



OFFICE OF THE CONTROLLER

March 21, 2007

The Honorable Gavin Newsom, Mayor
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Honorable Members of the Board of Supervisors
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: **Three-Year Budget Projection for General Fund Supported Operations
FY 2007-08 through FY 2009-10**

Dear Mayor Newsom and Members of the Board of Supervisors:

The San Francisco Administrative Code Section 3.6 requires a three-year budget report to be issued annually by the Controller, the Mayor's Budget Director, and the Budget Analyst for the Board of Supervisors. This report projects budgetary sources and uses for General Fund Supported operations for FY 2007-08 through FY 2009-10 as follows.

	FY 2007-08	FY 2008-09	FY 2009-10
Projected Surplus / (Shortfall)	\$ (25.4)	\$ (85.3)	\$ 8.3

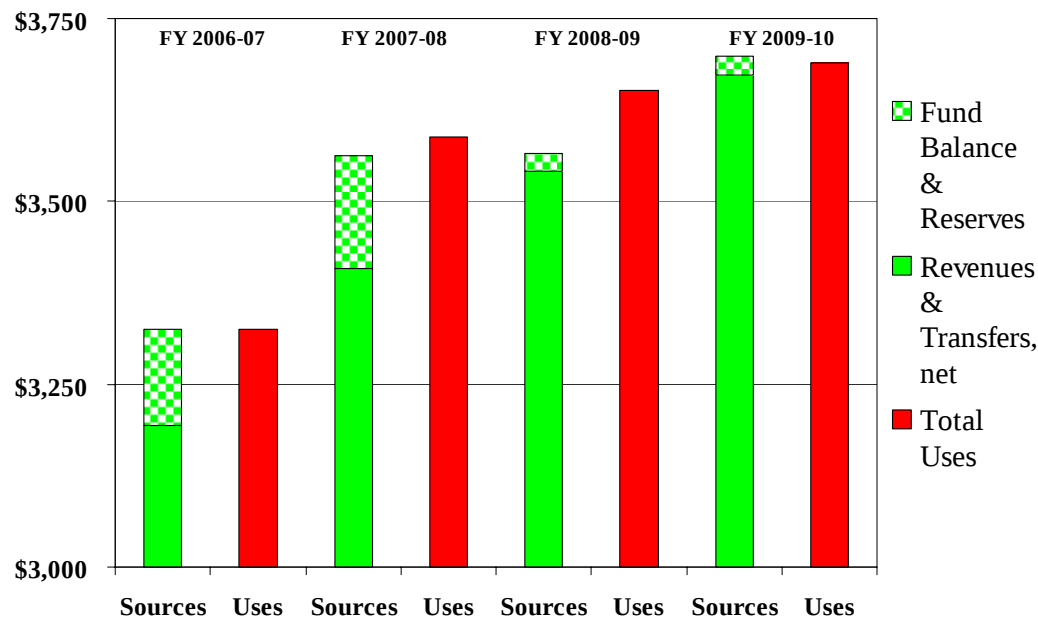
Table A on the following page highlights projected changes in General Fund supported operations, including the projected budgetary surpluses and shortfalls over the next three years. The key assumptions and findings in this projection report include:

- The FY 2007-08 shortfall of \$25.4 million assumes that the projected fund balance (including the \$126.6 million outlined in the Controller's Six-Month Report from FY 2006-07) remains available to help balance FY 2007-08. That fund balance is net of the supplemental appropriations introduced through March 16 and includes updated revenue projections. Any further supplemental appropriations this year will increase the shortfall.
- Wage increases for the open police, fire and nurses contracts are projected to grow at the rate of inflation which is estimated by the California Department of Finance at 2.5 %, 1.5% and 2.1% over the next three years. Any increases over those percentages will increase the shortfall. Every additional 1% increase equals \$6.1 million per year of General Fund cost.
- The projection for FY 2007-08 includes \$98.7 million for capital, facilities maintenance and equipment cash purchases including \$55.0 million called for in the 10-year Capital Plan, \$10.1 million for equipment, \$12.0 million for San Francisco General Hospital planning and \$21.6 million for furniture and fixtures for Laguna Honda Hospital. To the extent any of this is delayed or funded through debt, the shortfall will decrease.

- The \$85.3 million shortfall in FY 2008-09 is due, in large part, to the assumption that only the \$25.0 million budgeted in the general reserve will be available at the end of FY 2007-08 to help fund FY 2008-09. While this is how we have historically made these projections because we include all reasonably projected revenue in each year, we also have experienced greater fund balances in each year in the recent past. To the extent this occurs again in FY 2007-08, the shortfall for FY 2008-09 will decrease accordingly.

While the three fiscal year periods covered by this budget projection reflect either projected shortfalls or surpluses based on the current levels of service as assumed in this report, all final budgets must be balanced. As in the past, this report assumes that any prior-year projected shortfalls are balanced with ongoing solutions, including a combination of increased revenues and decreased expenditures.

Table A: High-Level Summary for General Fund Supported Operations
Projected Budgetary Surplus / (Shortfall), in millions



GENERAL FUND SUPPORTED OPERATIONS	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Fund Balances	\$ 101.7	\$ 129.4	\$ 25.0	\$ 25.0
Reserves, net	30.5	25.6	-	-
Revenues & Transfers, net	3,193.2	3,408.2	3,540.8	3,673.5
Total Sources	\$ 3,325.4	\$ 3,563.2	\$ 3,565.8	\$ 3,698.5
<i>% Change from Prior Year</i>		7.2%	0.1%	3.7%
Personnel - Salaries & Fringes	1,723.8	1,796.6	1,846.7	1,905.6
All Other Non-Personnel Costs	1,601.6	1,792.0	1,829.8	1,895.2
Required Budget Balancing from Prior Year			(25.4)	(110.7)
Total Uses	\$ 3,325.4	\$ 3,588.6	\$ 3,651.1	\$ 3,690.1
<i>% Change from Prior Year</i>		7.9%	1.7%	1.1%
Projected Surplus / (Shortfall)	\$ -	\$ (25.4)	\$ (85.3)	\$ 8.3
<i>as % of Total Uses</i>		-0.7%	-2.3%	0.2%

Our projections reflect the estimated cost of providing the current level of City services through current business practices for General Fund Supported operations. These projections are not intended to commit the City to future spending levels. Actual funding decisions will be subject to availability of funds as well as policy decisions of the Mayor and Board of Supervisors. Additional key assumptions to note in this year's Joint Report are included below. Based on these assumptions, key budgetary changes in sources and uses are highlighted in Table B on page 5.

Assumptions Contained in the Budget Projection

- Most employee unions negotiated three-year labor Memoranda of Understanding **(MOU) agreements from July 1, 2006 through June 30, 2009**, resulting in projected cost of \$23.9 million in FY 2007-08, \$25.4 million in FY 2008-09, and \$3.0 million in FY 2009-10.
- For employee unions with **expiring MOUs as of June 30, 2007** (including Police, Fire, and Nurses) and all others **expiring as of June 30, 2009**, our projections assume cost increases equal to projected inflation of 2.5 percent (costing \$15.0 million), 1.5 percent (\$9.7 million) and 2.1 percent (\$35.9 million) for FY 2007-08, FY 2008-09 and FY 2009-10 respectively. Our inflation projections are based on the California Department of Finance's projected consumer price index for the San Francisco Bay Area. If increases in salaries exceed the levels of inflation assumed in this report, the projected shortfalls in years one and two shown above will increase by a like amount, and the surplus will decrease in year three. **An additional one percent salary increase over and above the inflation increase assumed in our projection equals \$6.1 million per year for both FY 2007-08 and FY 2008-09. For FY 2009-10, because all MOUs are open, an additional one percent salary increase over and above the inflation assumed in our projection equals \$16.3 million per year.**
- The Charter-mandated employer-share **retirement contribution** rate will decrease from 6.24 percent in FY 2006-07 to 5.91 percent in FY 2007-08 for Miscellaneous, Police and Fire employees. Cost savings related to the change in mandatory employer retirement contribution rates for SFERS are projected to be \$3.8 million in FY 2007-08, followed by projected savings of \$6.5 million and \$5.4 million in FY 2008-09 and FY 2009-10 respectively. The CalPERS retirement contribution rate is also set to decrease slightly in FY 2007-08 (going from 18.824 percent to 18.065 percent) for covered public safety personnel, resulting in projected savings of \$1.1 million in FY 2007-08, followed by projected savings of \$0.1 million in FY 2008-09.
- For all three years, we have assumed that the City's operating costs will reflect inflationary cost increases for **contract services, materials and supplies**. This results in projected increased cost of \$14.6, \$9.3 and \$13.2 million for FY 2007-08, FY 2008-09, and FY 2009-10 respectively. These increases are tied to inflationary increases of 2.5, 1.5 and 2.1 percent as projected by the California Department of Finance for the San Francisco Bay Area.

