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June 16, 2006

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

**Re: Controller's Discussion of the Mayor's Fiscal Year 2006-07 Proposed Budget
[Revenue Letter - Fiscal Year 2006-07]**

Dear Members of the Board:

On May 31, 2006, Mayor Gavin Newsom issued his FY 2006-07 Proposed Budget to the Board of Supervisors. Overall, the Mayor's FY 2006-07 General Fund Proposed Budget of \$2.64 billion reflects projected growth of \$191.47 million (7.8 percent) from the FY 2005-06 original budget. This growth is the result of 9.8 percent growth in regular annual revenues as well as growth in reserves as a funding source less a partially offsetting reduction to net operating transfers and prior-year fund balance. The total, All Funds FY 2006-07 Proposed Budget of \$5.73 billion reflects projected growth of \$387.45 million (7.3 percent). **The growth assumptions included in the Mayor's Proposed Budget appear to be reasonable given current trends including a continuing economic rebound for the Bay Area.**

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

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

While the Bay Area economy continues to recover, the gradual rebound in business activity has resulted in moderate growth for many of the jobs-related local revenues. Other property-related revenues, including both Property Tax and the Real Property Transfer Tax, proposed in this budget reflect continued strength in that sector. At the same time, citywide costs have continued to climb, in large part due to escalating employee salary and benefit costs related to labor agreement provisions. Key revenue assumptions are detailed in this report and summarized on the following pages.

Summary of Changes in General Fund Sources from the FY 2005-06 Original Budget

- \$224.50 million of **tax, fee and other revenue growth** - an overall 9.8 percent increase budget-to-budget in regular revenues for the General Fund including strength in Property Tax, Real Property Transfer Tax, Business Tax, Interest Income, Utility Users Tax, and Sales Tax with partially offsetting weakness in Intergovernmental Revenues from the Federal & State governments, Recoveries, Fines and Forfeitures;
- \$20.49 million of growth in the **Prior-Year Reserves** as a budgetary source of funds for a total of \$22.98 million assumed in the Mayor's Proposed Budget, including \$13.65 million of Rainy Day Capital & One-Time Spending Reserves, \$3.60 million of Children's Baseline Reserves, \$3.10 million of Recreation and Park's Savings Reserves, and \$2.63 million of Budget Savings Incentive Reserves;
- \$22.91 million less **Prior-Year Fund Balance** available for appropriation, though this would have shown growth year-over-year absent the recent approval of \$54.0 million of supplemental appropriations for capital and project spending funded using fund balance in the latter half of FY 2005-06;
- \$30.61 million less in **Net Transfers** related to a change in the State's revenue matching requirements (though this reduction also has an offsetting cost savings); and
- \$0.50 million in local service reductions would occur if the Legislature were to adopt the Governor's proposed budget. In this event, the shortfall could be covered by the Controller reserving spending or the Board authorizing the use of General Reserve funding. A complete summary of State Budget impacts is on page 19.

Summary of Changes in All Funds Sources from the FY 2005-06 Original Budget

- \$387.45 million or 7.3 percent growth in total sources resulting in a total City budget of \$5.73 billion;
- \$389.20 million or 7.7 percent growth in **service charge, tax, intergovernmental and other regular revenues**, including \$164.70 million (5.9 percent) increase for non-General Fund funds¹;
- \$20.49 million of growth in **Prior-Year Reserves** as already discussed above in the General Fund section; and
- \$22.24 million (8.6 percent) of less **Prior-Year Fund Balance** also already noted above in the General Fund discussion.

Key Fiscal Impact Findings – \$7.68 Million of Additional Funding Capacity Projected

- \$3.65 million of additional Fund Balance is projected to be available in the General Fund than is currently assumed in the FY 2006-07 Proposed Budget;
- \$2.25 million of additional funding is projected from the Rainy Day Reserve's Capital & One-Time Spending Account than is currently assumed;
- \$1.44 million of additional Baseline funding is projected to be available, including \$0.42 million for Children's Services, \$0.20 million for the Library, \$0.60 million for the Municipal Railway and \$0.22 million for Parking & Traffic; and
- \$0.34 million of additional funding is projected in the Downtown Park Fund.

