures. The Mayor's Proposed Budget includes \$1.80 million in expenditures for capital, technology and equipment.

Nurses' MOU Reserves. The Mayor's Proposed Budget includes the use of \$1.10 million previously reserved for Nurses' MOU costs. This relates to prior year MOU reserves.

⁶ The Charter mandates the Cash Reserve be funded at 10 percent of the current or the last preceding [property] tax levy.

Key One-Time Departmental Revenues & Transfer In for the General Fund

As was the case in FY 2002-03, the FY 2003-04 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 for the General Fund. As a point of comparison, the FY 2002-03 budget included \$33.50 million in one-time revenue.

Chart I: Key One-Time, Departmental Regular Revenues & Transfers In Included in the FY 2003-04 Proposed Budget
 (US\$ millions)

General Fund	
Tobacco Industry Settlement Penalty	\$ 25.00
Sale of Property to Redevelopment	\$ 8.90
PERS Repayment from Airport	\$ 6.77
Sale of Fire Station One	\$ 2.90
Total General Fund	\$ 43.57

Changes Since The Mayor's Proposed Budget Was Submitted

Since the FY 2003-04 Proposed Budget was introduced on June 1, various technical adjustments have been submitted to the Board. Technical adjustments known by the Controller are summarized along with their net savings or cost below.

DATE SUBMITTED	NET SAVINGS / (COST)
• June 24, 2003	\$0
• June 11, 2003	\$0
• June 9, 2003 (two)	\$0 for both
• June 5, 2003	\$0
• June 5, 2003	\$13.23 million, Airport
• June 2, 2003	(\$ 0.99 million), General Fund, Supervisor Salaries

As technical adjustments are introduced, my office will summarize the impact for the Mayor and the Board of Supervisors. Technical adjustments issued through the end of last week have been summarized in a letter dated June 13, 2003 from my office.

State Budget Impact

The FY 2003-04 Proposed Budget includes funding from the State for a number of City programs. While the State's budget is still pending before the Legislature and is subject to revision as well as line-item veto by the Governor, based on the Governor's May Revise the projected impact on the City, excluding Realignment II, is estimated to be \$30.00 million. The FY 2003-04 Proposed Budget includes a \$30.00 million State Revenue Loss offset, designed to mitigate the impact of the reduction in State revenue funding for the City. The components of the \$30.00 million State Revenue Loss offset are summarized below.

**Chart J: Potential Revenue Reductions Because of State Budget
 Key Revenues At-Risk (US\$ millions)**

Key Revenues At-Risk	FY 2003-04 May Revise Estimated Impact (millions)
VLF Backfill, 3-Month Elimination	\$ 17.72
Public Health Revenues	5.10
SB 90 - All Departments	3.59
Redevelopment Tax Increment Shift, City Impact	2.58
Public Library Subventions	0.71
Adult Protective Services Subventions	0.30
Total Revenue Offset	\$ 30.00

Until the State Legislature passes the budget and the Governor signs it, these and other provisions of the State budget are still subject to change. State allocation estimates change frequently and may even differ based on which organization is providing the estimate. We recognize that some revenue allocations from the State may change due to revised economic forecasts or based on budget negotiations in Sacramento. As additional information becomes available, and as we are able to verify State revenue allocations, we will advise the Board of those changes.

II. 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 Department of Human Services. Increases or decreases in their revenue sources may directly affect the General Fund support to these departments. 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, which consists of both the Community Health Network Division and the Public Health Division, has total net budget sources of funds of \$986.51 million (i.e. \$1,084.73 million less the \$98.22 million Departmental Transfer Adjustment) in FY 2003-04. The \$986.51 million of total sources is comprised of two major categories: 1) net departmental sources of \$744.82 million, primarily from federal and state sources such as Medicare, Medi-Cal and net patient revenue, and 2) General Fund Support of \$241.68 million.

