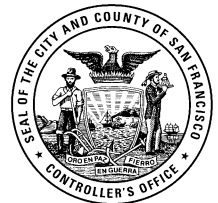


FY 2010-11 Revenue Letter:

Controller's Discussion of the Mayor's FY 2010-11 Proposed Budget



June 10, 2010



City and County of San Francisco

Office of the Controller

Controller's Discussion of the Mayor's FY 2010-11 Proposed Budget

June 10, 2010

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. On June 1, 2010, Mayor Gavin Newsom issued his FY 2010-11 Proposed Budget to the Board of Supervisors. An overview of the revenues is provided in Table 1.

Overall, the Proposed Budget appears to be reasonable given the information currently available, with three important cautions:

1. **Unsecured Federal Revenue:** The budget contains \$123 million in revenue for which federal government approval is required but not yet received.
2. **Potential State Budget Reductions:** The budget contains a \$30 million allowance for potential reductions to State revenues as the State attempts to close its own \$17 billion shortfall. Depending on the choices taken by the Legislature and the Governor, the potential reductions in State revenues to San Francisco could be much larger.
3. **Revenue Requiring Additional Local Action:** The budget assumes \$19 million in revenue that requires additional action by the voters, the Board of Supervisors, or other local approvals that have not yet been gained.

Overview

As shown in Table 1, the Proposed Budget of \$6.5 billion in sources across all funds represents a \$104 million, or 1.6% decrease from prior year. Excluding use of prior year fund balance and reserves, regular revenues are budgeted to increase by \$48 million or 0.8%. General Fund regular revenues are projected to decline -1.3%. As discussed in Appendix 1, the declines in General Fund revenues are primarily due to the continued effects of the economic downturn on local and State tax revenues and State cutbacks in assistance to local government, partially offset by a short-term continuation of federal American Recovery and Reinvestment Act (ARRA) funding and revenue from a proposed State hospital fee.

- **Local tax revenue estimates are reasonable given economic assumptions but require close monitoring during the budget year:** Local tax revenues appear reasonable, based on the budget's assumption that the economic downturn in San Francisco has bottomed out during FY 2009-10 and that slow recovery is either underway or beginning in mid-2010

for most tax revenues. The Controller's Office will monitor developments in our local economy carefully throughout the budget year.

- Potential for major future State funding cuts beyond the \$30 million assumed in the Proposed Budget:** The Mayor's Proposed Budget includes an allowance for a \$30 million reduction in State revenues. The Governor's May Revise budget submitted on May 18, 2010 identifies a \$17.9 billion State budget shortfall and proposes major cuts to health and human services programs administered by local governments, and transfers of State prisoners to county jails that could increase local costs significantly. Rough estimates are that backfilling all of the Governor's proposed cuts would require the City to increase General Fund support to health, human services and corrections programs by well over \$100 million. The State legislature has so far rejected many of these cuts, but as of this writing, there is no consensus on what the final State budget will look like, or its likely effects on local governments.

Table 1. Overview of Budget Sources

note: totals may appear to differ from sum of line items due to rounding

All Funds

	FY 2009-10		FY 2010-11		Change	
	Budget		Proposed		\$	%
Fund Balance	\$	264	\$	171	\$ (93)	-35.1%
Reserves		79		20	(60)	-75.2%
Regular Revenues		6,243		6,291	48	0.8%
Transfers, net		n/a		n/a	n/a	n/a
Total All-Funds Sources	\$	6,587	\$	6,482	\$ (104)	-1.6%

General Fund

	FY 2009-10		FY 2010-11		Change	
	Budget		Proposed		\$	%
Fund Balance	\$	94	\$	64	\$ (30)	-32.2%
Reserves		79		20	(60)	-75.2%
Regular Revenues		2,793		2,756	(37)	-1.3%
Transfers, net		86		115	29	34.2%
Total GF Sources	\$	3,052	\$	2,954	\$ (98)	-3.2%

- Fee and fine increases are projected to increase \$15.6 million** Appendix 2 presents fee and fine increases that are included in companion legislation to the Budget and require approval by the Board of Supervisors. To the extent the Board does not approve these items, the associated sources would not be available.

New fees include a new Condominium Conversion Fee, which is estimated to provide \$8 million in revenues during FY 2010-11. Due to projection uncertainty related to the new nature of the program, the Controller will reserve \$8 million of expenditures until the fee is approved and implemented and revenue from the program is received.

- **\$257 Million in One-Time Sources are used to balance General Fund-Supported budget:** As detailed in Appendix 3, the proposed budget includes \$64.0 million in prior year fund balance, \$19.6 million in use of prior year reserves, and \$173.4 million in other one-time sources in General Fund-Supported operations.

The anticipated \$64.0 million available fund balance represents an increase of \$14.3 million over the Controller's Nine-Month Report Projection, including \$1.8 million from a long-term lease of parking garage spaces to the PUC and \$7.7 million of additional property tax revenue from supplemental and escape assessments.

The Rainy Day Reserve currently contains \$24.6 million. After the budgeted withdrawal of 50% (\$12.3 million) for the General Fund and 25% (\$6.1 million) for the San Francisco Unified School District, \$6.1 million will remain available for subsequent years.

- **Voter-approved budgetary baselines and set-asides are funded at voter-approved levels, with limited exceptions.** Appendix 4 provides details on voter-approved mandates that determine some minimum levels of revenues, expenditures or service levels for various programs. Items of interest include:
 - **Children's Baseline:** The Children's baseline is funded above required levels by \$9.5 million, primarily due to the budgeted transfer of \$6.1 million Rainy Day Reserve funds to the San Francisco Unified School District.
 - **Police Staffing:** The Proposed Budget includes net funding authority for 1,949 officer positions, 22 fewer than the 1,971 required. However, assuming the Chief of Police certifies that 77 positions have been civilianized since FY 2003-04, the requirement would be reduced to 1,894 and would be met in the Budget.
 - **Treatment on Demand:** The measure requires that the City not reduce funding, staffing or the number of substance abuse treatment slots available for as long as slots are filled or sought. This requirement is not met in the proposed budget.
- **\$231 million in expenditures in the Proposed Budget are reserved by the Controller,** including \$142 million of General Fund salary and fringe expenditures pending receipt of new fee revenues, state and federal revenues, and voter approval, as detailed in Appendix 5.
- **Budget gap for FY 2011-12 will likely approach or exceed \$400 million.** While ongoing solutions proposed in the budget will reduce the \$708 million shortfall for FY 2011-12 projected in the Joint Report, a significant shortfall will remain. The FY 2011-12 budget will need to replace \$257 million in one-time sources used in the Mayor's FY 2010-11 Proposed Budget. The budget will also have to accommodate net expenditure growth estimated at \$219 million in the March 31, 2010 Joint Report, which has been partially mitigated by two-year labor concessions agreed to by public employee labor organizations in May 2010. This preliminary outlook will change as we learn more about what will happen with State revenues and as we monitor trends in our tax revenues dependent on the local economy.

Conclusions

The Proposed Budget appears to be reasonable given the information currently available, and with cautionary notes regarding contingent revenues and uncertainty from the State budget situation. Replacement of one-time sources and rising health benefit and retirement contribution costs are likely to place stresses on future year budgets. The Controller's Office will continue to work closely with the Mayor and the Board of Supervisors to share information and calculate the ongoing adjustments that will be necessary to ensure that the City's budget remains balanced.

Appendices

1. General Fund Regular Revenues	p. 5
2. Fee Revenues	p. 13
3. Use of Fund Balance, Prior Year Reserves and Other One-Time Sources	p. 14
4. Baselines and Mandated Funding Requirements	p. 18
5. Expenditure Reserves	p. 22
6. Downtown Park Fund	p. 26

Erratum

The version of this document posted on June 10, 2010 incorrectly reported the required level of baseline funding to the Library as \$44.1 million. Table 4-1 on page 18 has been revised to show the correct level of \$43.5 million.