- Consistent with the Governor's Proposed **State Budget**, our projection includes **proposed net increased funding of \$3.1 million in FY 2007-08**. The Governor's Proposed State budget changes, which will impact San Francisco, are summarized on page 18. On a related note, continuation of property tax shifts implemented in prior years for the Educational Revenue Augmentation Fund (ERAF I and ERAF II) will cost the General Fund \$306.8 million in foregone revenue in FY 2007-08.
- We do not assume a General Fund backfill of any **Federal Budget** proposed reductions for the Homeland Security Urban Area Safety Initiative (UASI, estimated to be \$5.4 million in FY 2007-08), Ryan White AIDS grant funding (estimated to be \$0.8 million in FY 2007-08), Community Development Block Grant (CDBG), Medicare or Medicaid reductions.

The Community Oriented Policing (COPs) grant impact shown in our projection relates to prior-year, existing grant award funding, which requires a minimum continuation of employment for one year after grant expiration. However, our projection assumes the City backfills existing COPs grant-funded police officer positions as previously awarded grant funding expires in order to maintain police staffing levels over the next three years. On a related note, our projection also assumes no new future funding for the federal COPs program, as COPs grant funding has been eliminated in the proposed Federal budget. This means that local governments across the country now have one less funding source available for critical future police protection enhancement initiatives.

Table B: 3-Year Projection of Key Changes to General Fund Supported Sources & Uses, millions

	FY 2007-08	FY 2008-09	FY 2009-10
<u>SOURCES - Fund Balance & Prior-Year Reserves</u>			
Change in Fund Balance	27.7	(104.4)	0.0
Change in Reserves	(4.9)	(25.6)	0.0
Subtotal - SOURCES - Fund Balance & Prior-Year Reserves	22.8	(130.0)	0.0
<u>SOURCES - Revenues, Transfers In, State Budget Shifts & Redevelopment</u>			
General Taxes & Recurring Revenue Growth	167.0	120.0	123.5
Redevelopment Share of Property Tax	(4.4)	(4.0)	(9.4)
Human Services - Social Service Incremental Revenue Draw	15.5	(0.1)	3.4
Subtotal - General Fund	178.1	116.0	117.5
Public Health - Incremental Hospital Revenues	33.8	16.7	15.1
State Budget Impact	3.1		
Subtotal - SOURCES - Revenues, Transfers...	215.0	132.6	132.7
TOTAL CHANGES TO SOURCES	237.8	2.6	132.7
<u>USES - Salaries and Benefits</u>			
Annualize Partial Year Position Deletions & Additions (salaries & benefits)	(13.5)		
Closed MOUs - Prior year COLAs and Known Increases	(23.9)	(25.4)	(3.0)
Open MOUs - Increases Assumed at CPI, incl. Salary & Fringes	(15.0)	(9.7)	(35.9)
Health and Dental Benefit Costs - Active Employees & Dependents	(11.5)	(15.7)	(17.3)
Health Benefit Costs - Retirees	(8.3)	(7.0)	(7.7)
Pension - Employer Costs - SFERS & CalPERS	4.9	6.6	5.4
Change in Workdays & Leap Year Impact	(4.7)	1.5	0.0
Other Miscellaneous Costs - Long-term Disability, Social Security, Unemployment	(0.9)	(0.5)	(0.5)
Subtotal - USES - Salaries and Benefits	(72.8)	(50.1)	(58.9)
<u>USES - Other Non-Personnel</u>			
Baselines Requirements	(55.6)	(33.8)	(34.7)
Base Budget Annualizations	(7.9)		
Capital, Facilities Maintenance, Equipment & Technology (cash purchase)	10.0	(5.5)	(6.1)
CPI Inflation on Materials, Supplies, Professional Services & Non-Profit Contracts	(14.6)	(9.3)	(13.2)
Debt Service & Lease Payments	(3.2)	(0.3)	1.1
Paid Sick Leave Ordinance (Prop F November 2006)	(5.3)	(1.4)	
Utilities Costs	(7.9)	(0.5)	(1.3)
Workers Compensation	(4.1)	(2.2)	(2.4)
<u>Departmental Items ...</u>			
Elections - Number of Elections	(7.0)	7.0	(3.5)
Elections - Voting System Costs	(1.7)	1.5	(2.9)
Ethics - Supervisorial Campaign Financing	0.6	(0.8)	0.8
Ethics - Mayoral Campaign Financing	4.8		
Human Resources - Collective Bargaining Expenses	0.7	(2.1)	1.4
Human Services Agency Costs	(20.0)	(9.0)	(6.9)
Museums - Open New Academy of Science	(2.5)	(0.2)	0.1
Police - COPS Grant Local Match Funding Requirements	(10.2)	(0.7)	(0.7)
Police - Crime Lab Debt Service Costs			(5.0)
Police - Annualize 5 Classes of 50 Hired in FY 2006-07	(9.8)	(1.7)	
Subtotal - Police Dept.	(20.1)	(2.4)	(5.7)
Public Health - SF General Hospital Rebuild Planning Funding	(12.0)	12.0	
Public Health - Laguna Fixtures, Furniture & Equipment (cash purchase)	(21.6)	12.3	7.9
Public Health - Annualization of Revenue-Backed Supplemental	(17.9)		
Public Health - LHH Laundry, Healthy Kids & Young Adults, HAP IT Costs	(4.4)	(2.8)	(1.0)
Subtotal - Public Health Dept.	(55.9)	21.5	6.9
Rec Park - Higher Debt Service in Open Space with Operating Cost Shift to GF	(2.0)		
Redevelopment - Visitacion Valley & Bay View Hunters Point Loans	1.5		
Other Miscellaneous Departmental Items	(0.3)	(0.2)	0.9
Subtotal - USES - All Other Items	(190.4)	(37.8)	(65.4)
TOTAL CHANGES TO USES	(263.2)	(87.9)	(124.3)
Projected Surplus / (Shortfall)	\$ (25.4)	\$ (85.3)	\$ 8.3

SUMMARY OF OUR PROJECTIONS

The discussions under the SOURCES and USES sections below provide descriptions of the corresponding section of Table B on page 5.

SOURCES - Fund Balance & Prior Year Reserves

We are assuming the entire remaining FY 2006-07 General Fund projected year-end fund balance will be available as a source of funding for the FY 2007-08 budget. This fund balance and projected reserves result in year-over-year incremental sources of \$22.8 million. Key changes in fund balances and reserves include:

Fund Balance – General Fund Supported. Projected fund balance has increased largely due to the economic recovery resulting in increased revenues, as well as some departmental savings. All combined, an additional \$27.7 million is projected year-over-year from FY 2006-07's currently budgeted \$101.7 million level. The incremental \$27.7 million in additional fund balance is consistent with the Controller's Six-Month Report projections, updated for supplemental appropriations passed through the release of this report, assumed supplemental appropriations still anticipated for Elections, Jail Construction Litigation and revenue-backed Public Health operating costs, and updated revenue projections.

