



Edward Harrington  
Controller

John W. Madden  
Chief Assistant Controller

June 15, 1999

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

Re: Budgeted Revenues for Fiscal Year 1999-2000

(Revenue Letter)

Dear Members of the Board:

Charter Section 9.102 requires that the Controller "provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates [in the Mayor's Proposed Budget] and the reasonableness of such estimates and revisions." My office and the Mayor's Budget Office have worked very closely to prepare the proposed 1999-2000 budget revenue estimates. **In my opinion, the proposed revenue estimates contained in the Mayor's 1999-2000 budget are based on a reasonable assumption of moderate economic growth.** For the \$1.2 billion in General Fund revenues, the projected growth rates generally range from 3.0% to 5.6%.

What follows is a discussion of the revenue estimates of the Mayor's Proposed Budget. It is organized as follows:

- I. General City Revenues
- II. Departmental Revenues
- III. Self-Supporting Enterprise Departments
- IV. Baseline Contributions
- V. Controller's Reserves

## I. GENERAL CITY REVENUES

The General City revenue estimates are based on the three-year budget projection developed jointly by the Mayor's Budget Office, the Controller's Office, and the Board of Supervisors Budget Analyst, as updated by the Controller's nine-month report. The Controller's nine-month report provides year-end estimates of General Fund revenues for 1998-99. These amounts are combined with the projected growth rates from the three-year budget projection to determine the revenue estimates for the 1999-2000 budget. Growth rates were developed in consultation with economic advisors of the Municipal Fiscal Advisory Committee to the Mayor.

Chart A presents historical and projected estimates for major General Fund revenue sources. These revenue sources represent the City's discretionary revenue base of approximately \$1.2 billion. In general, the City has experienced strong growth in most general city revenues, with total growth of 8.1% and 6.3% in the past two years, respectively. Overall, in the 1999-2000 budget these General Fund revenue sources are projected to increase 3.1% over the current year-end revenues. Without the decrease in the property transfer tax, the growth in General Fund revenues would be 4.3%.

**Chart A: Major General Fund Revenues**  
(figures in thousands of dollars)

	FY97-98 Actual	FY98-99		FY99-00
		Original Budget	Year-End Projection (1)	Proposed Budget (2)
Property Taxes	\$342,050	\$346,027	\$367,903 7.6%	\$388,592 5.6%
Business Taxes	222,904	231,263	234,524 5.2%	246,250 5.0%
Sales Tax	112,950	114,135	115,606 2.4%	119,074 3.0%
Utility Users Tax	56,604	56,087	55,485 -2.0%	54,571 -1.6%
Property Transfer Tax	44,007	42,000	54,000 22.7%	42,000 -22.2%
Hotel Tax (3)	150,163	163,580	162,539 8.2%	169,041 4.0%
Parking Tax (General Fund)	16,808	17,198	17,875 6.3%	18,411 3.0%
Public Safety Sales Tax	58,154	60,538	60,764 4.5%	63,500 4.5%
Motor Vehicle In-Lieu	75,121	76,292	78,306 4.2%	81,047 3.5%
<b>Total - Major Revenues</b>	<b>\$1,078,761</b>	<b>\$1,107,120</b>	<b>\$1,147,002</b>	<b>\$1,182,486</b>
	<b>\$ Change</b>		<b>\$68,241</b>	<b>\$35,484</b>
	<b>% Change</b>		<b>6.33%</b>	<b>3.09%</b>

## Notes:

- (1) Percentage increase represents the increase in 1998-99 year-end projection over 1997-98 actual revenues.
- (2) Percentage increase represents the increase in 1999-2000 budget over 1998-99 year-end projected revenues.
- (3) City ordinance allocates a portion of the hotel tax to specific purposes, such as cultural centers, arts, and low-income housing. The unallocated amount available to the General Fund is \$82.3 million in 1999-2000.