Appendix 1. General Fund Regular Revenues

Table 1-1 provides a summary of the Mayor's FY 2010-11 Proposed Budget's assumptions regarding General Fund revenues and the change compared to the FY 2009-10 budget. Notes are provided below.

Table 1-1. General Fund Regular Revenues

Sources of Funds	FY 2009-10 Budget	FY 2010-11 Proposed	Change	Notes
Property Taxes	\$ 1,058.1	\$ 984.5	\$ (73.5)	1
Business Taxes	371.8	342.4	(29.5)	2
Sales Tax	98.2	98.0	(0.2)	3
Hotel Room Tax	117.5	157.2	39.7	4
Utility Users Tax	87.0	97.5	10.5	5
Parking Tax	64.1	65.3	1.1	6
Real Property Transfer Tax	45.3	70.9	25.7	7
Stadium Admissions Tax	2.2	2.3	0.1	
Access Line Tax	42.9	37.3	(5.6)	8
Licenses, Permits & Franchises	25.1	23.2	(1.9)	
Fines and Forfeitures	3.8	3.8	0.0	
Interest & Investment Income	11.6	9.5	(2.0)	9
Rents & Concessions	19.4	22.9	3.4	
Intergovernmental - Federal	235.6	236.4	0.8	
State - Public Safety Sales Tax	65.1	63.8	(1.3)	10
State - Health & Welfare Realignment	147.3	138.2	(9.1)	11
State - Other	228.1	231.2	3.1	
Charges for Services	138.8	145.1	6.2	
Recovery of Gen. Govt. Costs	8.2	9.4	1.2	
Other Revenues	22.7	16.8	(5.8)	
Regular Revenues	2,792.8	2,755.7	(37.1)	

1. Property Taxes: The FY 2010-11 General Fund share of property tax revenue is projected to be \$984.5 million, which is 7% (\$73.5 million) less than the FY 2009-10 budget and 6.2% (\$65.5 million) less than the FY 2009-10 Nine-Month Report projection.

Preliminary working roll estimates from the Assessor's Office indicate FY 2010-11 secured tax roll growth of 0.9% from the FY 2009-10 certificate value. The very modest growth is due to the first negative inflation factor in history for the portion of the roll that continues to be assessed under market value due to Proposition 13 limits, offset by increases due to:

- Properties that transacted during FY 2009-10, bringing their assessed values up to market.
- The enrollment of a backlog of supplemental assessments related to property transactions in recent years.
- Enrollment of new construction.

The FY 2010-11 working roll is based on valuations assessed as of January 2010. Property owners will have an opportunity to request appeals of those assessments through September 15, 2010. The Proposed Budget assumes a similar level of potential reductions in assessed valuation of commercial properties that may occur through the appeals process in FY 2010-11 as in FY 2009-10. It also assumes that temporary reductions in the assessed valuation of residential properties granted due to a review by the Assessor (called Prop 8 reductions) will increase, resulting in a lower level of appeals filed and awarded at the Assessment Appeals Board.

Other factors affecting property tax revenue include:

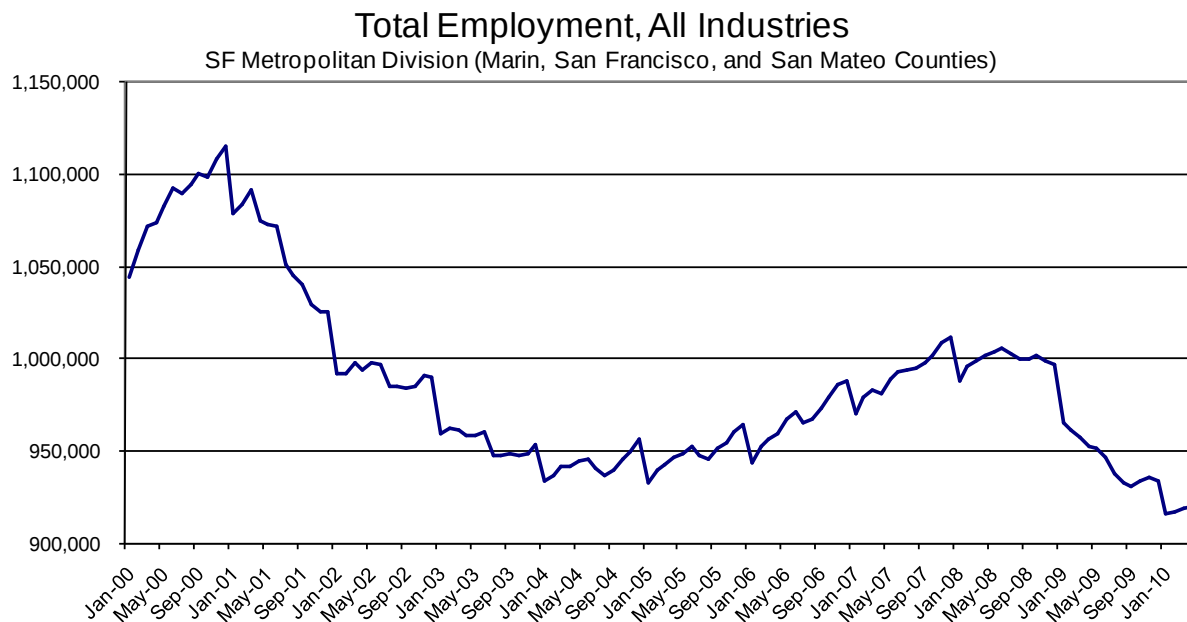
- Changes in state shifts of property tax for state vehicle license fee (VLF) and sales tax revenue. The VLF backfill is budgeted at \$161.2 million, an increase of \$2.1 million (1.3%) from the FY 2009-10 budget and \$1.4 million (0.9%) from year-end projections. This allocation changes each year in proportion to roll growth. The sales tax (i.e. Triple Flip) allocation is projected to decrease \$3.7 million (9.8%) from the FY 2009-10 budget and increase \$0.9 million (2.8%) from year-end projections, the same percent change projected for local 1% sales tax revenue.
- An increase in penalty and interest revenue that accrue to the General Fund of \$3.5 million (63.6%) from FY 2009-10.
- A \$0.9 million increase in collections of delinquent personal property tax revenue from implementation of a new program to secure summary judgments from the courts.
- A portion of property tax is also allocated to the Redevelopment Agency from the increase in assessed valuations in redevelopment project areas (tax increment). For FY 2010-11, tax increment funding allocated to the Redevelopment Agency (RDA) is projected to increase to \$109.7 million, an increase of \$14.1 million from FY 2009-10.

Of Proposition 13's 1% base property tax rate (not including additional amounts to support general obligation debt), approximately 57% is allocated to the General Fund, and 3.0%, 2.5% and 2.5% of the base rate are allocated to the City's Children's Fund, Open Space Fund and Library Preservation Fund, respectively. Twenty-five percent of the base rate is allocated to schools through the State's Educational Revenue Augmentation Fund (ERAF) program. The balance of the base rate is allocated to other local taxing entities such as BART, the San Francisco Unified School District, the San Francisco Community College, and the Bay Area Air Quality Management District. In addition to the base rate of \$1 per \$100 of assessed value, the FY 2009-10 add-on for debt service was 0.159%, resulting in a total property tax rate of 1.159%. The tax rate ordinances for the FY 2010-11 add-on for debt service are required to be adopted by the Board of Supervisors by the last working day of September.

2. Business Taxes: Business taxes are budgeted at \$342.4 million, which is \$29.5 million (7.9%) less than the FY 2009-10 budget and \$5.1 million (1.5%) more than FY 2009-10 year-end projections. Business tax revenues include \$7.9 million in business license registration fees and

\$334.4 million in payroll taxes. Average monthly employment in the San Francisco Metropolitan District declined 5.5% in 2009 from 2008, as illustrated in Table 1-2. Employment reached a trough in January 2010, and posted very moderate month-over-month gains between February and April. San Francisco's unemployment rate is still below that of the state, but both rates increased in 2009. San Francisco's unemployment rate reached 10.3% in January 2010, its highest rate since 1984.