Reserves from Prior Years. Occasionally, unspent reserve balances established in prior years are available to cover budget costs. The FY 2006-07 budget was balanced using net available prior-year reserves totaling \$30.5 million. The net projected FY 2007-08 available reserves are estimated to be \$4.9 million lower mainly due to projected lower salary and benefits reserves. On a related note to reserves:

- **Rainy Day Reserve – Economic Stabilization Account.** No draw down from the Rainy Day Reserve's Economic Stabilization Account was included as a funding source in the FY 2006-07 budget, nor is any withdrawal projected over the subsequent three years. At this time, anticipated revenue growth in FY 2007-08 through FY 2009-10 results in the City being ineligible to use the Rainy Day's Economic Stabilization Account as a funding source for the City budget. Nor are additional deposits to the Rainy Day Reserve projected to be required from FY 2007-08 through FY 2009-10. However, FY 2006-07 deposits are now projected given the updated revenue projections included in this projection, namely higher projected Property Transfer Tax and Business Payroll Tax revenue growth.
- **Rainy Day Reserve – One-Time Spending Account.** The Rainy Day's One-Time Spending Account is projected to have \$15.1 million available for one-time spending based on projected accumulated balances and deposits made through FY 2006-07. This compares to the \$15.9 million budgeted in FY 2006-07. No additional deposits are projected over this three-year period. Our projection assumes the use of the entire \$15.1 million projected balance as a funding source for the FY 2007-08 budget.

- **Citywide Budget Savings Incentive Reserves.** The FY 2006-07 budget included \$2.6 million in savings reserves. Consistent with anticipated savings, \$5.4 million is projected to be available to fund FY 2007-08 spending, reflecting a \$2.8 million increase. For FY 2008-09 and FY 2009-10 available budget savings reserves are not projected. Our projection assumes the use of the entire \$5.4 million projected balance as a funding source for the FY 2007-08 budget.
- **Recreation & Park Budget Savings Incentive Reserves.** The FY 2006-07 budget included \$3.1 million in savings reserves. No remaining balance is projected for FY 2007-08 or thereafter.
- **Salary & Benefits (MOU) Reserves.** For FY 2007-08, \$5.2 million of funding is projected compared to the \$8.9 million included in the FY 2006-07 budget planning process. This results in a net reduction of \$3.7 million for FY 2007-08.

SOURCES – Revenues, Transfers In, State Budget & Redevelopment Impact

Overall for FY 2007-08, we estimate projected revenue growth of \$215.0 million (6.7 percent) from the FY 2006-07 budgeted levels. Attachments 1 and 2 summarize Revenue and Transfer-In sources for the three-year projection. Key highlights are noted below.

- **General Tax, Recurring Revenues & Transfers In.** Recurring Revenues & Transfers In are projected to increase \$178.1 million (6.9 percent) in FY 2007-08 from the FY 2006-07 original budget levels, followed by increases of \$116.0 million (4.2 percent) and \$117.5 million (4.1 percent) in FY 2008-09 and FY 2009-10 respectively. Notable strength projected in the General Fund is primarily due to Property Tax, Business Payroll Tax, Social Service Subventions from the State, Hotel Room Tax, and Sales Tax related revenue growth.
- **Redevelopment Tax Increment Requirement.** Tax increment funding allocated to the Redevelopment Agency is partially funded from Property Tax revenue that would otherwise accrue to the General Fund. The FY 2006-07 budget was based upon an assumed gross tax increment of \$71.1 million budgeted for the Redevelopment Agency – or \$13.9 million less than the \$85.0 million in total available tax increment that could be allocated to the Redevelopment Agency. Our projection includes growth in Redevelopment tax increment funding which would result in a net reduction to General Fund revenue of \$4.4 million in FY 2007-08 to fund increased debt service that is planned, along with \$4.0 and \$9.4 million in FY 2008-09 and FY 2009-10 respectively. Without this planned increase in tax increment funding to the Redevelopment Agency, this net revenue would otherwise accrue to the General Fund.
- **Humans Services Agency Revenue.** The Human Services Agency is projected to have departmental revenue growth of \$15.5 million in FY 2007-08 and \$3.4 million in FY 2009-10. FY 2008-09 is projected to have a small decrease of \$0.1 million. These revenue changes are offset by projected cost increases of \$20.0 million in FY 2007-08, \$9.0 million in FY 2008-09 and \$6.9 million in FY 2009-10 discussed further in the expenditure section below.

- **Public Health Department Revenue - Hospitals.** Public Health hospital revenues are also projected to grow \$33.8 million in FY 2007-08, \$16.7 million FY 2008-09 and \$15.1 million in FY 2009-10. These revenue changes are offset by projected cost increases of \$55.9 million in FY 2007-08, though cost savings are projected of \$21.5 million for FY 2008-09 and \$6.9 million for FY 2009-10 as discussed further in the expenditure section below.
- **State Revenue Impact.** Consistent with the Governor's Proposed State Budget, our projection includes net \$3.1 million of projected incremental funding. On a related note, we have assumed the continuation of property tax shifts implemented in prior years for the Educational Revenue Augmentation Fund (ERAF I and ERAF II) of \$306.8 million annually. Further details are summarized on page 18.

In summary, total General Fund sources are projected to increase by \$237.8 million, including \$22.8 million in Fund Balance less reduced Prior Year Reserves and \$215.0 million in Revenues, Transfers In, and State Budget impact less increased Redevelopment Property Tax allocations.

USES – Salaries and Benefits

We are projecting increased labor cost for the General Fund of \$72.8 million in FY 2007-08, followed by increases of \$50.1 million in FY 2008-09 and \$58.9 million in FY 2009-10. These result from known MOU provisions for City employees, mandated health benefit and retirement cost increases, changes in the number of workdays in each fiscal year, as well as **assumed wage increases for open contracts equal to the projected rate of inflation.**

Additional expenditure increases due to Salaries and Benefits are discussed below.

- **Annualization of Partial-Year Position Funding.** In FY 2007-08, the City will incur additional cost to annualize positions funded for only a partial year in the FY 2006-07 budget. Most of the positions were funded for only three-quarters of a year. Annualization of partial-year positions results in additional cost of \$13.5 million to fund these positions for a full year.
- **MOU Costs – Contracts Set Through June 30, 2009.** Most MOUs are closed through the end of FY 2008-09. Costs reflecting negotiated salary and fringe benefit increases as outlined in each bargaining unit MOU are included in our projection, including \$23.9 million for FY 2007-08, \$25.4 million for FY 2008-09, and \$3.0 million for FY 2009-10 related to the annualization of prior-year costs. Additionally for FY 2009-10, since employees covered by these contracts are set to have a new contract, we have assumed that wage-related costs grow at a 2.1 percent inflation rate as projected by the California Department of Finance for the San Francisco Bay Area. These costs are noted immediately below along with other currently open contracts.
- **MOU Costs – ‘Open Contracts’.** Police, Fire and Nurse MOU contracts all expire at the end of FY 2006-07. To capture projected cost associated with anticipated new contracts, we have included projected cost increases tied to the inflation as projected by the California Department of Finance for the San Francisco Bay Area for the next three fiscal years. These rates of inflation are 2.5 percent, 1.5 percent and 2.1 percent for FY 2007-08, FY 2008-09 and FY 2009-10 respectively. Additionally for FY 2009-10, since all other employees will also have open contracts, we have made the same inflation assumption for them in year three of our projection. These inflation assumptions result in projected cost for open contracts of \$15.0 million, \$9.7 million and \$35.9 million for FY 2007-08, FY 2008-09 and FY 2009-10 respectively.
- **Health and Dental Benefits.** Total health and dental benefits are projected to increase by \$19.8 million, \$22.7 million and \$25.0 million in FY 2007-08, FY 2008-09 and FY 2009-10, respectively. This is comprised of both current employee and retiree subsidy costs as follows:
 1. **Current Employees.** The Charter requires the City’s contribution for individual health coverage costs to increase based on a survey of California’s ten largest counties. The most recently conducted survey resulted in a 10.3 percent increase (going from \$365.66 to \$403.14 per month) in the Charter-required contribution from FY 2006-07 to FY 2007-08. Given this increase as well as other projected changes in plan utilization, planned use of fund balance of \$11.5 million during FY 2007-08 and negotiated benefit provisions, costs related to current employees are projected to increase by \$11.5 million, \$15.7 million and \$17.3 million for FY 2007-08, FY 2008-09, and FY 2009-10 respectively. Our projections for FY 2008-09 and FY 2009-10 are based on projected underlying insurance cost increases of an estimated 10.0 percent each year along with similar trust fund subsidies.