Also of note, we have incorporated substantive technical adjustments impacting revenues as proposed by the Mayor's Office through June 15 in the applicable sections of this report.

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

**Controller's Discussion of the Mayor's Fiscal Year 2006-07 Proposed Budget
[Revenue Letter – FY 2006-07]**

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

Overall, the Mayor's FY 2006-07 Proposed Budget has increased 7.8 and 7.3 percent for the General Fund and All Funds budgets respectively. This includes regular revenue growth of 9.8 percent in the General Fund and 7.7 percent for the All Funds over the FY 2005-06 Original Budget levels – growth commensurate with an economic recovery in the Bay Area.

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

(\$ millions)

General Fund						
	FY 2005-06		FY 2006-07		Change	
	Original Budget		Mayor's Proposed		\$	%
Prior-Year						
Fund Balance	\$	117.99	\$	95.09	\$	(22.91) -19.4%
Reserves		2.49		22.98		20.49 822.9%
Subtotal		120.48		118.07		(2.42) -2.0%
Current-Year						
Regular Revenues		2,285.14		2,509.64		224.50 9.8%
Transfers, net		47.67		17.06		(30.61) -64.2%
Subtotal		2,332.81		2,526.70		193.89 8.3%
Total Sources	\$	2,453.29	\$	2,644.77	\$	191.47 7.8%

All Funds including General Fund						
	FY 2005-06		FY 2006-07		Change	
	Original Budget		Mayor's Proposed		\$	%
Prior-Year						
Fund Balance	\$	257.53	\$	235.29	\$	(22.24) -8.6%
Reserves		2.49		22.98		20.49 822.9%
Subtotal		260.02		258.27		(1.75) -0.7%
Current-Year						
Regular Revenues		5,083.28		5,472.48	\$	389.20 7.7%
Transfers, net		n/a		n/a		n/a n/a
Subtotal		5,083.28		5,472.48		389.20 7.7%
Total Sources	\$	5,343.30	\$	5,730.75	\$	387.45 7.3%

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

Sources of Funds	FY 2005-06		FY 2006-07		Change	
	Original Budget	Mayor's Proposed				
Property Tax	\$ 696.66	\$ 828.60	\$ 131.94	18.9%		
Intergovernmental - State	474.39	470.41	(3.98)	-0.8%		
Other Local Taxes	413.71	455.03	41.32	10.0%		
Business Taxes	288.32	332.17	43.85	15.2%		
Intergovernmental - Federal	206.34	193.68	(12.66)	-6.1%		
Charges for Services	111.22	122.97	11.75	10.6%		
Interest & Investment Income	11.31	32.24	20.93	185.1%		
Licenses, Permits & Franchises	19.13	20.92	1.79	9.4%		
Rents & Concessions	19.58	20.14	0.55	2.8%		
Other Revenues	12.64	17.40	4.75	37.6%		
Recoveries	19.77	10.30	(9.46)	-47.9%		
Fines & Forfeitures	11.48	4.90	(6.58)	-57.3%		
Other Financing Sources	0.60	0.90	0.30	51.0%		
Regular Revenues	\$ 2,285.14	\$ 2,509.64	\$ 224.50	9.8%		
Transfers, Net	47.67	17.06	(30.61)	-64.2%		
Prior-Year Fund Balance	117.99	95.09	(22.91)	-19.4%		
Prior-Year Reserve	2.49	22.98	20.49	822.9%		
Total Sources	\$ 2,453.29	\$ 2,644.77	\$ 191.47	7.8%		