Table 1-2. San Francisco Metropolitan Division Employment, January 2000 to April 2010



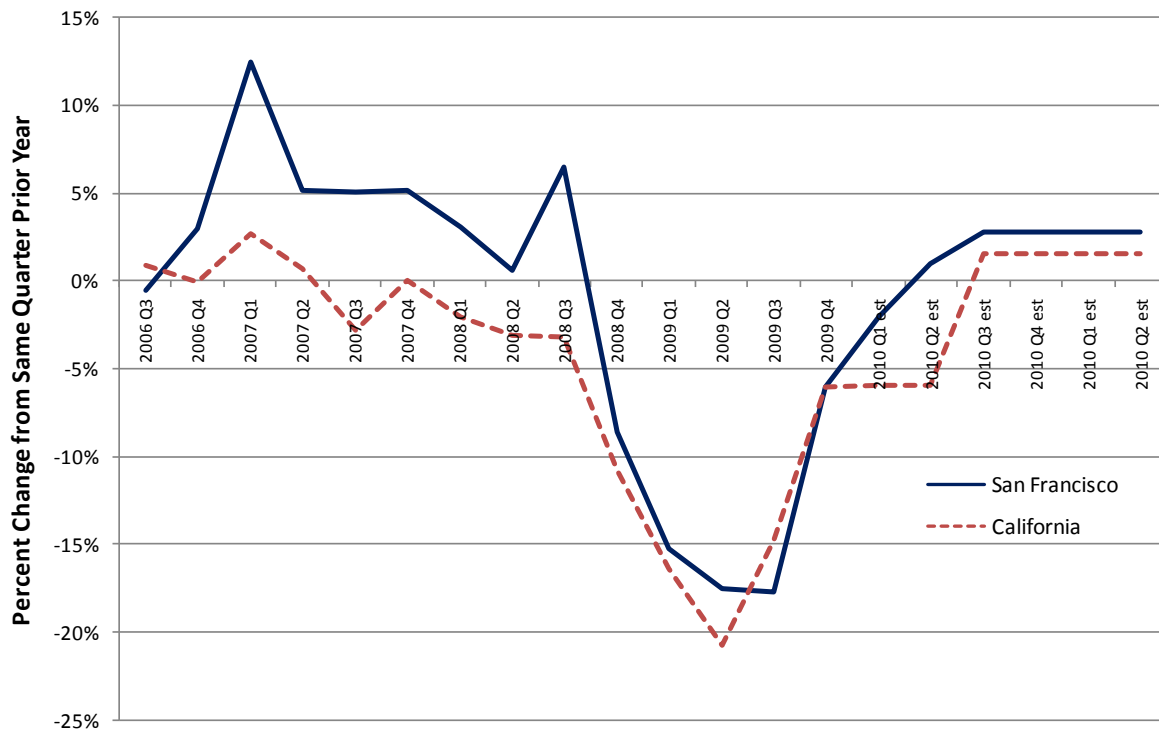
Source: California FDD. www.calmis.ca.gov

Estimated total taxable payroll in San Francisco—the combined effect of the number of jobs in non-exempt firms and wage levels of those jobs—declined slightly more than 8.0% from 2008 to 2009, and is projected to increase less than 1.0% from 2009 to 2010. The Proposed Budget assumes quarterly trends in seasonally adjusted taxable payroll in 2010 to be flat in the first quarter and rise to 0.5% by the fourth quarter. It also assumes a \$0.8 million increase in collections of delinquent business tax revenue due to a slight increase in auditor and investigator work hours.

While San Francisco's employer base includes a range of financial, business and professional services firms, restaurants and hotels, and nonprofit and government organizations, its payroll tax payor base is much narrower. The California Constitution prohibits taxation of certain financial corporations, nonprofit and government employers are exempt, and all firms with less than \$250,000 in taxable payroll (including sole proprietorships with no payroll) are exempt as small businesses. As a result, only about 8,000 of the 80,000 registered businesses in the City pay payroll tax, and within that group the City relies on a single sector—business and professional services—for more than 40% of revenue. This concentration means that tax receipts are more volatile than data on total employment and wages typically indicate.

3. Sales Tax: Local sales tax in FY 2010-11 is expected to generate \$98.0 million in revenue, a decrease of \$0.2 million from the FY 2009-10 original budget and \$2.7 million (2.8%) from FY 2009-10 year-end projections. Table 1-3 below shows actual and estimated changes in quarterly sales tax receipts over the same quarter prior year for both the City and State.

Table 1-3: Changes in Local and State Sales Tax Receipts from Same Quarter Prior Year



The rate of decline that accelerated in FY 2008-09 has slowed during FY 2009-10. While San Francisco came late to the recession compared to the state as a whole, it is projected to recover at a similarly modest pace. The budget assumes increases in both business and personal spending. The level of recovery in this line item will depend on job growth, business activity and tourism. San Francisco is more dependent on restaurant and general merchandise (e.g. apparel, department stores) sales and less dependent on auto and construction sales than other California jurisdictions to generate its sales tax revenue. The profound, and, we expect, lasting shift retail consumers have made in their purchases of discretionary taxable goods, as well as reduced access to credit, will constrain sales tax revenue growth for several years.

4. Hotel Room Tax: Total hotel tax revenue is estimated to be \$212.5 million in FY 2010-11, a 22.8% increase budget to budget and an 11.1 % increase from the FY 2009-10 Nine-Month Report projection. Part of the increase is due to the 10.5% increase from FY 2009-10 budgeted to year-end projected revenue.

The Proposed Budget assumes \$6.0 million in revenue for the estimated value of a measure to be placed on the November 2010 ballot that would, if approved: clarify that online travel companies must remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms; and clarify application of the permanent resident exemption granted for hotel stays longer than 30 days. The proposed budget assumes a January 1, 2011 effective date.

Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (ADR) and room supply. Occupancy rates posted year-over-year gains in six out of the nine months in FY 2009-10 through March, and declines in ADR have finally begun to slow after double-digit losses early in the year. The resulting trends in RevPAR (revenue per available room, or the combined effect of occupancy, ADR and room supply) are projected to continue through year-end. The Proposed Budget assumes seasonally adjusted month-over-month increases in RevPAR of 1.0%, resulting in an annual increase of approximately 8.0%. ASR is expected to recover more slowly than occupancy as hotel operators continue discounting to fill rooms. Table 1-4 illustrates total hotel tax revenues are projected to remain below prior peak FY 2007-08 levels.

Table 1-4: Hotel Room Tax Revenues, All Funds (\$ millions)

Fiscal Year	Total	Annual Growth	
		\$	%
FY 2000-01	\$ 188.4	\$ 6.3	3.4%
FY 2001-02	132.2	(56.2)	(29.8%)
FY 2002-03	128.6	(3.6)	(2.7%)
FY 2003-04	148.2	19.6	15.3%
FY 2004-05	157.9	9.7	6.6%
FY 2005-06	179.5	21.5	13.6%
FY 2006-07	199.8	20.3	11.3%
FY 2007-08	224.5	24.7	12.4%
FY 2008-09	219.8	(4.7)	(2.1%)
9-Month Est FY 2009-10	191.2	(28.6)	(13.0%)
Budget FY 2010-11	212.5	21.3	11.1%

General Fund hotel tax totals \$157.2 million, of which \$133.5 million is unallocated. This is an increase of \$40.9 million or 44.2% from the FY 2009-10 budget. Table 1-5 below illustrates how hotel room tax revenues are allocated pursuant to the Municipal Code as well as the Mayor's FY 2010-11 Proposed Budget. The Proposed Budget replaces hotel tax funding for low-income housing—capital projects with increased property tax increment to the Redevelopment Agency.