2. **Retired City Employees.** Charter Section A8.428 also mandates health coverage for retired City Employees. These medical benefits for retirees are projected to increase in cost by \$8.3 million, \$7.0 million, and \$7.7 million for FY 2007-08, FY 2008-09 and FY 2009-10 respectively. Our projections for FY 2008-09 and FY 2009-10 are based on projected underlying cost increases of 10.0 percent for inflation along with similar trust fund subsidies.
- **Pension Costs.** Total pension costs are projected to decrease because of projected contribution rate decreases, resulting in savings of \$4.9 million, \$6.6 million and \$5.4 million in FY 2007-08, FY 2008-09 and FY 2009-10 respectively. This is comprised of contributions into CalPERS and SFERS as follows:
 1. **CalPERS Contribution Rate Changes – Employer-Share Only.** The California Public Employees' Retirement System (CalPERS) has notified the City that the employer contribution rates for employees covered by CalPERS Safety will decrease from 18.824 percent in FY 2006-07 to 18.065 percent in FY 2007-08. We have included a rate of 17.900 percent as estimated by CalPERS for FY 2008-09 for the latter two years of our projection. These contribution rate assumptions result in pension savings of \$1.1 million in FY 2007-08 and \$0.1 million in FY 2008-09.
 2. **SFERS Contribution Rate Changes – Employer-Share Only.** Employer-share contribution rates are set to decrease from 6.24 percent in FY 2006-07 to 5.91 percent in FY 2007-08 for covered City employees, as adopted by the Retirement Board on January 9, 2007. Required employer-share rates included in our projection are based on the San Francisco Employees' Retirement System's (SFERS) actuarial valuation as of July 1, 2006 (completed and published in January 2007). For the latter two years of our projection, we used the Retirement System's assumption of an assumed average actuarial rate of return on assets of 8.00 percent, resulting in required employer-share contribution rates of 5.40 percent in FY 2008-09 and 5.00 percent in FY 2009-10 as calculated by the Retirement System. These rate change assumptions result in the retirement contribution savings of \$3.8 million for FY 2007-08, \$6.5 million for FY 2008-09, and \$5.4 million for FY 2009-10. On a related note, FY 2004-05 was the first year the City was required to make an employer share contribution following seven and a half years of zero percent rates given the surplus funding of the retirement system.
 - **Change in Work Days.** FY 2007-08, FY 2008-09 and FY 2009-10 all have 261 workdays for regularly scheduled shifts, whereas FY 2006-07 only had 260 workdays. Additionally, FY 2007-08 is affected by the leap year. After factoring in all workdays and weekend coverage for 24/7 operations, the City's General Fund Supported operating costs are projected to result in \$4.7 million of higher cost in FY 2007-08, \$1.5 million of savings in FY 2008-09 followed by no net impact in FY 2009-10.

- **Other Miscellaneous Benefits Costs.**

1. **Long-Term Disability.** Various bargaining units have long-term disability benefits included in their negotiated labor agreements. Cost increases of \$0.4 million are projected for FY 2007-08.
2. **Unemployment & Social Security Costs.** Each year the Federal government increases the base on which Social Security taxes are paid. This impacts both employee and employer costs. Our projection includes \$0.5 million of additional costs in each of the subsequent three years due to Social Security. No changes are anticipated in unemployment costs.

USES – Other General Citywide Costs

We project other non-salary expenditure increases of \$190.4 million, \$37.8 million and \$65.4 million for FY 2007-08, FY 2008-09 and FY 2009-10 respectively. These costs are based on the following assumptions:

- **Baseline Requirements.** The Charter specifies baseline-funding levels for various programs or functions, including Public Education, the Municipal Transportation Agency (MUNI and Parking & Traffic), the Library, Children's Services, the City Services Auditor, the Municipal Symphony, and the Human Services Care Fund. Baseline amounts are generally linked to changes in discretionary City revenues, though some are otherwise a function of citywide expenditures or base-year program expenditure levels. The revenue and expenditure projections assumed in this report result in projected cost increases related to Charter-mandated baseline requirements of \$55.6 million, \$33.8 million and \$34.7 million for FY 2007-08, FY 2008-09 and FY 2009-10 respectively.

Baseline & Other Mandated Spending Requirements, (in millions)

	FY 2007-08	FY 2008-09	FY 2009-10
Public Education Baseline (Fixed \$ per year, Prop H March 2004)	(23.3)	(15.0)	(15.0)
Municipal Railway Baseline (6.70% of Discretionary Revenues)	(11.9)	(7.8)	(7.9)
Municipal Railway Baseline - 3rd Street Light Rail Enhancement	(3.0)		
Parking & Traffic Baseline (2.42% of Discretionary Revenues)	(4.3)	(2.8)	(2.8)
Subtotal - MTA	(19.2)	(10.6)	(10.7)
Library Preservation Baseline (2.19% of Discretionary Revenues)	(3.9)	(2.5)	(2.6)
Children's Baseline (4.84% of Discretionary Revenues)	(8.6)	(5.6)	(5.7)
Human Services Care Fund			(0.4)
City Services Auditor Baseline (0.2% of Total Budget)	(0.5)	(0.0)	(0.3)
Municipal Symphony Baseline (1/8 of 1% of Property Tax Revenue)	(0.1)	(0.1)	(0.1)
Baselines Requirements	(55.6)	(33.8)	(34.7)

- **Base Budget Annualizations.** Each year base budget annualizations occur. These include adjustments to annualize the cost of on-going supplemental appropriations that happen during the current fiscal year as well as costs associated with continuing Board-approved add-backs in the budget. The effect of all base budget changes is a net cost of \$7.9 million in FY 2007-08.
- **Capital, Facilities Maintenance, Equipment & Technology.** The FY 2006-07 budget included cash purchase funding of \$65.0 million for capital (\$49.4 million) and facilities maintenance (\$15.6 million), \$9.2 million for technology projects and \$10.1 million for equipment. Our capital and facilities maintenance cost projections are consistent with those outlined in the 10-Year Capital Plan — currently proposed at \$55.0 million for FY 2007-08, then growing 10 percent in each subsequent year. On a related note, we have assumed another \$12.0 million in funding for the planning costs associated with the SF General Hospital rebuild project (discussed below under Public Health). Our projections also assume level funding over the next three years for the cash purchase technology and equipment programs, as well as an equipment lease purchase program of \$10.0 million.