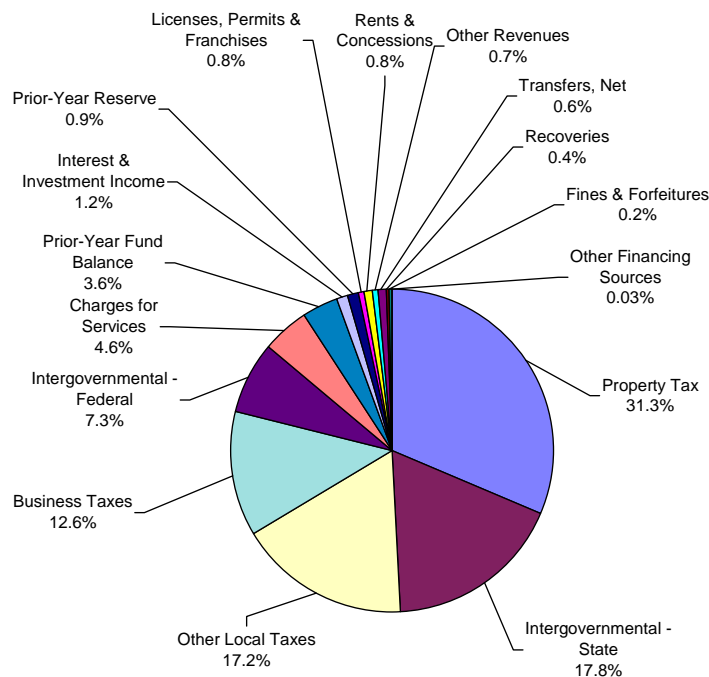
Budget-to-Budget Sources Comparison – All Funds (\$ millions)

Sources of Funds	FY 2005-06		FY 2006-07		Change	
	Original Budget	Mayor's Proposed				
Charges for Services	\$ 1,659.71	\$ 1,759.33	\$ 99.62	6.0%		
Property Tax	914.06	1,058.15	144.09	15.8%		
Intergovernmental - State	640.42	651.67	11.25	1.8%		
Other Local Taxes	478.87	528.54	49.67	10.4%		
Intergovernmental - Federal	375.68	354.11	(21.57)	-5.7%		
Business Taxes	288.87	332.72	43.85	15.2%		
Rents & Concessions	323.81	329.02	5.20	1.6%		
Other Revenues	98.91	104.39	5.47	5.5%		
Fines & Forfeitures	107.49	100.78	(6.72)	-6.2%		
Other Financing Sources	53.28	81.59	28.31	53.1%		
Intergovernmental - Other	56.09	68.68	12.60	22.5%		
Interest & Investment Income	34.40	59.68	25.28	73.5%		
Licenses, Permits & Franchises	31.91	33.52	1.60	5.0%		
Recoveries	19.77	10.30	(9.46)	-47.9%		
Regular Revenues	\$ 5,083.28	\$ 5,472.48	\$ 389.20	7.7%		
Prior-Year Fund Balance	257.53	235.29	(22.24)	-8.6%		
Prior-Year Reserve	2.49	22.98	20.49	822.9%		
Total Sources	\$ 5,343.30	\$ 5,730.75	\$ 387.45	7.3%		

Summary of Sources – General Fund² (\$ millions)

Sources of Funds	FY 2005-06	FY 2006-07	FY 2006-07
	Original Budget	Mayor's Proposed	% of Total
Property Tax	\$ 696.66	\$ 828.60	31.33%
Intergovernmental - State	474.39	470.41	17.79%
Other Local Taxes	413.71	455.03	17.20%
Business Taxes	288.32	332.17	12.56%
Intergovernmental - Federal	206.34	193.68	7.32%
Charges for Services	111.22	122.97	4.65%
Interest & Investment Income	11.31	32.24	1.22%
Licenses, Permits & Franchises	19.13	20.92	0.79%
Rents & Concessions	19.58	20.14	0.76%
Other Revenues	12.64	17.40	0.66%
Recoveries	19.77	10.30	0.39%
Fines & Forfeitures	11.48	4.90	0.19%
Other Financing Sources	0.60	0.90	0.03%
Regular Revenues	\$ 2,285.14	\$ 2,509.64	94.89%
Transfers, Net	47.67	17.06	0.65%
Prior-Year Fund Balance	117.99	95.09	3.60%
Prior-Year Reserve	2.49	22.98	0.87%
Total Sources	\$ 2,453.29	\$ 2,644.77	100.00%