Table 1-5: FY 2010-11 Hotel Room Tax Revenue Allocation (\$ millions)

	FY 2010-11 Municipal Code Allocation	% of Total	FY 2010-11 Proposed Allocation	% of Total	% Change from PY Budget	% Change from 9-Month
General Fund Unallocated (discretionary)	98.2	46.2%	133.5	62.8%	44.2%	20.6%
Grants for the Arts - Recurring	20.0	9.4%	11.2	5.3%	-1.5%	-1.5%
Grants for the Arts - Non-Recurring	0.3	0.1%	0.2	0.1%	0.0%	0.0%
Fine Arts Museum	6.3	3.0%	5.6	2.6%	0.0%	0.0%
Asian Art Museum	2.5	1.2%	2.2	1.0%	0.0%	0.0%
Academy of Sciences - Steinhart Aquarium	-	0.0%	1.2	0.6%	0.0%	0.0%
Administration (Tax Collector)	0.2	0.1%	0.1	0.1%	0.0%	0.0%
Cultural Centers	2.4	1.1%	1.5	0.7%	0.0%	0.0%
Cultural Equity Endowment	2.8	1.3%	1.7	0.8%	0.0%	0.0%
War Memorial & Performing Arts	12.0	5.6%	8.8	4.1%	-3.4%	-3.2%
Moscone / Convention Facilities	45.4	21.3%	34.1	16.1%	0.6%	0.0%
Convention & Visitors Bureau	10.4	4.9%	7.6	3.6%	-2.5%	0.0%
Low-Income Housing - Capital Projects	7.1	3.3%	-	0.0%	n/a	n/a
Low-Income Housing - Rental Assistance	0.6	0.3%	0.5	0.2%	0.0%	0.0%
Yerba Buena Gardens (Redevelopment Agency)	4.2	2.0%	4.2	2.0%	-18.9%	-18.9%
Total	212.50	100%	212.50	100%	22.8%	11.1%
Budgeted in General Fund	132.7	62.5%	157.2	74.0%	35.0%	16.8%
Budgeted in Non-General Fund	75.5	35.5%	51.0	24.0%	-0.6%	-0.6%
Budgeted in SF Redevelopment Agency	4.2	2.0%	4.2	2.0%	-18.9%	-18.9%
Total, All Entities	212.50	100%	212.50	100%	22.8%	11.1%

5. Utility Users Tax: Utility user tax revenue is budgeted at \$97.5 million in FY 2010-11, \$10.5 million (12.1%) over the FY 2009-10 Original Budget and \$5.0 million (5.4%) over the FY 2009-10 9-Month Report projection. Increases in commercial water user taxes, due to a July 1 rate increase of 15%, and gas and electric user taxes, due to a modest improvement in employment and higher natural gas spot prices, contribute to this increase. However, the vast majority of the growth is in telephone user tax (TUT). Proposition O, approved by voters in November 2008 and effective April 1, 2009, clarified that the TUT be paid on fees and bundled services. In addition, while many individual and business users continue to eliminate traditional wire lines, which reduces access line tax revenues, many consumers are moving to smart phones with more expensive monthly charges than those for traditional cell phones.

6. Parking Tax: Parking tax is budgeted at \$65.3 million, an increase of \$1.1 million (1.8%) compared to the FY 2009-10 budget, and flat from 9-Month Report projections. This includes a small number of parking rate increases approved by the MTA in April 2010, as well as slightly improved occupancy. Parking tax is highly correlated with business activity and employment. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the MTA for public transit as mandated by Charter Section 16.110.

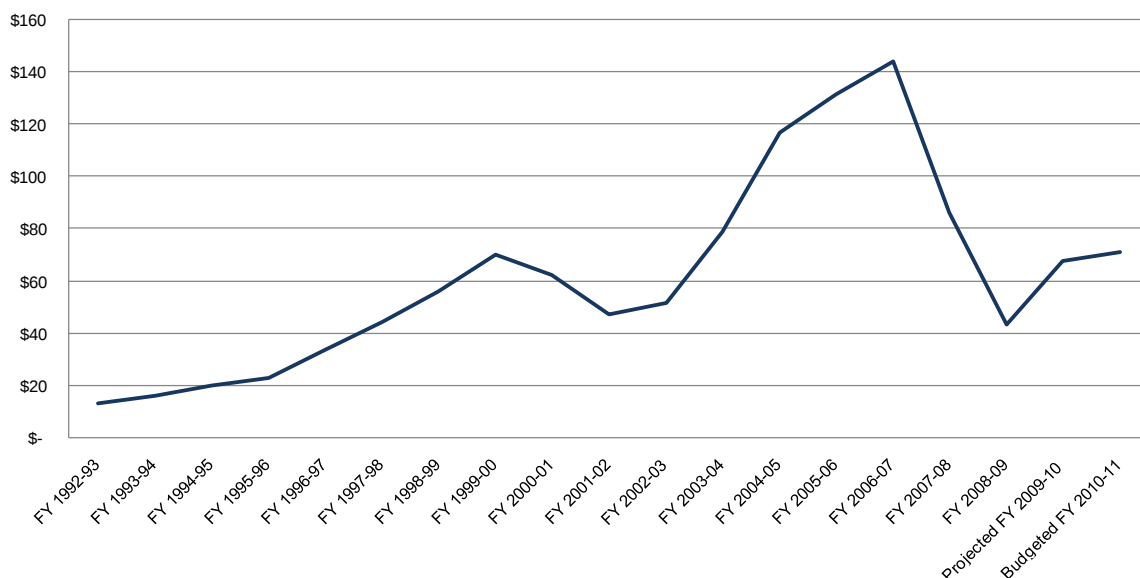
7. Real Property Transfer Tax: Real property transfer tax is budgeted at \$70.9 million, which is \$25.7 million (56.7%) more than the FY 2009-10 budget and \$3.4 million over the FY 2009-10 9-Month Projection of \$67.6 million. Table 1-6 summarizes recent history for this revenue by transaction size and illustrates the high levels of revenue generated in FY 2005-06 and FY 2006-07 from sales of high value (largely commercial) properties. The value of such transactions fell by over 50% in FY 2008-09 due to the credit crunch and business and investor losses, then rebounded in FY 2009-10.

Table 1-6. Real Property Transfer Tax Revenues by Transaction Size (\$ millions)

Tax Rate	@ 0.50%	@ 0.68%	@ 0.75%	@ 1.5%	Total Revenue
	<\$250K	>\$250K	>\$1 M	>\$5 M	
FY 2005-06	\$ 0.5	\$ 31.4	\$ 98.3	N/A	131.3
FY 2006-07	0.4	29.3	114.3	N/A	144.0
FY 2007-08	0.5	24.7	61.0	N/A	86.2
FY 2008-09	0.8	19.8	27.1	1.3	48.9
FY 2009-10 Projection	1.9	23.4	25.0	17.2	67.6
FY 2010-11 Projection	2.0	24.6	26.3	18.1	70.9

Proposition N, passed by the voters in November 2008, increased the property transfer tax rate on transactions valued at over \$5 million from 0.75% to 1.5%. In FY 2009-10 through April, 73 transactions in this tax bracket occurred, generating \$14.2 million in tax revenue and indicating a return to more typical levels of commercial transactions from the near complete halt of activity in early 2009. The Proposed Budget assumes modest growth of 5% from the strong gains made at all tax rates in Fiscal Year 2009-10. Table 1-7 provides a 20-year history of transfer tax showing projected revenues reverting to long-term trend levels.

In April 2010, the Board of Supervisors and Mayor approved the Controller's proposed financial policies, submitted in accordance with the provisions of Proposition A, passed in November 2009. These policies included the creation of a Budget Stabilization Reserve to be funded with a portion of volatile revenues, beginning in FY 2011-12, including transfer tax revenue in excess of the prior five-year average, adjusted for any rate increases during the period. The transfer tax revenue in the Proposed Budget is \$31.9 million below five-year adjusted average value of \$93.8 million, above which deposits to the reserve would be required.

Table 1-7. Real Property Transfer Tax Revenues (\$millions)

8. Access Line Tax Proposition O, passed by San Francisco voters in November 2008, replaced the Emergency Response fee with an Access Line Tax of equivalent value. Fee revenue was placed in a special revenue fund for emergency communications services, however, the tax that replaced it provides general purpose revenue that must be deposited into the General Fund.