	FY 2007-08	FY 2008-09	FY 2009-10
Capital & Facilities Maintenance (FY 2007-08, \$55 million cash purchase, then +10%)	10.0	(5.5)	(6.1)
Equipment (assumes level \$10.1 million cash purchase in all years)			
Technology Projects (assumes level \$9.2 million cash purchase in all years)			
Capital, Facilities Maintenance, Equipment & Technology (cash purchase)	10.0	(5.5)	(6.1)

- **CPI – Inflationary Increases for Non-Personnel (Materials, Supplies, Profession Services & Non-Profit Contracts) Costs.** Our projection assumes inflationary cost increases of 2.5 percent in FY 2007-08 at a cost of \$14.6 million, 1.5 percent in FY 2008-09 at a cost of \$9.3 million and 2.1 percent in FY 2009-10 at a cost of \$13.2 million. These inflation projections are from the California Department of Finance for the San Francisco Bay area.
- **Debt Service & Lease Financings.** Based on current debt repayment requirements as well as an assumed lease-financing program for equipment purchases continuing at \$10.0 million per year, total debt service and lease financing costs are projected to increase by \$3.2 million in FY 2007-08 and \$0.3 million in FY 2008-09. Savings of \$1.1 million are projected for FY 2009-10 as past debt is retired.
- **Litigation & Claims.** Each year the City is exposed to various risks related to lawsuits. We currently budget \$11.0 million annually to cover these costs for General Fund supported operations. In Fiscal Year 2007-08 and thereafter, we assumed level funding needs of \$11.0 million annually.
- **Paid Sick Leave Ordinance (Prop F, November 2006).** Our projection includes \$5.3 million of additional cost in FY 2007-08 associated with the new Paid Sick Leave Ordinance approved by voters last November, as well as another \$1.4 million projected for FY 2008-09, primarily related to provision of such benefits to In Home Support Services workers as well as City employees who are currently otherwise not earning sick pay.

- **Utility Costs.** Costs related to utilities, including electricity, natural gas, water, sewer, garbage and steam are projected to increase by \$7.9 million in FY 2007-08, \$0.5 million in FY 2008-09 and \$1.3 million in FY 2009-10. Notable increases are tied to: 1) natural gas commodity price increases, 2) water rate increases of 15.0 percent on average per fiscal year, 3) sewer service rate increases of 9.0 percent on average (in both FY 2007-08 and FY 2008-09) followed by a 3.0 percent increase in FY 2009-10; and 4) garbage rate increases of 19.0 percent in FY 2007-08 and 5.0 percent in the two subsequent fiscal years. Additionally, unlike previous years where the General Fund supported department were not billed for water, the 2006 Bighorn-Desert View Water Agency decision by the California Supreme Court effectively results in the PUC having to collect charges from General Fund departments. This court decision appears to also affect the department's rate-payer subsidized, low-income assistance program. The Court's decision clarifies that water rates are subject to Proposition 218, which requires voter approval of any charge above that which is required to cover service costs.

	FY 2007-08	FY 2008-09	FY 2009-10
Utilities - Electricity, Natural Gas & Steam	(2.9)	0.3	0.1
Utilities - Sewer	(1.0)	(0.1)	(0.6)
Utilities - Water (loss of subsidy for GF departments)	(3.5)	(0.5)	(0.6)
Utilities - Scavenger Garbage Rate Increase	(0.5)	(0.2)	(0.2)
Utilities Costs	(7.9)	(0.5)	(1.3)

- **Workers' Compensation Costs.** Workers' compensation costs are projected to increase \$4.1 million in FY 2007-08, \$2.2 million in FY 2008-09 and \$2.4 million in FY 2009-10. The FY 2007-08 projected increase is a result of a legislated increase in temporary disability benefits (indemnity payments) and assumed medical inflation of five percent. Our projections also assume medical inflation of five percent per year in the latter two years of the projection period. Our medical inflation assumption is lower than the 10 percent assumed for medical fringe benefits noted above due to the new medical provider network requirements as previously legislated under the State's workers' compensation reforms. Additionally, we have assumed that the number of indemnity claims will remain relatively flat over the next three years.

USES – Other Departmental & Commission Items

- **Elections Department – Number of Elections.** The number of elections changes from year to year. Currently three (including the new presidential primary in February 2008) are expected for FY 2007-08, one for FY 2008-09, and two for FY 2009-10. This results in projected incremental cost of \$7.0 million in FY 2007-08, followed by savings of \$7.0 million in FY 2008-09, and cost of \$3.5 million in FY 2009-10.
- **Elections Department – Voting System.** Voting system costs are projected to result in additional cost of \$1.7 million FY 2007-08, followed by \$1.5 million of savings in FY 2008-09 and additional cost of \$2.9 million in FY 2009-10.

- **Ethics Commission – Public Financing of Elections.** A projected savings of \$5.4 million is estimated for FY 2007-08, followed by an increase of \$0.8 million in FY 2008-09, and \$0.8 million of savings in FY 2009-10. This is comprised of costs related to both supervisorial and mayoral elections as follows:
 1. **Supervisorial Elections.** Proposition O, approved in November 2001, created a publicly financed election program for supervisorial candidates starting in November 2002. In FY 2007-08 there will be no Supervisorial District elections, resulting in a savings of \$0.6 million, followed in FY 2008-09 by elections in six of the Supervisorial Districts, resulting in an incremental cost of \$0.8 million. No Supervisorial elections are scheduled for FY 2009-10. These projections are tied to the timing of elections.
 2. **Mayoral Elections.** The Board-approved ordinance No. 31-06, adopted in February 2006, which created a publicly financed election program for mayoral candidates starting in November 2007. This is projected to result in incremental cost of \$6.4 million in FY 2006-07, followed by savings of \$4.8 million in FY 2007-08. No incremental funding is projected for FY 2008-09 or FY 2009-10, as annual level appropriations of \$1.6 million per year are assumed going forward.
- **Human Resources – Labor Contract Negotiation.** Most labor contracts are closed through June 30, 2009; however, Police, Fire and Nurses all have contracts expiring on June 30, 2007. This results in projections of \$0.7 million of savings in FY 2007-08, \$2.1 million of additional cost in FY 2008-09 and \$1.4 million of savings in FY 2009-10.
- **Human Services Agency.** The agency has projected cost increases of \$20.0 million in FY 2007-08 followed by further cost increases of \$9.0 and \$6.9 million in the latter two years of our projection. These changes are summarized below.

	FY 2007-08	FY 2008-09	FY 2009-10
Human Services - Supportive Housing Services Units in the Pipeline	(1.1)	(2.5)	(1.5)
Human Services - Annualization of Supplemental Appropriation	(12.9)		
Human Services - Aid Costs (excluding Human Services Care Fund Baseline)	(6.0)	(6.5)	(5.3)
Human Services Agency Costs	(20.0)	(9.0)	(6.9)

1. **Supportive Services Costs for Housing in Construction Pipeline.** The Human Services Department is projecting additional costs of \$1.1 million in FY 2007-08, \$2.5 million in FY 2008-09, and \$1.5 million in FY 2009-10 related to supportive services in subsidized housing units which are scheduled to be added over the next three years.
2. **Annualization of Revenue-Backed Supplemental Appropriations.** The Human Services Department also has a \$12.9 million projected cost related to the annualization of revenue-backed supplemental appropriations. Revenue offsets of \$15.5 million are also included in our projections. The department's funding formulas generally allow for reimbursement of approximately 50 percent of its personnel costs from State and Federal funds.