Sources of Funds - General Fund

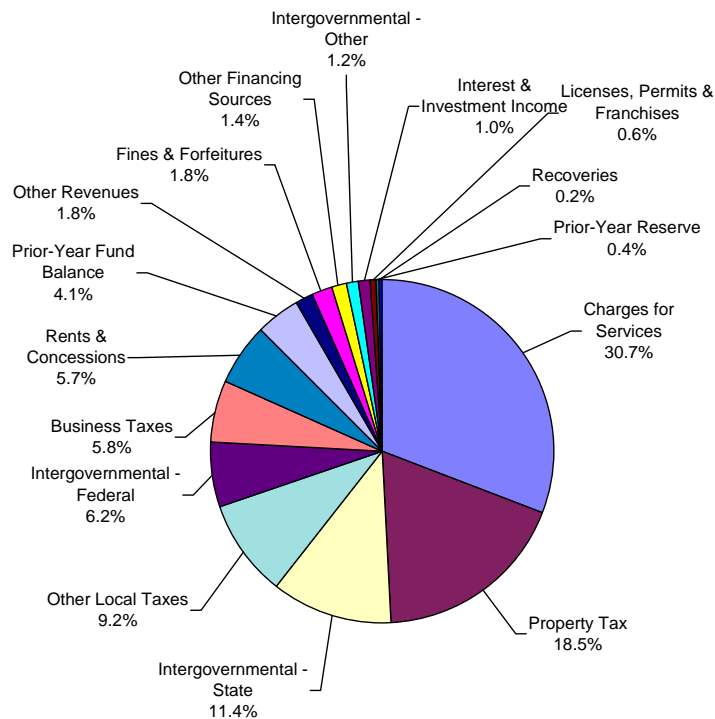


² A summary comparison of the City's sources to the typical California city and county is attached – Attachment A.

Summary of Sources – All Funds³ (\$ millions)

Sources of Funds	FY 2005-06 Original Budget	FY 2006-07 Mayor's Proposed	FY 2006-07 % of Total
Charges for Services	\$ 1,659.71	\$ 1,759.33	30.70%
Property Tax	914.06	1,058.15	18.46%
Intergovernmental - State	640.42	651.67	11.37%
Other Local Taxes	478.87	528.54	9.22%
Intergovernmental - Federal	375.68	354.11	6.18%
Business Taxes	288.87	332.72	5.81%
Rents & Concessions	323.81	329.02	5.74%
Other Revenues	98.91	104.39	1.82%
Fines & Forfeitures	107.49	100.78	1.76%
Other Financing Sources	53.28	81.59	1.42%
Intergovernmental - Other	56.09	68.68	1.20%
Interest & Investment Income	34.40	59.68	1.04%
Licenses, Permits & Franchises	31.91	33.52	0.58%
Recoveries	19.77	10.30	0.18%
Regular Revenues	\$ 5,083.28	\$ 5,472.48	95.49%
Prior-Year Fund Balance	257.53	235.29	4.11%
Prior-Year Reserve	2.49	22.98	0.40%
Total Sources	\$ 5,343.30	\$ 5,730.75	100.00%

Sources of Funds - All Funds



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

II. SOURCES OF FUNDS

Charter Section 9.102 requires that the Controller “provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates [in the Mayor’s Proposed Budget] and the reasonableness of such estimates and revisions.” The Controller’s Office and the Mayor’s Budget Office have worked together to prepare the Mayor’s Proposed Budget revenue estimates. On May 31, 2006, Mayor Gavin Newsom issued his FY 2006-07 Proposed Budget. The most recent Joint Report, which was published in March 2006, included a projected shortfall of \$12.5 million for FY 2006-07. The Mayor’s FY 2006-07 Proposed Budget closed this shortfall along with subsequent salary increase costs related to open contracts with targeted spending reductions and increased revenue projections for FY 2006-07.