### **Current Year-End Surplus**

The proposed budget includes a projected current year surplus of \$102.9 million. The Controller's nine-month report initially estimated the year-end surplus at \$100.9 million; subsequent to the publication of that report, we identified an additional \$2 million in state realignment revenues that will be allocated to the City, for a total year-end surplus of \$102.9 million.

As noted in the Controller's nine-month report, the 1998-99 year-end surplus is a result of three factors. First, prior year (1997-98) actual revenues were higher than projected, increasing the balance available at the beginning of the current year (1998-99). Second, current year revenues continue to be strong, and are projected to be \$64 million higher than originally budgeted. Third, current year expenditures are somewhat lower than budgeted. The resulting year-end balance of \$102.9 million will be carried forward into the 1999-2000 budget.

Subsequent to the submission of the budget to the Board of Supervisors on June 1, 1999, the Department of Parking and Traffic indicated that the General Fund would receive a payment of \$2,950,000 from the Fifth & Mission Garage. This amount represents revenues that were held in reserve until completion of construction and payment of all expenses. We have reviewed the construction fund balance and surplus revenues, and concur that \$2,950,000 will be available from these sources. As a result, the current year-end surplus will be increased by \$2.9 million in the 1999-2000 budget. This change will be reflected in the technical adjustments submitted by the Mayor to the Board of Supervisors.

### **Discussion of Budget Estimates for Major Revenues**

**Property tax** estimates are based in part on the Assessor's projected tax roll for 1999-2000. According to the Assessor's estimates, the tax roll will increase by 7.0% from the 1998-99 roll to the 1999-2000 roll. For purposes of projecting the General Fund portion of property taxes, we take several other factors into consideration as well. First, some of the increase in the Assessor's tax roll is already reflected in the 1998-99 year-end revenue projection, due to mid-year reassessments and other transactions. As a result, the percentage increase in property tax revenues in 1999-2000 is less than the percentage increase in the value of the tax roll. In addition, we factor in likely appeals, reassessments, and major property transactions. Finally, we take into account changes in the allocation of the property tax to other non-General Fund departments. For example, this year there is increased funding for the Redevelopment Agency from property tax revenues. Overall, the General Fund share of property taxes is projected to increase by 5.6% over 1998-99 year-end estimates.

**Business taxes** are projected to increase by 5.0% in the budget year, reflecting continuing growth in business and employment in San Francisco. The 1998-99 year-end estimate is net of the new business tax credit, which was approved by the Board of Supervisors after the budget was adopted. The anticipated business tax growth rate in 1998-99 without the credit would be nearly 7.0%. If the actual business tax revenues increase by 7.5% or more in 1998-99, then the business tax credit would be available again in 1999-2000. Based on current projections, however, we do not anticipate that the tax credit will be available in 1999-2000, and a credit has not been factored into the projection.

**Sales tax** receipts have continued to increase in the current year, but at a slower rate than in the past. For fiscal year 1999-2000, we are projecting a modest growth of 3.0%.

**Utility users tax** receipts have continued to decline over the last three years. While some utility taxes are increasing (primarily telephone services) others are declining, particularly gas and electric utilities. Further, deregulation in the electric utility industry is likely to affect tax revenues. As a result, we are projecting a slight decrease in utility taxes for 1999-2000.

**Real property transfer tax** revenues have increased substantially in the last four years (\$23 million in 1995-96, \$34 million in 1996-97, \$44 million in 1997-98, and a projected \$54 million in 1998-99). These increases are due to higher property values, a large volume of sales transactions, and the sale of several large commercial properties. Because of the uncertainty and fluctuation in real estate transactions, the projection for the 1999-2000 budget is based on the average revenues for the past three years.

**Hotel taxes** have shown significant growth in the past three years, reflecting lower vacancy rates and higher room prices. The rate of growth, however, has slowed in the last year, reflecting natural limits such as short-term capacity constraints. We project that hotel tax receipts will increase by 4.0% in 1999-2000. Because a portion of the hotel tax is designated for specific purposes, as specified by ordinance, the unallocated portion of hotel tax revenues that is available to the General Fund will increase by only 3.0%, from \$79.9 million to \$82.3 million.