3. **Aid Costs.** The Human Services Agency is projecting increased General Fund expenditures of \$6.0 million, \$6.5 million and \$5.3 million in FY 2007-08, FY 2008-09, and FY 2009-10 respectively. Increases in General Fund supported aid expenditures, which are projected to increase between two to three percent per year on average. The rise is a result of a combination of increases in cost due to increasing caseloads and higher In-Home Supportive Services Program costs with partially offsetting decreases in costs (as seen in FY 2006-07 as well) related to lower than expected caseloads in both the County Adult Assistance and CalWorks Childcare programs. Caseloads for the County Adult Assistance and CalWorks Childcare programs are expected to remain level through FY 2009-10, while caseloads for In-Home Supportive Services are expected to continue to rise. Overall, the Human Services Department is projected to receive over 50 percent of its funding for client aid payments from the State and Federal governments.
- **Museums – Academy of Sciences New Facility & Annualization Costs.** Total costs are projected to increase \$2.5 million and \$0.2 million in FY 2007-08 and FY 2008-09 respectively, and then result in savings of \$0.1 million in FY 2009-10.
 - **Police Department Costs.** The department has projected cost increases of \$20.1 million, \$2.4 million and \$5.7 million over the next three years. These changes are summarized below.
 1. **COPS Grant Funding** – Expiration of existing multi-year Federal COPS grant funding is projected to affect 133 police officer positions beginning in FY 2006-07. Given the Charter-mandated, minimum police staffing requirement, we have included the projected costs of continuing to bring these officers back into the General Fund. Cost increases of \$10.2 million in FY 2007-08, \$0.7 million in both FY 2008-09 and FY 2009-10 are included in our projection.
 2. **Crime Lab Costs** – In FY 2006-07 the crime lab was removed from the shipyard's utility grid while remediation was underway. This was a temporary solution to a longer-term need to relocate the crime lab. To meet this need, we have assumed an estimated \$60.0 million in Certificates of Participation (COPs) which will be issued in FY 2008-09, resulting in an estimated annual debt obligation of \$5.0 million beginning in FY 2009-10.
 3. **FY 2006-07 Academy Cost Annualization.** The department was budgeted to hire five classes of 50 officers in FY 2006-07. To annualize the costs associated with these five classes, increased costs of \$9.8 million in FY 2007-08 and \$1.7 million in FY 2008-09 are included in our projection. To the degree additional classes are added in future years to meet minimum staffing requirements, the projected costs will increase.
 - **Public Health Department Costs.** The Department of Public Health is projected to have department-specific increases in expenditures of \$55.9 million in FY 2007-08 along with savings of \$21.5 in FY 2008-09 and \$6.9 million in FY 2009-10. On a related note Public Health has projected additional hospital revenues of \$33.8 million in FY 2007-08, \$16.7 million in FY 2008-09 and \$15.1 million in FY 2009-10. For FY 2007-08, this results in an estimated deficit of \$22.1 million due primarily to an assumed cash purchase of \$21.6 million in Furniture, Fixture and Equipment (FF&E) for the new Laguna Honda Hospital. Select departmental expenditure changes are summarized below.

1. **SF General Hospital Rebuild.** Our projection assumes the FY 2007-08 budget will include the remaining \$12.0 million in funding for project planning. This results in savings of \$12.0 million in FY 2008-09.
2. **Laguna Honda Furniture, Fixtures & Equipment.** FF&E costs, assuming a cash purchase program, for the new Laguna Honda Hospital are projected to result in cost increases of \$21.6 million in FY 2007-08 followed by savings of \$12.3 million in FY 2008-09 and savings of \$7.9 million in FY 2009-10. If the project scope or timing changes, this projection could also change.
3. **Annualization of Revenue-Backed Supplemental.** Our projection assumes total cost of \$17.9 million related to the annualization of revenue-backed supplemental appropriation authority as also assumed our FY 2006-07 fund balance projections.
4. **Other Public Health Items.** Other miscellaneous cost increases totaling \$4.4 million in FY 2007-08, \$2.8 million in FY 2008-09, and \$1.0 million in FY 2009-10 are itemized below.
 - **Health Access Plan Infrastructure.** Our projection assumes \$2.4 million in information systems infrastructure funding for the Health Access Program. There may be additional cost that has not yet been identified by the Public Health department.
 - **Healthy Kids & Young Adults Enrollment Growth.** Cost increases of \$0.6 million for FY 2007-08, \$2.1 million for FY 2008-09 and \$1.4 million for FY 2008-09 are projected, based on projected enrollment growth of five percent in FY 2007-08, 18 percent in FY 2008-09 and 11 percent in FY 2009-10.
 - **Laguna Honda Laundry Costs.** Increased operating costs for the laundry contract are projected to be \$1.4 million in FY 2007-08 and \$0.7 million in FY 2008-09, followed by savings of \$0.4 million in FY 2009-10 due to the projected opening of the laundry facility at the new Laguna Honda Hospital. When the new laundry facility becomes fully operational, the department intends to terminate the laundry contract.
- **Recreation & Parks – Open Space Fund’s Revenue Bond Impact.** The Recreation & Parks Department is planning to issue revenue bonds by mid-2007, secured by the Open Space Fund’s property tax revenues, to fund capital improvements. In order to pay for this incremental debt service, \$2.0 million of operating cost budgeted in the Open Space Fund during FY 2007-08 will need to revert back to General Fund support.
- **Redevelopment – City Loans.** The FY 2006-07 budget included \$1.5 million in City loan funding to the Redevelopment Agency. These loans are projected to be one-time expenditures to provide funding for survey area costs related to Visitacion Valley and Bay View Hunters Point and therefore result in savings to the General Fund in FY 2007-08.

• **Other Miscellaneous Departmental Items.**

	FY 2007-08	FY 2008-09	FY 2009-10
Emergency Communications - GF Support for 911 Operations	(0.6)	(0.2)	0.6
Film Rebate Program (sunsets June 30, 2009)			0.6
GSA - DTIS - Expiration of PEG Operating Funds (AB2987)			(0.3)
GSA - DTIS - Updated Cost Allocations	1.6		
Probation Positions Approved in March 2007	(0.6)		
Public Defender - Additional Positions Approved in July 2006	(0.4)		
Treasurer/Tax Collection - Additional Positions Approved in October 2006	(0.3)		
Other Departmental Items	(0.3)	(0.2)	0.9

1. **Emergency Communications.** The General Fund support costs related to the subsidization of exempt low-income households from the 911 fee are projected to increase by \$0.6 million FY 2007-08 and \$0.2 million in FY 2008-09, followed by savings of \$0.6 million in FY 2009-10.
2. **Film Rebate Program.** The City's film rebate program is slated to sunset on June 30, 2009. Assuming that the program is not extended past that time, \$0.6 million of projected savings results in FY 2009-10.
3. **General Services Agency – DTIS – PEG Funding.** AB2987 resulted in the loss of local government control over video franchising in California. The effect is a projected loss of \$0.3 million of video franchise related Public Education & Government (PEG) channel funding in FY 2009-10.
4. **General Services Agency – DTIS – Updated Cost Allocations.** The new rate allocation plan for Telecommunications & Information Services is projected to result in savings of \$1.6 million in FY 2007-08.
5. **Adult & Juvenile Probation Position Annualizations.** The recent Board Committee-approved Annual Salary Ordinance amendments for Adult and Juvenile Probation Departments' positions will result in projected incremental costs of \$0.6 million in FY 2007-08.
6. **Public Defender's Office Position Annualizations.** The Board approved Annual Salary Ordinance amendments for the Public Defender's Office in July 2006 will result in projected incremental costs of \$0.4 million in FY 2007-08.
7. **Treasurer / Tax Collector – Additional Positions.** The Board approved Annual Salary Ordinance amendments for the Treasurer / Tax Collector's Office in October 2006 will result in projected incremental costs of \$0.3 million in FY 2007-08.

In summary, General Fund supported uses are projected to increase \$263.2 million in FY 2007-08, comprised of \$72.8 million in personnel (salaries and benefit costs) and \$190.4 million in non-personnel and departmental costs.

Items Not Included in Our Projection

As with all projections, unforeseen events may occur that change the City's future financial condition. Additionally, we are aware of some factors now that may impact the City's finances over the next three years, but we are unable to predict what that effect and timing might be.

- **Natural Disasters & Man-Made Disruptions.** As in previous reports, we have not included any projected costs associated with natural disasters or man-made disruptions.
- **New Development Projects.** There are several large, proposed projects that will likely result in both new tax revenues and associated costs. Our projections make no assumption regarding the net financial impact of these projects, which include Mission Bay, the Transbay Terminal, Mid-Market, and the development of Treasure Island.
- **Pending or Proposed Legislation – Potential Fee / Departmental Revenue Increases.** Various proposed fee increases may be proposed to the Board of Supervisors before the end of the year or as part of next year's budget. Proposed increases have not been assumed in our projections. MTA-approved parking garage rates, which also impacts parking tax revenues, have been assumed.
- **Post Employment Benefits – GASB 45's Impact on Retiree Health Benefits.** This report's projections assume that the City continues to cash fund the immediately due portion of retiree health costs, but not the accrued liability or total costs related to post employment retiree health subsidy benefits. The Government Accounting Standards Board Pronouncement #45 (GASB 45) requires that non-pension benefits for retirees, such as retiree health care, be shown as an accrued liability on the City's financial statements starting in FY 2007-08. GASB 45 does not require this liability be funded, only that the liability be reported on the annual financial statements.