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

Sources of Funds	FY2002-03	FY2003-04	%	
	Revised Budget	Proposed Budget	Increase / (Decrease)	Increase / (Decrease)
Patient Revenues	\$ 429.92	\$ 457.56	\$ 27.65	6.4%
General Fund Support	291.04	241.68	(49.35)	-17.0%
State Intergovernmental	247.25	249.79	2.55	1.0%
Health & Welfare Realignment-MVL	76.51	78.48	1.97	2.6%
Health & Welfare Realignment-Sales Tax	65.13	66.88	1.75	2.7%
Short-Doyle MediCAL	44.27	44.59	0.31	0.7%
State Alcohol Funds	19.63	19.72	0.09	0.5%
Community Mental Health	12.29	11.91	(0.38)	-3.1%
Prop 99 - Tobacco Tax	5.58	4.53	(1.05)	-18.8%
Other State	23.83	23.68	(0.15)	-0.6%
Federal Intergovernmental	79.46	78.65	(0.81)	-1.0%
Fund Balance	49.67	1.50	(48.17)	-97.0%
Other Service Charges	35.03	42.40	7.37	21.0%
Other Revenue	7.83	7.10	(0.72)	-9.3%
Licenses & Fines	5.77	6.04	0.26	4.5%
Departmental Transfer Adjustment	(98.22)	(98.22)	-	0.0%
Total Sources of Funds	\$ 1,047.74	\$ 986.51	\$ (61.23)	-5.8%

Overall, Public Health's sources of funds are projected to decrease approximately \$61.23 million in FY 2003-04 over the FY 2002-03 revised budget. Key decreases include General Fund Support and Fund Balance. Additionally, while the State Intergovernmental revenue shows a slight increase, the Governor's May Revise does put an estimated \$5.10 million at risk, for a net potential reduction of \$2.55 million (i.e. the \$2.55 million growth shown above less \$5.10

million included in the State Revenue Loss offset). The \$5.10 million at risk represents part of the \$30.00 million State Revenue Loss offset in General Fund Unallocated (see State Budget Impact summary on page 13). General Fund Support has dropped \$49.35 million or 17.0 percent, and the use of Fund Balance has decreased by \$48.17 million. Fund balance has declined because of the following: 1) the one-time use of \$41.28 million in FY 2002-03 for the Laguna Honda Hospital replacement project (funding originated from tobacco settlement proceeds), 2) one-time use of nearly \$5 million of fund balance for capital projects including earthquake safety improvements, and 3) a \$2.19 million reduction for San Francisco General Hospital's budgeted fund balance. San Francisco General Hospital's budgeted use of fund balance went from \$3.69 million in FY 2002-03 to \$1.50 million in the FY 2003-04 Proposed Budget).

Key increases include Patient Revenues, Other Service Charges and Licenses & Fines. The \$27.65 million or 6.4 percent increase in Patient Revenues is explained by projected revenues based on current census and reimbursement rates as well as recognition of new and/or changes in on-going revenue programs at San Francisco General Hospital and Laguna Honda Hospital. Additionally, San Francisco General Hospital has expanded Urgent Care, Dialysis and Workers' Compensation programs that will yield additional revenues. The \$7.37 million or 21.0 percent increase in Other Service Charges is primarily due to increases in Mental Health, Substance Abuse, and Housing divisions performing work orders with the Department of Human Services, the Department of Children, Youth, & Families, and the Children & Families Commission for programs for children, CalWORKS and homeless services. The growth in Licenses & Fines is explained by a change in the Garbage Truck Fees program from a previously off-budget continuing appropriation special revenue fund to a budgeted revenue program.

HUMAN SERVICES

The Department of Human Services (DHS) has a total budget of \$494.51 million in the FY 2003-04 Proposed Budget. This total is an increase of \$6.27 million compared to the FY 2002-03 revised budget. General Fund support for DHS is proposed to decrease by approximately \$2.18 million from \$146.12 million to \$143.94 million.

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

Sources of Funds	FY 2002-03 Revised Budget	FY 2003-04 Proposed Budget	Increase / (Decrease)	% Increase / (Decrease)
Federal & State Operating	\$ 187.68	\$ 188.76	\$ 1.08	0.6%
Federal & State Aid	104.35	104.92	0.57	0.5%
State Health & Welfare Realignment	42.87	44.01	1.14	2.7%
Subtotal Federal & State	334.89	337.69	2.79	0.8%
Interdepartmental Recovery / Transfers	6.10	11.60	5.50	90.2%
Other Revenue	1.13	1.28	0.15	13.3%
Total Non-GF Support Sources	342.12	350.57	8.45	2.5%
General Fund Support	146.12	143.94	(2.18)	-1.5%
Total Sources of Funds	\$ 488.24	\$ 494.51	\$ 6.27	1.3%

The FY 2003-04 Proposed Budget shows an increase of \$1.08 million in federal and state operating revenues. This slight increase, however, includes a couple of significant changes such as an increase of approximately \$10 million in state and federal grants, which support continuing, multi-year programs being shown in the DHS budget for the first time in FY 2003-04, as well as projected decreases in other state and federal operating revenues, primarily from prior-year reallocations.