**Parking tax** revenues have increased over the past two years due to continuing strong economic growth and enhanced enforcement activity. In 1999-2000, we project a modest growth of 3.0% in receipts. The amount in Chart A reflects only the portion of parking tax revenues that remains in the General Fund; the Municipal Railway and the Commission on Aging also receive a portion of parking tax revenues.

**Public safety sales tax** (Proposition 172) is expected to grow at the same rate as statewide sales, which is projected to be 4.5%.

**Motor vehicle in lieu** subventions are experiencing more modest growth in the current fiscal year. We expect these revenues to increase at a rate of 3.5% in the 1999-2000 fiscal year.

## II. DEPARTMENTAL REVENUES

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 Municipal Railway; the two Health Department hospitals, San Francisco General and Laguna Honda; the Department of Human Services; and the Recreation and Park Commission. Increases or decreases in those 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' non-General Fund revenue sources are presented below.

## Municipal Railway

Of the Municipal Railway's \$373 million proposed budget, nearly \$257 million comes from dedicated revenue sources, as illustrated in Chart B.

**Chart B: Municipal Railway Revenue Sources**  
(figures in thousands of dollars)

Revenue Source	FY97-98 Actual	FY98-99 Year-End Projection	FY99-00 Proposed Budget	FY99-00 vs. FY98-99
Fare Revenues	\$97,909	\$97,026	\$98,502	\$1,476
State Sales Tax Allocation	51,468	60,084	59,990	(94)
Traffic Fines	57,277	61,153	62,850	1,697
Parking Tax	16,808	17,875	18,411	536
Parking Meter Collections	7,600	7,600	7,600	0
Garages	9,513	9,032	9,589	557
<b>Total</b>	<b>\$240,575</b>	<b>\$252,770</b>	<b>\$256,942</b>	<b>\$4,172</b>

Among the Municipal Railway's dedicated revenue sources, fare revenues have been declining over the last three years. Operational problems in the past year have continued to erode fare revenues, and estimated year-end revenues are \$3 million less than the original budget of \$100.3 million in 1998-99. Efforts are being made to restore reliability, and fare revenues for 1999-2000 are projected to be \$1.5 million higher than current year revenues, but still \$1.8 million less than last year's original budget. Increased fare revenues are attributable to improved reliability, expansion of the FastPass program for general assistance recipients, and new ridership to Pac Bell Park. Traffic fines, which are collected by the Department of Parking and Traffic but dedicated to the Municipal Railway, are projected to increase in 1999-2000 due in part to implementation of the automated ticket system and more aggressive collection efforts for delinquent fines. Overall, the Municipal Railway's designated revenue sources are projected to increase slightly less than 2% in 1999-2000.

## Public Health

The Department of Public Health, which consists of both the Community Health Network Division and the Public Health Division, expects to receive more than \$635 million in non-General Fund revenues in 1999-2000, primarily from federal and state sources. In 1998-99, the department suffered serious erosion in its revenue base, primarily as a result of reductions in reimbursements and an increase in indigent and uninsured cases. Overall, the department estimates that revenues will be \$45.7 million less than budgeted in 1998-99. The factors affecting revenues in the current year are likely to continue in 1999-2000; as a result, the department has reduced its revenue projections from patient revenues, as illustrated in Chart C.

**Chart C: Health Department Revenue Sources**  
 (figures in thousands of dollars)

Revenue Source	FY98-99 Budget	FY99-00 Budget	FY99-00 v. FY98-99
Federal Intergovernmental	\$55,302	\$55,987	\$685
State Intergovernmental	145,790	146,146	356
Service Charges	21,273	21,467	194
Patient Revenues	440,194	411,296	(28,898)
Total Revenues	\$662,559	\$634,896	(\$27,663)

The General Fund support to the two Health Department divisions has increased by \$40 million in the 1999-2000 budget to offset the losses in patient revenue and maintain the same level of service.