To help plan for the implementation of GASB 45, the City requested that Towers Perrin prepare a preliminary actuarial valuation of this liability. Towers Perrin estimated that if the City were to have a Funded Plan to cover post-employment medical benefits, the projected liability would be \$3.0 billion and have an annual required contribution for FY 2006-07 of \$290.2 million, assuming an 8.0 percent return on investments, while covering all City operations, including those that are General Fund supported. In FY 2006-07, the City's total budget included \$101.0 million in funding for retiree health subsidies, which represented only the amount needed to pay for current costs due during the fiscal year. The additional potential liability to the City would, therefore, be the difference between the Towers Perrin estimate and the current budgeted funding, or \$189.3 million assuming a funded plan scenario. If the City opts to continue under a 'pay-as-you-go' or Unfunded Plan scenario, the liability is \$4.9 billion with an annual required contribution, for actuarial purposes, is \$455.9 million – a difference of \$354.9 million from currently budgeted levels.

- **Salary Increases on Open Contracts.** Only inflationary increases are assumed for open contracts. **An additional one percent salary increase over and above the inflation increase assumed in our projection equals \$6.1 million per year for both FY 2007-08 and FY 2008-09. For FY 2009-10, an additional one percent salary increase over and above the inflation assumed in our projection equals \$16.3 million per year.**
- **State and Federal Budget Changes.** Programmatic reductions or changes included in the Governor's proposed State Budget of \$3.1 million have been assumed in our projection as shown in Table C on the following page for General Fund Supported operations. We do not assume a General Fund backfill of any Federal Budget proposed reductions for the Homeland Security Urban Area Safety Initiative (UASI, estimated to be \$5.4 million in FY 2007-08), Ryan White AIDS grant funding (estimated to be \$0.8 million in FY 2007-08), Community Development Block Grant (CDBG), Medicare or Medicaid reductions.

The Community Oriented Policing (COPs) grant impact shown in our projection relates to prior-year, existing grant award funding, which requires a minimum continuation of employment for one year after grant expiration. However, our projection assumes the City backfills existing COPs grant-funded positions as previously awarded grant funding expires in order to maintain police staffing levels over the next three years. On a related note, our projection also assumes no new future funding for the federal COPs program, as COPs grant funding has been eliminated in the proposed Federal budget. This means that local governments across the country now have one less critical funding source available for future police protection enhancement initiatives.

**Table C: State Budget Estimated Impact for FY 2007-08, Increases / (Reductions)
In Millions, Including Estimated Values as of Joint Report**

Dept	State Budget Item	January Budget
PROGRAM FUNDING CUTS		
DPH	Eliminates Integrated Services for Homeless Adults with Mental Illnesses	(2.8)
DPH	Treatment Access Program (Prop 36)	(2.0)
DPW	Gas Tax Subvention Funding	(1.3)
	Subtotal - General Fund Program Cuts	(6.1)
MTA	State Transit Assistance Funding - \$5.3M Operating & \$15.1M Capital	(20.4)
	Non-General Fund Program Loss Subtotal	(20.4)
PROGRAM FUNDING INCREASES		
DPH	Mental Health Services Act Funding (Prop 63)	2.3
ADP	Expanded Probation Services Targeted at 18-25 year olds	1.3
DSS	Cost of Business Increase for Food Stamps, IHSS and Medi-Cal	1.6
DPW	Bond Funding for Local Road Repairs	4.0
	General Fund Program Funding Increases	9.2
	CCSF GENERAL FUND SUPPORTED Subtotal	3.1
	NON-GENERAL FUND SUPPORTED Subtotal	(20.4)
	TOTAL PROJECTED CITY IMPACT	(17.3)

CONCLUSION

We project a \$25.4 million shortfall for FY 2007-08, followed by a \$85.3 million shortfall in FY 2008-09 and a \$8.3 million surplus in FY 2009-10. The Charter requires that each fiscal year the budget of the City and County must be balanced. Therefore, this report assumes that any projected shortfall will be eliminated in the year in which such projected shortfalls first appear.

In addition to the risks noted above, a number of policy considerations are also present.

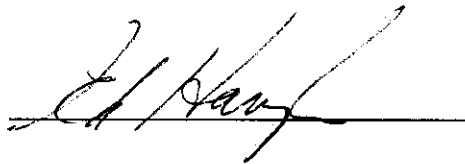
- City policymakers are faced with significant budgetary challenges for FY 2008-09 due largely to the use of all projected available fund balance in FY 2007-08. However, record Rainy Day Reserves are still projected to be on deposit to mitigate the next economic downturn.
- While the FY 2007-08 projection shows substantial fiscal improvement as compared to the most recent downturn, we continue to recommend that City policymakers examine both short- and long-term strategies to mitigate the projected shortfall for FY 2008-09.
- The extent to which the Mayor and the Board of Supervisors approve supplemental appropriations of General Fund monies this spring above those assumed in this projection, the shortfall for next fiscal year will be commensurately increased.

We acknowledge that projections of the City's financial condition over multiple years are far less certain than those for the immediate future. This report is based on the best information available at this time. All three of our offices will continue to work closely together in the coming months and will keep you apprised of any changes that occur.

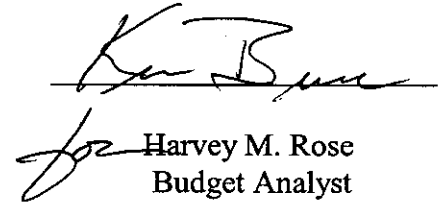
Respectfully submitted,



Nani Coloretto
Budget Director
Mayor's Office



Edward Harrington
Controller



Harvey M. Rose
Budget Analyst
Board of Supervisors

Attachment 1: General Fund Supported Operations: Revenues & Transfers In

Attachment 2: Growth in General Fund Supported Operations' Revenues & Transfers In