Federal and state revenues to support payments to aid recipients are projected to increase by approximately \$0.57 million in FY 2003-04 over the FY 2002-03 revised budget. This represents a \$3.5 million increase over the FY 2002-03 original budget and is primarily the result of increased caseloads in the In-Home Supportive Services (IHSS) program.

Interdepartmental recoveries and transfers are projected to increase by approximately \$5.5 million in the FY 2003-04. Of this total, approximately \$3.5 million results from a reimbursement for the cost of health care for IHSS workers and \$1.1 million results from a one-time reallocation of Community Development Block Grant (CDBG) funds to DHS.



III. BASELINES

The FY 2003-04 Proposed Budget includes four baselines: 1) the Children's Baseline, 2) the Library Baseline, 3) the MTA - Municipal Railway Baseline, and 4) the MTA - Parking & Traffic Baseline (which first appeared in the FY 2002-03). Chart M identifies the required funding for each baseline based on projected aggregate City discretionary revenues and the funding provided in the Mayor's FY 2003-04 Proposed Budget.⁷

Chart M: Baselines (US\$ millions)

Baseline	FY 2003-04 Required Baseline	FY 2003-04 Mayor's Proposed	Surplus / (Shortfall) Contribution
Children	\$ 70.05	\$ 75.07	\$ 5.02
Library	31.29	31.29	-
MTA - Municipal Railway	95.41	95.41	-
MTA - Parking & Traffic	33.61	33.61	-
	\$ 230.37	\$ 235.39	\$ 5.02

CHILDREN'S BASELINE

The FY 2003-04 Proposed Budget includes Children's Baseline funding at \$75.07 million. This is \$5.02 million greater than the \$70.05 million required baseline. 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. 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 2003-04 Proposed Budget includes Library Baseline funding at the \$31.29 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.

⁷ Reflects technical adjustments known to date.

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. 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 2003-04 Proposed Budget includes MUNI Baseline funding at the \$95.41 million required level. In the budget year, the baseline funding to MUNI is affected by factors including: 1) the change in discretionary revenues, 2) the \$20.6 million increase in parking fines, of which \$10.3 is assumed to be an offset to the required contribution, and 3) the shift of Joint Powers Board costs to the MTA.

MTA - Parking & Traffic: The FY 2003-04 Proposed Budget includes Parking & Traffic Baseline funding at the \$33.61 million required level. While FY 2002-03 was the first year for the Parking & Traffic Department to receive baseline funding, the FY 2003-04 budget year will be the first year that the Parking & Traffic Baseline reflects changes in discretionary revenue.

IV. 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 N, total enterprise sources of funds are projected to increase by \$8.35 million. Operating revenues are projected to increase for only the PUC and the Port. The underlying assumptions of the FY 2003-04 Proposed Budget for these departments are highlighted in the narrative following Chart N.

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

Enterprise	FY2002-03 Revised Budget	FY2003-04 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
Airport Commission				
Operating Revenues	\$ 618.72	\$ 573.06	\$ (45.66)	-7.4%
Other Sources^	(37.40)	7.94	45.34	-121.2%
Subtotal - Before Tech. Adj.	581.32	581.00	(0.31)	-0.1%
Other Sources^ - Tech. Adj.		(13.23)	(13.23)	n/a
Subtotal	\$ 581.32	\$ 567.78	\$ (13.54)	-2.3%
Port				
Operating Revenues	\$ 49.17	\$ 50.65	\$ 1.47	3.0%
Other Sources^	6.29	7.96	1.67	26.6%
Subtotal	\$ 55.46	\$ 58.61	\$ 3.15	5.7%
Public Utilities Commission				
Operating Revenues	\$ 425.98	\$ 435.24	\$ 9.26	2.2%
Other Sources^	133.53	143.00	9.48	7.1%
Subtotal	\$ 559.51	\$ 578.24	\$ 18.74	3.3%
TOTAL	\$ 1,196.28	\$ 1,204.63	\$ 8.35	0.7%

^ 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 2003-04 Proposed Budget Book and Interim AAO.