With only a few exceptions, most notably increases in both Transfer Tax and Property Sale revenues, the sources of funding estimates are largely based on the economic assumptions outlined in the Joint Report issued by the Mayor’s Budget Office, the Controller’s Office, and the Board of Supervisors’ Budget Analyst. Additionally, the Mayor’s Proposed Budget includes updated citywide revenue projections for the City’s major tax revenues reflecting the higher base levels outlined in the Controller’s Nine-Month Report.

Overall, discretionary General Fund revenues are projected to grow 12.6 percent from the FY 2005-06 budgeted levels or 2.7 percent from the Controller’s 9-Month Report projection. Of note are the reductions to Transfer Tax and Vehicle License Fee (VLF) revenues. While VLF revenues decline in FY 2006-07 because of the one-time repayment from the State occurring in FY 2005-06, Transfer Taxes are budgeted lower because of a concern regarding the slowdown in sales transaction activity. The small decline in Hotel Room Taxes is due to a change in tax revenue allocations as overall that revenue is projected and being budgeted assuming 4.7 percent growth over the FY 2005-06 9-Month projection.

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

	FY 2005-06		FY 2006-07				
	Original Budget	9-Month Year-end Projection	Mayor's Proposed Budget	Change from PY			
				Budget		Projection	
			\$	%	\$	%	
Property Taxes (1)	\$696.66	\$764.69	\$ 828.60	\$ 131.94	18.9%	\$ 63.91	8.4%
Business Taxes	288.32	318.11	332.17	43.85	15.2%	14.06	4.4%
Sales Tax	102.78	102.78	106.24	3.46	3.4%	3.46	3.4%
Utility Users Tax	70.92	76.75	79.44	8.52	12.0%	2.69	3.5%
Property Transfer Tax	83.00	119.20	105.00	22.00	26.5%	(14.20)	-11.9%
Hotel Room Tax (2)	121.46	125.73	125.43	3.97	3.3%	(0.30)	-0.2%
Parking Tax	33.12	35.00	36.05	2.93	8.8%	1.05	3.0%
Public Safety Sales Tax	70.00	70.50	74.03	4.03	5.8%	3.53	5.0%
Vehicle License Fees	36.66	34.61	5.60	(31.06)	-84.7%	(29.01)	-83.8%
Total - Discretionary Revenues	\$1,502.92	\$1,647.37	\$ 1,692.57	\$ 189.65	12.6%	\$ 45.19	2.7%

NOTES

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

(2) Includes both General Fund Unallocated (discretionary) and General Fund Allocated Hotel Room Tax revenues. Of the \$125.43 million budgeted in FY 2006-07, \$99.37 million is Unallocated (discretionary). Of the \$121.46 million budgeted in FY 2005-06, \$97.19 million is Unallocated (discretionary).

Discussion of Budget Estimates for General Fund Discretionary Revenues

Property Taxes: The FY 2006-07 General Fund share of property tax revenue is projected to be \$828.60 million, which is \$131.94 million (18.9 percent) more than the FY 2005-06 Original Budget or 8.4 percent more than the FY 2005-06 9-Month Report projection. The Mayor's Proposed Budget assumes \$3.00 million in higher property tax revenues related to increased staff (5.00 FTE appraisers and 3.50 FTE temporary staff) at the Assessor's Office, who will be able to further reduce the assessment processing backlog. Of Proposition 13's one percent countywide tax rate, approximately 57 percent of Property Taxes accrue to the General Fund, and 3.0, 2.5 and 2.5 percent accrue to the City's Children's Fund, the Open Space Fund and the Library Preservation Fund respectively. Additionally, another 25 percent is indirectly shifted from the City's General Fund to Schools through the State's Educational Revenue Augmentation Fund (ERAF) program. The remainder is directly 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 Proposition 13's one percent countywide rate, debt service related to voter-approved bonds is paid from a property tax rate add-on, as calculated annually by the Controller. This add-on was 0.140 percent for FY 2005-06 for a total property tax rate of 1.140 percent.