cc: Gloria Young, Clerk of the Board

Attachment 1: General Fund Supported Operations: Revenues & Transfers In

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
	Year-End	6-Month	Joint Report		
	Actuals	Original Budget	Projection	Projection	Projection
1 Property Taxes	\$ 782.7	\$ 837.5	\$ 861.4	\$ 926.0	\$ 1,035.6
2 Business Taxes	322.4	332.2	335.5	359.7	400.8
3 Sales Tax	103.1	106.2	108.2	113.6	125.3
4 Hotel Room Tax	130.8	125.9	132.4	142.2	162.1
5 Utility Users Tax	76.4	79.4	79.8	82.1	87.2
6 Parking Tax	36.2	36.1	37.2	38.2	39.4
7 Real Property Transfer Tax	131.3	105.0	108.9	111.8	120.9
8 Stadium Admission Tax	2.7	2.9	2.9	2.9	3.0
Subtotal - Tax Revenues	1,585.6	1,625.2	1,666.3	1,776.7	1,974.2
9 Licenses, Permits & Franchises	20.8	20.9	21.5	22.0	23.2
10 Fines, Forfeitures & Penalties	10.2	4.9	4.9	4.0	4.0
11 Interest & Investment Income	31.0	34.0	38.1	35.1	37.2
12 Rents & Concessions	20.0	20.1	20.1	21.0	22.7
Subtotal - Licenses ... Concessions	82.0	79.9	84.7	82.2	87.2
13 Federal Subventions	182.4	194.3	194.6	194.6	194.6
State Subventions					
14 Social Service Subventions	124.0	127.4	132.3	147.7	153.7
15 Health & Welfare Realignment	157.9	165.2	165.2	172.0	184.1
16 Health/Mental Health Subventions	70.0	75.2	76.1	77.2	77.2
17 Public Safety Sales Tax	69.3	74.0	72.8	76.5	84.3
18 Motor Vehicle In-Lieu (County & City)	35.8	5.6	5.6	5.8	6.3
19 Other Grants & Subventions	33.4	22.9	29.2	27.4	27.4
Subtotal - State Subventions	490.5	470.3	481.2	506.6	533.0
CHARGES FOR SERVICES					
20 General Government Service Charges	25.7	32.8	31.3	31.3	31.9
21 Public Safety Service Charges	24.9	24.6	26.7	27.0	27.5
22 Recreation Charges - Rec/Park	6.8	7.1	7.1	7.3	7.7
23 MediCal, MediCare & Health Svc. Chgs.	55.5	47.4	45.8	45.8	45.8
24 Other Service Charges	0.3	11.8	11.8	11.8	11.8
25 Charges for Services	113.2	123.7	122.7	123.2	124.8
26 Recoveries of General Government Costs	13.2	10.3	10.3	8.7	9.2
27 Other Revenues	7.7	18.8	19.2	8.2	8.2
28 TOTAL REVENUES	2,474.6	2,522.5	2,579.1	2,700.1	2,931.2
TRANSFERS INTO GENERAL FUND:					
29 Airport	21.5	22.1	22.1	22.9	25.3
30 Other Transfers	36.5	35.1	36.5	34.8	34.8
31 Total Transfers-In	58.0	57.2	58.5	57.7	60.1
32 TOTAL GF Revenues & Transfers In	2,532.6	2,579.7	2,637.6	2,757.8	2,991.3
33 OTHER GF SUPPORTED (GFS) OPERATIONS, net		613.5	634.5	650.4	682.2
34 TOTAL GFS Revenues & Transfers In, net		\$ 3,193.2	\$ 3,272.1	\$ 3,408.2	\$ 3,673.5
35 \$ Change from Prior Year Original Budget (PY Projection for Latter Two Years) - GF Only				\$ 178.1	\$ 117.5
36 % Change from Prior Year Original Budget (PY Projection for Latter Two Years)				6.9%	4.1%
37 \$ Change from Prior Year Joint Report Projection - GF Only				\$ 75.7	\$ 117.5
38 % Change from Prior Year Revised Budget (PY Projection for Latter Two Years)				2.8%	4.1%
39 \$ Change from Prior Year Original Budget (PY Projection for Latter Two Years)				\$ 215.0	\$ 132.7
40 % Change from Prior Year Original Budget (PY Projection for Latter Two Years)				6.7%	3.7%
41 \$ Change from Prior Year Joint Report Projection				\$ 91.7	\$ 132.7
42 % Change from Prior Year Revised Budget (PY Projection for Latter Two Years)				2.8%	3.7%

Attachment 2: Growth in General Fund Supported Operations' Revenues & Transfers In

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	FY 2007-08		FY 2008-09	FY 2009-10
	% Chg from FY 2006-07 AAO Original Budget	% Chg from FY 2006-07 Joint Report	% Chg from FY 2007-08 Projection	% Chg from FY 2008-09 Projection
1 Property Taxes	10.6%	7.5%	6.0%	5.5%
2 Business Taxes	8.3%	5.6%	5.6%	5.6%
3 Sales Tax	7.0%	5.0%	5.0%	5.0%
4 Hotel Room Tax	12.9%	7.4%	6.9%	6.6%
5 Utility Users Tax	3.4%	3.0%	3.0%	3.0%
6 Parking Tax	6.0%	2.6%	1.5%	1.5%
7 Real Property Transfer Tax	6.5%	-23.6%	4.0%	4.0%
8 Stadium Admission Tax	1.0%	1.0%	1.0%	1.0%
Subtotal - Tax Revenues	9.3%	4.0%	5.5%	5.3%
9 Licenses, Permits & Franchises	5.4%	2.7%	2.7%	2.7%
10 Fines, Forfeitures & Penalties	-17.4%	-18.2%	0.0%	0.0%
11 Interest & Investment Income	3.3%	-8.0%	3.0%	3.0%
12 Rents & Concessions	4.1%	4.1%	4.1%	4.1%
Subtotal - Licenses ... Concessions	2.8%	-3.0%	3.0%	3.1%
13 Federal Subventions	0.2%	0.0%	0.0%	0.0%
State Subventions				
14 Social Service Subventions	16.0%	11.7%	1.7%	2.3%
15 Health & Welfare Realignment	4.1%	3.1%	3.5%	3.4%
16 Health/Mental Health Subventions	2.7%	1.4%	0.0%	0.0%
17 Public Safety Sales Tax	3.3%	5.0%	5.0%	5.0%
18 Motor Vehicle In-Lieu (County & City)	4.0%	4.0%	4.0%	4.0%
19 Other Grants & Subventions	19.5%	-6.1%	0.0%	0.0%
Subtotal - State Subventions	7.7%	4.9%	2.5%	2.6%
Charges for Services				
20 General Government Service Charges	-4.7%	-0.1%	1.0%	1.0%
21 Public Safety Service Charges	9.8%	1.0%	1.0%	1.0%
22 Recreation Charges - Rec/Park	3.0%	3.0%	3.0%	3.0%
23 MediCal, MediCare & Health Svc. Chgs.	-3.3%	0.0%	0.0%	0.0%
24 Other Service Charges	0.0%	0.0%	0.0%	0.0%
25 Subtotal - Charges for Services	-0.4%	0.4%	0.7%	0.7%
26 Recoveries of General Government Costs	-15.4%	-15.4%	3.0%	3.0%
27 Other Revenues	-56.5%	-57.4%	0.0%	0.0%
28 TOTAL REVENUES	7.0%	2.9%	4.3%	4.1%
TRANSFERS INTO GENERAL FUND:				
29 Airport	4.0%	4.0%	5.0%	5.0%
30 Other Transfers	-1.0%	-4.7%	0.0%	0.0%
31 Total Transfers-In	1.0%	-1.4%	2.0%	2.0%
32 TOTAL GF Revenues & Transfers In	6.9%	2.8%	4.2%	4.1%
33 OTHER GENERAL FUND SUPPORTED (GFS) OPERATIONS, net	6.0%	2.5%	2.6%	2.3%
34 TOTAL GFS Revenues & Transfers In, net	6.7%	2.8%	3.9%	3.7%

CITY AND COUNTY OF SAN FRANCISCO - CONTROLLER'S OFFICE

We want your feedback!

Please use the following web link – or fill out, detach and mail the attached card to let us know your thoughts on this report.

Option 1: Web

<http://co.sfgov.org/controller/feedback/?id=585>

The feedback link is listed with the report.

Option 2: Mail

Just fill in the card below, fold this in half and mail!

Option 3: Phone

Call the Controller's Office at 415-554-7500 and we will take your feedback over the phone.

Thank you for your feedback!

Fold along the dotted line and mail!

Controller's Office Report Feedback					
Report: Three-Year Budget Projection for General Fund Supported Operations FY 07-08 to FY 09-10					
I am a:					
☐ San Francisco Resident	☐ Resident of Another City: _____				
☐ Media Reporter	☐ Other: _____				
☐ City of San Francisco Employee					
How do you rate this report?					
	Very Good	Good	Neutral	Poor	Very Poor
Significance of topic	☐	☐	☐	☐	☐
Clear & concise	☐	☐	☐	☐	☐
Objective & fair	☐	☐	☐	☐	☐
Useful	☐	☐	☐	☐	☐
Overall Report Quality	☐	☐	☐	☐	☐
Comments:					

For a complete list of our reports, visit our website at http://www.sfgov.org/controller					
Thank you!					



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