AIRPORT

The Airport's FY 2003-04 Proposed Budget includes \$13.54 million less in total sources of funds. Key changes in the Airport's sources of funds include a \$45.66 million reduction in operating revenues principally attributed to projected decreases in landing fees, interest income, parking, and concessions. Compared to FY 2002-03, the FY 2003-04 Proposed Budget reflects declines in revenue that include a \$14.2 million decrease in landing fees; \$8.9 million decrease in interest income; \$7.9 decrease in concession-gift and merchandise revenue; \$7.5 million decrease in parking revenue; and \$5.1 million decrease in car rental revenue. Other operating revenue increases and decreases are largely offsetting. Concession revenue, which directly affects the transfer into the General Fund, is projected to increase 5 percent from projected FY 2002-03 year-end levels. Even after adjusting for this projected growth, FY 2003-04 revenues are not even expected to hit FY 2002-03 budget levels. Therefore, the FY 2003-04 Proposed Budget includes concession-related transfers to the General Fund of only \$18.50 million compared to the \$21.25 million included in the FY 2002-03 budget. Protracted weakness in passenger traffic appears to be the result of continued economic weakness, a jobless recovery to-date, uncertainty in the Middle East, and health concerns like Sudden Acute Respiratory Syndrome (SARS).⁸

The \$45.34 million increase in Other Sources is principally explained by the use of \$45.93 million in fund balance by the Airport. FY 2002-03 had (\$37.40) million of Other Sources, reflecting the typical Department Transfer Adjustment made to net out Police and Fire appropriation authority that is directly budgeted in the Police and Fire departments instead. Given this, the primary change in Other Sources is mainly the result of budgeting \$45.93 million of fund balance in FY 2003-04 for capital projects. However, \$13.23 million is related to the Runway Reconfiguration project, which was cut in the Mayor's Technical Adjustment, date June 5, 2003, so the net fund balance being budgeted is also reduced by \$13.23 million to \$32.70 million.

PORT

The Port's FY 2003-04 Proposed Budget includes \$3.15 million more in total sources of funds. The Port's operating revenues are projected to increase \$1.47 million or 3.0 percent. 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. While there has been a significant downturn in the San Francisco commercial real estate market, with commercial vacancy rates generally increasing to-date, demand for space along the waterfront has been only moderately affected. This downturn has

⁸ The Airport publishes their *Airport Rates and Charges* document each year. That document presents the calculation of landing fees and terminal rental rates, includes all major revenue assumptions used in the development of the Airport's proposed budget, and is developed in collaboration with John F. Brown Company, AVK Consulting and staff of the San Francisco International Airport. The key assumptions used in developing the FY 2003-04 Proposed budget are summarized on pages 23 and 24 of this document. The major assumption pertaining to air traffic is enplaned passengers. The FY 2003-04 Proposed Budget projects enplaned passenger growth of 2.8 percent over a FY 2002-03 revised forecast (3.1 percent for domestic and 2.1 percent for international). This compares to a FY 2002-03 revised growth of enplaned passenger traffic of 1.9 percent (2.9 percent for domestic and -1.1 percent for international). Based on current trends and the impact of SARS, it appears that enplaned passenger traffic will fall short of the FY 2002-03 revised projection.

been limited primarily to demand for the Port's commercial office space, though recent leasing activity has pushed the Port office vacancies to less than 10 percent, well below the citywide vacancy rate. The lower demand for office space, however, has resulted in lower office rental rates. Demand and rental rates for the Port's warehouse and industrial space have remained strong. In the retail sector, the Port has seen a marked decrease in its percentage lease income. Percentage-based leases, unlike fixed leases, are based in part on the tenant's gross sales and are a common component of our agreements with retail business tenants. The decline in income from these leases is not surprising in light of the continued sluggish economy and weakness in tourist-related business throughout San Francisco.

Maritime. The Port continues to promote its maritime industries, focusing on both cargo and cruise. Princess Cruises, Crystal Cruises, and, for the first time, Holland American Line will homeport Alaska vessels here. In addition, Celebrity Cruises will add 15 new California coastal cruise calls, bringing total calls in FY 2003-04 to 68 from 39 in FY 2002-03. With respect to cargo, the Port has been able to maintain its existing container carriers at Pier 80 in the face of continued consolidation in the shipping industry. Additionally, the Port has been able to increase break-bulk cargo, with the strongest cargo growth being in bulk aggregate, imported for Bay Area construction projects.