Access Line Tax revenues for FY 2010-11 are budgeted at \$37.3 million, a decline of \$5.6 million (13.1%) from the FY 2009-10 budget and flat from the Nine-Month Report projection of \$37.3 million. The same trends that are increasing telephone user tax revenue are affecting this source. Because the access line tax is assessed on a per-line basis, it has declined with cuts in the total number of access lines by both businesses and households. The Proposed Budget projects an additional 2% decline in the number of wire lines subject to the tax, largely offset by an inflationary rate increase of 2.61%, from \$2.75 per line to \$2.82, as allowed by ordinance in effect for a portion of the fiscal year.

9. Interest & Investment Income General Fund interest and investment income is projected to decrease \$2.0 million (17.6%) from the FY 2009-10 budget and \$0.7 million (7.7%) from the FY 2009-10 Nine-Month Report projection. This assumes average monthly interest rates will increase 37%, from 1.31% in FY 2009-10 to 1.79% in FY 2010-11, and that monthly average cash levels of unallocated General Fund revenue will remain flat. In addition, interest income budgeted in the Human Services Agency earned on assets managed by the Public Administrator/Public Guardian is declining from \$1.0 million in FY 2009-10 to \$0.3 million in FY 2010-11, and income budgeted to cover investment costs at the Treasurer/Tax Collector is increasing 2.0% over the prior year.

10. State - Public Safety Sales Tax Public Safety (Proposition 172) sales tax revenue is expected to decrease \$1.3 million (1.9%) from the FY 2009-10 budget, and to increase \$1.1 million (1.7%) from year-end projections. These revenues are allocated to counties by the State separately from the local one percent sales tax discussed above, and are used to fund police and fire services. Disbursements are made to counties based on the County Ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year. The slight improvement in state sales taxes in the Public Safety Augmentation Fund will be offset by a 0.4% decline in the San Francisco county ratio, resulting in the decline of 1.7%.

11. State – Health & Welfare Realignment Realignment allocations from the State are derived from statewide sales tax and motor vehicle license fee (VLF) receipts. Total General Fund realignment revenues are expected to decrease \$9.1 million. Sales tax realignment revenues are projected to decrease \$6.3 million (6.3%) from the FY 2009-10 budget and increase 1.6% from FY 2009-10 projected receipts. VLF revenues are expected to decline \$2.8 million (6.0%) from the FY 2009-10 budget and increase 2.5% from projected FY 2009-10 receipts.

Appendix 2. Fee Revenues

The Mayor's FY 2010-11 Proposed Budget assumes various fee and fine increases. Table 2-1 highlights key assumptions and associated revenue changes.

Table 2-1. Key Fee & Fine Changes Assumed in the Mayor's Proposed Budget (\$millions)

Dept.	Fee Description	FY 2010-11 Proposed	
		GFS	Non-GFS
ADM	Animal Care and Control Fees	\$ 0.1	\$ -
ART	Street Artist Certificate Fee	-	0.0
CPC	General Planning Fee Increase; Code Enforcement & Preservation Surcharge	0.5	-
DPH	Point-of-Sale ("Scanner") Registration & Inspection Fees	0.4	-
DPH	Refuse Collection Service Liens and Fees	-	-
DPH	Aboveground Storage Tank Fee	0.1	-
DPH	Food Permit Requirements and Fees for Caterers	0.1	-
DPH	Patient Rates	3.7	-
DPH	Inspection/Testing of Commercial Weighing and Measuring Devices	-	-
DPH	Structural Pest Control Registration and Fees	-	-
ECD	Certification Fees for Emergency Medical Technicians	0.1	-
ECN	Enterprise Zone Tax Credit Application Fee	0.3	-
FIR	Inspection and Plan Review Fees	0.5	-
FIR	Emergency Medical Services	0.3	-
FIR	Cost Recovery for Vehicle Incidents	0.6	-
MYR	Condominium Conversion Fee	8.0	-
PAB	Permit Appeals Board Surcharges (1)	0.2	-
REC	Increases to Harding Park non-resident fees	-	0.1
REC	Non-resident fee for admission to Coit Tower (1)	0.2	-
REC	Non-resident fee for admission to Botanical Gardens (1)	0.3	-
TTX	Fee To Regulate Revenue Control Equipment At Parking Stations (2)	0.2	-
Total		\$ 15.5	\$ 0.1

GFS = General Fund Supported

(1) Legislation containing the increase was filed before the Proposed Budget was submitted.

(2) The Proposed Budget includes \$270,000 for an earlier version of fee legislation. A technical adjustment will be submitted to change the value to the \$219,000 in this table.

Appendix 3. Use of Fund Balance, Prior Year Reserves and Other One-Time Sources

The Proposed Budget includes \$379.4 million in one-time sources, including fund balance, the use of reserves, and other non-recurring revenues, in all funds. The General Fund value is \$257.1 million, as noted in table 3-1 below.

Table 3-1. Total One-Time Sources, Including Fund Balance and Reserves (\$millions)

	General Fund Supported	Non-General Fund Supported	Total All Funds
Non-Recurring Revenues \$	173.4	\$ 15.0	\$ 188.4
Use of Fund Balance	64.0	107.3	171.4
Use of Reserves	19.6	0.1	19.7
Total	\$ 257.1	\$ 122.4	\$ 379.4

Prior Year Fund Balance

Each year, the budget includes the City's estimated year-end surplus from the prior year as a source of funds. The reconciliation of the FY 2009-10 year-end surplus will not be finalized until the independent audit is completed around November 2010. The Mayor's FY 2010-11 Proposed Budget assumes available General Fund fund balance of \$64.0 million, \$14.3 million more than projected in the Nine-Month Report. The increase is due to project close outs, additional operational savings at the Fire Department, and increased revenue from a long term lease of parking spaces at the Civic Center Garage and prior year property tax revenues, offset by allocations of a portion of the increased revenue to the baselines. Table 3-2 below summarizes key components of estimated fund balance.

Table 3-2. FY 2009-10 Projected Year-End Surplus General Fund Fund Balance Available to Support the Mayor's FY 2010-11 Proposed Budget (\$ millions)

	Mayor's Proposed FY 2010-11
Nine-Month Report Fund Balance Projection	\$ 49.7
Prior year property tax revenue	7.7
Project closeouts and deappropriations	2.5
Laguna Honda Hospital Project Savings	2.1
PUC long term lease of Civic Center Garage parking	1.8
Departmental operating savings	0.9
City Planning long range planning projects	1.1
Baseline contributions on General Fund discretionary revenue	(1.6)
Subtotal - Changes Since 9-Month Report	14.3
Total Available Fund Balance	\$ 64.0

The Mayor's Proposed Budget also includes the use of \$107.3 million in balance in funds other than the General Fund. Of this total, \$81.9 million represents enterprise department funding, \$6.9 million is from the Moscone Convention Center capital project fund, and \$18.5 million is for departments supported in whole or part by special revenue funds. Table 3-3 summarizes key components of the use of fund balance outside the General Fund.