#### **Human Services**

The Department of Human Services expects to receive more than \$238 million in non-General Fund revenues, primarily federal and state funding for specified programs. These programs include child care and children's services, foster care, adult services, food stamps, aid to families with dependent children (AFDC), in-home supportive services (IHSS), California Work Opportunities and Responsibility to Kids (CalWORKS), Medi-Cal, and other public assistance. Actual program funding is expenditure driven, so 1999-2000 receipts will be dependent on program expenditures. With the exception of \$18.4 million (which has been placed on reserve), these revenue projections are supported by allocation letters from the granting federal or state agency.

#### **Recreation and Park**

The Recreation and Park Commission collects revenues from a number of sources, including charges for services, concessions, rentals, admissions tax, and parking fees from garages located on Park property (Chart D). In 1999-2000, these sources are projected to generate \$28.6 million, which represents nearly 41% of the department's budget (exclusive of the Yacht Harbor and Open Space Funds, which have dedicated revenue sources).

**Chart D: Recreation & Park Revenue Sources**  
 (figures in thousands of dollars)

Revenue Source	FY98-99 Budget	FY99-00 Budget	FY99-00 vs. FY98-99
Charges for Services	\$10,932	\$9,315	(\$1,617)
Concessions	7,691	6,021	(1,670)
Rental Fees	5,416	5,114	(302)
Admissions Tax	2,199	1,536	(663)
Garages	5,283	6,626	1,343
<b>Total</b>	<b>\$31,521</b>	<b>\$28,612</b>	<b>(\$2,909)</b>

The department's revenue estimates for the 1999-2000 budget are lower than the prior year, as illustrated above. In last year's budget, the department projected substantial increases in a number of revenue sources, which did not materialize. As a result, the 1999-2000 revenue estimates are based on the current year's experience. In particular, the following conditions are affecting both current year and projected department revenues:

- Within **charges for services**, golf fees are down \$565,000 from last year's budget, reflecting a two-year downturn in activities at city-owned courses; admission fees at the Japanese Tea Garden, Coit Tower, and the Carousel are down \$735,074, due in part to a fee increase which may be deterring attendance.
- **Concession revenues** are down at nearly all of the department's facilities; in addition, the department will lose a portion of its concession revenues when the Giants open their new ballpark.
- **Rental fees** are down primarily because of the termination of the Giants' lease at Candlestick Park.
- The **admissions tax** is also down because of the Giants' move out of the department's facility; the department will receive the admissions tax only through the remainder of the 1999 season. The admissions tax from Pac Bell Park will be deposited to the General Fund.
- The increase in **garage fees** reflects a general trend throughout the City. However, an estimated \$317,000 of the increase in this category is attributable to a proposed fee increase at the Kezar parking facility. Approval of that increase is still pending before the Board of Supervisors. We will add this item to the list of Controller's reserves if the fee increase has not been approved by June 30.

In general, the department's more conservative revenue estimates reflect the experience of the last several years and current operations. General Fund support for the department has increased by \$6.7 million to offset department revenue shortfalls and expand program activities.

### III. SELF-SUPPORTING ENTERPRISE DEPARTMENTS

Enterprise departments such as Water, Clean Water, Hetch Hetchy, the Port and the Airport are supported by user fees and are not supported by the City's General Fund. The underlying assumptions of the 1999-2000 proposed revenues for these departments are highlighted below:

- The Clean Water Program will continue to operate at roughly the same level as the past two years. The budget includes a modest capital program funded with \$14.1 million in previously-approved revenue bonds and a repair and replacement program funded with \$11.9 million in operating funds. The program will draw nearly \$8.8 million from fund balances to support continuing operations. The program does not include an increase in sewer service charges for San Francisco residents.
- The Water Department also does not include a rate increase for San Francisco residents, but increased water rates for suburban customers by 35% for 1999-2000. The department is planning a \$145 million capital program funded with \$126 million in voter-approved revenue bonds and \$19 million in operating funds. The department will also draw \$6.4 million from fund balances to support continuing operations.
- Hetch Hetchy revenues are projected to decline slightly; the transfer from the power utility to the General Fund will be reduced from \$42.7 million to \$39.9 million in 1999-2000.
- The Airport's budget includes increases in almost every revenue category, including landing fees, concessions, facility rentals, and parking fees. These increases are attributable to expanded airport facilities. In addition, the department intends to use \$25.5 million from fund balances to support operations.
- The Port will continue operations at the same level as the prior year.