PUBLIC UTILITIES COMMISSION (PUC)

The San Francisco Public Utilities Commission's FY 2003-04 Proposed Budget, which incorporates the Hetch Hetchy, Water and Clean Water Departments, includes \$18.74 million more in total sources of funds, with operating revenues expected to increase by approximately \$9.26 million over the FY 2002-03 revised budget. This increase is principally explained by the \$6.80 million increase in charges for services, and \$2.30 million of the increase coming from interest and rental revenue. Highlights of the three operating components are below.

Hetch Hetchy. Hetch Hetchy's operating revenues are expected to increase by approximately \$3.00 million over the FY 2002-03 budget as a result of an estimated \$3.79 million increase in the sale of electricity and power, which is offset by an \$0.79 million decrease in interest earnings.

Revenues are generated from the sale of power to City departments (General Fund and Enterprise), the Modesto Irrigation and Turlock Irrigation Districts and excess power sold to the Western State Power Pool (WSPP). Hetch Hetchy charges its customers in accordance with existing rate policies and contractual requirements. Rate charges to City enterprises are based on comparable PG&E rates; a flat \$0.0375/kwh rate is charged to General Fund operations. Negotiations to reconfigure the contract between Hetch Hetchy and the Modesto Irrigation District are expected to contribute to a modest increase of revenue for the enterprise.

Water. The Water Department's operating revenues are expected to increase approximately \$14.78 million over the FY 2002-03 revised budget, reflecting higher water rates for suburban resale, and an increase in interest earnings. The Public Utilities Commission approved a recommendation that suburban resale water rates be increased 25.7 percent effective July 1, 2003. Although the FY 2003-04 Proposed Budget includes a \$16.41 million increase in suburban resale over the FY 2002-03 revised budget, when the PUC finally approved the increase on May 27, 2003, the Department calculated that the increase may generate an additional \$3.48 million, for an approximate \$20 million increase over the FY 2002-03.

The PUC determined that no change in the rate applicable to retail water sales is required for the FY 2003-04 period. 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 0.3 percent compound rate of change over the past five years as a result of decreased economic activity within 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 change in temperature and rainfall.

Clean Water. Clean Water's operating revenues reflect a \$3.52 million decrease from the FY 2002-03 revised budget due to slower growth than expected in estimated sewer services charge revenues. No new sewer service charge rate increase is assumed in the FY 2003-04 Proposed Budget. However, in November 2002, the voters passed Proposition E that, among other things, allowed for sewer rates to be increased with approval by two-thirds of the Board of Supervisors. If a rate increase were to be passed, Clean Water would lessen its dependence on fund balance. The amount of fund balance being budgeted for Clean Water in FY 2003-04 is \$11.31 million.⁹

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 sewerage system as sanitary wastes. 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). Normally, Clean Water's sewer service charge revenues are based on projected water use growing at a 0.5 percent annual rate. However, a downturn in economic activity has led to a drop off in revenue offsetting any increase in use per customer.

⁹ The Interim Consolidated Budget and Annual Appropriation Ordinance shows fund balance sources of \$23.21 million; however, \$11.90 million is actually related to capital projects in the Water Department, not the Clean Water Department. This \$11.90 million will be reflected in the Water Department for the Final AAO.

V. CONTROLLER'S RESERVES

Occasionally, departments will include a revenue source where some additional action is required in order to secure the revenues. In those cases, the Controller will reserve expenditures equal to revenues until the required action is taken and the revenues are secured. In the FY 2003-04 Proposed Budget, the Controller has reserved \$3.08 million in expenditures. Chart L lists those reserves and the action required for the department to expend funds that are supported by the proposed revenue.

Chart O: Controller's Reserves

Department	Reserve	Explanation for Reserve and Required Action
Child Support Services	\$ 2,827,987	Systems Consulting Services for Case Management System (pending revenue receipt)
Human Services	206,667	Safe Start Grant (pending receipt of grant)
Recreation & Parks	33,322	Pending Further Revenue Review
District Attorney	10,000	Reduction in Proposed Discovery / Photocopy Fees
Total	<u>\$ 3,077,976</u>	

VI. 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 \$22.15 million in 911 Fee revenue in the FY 2003-04 Proposed Budget. This reflects a \$6.65 million increase from the \$15.50 million included in the FY 2002-03 original budget. Approximately \$3.60 million of the \$6.65 million is related to the full-year impact of a mid-year increase in the 911 Fee – that is, going from \$1.00 to \$1.25 per telephone line equivalent in mid-FY 2002-03.¹⁰ The FY 2003-04 Proposed Budget also assumes an additional 911 Fee increase of 40 percent, that is, going from \$1.25 to \$1.75 per month per line equivalent. Trunk lines would go from \$9.38 to \$13.13 per month, and super trunk lines would go from \$168.75 to \$236.25.