**Table 3-3. FY 2009-10 Non-General Fund Fund Balance Available to Support
the Mayor's FY 2010-11 Proposed Budget (\$ millions)**

Department	Fund	Mayor's Proposed FY 2010-11
ADM	Neighborhood Beautification Fund	\$ 0.3
ADM	Moscone Convention Center Expansion Fund	6.9
AIR	Airport Operating Fund	26.9
AIR	Airport Capital Projects Fund	3.0
AIR	Airport Bond Funds	12.0
AIR	Airport Narcotics Forfeiture/Asset Seizure Fund	0.2
CHF	School District Special Education Fund	1.7
CRT	Court's Special Revenue Fund	1.0
DAT	D.A. Special Revenue Fund	0.4
DAT	SFPD Narcotic Forfeiture/Asset Seizure Fund	0.2
DPW	Neighborhood Beautification Fund	1.2
HHP	PUC Hetch Hetchy Operating Fund	30.6
JUV	SFPD Narcotic Forfeiture/Asset Seizure Fund	0.2
LIB	Library Preservation Fund	3.5
MYR	Affordable Housing Fund	0.6
POL	Public Protection Special Revenue Fund	0.0
POL	SFPD Narcotic Forfeiture/Asset Seizure Fund	1.2
PRT	Port Operating Fund	9.3
REC	Marina Yacht Harbor Fund	0.4
REC	Downtown Park Fund	1.1
REC	Open Space Fund	1.6
REC	Bequests Fund	0.1
RNT	Rent Arbitration Board Fund	0.5
TIS	IS-Reproduction Fund	0.1
TIS	DTIS Operating/Annual Project Fund	3.4
WAR	War Memorial Operating Fund	0.3
WAR	War Memorial Annual Project Fund	0.5
WOM	Domestic Violence Program Fund	0.2
Total Appropriated Fund Balance		\$ 107.3

Prior Year Reserves

The Mayor's FY 2010-11 Proposed Budget includes using \$19.7 million in reserves established in prior years. A summary of these reserved funds is outlined in Table 3-4 below.

Table 3.4 Use of Prior Year Reserves (\$ millions)

	General Fund	Other Funds	All Funds
Rainy Day Reserve Allocated to City & County	\$ 12.3	\$ -	\$ 12.3
Rainy Day Reserve Allocated to School District	6.1	-	6.1
Subtotal - Rainy Day Reserve	18.4	-	18.4
Recreation & Park's Budget Savings Incentive Reserve	1.2	-	1.2
Public Health Epidemiology Fund	-	0.1	0.1
Total	\$ 19.6	\$ 0.1	\$ 19.7

Rainy Day Reserve: The FY 2009-10 year-end balance of the Rainy Day Reserve's Economic Stabilization Account is projected to be \$24.6 million. The Mayor's Proposed Budget assumes use of \$18.4 million from the Account in FY 2010-11 for the City. Charter Section 9.113.5 allows the Board of Supervisors and Mayor to appropriate funds from the Reserve to the San Francisco Unified School District if the Controller projects that inflation-adjusted per-pupil revenues for the District will be reduced in the budget year and the District has noticed a significant number of layoffs. The Proposed Budget assumes \$6.1 million will be withdrawn from the Economic Stabilization Account and allocated to the District. This figure may be revised as additional information on State revenue becomes available.

The Charter allows policymakers to appropriate up to 50% of the balance of the Economic Stabilization Account, but no more than the shortfall in total General Fund revenues, for any lawful governmental purpose in the upcoming budget year. The shortfall in total General Fund revenues, adjusted for policy changes made to increase revenues, is currently calculated to be \$126.0 million.

Recreation & Park's Savings Reserve: The Mayor's Proposed Budget assumes the use of \$1.2 million from the Recreation and Park Department's Budget Savings Incentive Reserve. Any savings must be retained by the Recreation & Park Department and be dedicated to one-time expenditures under San Francisco Charter Section 16.107.

Key One-Time/Non-recurring Revenues & Transfers-In

The Mayor's FY 2010-11 Proposed Budget includes a number of one-time or nonrecurring sources other than the Prior-Year Fund Balance and Reserves discussed above. Table 3-5 summarizes key one-time revenue and transfer-in sources. Of the \$173.4 million in one-time revenues to General Fund Supported Operations, \$140.5 million is from federal and state subventions.

Table 3-5. Key One-Time/Nonrecurring Sources (\$millions)

	General Fund Supported	Non-General Fund Supported	Total All Funds
Sales of Buildings & Land			
Sale of Fire Department Property at Tennessee Street	\$ 0.7	\$ -	\$ 0.7
Gifts and Grants			
Recreation & Parks Turf Management, AIDS Grove, etc	-	1.6	1.6
Bank on San Francisco Initiative	-	0.3	0.3
Friends of City Planning	-	0.1	0.1
SF Can Do, Rosalinde Gilbert Award	-	0.1	0.1
Lillian Dannenberg Gift	-	0.0	0.0
Transfers			
Transfer in from Convention Facilities Fund	11.8	-	11.8
Transfer in from Neighborhood Development Fund	0.8	-	0.8
Transfer in from Human Welfare Fund	0.0	-	0.0
Transfer from Golf Fund to Open Space Fund	-	1.0	1.0
Transfers in from enterprise funds for Surety Bond Program	-	1.9	1.9
Federal & State Subventions			
Federal Stimulus FMAP for Public Health & Human Services	45.1	-	45.1
State Hospital Fee Program	88.0	-	88.0
State Elections Reimbursement	3.1	-	3.1
Mental Health State Plan Amendment retroactive portion	4.3	-	4.3
Other			
Fund balance to pay portion of RDA Hotel Tax Revenue Bond	0.9	-	0.9
ESER bond reimbursement to General Fund	9.2	-	9.2
Taxi Medallion Sales	-	10.0	10.0
PUC Lease of Civic Center Garage Spaces	1.5	-	1.5
Condominium Conversion Fee	8.0	-	8.0
Total Non-Recurring Revenues	\$ 173.4	\$ 15.0	\$ 188.4

Appendix 4. Baselines & Mandated Funding Requirements

The Mayor's FY 2010-11 Proposed Budget includes required funding for baselines and other mandated funding requirements. The San Francisco Charter establishes baseline funding levels for a number of city services. These baselines are indexed to overall growth or reduction in aggregate General Fund discretionary revenues. Revenue-driven baselines are based on projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending. Table 4-1 below identifies required and proposed levels of funding. Note that the Children's Services baseline is anticipated to be overfunded by \$9.5 million due to the \$6.1 million anticipated release from the Rainy Day Reserve to the San Francisco Unified School District to offset per-pupil revenue declines.

Table 4-1. Key Baseline & Mandated Funding Requirements (\$ millions)

	FY 2009-10	FY 2010-11			Change	
	Original Budget	Required Baseline	Mayor's Proposed	Surplus/ (Shortfall)	\$	%
Revenue-Driven Baselines						
Municipal Transportation Authority	\$ 178.3	\$ 175.0	\$ 175.0	\$ -	\$ (3.3)	-2%
Children's Services	96.9	94.7	104.2	9.5	7.3	8%
Library Preservation (1)	42.2	43.5	44.1	0.6	1.8	4%
Public Education Baseline Services	5.7	5.5	5.5	-	(0.1)	-2%
Property Tax Related Set-Asides						
Municipal Symphony	1.9	1.9	1.9	-	0.0	1%
Children's Fund Set-Aside	44.9	41.1	41.1	-	(3.8)	-8%
Library Preservation Set-Aside	37.4	34.2	34.2	-	(3.1)	-8%
Open Space Set-Aside	37.4	34.2	34.2	-	(3.1)	-8%
Expenditure-Driven Baselines						
Public Education Enrichment Funding	42.7	41.6	41.6	-	(1.0)	-2%
City Services Auditor	12.4	11.5	11.5	-	(0.9)	-7%
Human Services Homeless Care Fund	13.7	13.7	13.7	-	0.0	0%
Staffing and Service-Driven						
Police Minimum Staffing		Requirement conditionally met				
Fire Neighborhood Firehouse Funding		Requirement met				
Treatment on Demand		Requirement not met				
Total Baseline Spending	\$ 513.3	\$ 497.0	\$ 507.0	\$ 10.0	\$ (6.3)	-1%

(1) The required baseline amount has been corrected from the \$44.1 million figure originally published.

Municipal Transportation Baselines. Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the Municipal Transportation Agency (MTA). Consistent with the Charter, in FY 2000-01 a base amount of funding was established. Charter subsection (c) (1) requires the Controller's Office to adjust the base amount from year to year by the percent increase or decrease in aggregate City discretionary revenues. Beginning in FY 2002-03, this Charter section also established a level of funding (required baseline) for the Parking and Traffic Commission based upon FY 2001-02 appropriations.