A portion of property tax is also allocated to the Redevelopment Agency⁴ related to the degree assessment valuations have grown in established redevelopment project areas. The Redevelopment Agency's budget is largely funded through property tax allocations, which would otherwise accrue to the General Fund and other taxing entities. For FY 2006-07, tax increment funding allocated to the Redevelopment Agency is projected to increase to \$71.24 million from \$70.56 million in FY 2005-06 – a \$0.68 million increase. The incremental impact to the General Fund of this \$0.68 million increase is \$0.39 million (57% of property tax increment).

Preliminary working roll estimates from the Assessor's Office are indicative of the FY 2006-07 secured tax roll increasing between 6.5 and 7.0 percent from the FY 2005-06 certificate values, which is consistent with the Mayor's Proposed Budget assumptions. For purposes of projecting the General Fund property tax revenues, several additional factors are taken into consideration. First, some changes in the Assessor's working roll are already reflected in the FY 2005-06 year-end projection, due to mid-year reassessments and subsequent supplemental tax revenues. Second, anticipated appeals, refunds, reassessments, delinquencies, prior-year collections, tax increment allocations to the Redevelopment Agency and major transactions are considered. Finally, changes in the assessment processing backlog and changes due to State budgetary shifts, like ERAF, are considered.

Property tax delinquencies decreased from prior-recession highs of 4.02 percent to 1.38 percent for FY 2003-04 and 1.61 percent for FY 2004-05. The Mayor's FY 2006-07 Proposed Budget includes an assumed overall delinquency rate of 1.31 percent – in line with recent experience and an improving economy.

⁴ The gross tax increment assumed for the Redevelopment Agency is \$71.24 million in FY 2006-07, compared to \$70.56 million in FY 2005-06, \$55.19 million in FY 2004-05, \$38.23 million in FY 2003-04, and \$43.53 million in FY 2002-03.

Business Taxes: Business taxes are budgeted at \$332.17 million, which is \$43.85 million (15.2 percent) more than the \$288.32 million budgeted in FY 2005-06, or a \$14.06 million (4.4 percent) more than the FY 2005-06 year-end projections. The proposed budget is based on moderate growth in employment of between 0.8 to 1.5 percent and 2.4 to 3.1 percent overall wage increases (levels approximating cost of living adjustments). Additionally, the Mayor’s Proposed Budget includes \$1.70 million (0.5 percent) in increased delinquent revenue collection related to technology enhancement projects at the Treasurer-Tax Collector’s Office. Business tax revenue is comprised of business license registration fees and payroll taxes with the latter being the predominant source.

On a related note, the Mayor’s FY 2006-07 Proposed Budget continues to include the debt service for the business tax (gross receipts) judgement bonds pertaining to the litigation settlement previously adopted by the Board of Supervisors. FY 2006-07 debt service on the judgement bonds is \$6.75 million, almost the same in FY 2005-06. The judgement bonds are fixed rate and payable through FY 2010-11, assuming no prepayment or subsequent refunding occurs.

Sales Tax: Sales tax in FY 2006-07 is expected to generate \$106.24 million in revenue, up by \$3.46 million (3.4 percent) from both the FY 2005-06 year-end projection and the FY 2005-06 original budget. San Francisco sales tax continues to be more dependent on tourism than most other cities in California; any sustained increase will be dependent on tourism, business travel and jobs growth. Chart B summarizes the most up-to-date estimated underlying sales tax activity for San Francisco, the Bay Area and California. The January through March 2006 quarter data will be available in the middle of June, and data for the April through June 2006 quarter will be available in September.

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

Fiscal Year	Calendar Quarter	San Francisco	9 County Bay Area	California
FY 2005-06	2005 Q4*	3.80%	0.80%	1.90%
	2005 Q3*	3.70%	5.20%	n/a
FY 2004-05	2005 Q2*	-0.20%	n/a	-2.20%
	2005 Q1*	-0.60%	2.40%	4.90%
	2004 Q4*	1.60%	7.69%	11.40%
	2004 Q3	0.78%	1.67%	4.93%
FY 2003-04	2004 Q2	8.39%	6.61%	7.68%
	2004 Q1*	3.00%	8.00%	10.19%
	2003 Q4*	-0.84%	2.84%	4.23%
	2003 Q3	-1.55%	-1.40%	2.52%
FY 2002-03	2003 Q2	-3.30%	-2.30%	5.00%
	2003 Q1	-1.98%	-3.01%	4.61%
	2002 Q4	-1.70%	-4.40%	0.80%
	2002 Q3	-5.00%	-3.10%	3.10%
FY 2001-02	2002 Q2	-9.70%	-8.40%	-1.30%
	2002 Q1	-17.80%	-12.70%	-3.70%
	2001 Q4	-17.00%	-13.50%	-2.00%
	2001 Q3	-20.30%	-11.50%	-1.20%