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 \$36.24 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 P below summarizes the Controller's findings based on the FY 2003-04 Proposed Budget. In order to have 100 percent cost recovery, on average a \$2.78 monthly 911 Fee would have to be charged for each nonexempt telephone line equivalent. The Proposed Budget assumes an increase from \$1.25 to \$1.75 per line per month.

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 2003-04 subscriber limit is \$25,341. This means that no single customer (subscriber) will pay more than \$25,341 for 2003. Additionally, the proposed emergency response fee legislation would set the 2004 calendar-year fee cap at \$35,000. As is the case currently, that annual cap would be inflation-adjusted in 2005 and subsequent years.

¹⁰ The 911 Fee is based on \$1.25 per line equivalent. This translates to \$9.38 per month per trunk line and \$168.75 per month per high-capacity trunk line.

Chart P: 911 Fee Analysis

Total 911 System- Related Costs*	Estimated Eligible Costs Attributed to NonExempt Users	% of Total
\$ 43,668,520	\$ 36,244,872	83.0%

Cost Recovery	\$ Per Line Per Month
100%	\$ 2.78
90%	\$ 2.50
80%	\$ 2.22
70%	\$ 1.95
60%	\$ 1.67
50%	\$ 1.39
40%	\$ 1.11

Calendar Year Annual Cap - CPI Adjusted		
2003	\$ 25,341	1.36%
2002	\$ 25,000	

Key Assumptions

Telephone Line Equivalents (Monthly)	1,308,529
% 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
Dec-03	193.2	1.36%
Dec-02	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 below Chart Q. Chart Q also outlines the Fund's financial activity for the most recent five-year period. At this time the projected FY 2002-03 year-end fund balance is projected to be \$3.86 million. The FY 2003-04 Proposed Budget includes a use of \$1.10 million in FY 2003-04, leaving an estimated \$2.76 million in fund balance.¹¹

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

Fiscal Year	Sources	Uses	Net Change	Fund Balance Available For Appropriation (millions)
FY 2002-03*	\$ 1.24	\$ 1.05	\$ 0.20	\$ 3.86 6/30/2003 Projection
FY 2001-02	\$ 3.82	\$ 2.87	\$ 0.95	
FY 2000-01	\$ 1.06	\$ -	\$ 1.06	
FY 1999-00	\$ 1.00	\$ -	\$ 1.00	
FY 1998-99	\$ 0.05	\$ -	\$ 0.05	

*** Detailed Sources & Uses for FY 2002-03 (US\$)**

Sources (projected using June 16, 2003 actuals)

Downtown Park Fees	\$ 1,134,140
Interest Earned	109,889
	\$ 1,244,029

Uses (per budget)

CRP776 Downtown Park Fund	\$ 28,687
CRP854 Mid-Embarcadero Music Concourse	120,000
CRPUSR Union Square Park Renovation	900,000
	\$ 1,048,687

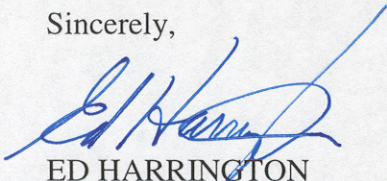
¹¹ Reflects technical adjustments made to date.

VII. CONCLUSION

The FY 2003-04 Proposed Budget reflects all labor contracts that have been passed by the Board of Supervisors and assumes that all bargaining units will contribute 7.5 percent to their retirement. Negotiated MOU costs are reflected in department budgets.

In preparing this report, the Controller's Office has attempted to conduct 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. If you have any questions or concerns regarding the information presented in this report please feel free to contact me or Monique Zmuda, Deputy Controller at (415) 554-7500.

Sincerely,



ED HARRINGTON
Controller

cc: Mayor Willie L. Brown, Jr.
Ben Rosenfield, Mayor's Budget Office
Harvey Rose, Board of Supervisors Budget Analyst