Baseline amounts can vary if a new source of revenue is generated, in which case the baseline percentage of the new revenues flows to the MTA. Transfers will decline if revenues decrease. In the Proposed Budget, the MTA baseline percentage was increased from 9.17% to 9.19% of aggregate discretionary revenues to provide funds for the cost of continuing services from General Fund departments that the MTA had been paying for, but that were not included in the original baseline calculation. In order to provide MTA the revenues to cover the costs of continuing services from General Fund departments for prior years, the Proposed Budget includes a one-time General Fund transfer to MTA of \$2.1 million.

Municipal Railway (MUNI): The Mayor's FY 2010-11 Proposed Budget includes MUNI Baseline funding at the \$127.3 million required level.

Parking and Traffic: The Mayor's FY 2010-11 Proposed Budget includes Parking and Traffic Baseline funding at the \$47.7 million required level.

Children's Baseline. Charter Section 16.108 establishes a fund for children's services. Consistent with the Charter, in FY 2000-01 a base amount of funding was established, which is adjusted by the percent increase or decrease in aggregate City discretionary revenues. The Mayor's FY 2010-11 Proposed Budget includes Children's Baseline funding of \$104.2 million. The required baseline for FY 2010-11 is \$94.7 million. This reflects surplus funding of \$9.5 million in the FY 2010-11 Proposed Budget. This level of surplus funding is largely due to the Rainy Day Reserves allocation of \$6.1 million to the School District for FY 2010-11.

Library Baseline. Charter Section 16.109 establishes a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. In FY 2006-07 a base amount of funding was established, which is adjusted by the percent increase or decrease in aggregate City discretionary revenues. The Mayor's FY 2010-11 Proposed Budget includes Library Baseline funding at \$44.1 million, \$0.6 million above the required level.

The Library Baseline is increased in the Proposed Budget to include the cost of retiree health subsidies previously paid for by the General Fund. Had these costs been charged to the Library Preservation Fund in the FY 2006-07 base year, they would have increased the baseline from 2.17% to 2.29% of aggregate discretionary revenue. In the FY 2010-11 budget, the Library's share of retiree health subsidy is budgeted in the Library Preservation Fund, and the baseline transfer is equal to 2.29% of aggregate discretionary revenue.

Public Education Services Baseline. Charter Section 16.123-2 establishes a Public Education Enrichment Fund. Consistent with the Charter, in FY 2001-02 a base amount of funding was established, which is adjusted by the percent increase or decrease in aggregate City discretionary revenues. Proposition H, passed by voters in March 2003, required not only enhancement funding for public education but also baseline funding established pursuant to FY 2002-03 appropriation levels, which were to be adjusted in subsequent years according to changes in aggregate discretionary revenues. The Mayor's FY 2010-11 Proposed Budget includes \$5.5 million of funding for Public Education Services. These appropriations are shown in the budget in the Department of Children, Youth & Their Families.

Municipal Symphony Baseline. Charter Section 16.106(1) mandates that the City provide an appropriation equivalent to 1/8 of \$0.01 of each \$100 in assessed valuation of property tax for the symphony orchestra. The Mayor's FY 2010-11 Proposed Budget includes Municipal Symphony Baseline funding at the \$1.9 million required level. The appropriation is budgeted at the Arts Commission.

Other Property Tax-Related Set-Asides. Charter Sections 16.108, 16.109, and 16.107 mandate three property tax-related set-asides, including amounts equivalent to 3.0% of property tax revenues for Children's Services, 2.5% for Library Preservation and 2.5% for Open Space. The Mayor's FY 2010-11 Proposed Budget includes required funding of \$41.1 million for Children's Services and \$34.2 million for both Library Preservation and Open Space.

Public Education Enrichment Funding. The Mayor's FY 2010-11 Proposed Budget includes \$41.6 million for the Public Education Enrichment Fund. This funding, which was approved by voters in March 2004 through Proposition H and included in Charter Section 16.123-2, requires the City to support education initiatives with \$60 million in FY 2009-10, and with annual contributions in FY 2010-11 thereafter equal the City's total contribution the prior year, adjusted for the change in aggregate discretionary revenue. In any year, if the joint budget report as prepared by the Controller, the Mayor's Budget Director, and the Board of Supervisors' Budget Analyst projects a budgetary shortfall of \$100 million or more, the Mayor and the Board of Supervisors may reduce the City's contribution to the Public Education Enrichment Fund by up to 25%. The FY 2010-11 Proposed Budget includes this reduction. The City must pay back the \$14.7 million difference by 2018 unless voters extend the measure or authorize a substantially similar measure.

City Services Auditor Baseline. Charter Section F1.113 establishes the Controller's Audit Fund and a baseline amount. This baseline was approved by voters in November 2003 and mandates that 0.2% of the budget be used to fund audits of City services. FY 2004-05 was the first year for the City Services Auditor to receive baseline funding. The Mayor's FY 2010-11 Proposed Budget includes \$11.5 million for the City Services Auditor Baseline.

Human Services Homeless Care Fund. Also known as Care not Cash, the Human Services Homeless Care Fund, Proposition N, was passed by voters in November 2002 and first budgeted in FY 2003-04. Prop N established the Human Services Care Fund in Administrative Code Section 10.100-77. The City is required to credit the fund with the difference between the average annual maximum cash grant for each program and the average annual special allowance or other residual cash payment provided by the City for each individual in the program that the City expects will be provided with in-kind benefits in lieu of the full cash grant during the year. These funds are to be used on homeless outreach and service programs. In FY 2010-11, funding will equal \$13.7 million, a 0.2% decrease from FY 2009-10 funding.

Police Staffing Baseline. San Francisco Charter Section 4.127 mandates a minimum staffing baseline of not less than 1,971 full-duty officers. The Mayor's FY 2010-11 Proposed Budget includes net funding authority for 1,949 full-time equivalent (FTE) full-duty officers by fiscal year end, or 22 fewer than the 1,971 requirement. The 1,949 figure assumes 90 separations from service, excludes officers assigned to the Airport, on modified duty or leave, and includes funding for overtime hours.

The Charter-mandated minimum staffing level may be reduced in cases where civilian hires result in the return of a full-duty officer to active police work, pursuant to Charter Section 16.123 (Proposition C). This voter-approved proposition provides that the Mayor and Board may convert a position from a sworn officer to a civilian through the budget process. The Mayor's Proposed Budget assumes 77 positions have been civilianized since FY 2003-04. If those 77 positions were approved and certified by the Chief of Police, the required baseline of 1,971 full-duty officers would be reduced to 1,894. Assuming these civilianizations are certified, the Proposed Budget includes net funding authority for 1,949 FTEs, 55 more positions than the 1,894 required.

Neighborhood Firehouse Baseline. In November 2005, San Francisco voters passed the Neighborhood Firehouse Protection Act (Proposition F), which established new baseline service level requirements for San Francisco firehouse operations as detailed in Charter Section 2A.97. The Act included minimum baseline requirements for 24-hour staffing of 42 firehouses, the Arson and Fire Investigation Unit, no fewer than 4 ambulances, and 4 Rescue Captains (medical supervisors). The \$209.9 million Neighborhood Firehouse baseline requirement has been met. The department estimates the Proposed Budget contains \$8.7 million more than required.

Treatment on Demand Baseline: In November 2008, voter-approved Proposition T created Section 19.23A of the Administrative Code, which required the Department of Public Health to maintain an “adequate level of free and low cost medical substance abuse services and residential treatment slots” to meet the overall demand for these services. The measure requires that the City not reduce funding, staffing or the number of substance abuse treatment slots available for as long as slots are filled or sought. This requirement is not met in the proposed budget. The measure also requires the Department to report to the Board of Supervisors by February 1st of each year with an assessment of the demand for substance abuse treatment and present a plan to meet this demand.

Appendix 5. Expenditure Reserves

Controller's Appropriation Reserves – Department Reserves

Prior to certifying revenues, the Controller places certain items on reserve pending some additional action needed to secure the revenues. The chart below details reserves related to specific department revenues and the action required for the department to expend funds.