Overall, these enterprise revenues and expenditures are projected to increase by \$214 million in 1999-2000, as illustrated in Chart E.

**Chart E: Enterprise Revenues**  
 (figures in thousands of dollars)

Enterprise	FY97-98 Actual	FY98-99 Revised Budget	FY99-00 Proposed Budget	FY99-00 vs. FY98-99
Clean Water Program	\$177,047	\$171,896	\$170,501	(\$1,395)
Water Department	141,003	158,520	278,057	119,537
Hetch Hetchy	95,835	122,495	120,360	(2,135)
Airport Commission	281,899	345,923	441,202	95,279
Port	45,540	47,104	49,617	2,513
<b>Total</b>	<b>\$741,324</b>	<b>\$845,938</b>	<b>\$1,059,737</b>	<b>\$213,799</b>

#### IV. BASELINE CONTRIBUTIONS

The Charter specifies that the Children's Fund and the Library Preservation Fund shall receive at least a minimum level of funding from the General Fund (Sections 16.108 and 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 expenditures increase, the minimum funding levels for the Children's Fund and the Library Preservation Fund also increase. Chart F identifies the minimum funding level (baseline) for each fund based on projected aggregate City expenditures in the 1999-2000 budget and the actual funding levels in the proposed budget.

**Chart F: Baseline Funding Levels**  
 (figures in thousands of dollars)

	Required Baseline	Actual G.F. Contribution	Excess G.F. Contribution
Children's Fund	\$58,987	\$59,854	\$868
Library Fund	26,591	29,055	2,464

In the proposed 1999-2000 budget, the General Fund contributions to both funds exceed the baseline requirements. The Controller's Office monitors changes to aggregate City expenditures and the corresponding impact on the baseline requirements to these two funds, and reports those changes during the course of the year to ensure that the baseline requirements are satisfied.

## 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 1999-2000 budget, the Controller has reserved \$163.1 million in expenditures. Chart G lists those reserves and the action required to secure the revenues.

**Chart G: Controller's Reserves**  
(figures in thousands of dollars)

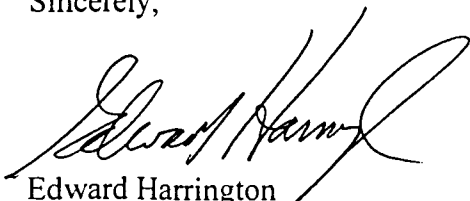
<u>Department</u>	<u>Reserve</u>	<u>Explanation for Reserve and Required Action</u>
Human Services	\$19,443	Awaiting final allocation from state based on final budget
Economic Development	13,000	Submit application to Calif. PUC for project funding
Police	4,538	Complete grant application and extension
Water	<u>126,100</u>	Proceeds of bond sales (not yet completed)
Total Reserves	<u><u>\$163,081</u></u>	

Subsequent to the submission of the budget on June 1, 1999, the Department of Human Services received an allocation letter from the State Department of Social Services regarding the allocation of TANF (Temporary Assistance to Needy Families) revenues. As a result, the Controller will remove \$1.1 million of the department's reserve. The Controller's Office will place a reserve of \$317,000 on Recreation and Park Department expenditures, if the proposed rate increase for the Kezar parking facility has not been approved by June 30.

In preparing this report, the Controller's Office has attempted to conduct a thorough review of budgeted revenues. At this time, there is still some uncertainty about final allocations from the state budget. We recognize that some allocations may be increased while others may be reduced, depending on final negotiations in Sacramento. It is impossible to second-guess the outcome of those negotiations at this time. 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 Ann Carey of my staff at 554-7500.

Sincerely,



Edward Harrington  
Controller

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