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

Utility Users Tax: Utility users tax revenue is budgeted at \$79.44 million in FY 2006-07, which is \$8.52 million (12.0 percent) over the FY 2005-06 Original Budget or \$2.69 million (3.5 percent) over the FY 2005-06 9-Month Report projection. Projected growth reflects underlying rate changes, commodity prices and consumption. On a related note to this revenue, on May 25, 2006, the US Treasury Department announced that it will eliminate the 3 percent Federal Excise Tax on long-distance telephone calls and refund about \$13 billion collected to taxpayers. The City is evaluating the US Treasury's reinterpretation of the Federal Excise Tax provisions to see if there may be any impact to our local telephone utility users tax.

Real Property Transfer Tax: Real property transfer tax is budgeted at \$105.00 million, which is \$22.00 million (26.5 percent) more than the FY 2005-06 budget level of \$83.00 million. The Proposed Budget is, however, projecting \$20.20 million less in FY 2006-07 than the \$125.20 million current projection for FY 2005-06. FY 2004-05 and FY 2005-06 both witnessed unprecedented sales activity in the commercial real estate sector.

Investors have historically bought and held commercial buildings for a number of years, so the recent tax revenue peaks, which have been largely fueled by elevated commercial volume transactions, are not believed to be sustainable indefinitely during this recent economic recovery. The Controller's Office monitors transfer tax collection rates and transaction volumes closely to provide updates throughout the fiscal year. Based on our recent review of the data, FY 2005-06 is now even on track to exceed the 9-Month estimate of \$119.20 million by approximately \$6.00 million; however, on a cautionary note transaction volumes (the number of properties being sold and generating transfer tax) have actually fallen for the last 14 months in a row. Additionally, given that interest rates continue to climb, the large number of commercial transactions that occurred since late FY 2003-04 through FY 2005-06, and the number of commercial buildings currently on the market, an estimated \$105.00 million for FY 2006-07 appears to be reasonable at this time.

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

Fiscal Year	Total General Fund Transfer Tax Revenue	Annual Growth	
		\$ Change	% Change
FY 1985-86	\$ 18.79		
FY 1986-87	19.06	\$ 0.27	1.4%
FY 1987-88	19.19	0.13	0.7%
FY 1988-89	24.79	5.60	29.2%
FY 1989-90	20.72	(4.07)	-16.4%
FY 1990-91	13.70	(7.02)	-33.9%
FY 1991-92	13.80	0.10	0.8%
FY 1992-93	13.07	(0.73)	-5.3%
FY 1993-94	15.86	2.79	21.4%
FY 1994-95	20.04	4.18	26.4%
FY 1995-96	22.97	2.93	14.6%
FY 1996-97	33.57	10.61	46.2%
FY 1997-98	44.01	10.43	31.1%
FY 1998-99	56.13	12.13	27.6%
FY 1999-00	69.88	13.75	24.5%
FY 2000-01	62.34	(7.55)	-10.8%
FY 2001-02	47.27	(15.07)	-24.2%
FY 2002-03	51.48	4.21	8.9%
FY 2003-04	78.90	27.43	53.3%
FY 2004-05	116.80	37.90	48.0%
Projected FY 2005-06	125.20	8.40	7.2%
Proposed Budget FY 2006-07	105.00	(20.20)	-16.1%

Hotel Room Tax: Hotel room tax revenue is estimated to be \$182.60 million in FY 2006-07 (including All City Funds and the portion accruing to the Redevelopment Agency), which is 7.3 percent increase budget to budget and a 4.7 percent increase from the FY 2005-06 year-end projection. The Mayor’s FY 2006-07 Proposed Budget reflects growth in Hotel Tax allocations for dedicated purposes that had in recent years been frozen. Additionally, the Mayor’s Proposed Budget resumes allocation of \$5.00 million for Low-Income Housing capital projects.