Table 5-1. Controller's Appropriation Reserves (\$ millions)

Department Reserve Description & Follow-Up Action Required	Amount
DPH--Public Health--San Francisco General Hospital Elevator Replacement Pending voter approval of Bond on June 2010 Ballot	\$ 0.5
DPH--Public Health--San Francisco General Hospital Cooling Towers Replacement Pending voter approval of Bond on June 2010 Ballot	0.3
DPH--Public Health--101 Grove Street Parapet Wall & Facade Repairs Pending voter approval of Bond on June 2010 Ballot	0.6
GSA-ADM--General Services Agency - City Administrator - Disabled Access for Health & Human Services Facilities Pending voter approval of Bond on June 2010 Ballot	0.1
GSA-ADM--General Services Agency - City Administrator - Street Reconstruction & Renovation Pending sale of Certificates of Participation	6.2
GSA-DPW--General Services Agency - Public Works - Street Reconstruction & Renovation Pending sale of Certificates of Participation	32.2
GSA-DPW--General Services Agency - Public Works - Streetscape Improvements Pending voter approval of Bond on June 2010 Ballot	0.6
MTA--Municipal Transportation Agency--Materials and Supplies Pending revenue from the issuance of taxi medallions	10.0
PUC--Public Utilities Commission--Clean Water Capital Projects Pending sale of debt proceeds	3.3
PUC--Public Utilities Commission--Hetch Hetchy Water Capital Projects Pending sale of debt proceeds	6.0
PUC--Public Utilities Commission--Water Capital Projects Pending sale of debt proceeds	7.1
SHF--Sheriff-San Bruno Jail No. 3 Demolition Pending voter approval of Bond on June 2010 Ballot	7.2
WAR--War Memorial--Veterans Building Seismic Renovation & Opera Addition Capital Project Pending sale of Certificates of Participation	15.0
Total	88.9

Controller's Appropriation Reserves – Unsecured Citywide General Fund Revenues

In addition to the reserves noted above, the Controller has identified \$142.2 million of unsecured General Fund supported revenues. Table 5-2 details these sources, and Table 5-3 details the salaries and fringe benefits placed on Controller's reserve pending the action in Table 5-2.

Table 5-2. Unsecured Citywide Revenue (\$ millions)

Unsecured Revenues & Follow-Up Action Required	Amount
Federal Revenues	
SB188/AB1383 Hospital Fee Revenue Pending Federal approval of the State plan amendment	\$ 88.0
Federal Medical Assistance Percentage (FMAP) extension Pending Federal government approval	22.5
Mental Health State Plan Amendment Pending Federal approval of the State plan amendment	12.6
Subtotal, Federal Revenues	123.2
Local Revenues	
Condo Conversion Pending receipt of condo conversion fee revenues	8.0
Clarifying Hotel Tax Ordinance on November Ballot Pending voter approval of November ballot amendment	6.0
Solid Waste Impound Account Revenue surcharge Pending surcharge on garbage costs	2.5
Cigarette Fee Pending litigation developments of fee revenues	2.5
Subtotal, Local Revenues	19.0
Total Federal and Local Revenues	\$ 142.2

Table 5-3. Controller's Appropriation Reserves of Salary & Fringe Benefit Expenditures Pending Receipt of Citywide Revenue (\$ millions)

Department	Amount
Academy of Science	\$ 0.1
Adult Probation	0.8
Art Commission	0.1
Asian Art Museum	0.3
Assessor Recorder	1.1
Board of Supervisors	0.6
Children, Youth, and Their Families	0.0
City Attorney	3.8
City Planning Commission	1.2
Civil Service Commission	0.1
Controller	1.8
District Attorney	2.2
Economic & Workforce Development	0.4
Elections	0.3
Emergency Management	2.1
Ethics Commission	0.1
Fine Arts Museum	0.4
Fire Department	17.9
General Services Agency - City Administrator	2.7
General Services Agency - Public Works	2.0
General Services Agency - Technology	0.1
Human Resources	0.6
Human Rights Commission	0.0
Human Services Agency	13.7
Juvenile Probation	1.8
Law Library	0.0
Mayor	0.3
Police Department	24.9
Public Defender	1.6
Public Health	49.6
Recreation and Park	2.9
Sheriff's Department	7.7
Status of Women	0.0
Treasurer/Tax Collector	1.3
Total	\$ 142.2

Other Reserves Included in Proposed Budget

The Mayor's FY 2010-11 Proposed Budget also includes \$53.7 million in General Fund reserves as outlined in Table 5-4 below. These appear to be prudent and reasonably reflect anticipated Memoranda of Understanding (MOUs), litigation costs, and general contingency reserves.

Table 5-4. Proposed Reserves (\$ millions)

General Fund	FY 2009-10 Original Budget	FY 2010-11 Proposed Budget	Change
General Reserve	\$ 25.0	\$ 25.0	\$ -
Salaries & Benefits Reserve	13.2	15.2	1.9
Litigation Reserve	1.0	11.0	10.0
Reserve for Technical Adjustments	-	2.5	2.5
Total Reserves - General Fund	\$ 39.2	\$ 53.7	\$ 14.4

General Reserve: Each year, the City sets aside funding to provide for revenue and expenditure uncertainties including funding for supplemental appropriations in the event that additional appropriation needs arise. The Mayor's FY 2010-11 Proposed Budget includes \$25.0 million in the General Reserve, the level at which the General Fund Reserve has been generally funded in recent budgets.

Salaries and Benefits Reserve: The Mayor's FY 2010-11 Proposed Budget provides \$15.2 million in the General Fund to cover costs related to adopted Memorandum of Understandings (MOUs) with labor organizations, a \$1.9 million increase to cover the cost of the Police Officer's Association collective bargaining agreement that is not reflected in the Police Department's budget.

Litigation Reserve: The \$11.0 million litigation reserve proposed budget is intended to provide funding for potential judgments and claims that will need to be paid out by the City during the budget year, based on historical experience. The City also maintains a separate reserve funded from prior year appropriations for large cases pending against the City. In FY 2009-10, after recalculating large cases liabilities, there was \$10 million surplus funding available to be carried forward, allowing the FY 2009-10 annual budget amount to be reduced to \$1 million. No such surplus is anticipated to be available to carry forward into FY 2010-11.

Appendix 6: Downtown Park Fund

The San Francisco Planning Code requires that the Controller's Office file an annual 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 jointly administer this fund. The fund receives fee revenue and associated interest from a \$2 per square foot charge on the net addition of gross office floor area for specified C-3 Use District development. The fund is designated for the acquisition and development of public recreation and park facilities for use by the daytime population of the C-3 Use Districts.

As of FY 2008-09 year end, unappropriated fund balance was \$1.7 million. Given the use of \$0.5 million in fund balance and a revenue shortfall of \$0.05 million, FY 2009-10 year fund balance is projected to be \$1.2 million. The FY 2010-11 budget anticipates \$0.1 million in interest revenue, no new fee revenue, and expenditures of \$1.2 million for ADA remediation work at Union Square Plaza, which decreases the unappropriated fund balance to \$0.1 million. Table 6-1 summarizes the fund's revenues over a five-year period.

Table 6-1, Downtown Park Fund Revenue (\$ millions)

		Fees	Interest	Total
FY 2010-11 Budgeted	\$	-	\$ 0.1	\$ 0.1
FY 2009-10 Projected		0.4	0.0	0.4
FY 2008-09 Actual		-	0.1	0.1
FY 2007-08 Actual		-	0.1	0.1
FY 2006-07 Actual		0.5	0.2	0.7

STAFF CONTACTS

Leo Levenson, Director of Budget & Analysis, Leo.Levenson@sfgov.org

Michelle Allersma, Revenue Manager Michelle.Allersma@sfgov.org

Nadia Feeser, Budget Manager, Nadia.Feeser@sfgov.org

Aimee Fribourg, Budget Analyst, Aimee.Fribourg@sfgov.org

Joe Nurisso, Budget Analyst, Joe.Nurisso@sfgov.org