Hotel room tax revenue growth is a function of changes in occupancy, average daily room rates and room supply. Hotel occupancy rates have been strengthening especially from a growing rebound in tourism during FY 2005-06 giving way to pricing power and related average daily room revenue growth. The Mayor’s Proposed Budget assumes continued, gradual economic strengthening, including further occupancy growth of 1.2 to 2.2 percent, average daily room rate growth of approximately 2.5 to 3.5 percent, and relatively flat net room supply. Hotel room tax revenues experienced significant growth during the 1990s, but that boom cycle ended by FY 2001-02 with revenues declining nearly 32 percent. Chart D illustrates total hotel room tax revenue (including both allocated and discretionary) since FY 1978-79.

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

Fiscal Year	Total Hotel Tax Revenue	Annual Growth		% Adjusted for Tax Rate Change
		\$ Change	% Change	
FY 1978-79	\$ 19.01			
FY 1979-80	23.82	\$ 4.80	25.3%	25.3%
FY 1980-81	32.56	8.74	36.7%	14.8%
FY 1981-82	36.86	4.30	13.2%	13.2%
FY 1982-83	35.27	(1.59)	(4.3%)	(4.3%)
FY 1983-84	38.32	3.05	8.7%	8.7%
FY 1984-85	44.71	6.39	16.7%	16.7%
FY 1985-86	47.98	3.27	7.3%	7.3%
FY 1986-87	53.10	5.12	10.7%	4.3%
FY 1987-88	60.92	7.82	14.7%	8.7%
FY 1988-89	67.10	6.18	10.1%	10.1%
FY 1989-90	63.41	(3.69)	(5.5%)	(5.5%)
FY 1990-91	69.56	6.14	9.7%	9.7%
FY 1991-92	72.03	2.47	3.6%	3.6%
FY 1992-93	76.25	4.21	5.9%	5.9%
FY 1993-94	86.48	10.23	13.4%	5.5%
FY 1994-95	94.10	7.62	8.8%	7.8%
FY 1995-96	102.96	8.86	9.4%	9.4%
FY 1996-97	137.65	34.69	33.7%	18.4%
FY 1997-98	150.16	12.51	9.1%	7.9%
FY 1998-99	161.52	11.36	7.6%	7.6%
FY 1999-00	182.10	20.58	12.7%	12.7%
FY 2000-01	188.38	6.28	3.4%	3.4%
FY 2001-02	132.23	(56.15)	(29.8%)	(29.8%)
FY 2002-03	128.59	(3.64)	(2.7%)	(2.7%)
FY 2003-04	148.23	19.64	15.3%	15.3%
FY 2004-05	157.94	9.71	6.6%	6.6%
9-Month Projected FY 2005-06	174.38	16.44	10.4%	10.4%
Proposed Budget FY 2006-07	182.60	8.22	4.7%	4.7%

The amount of hotel room tax budgeted in the General Fund is \$125.43 million, of which \$99.37 million is unallocated or discretionary. Chart E below illustrates how the Hotel Room Tax revenues are allocated pursuant to the Municipal Code as well as the Mayor's FY 2006-07 Proposed Budget. As in the previous year, the Proposed Budget includes some allocation changes (as compared to the Municipal Code) as part of the Administrative Provisions of the Annual Appropriation Ordinance.

Chart E: Hotel Room Tax Revenue Allocation, FY 2006-07 (\$ millions)

	FY 2006-07 Municipal Code \$ Allocation	% of Total	FY 2006-07 Proposed \$ Allocation	% of Total	% Chg. from PY Budget
General Fund Unallocated (discretionary)	\$ 78.41	42.9%	\$ 99.37	54.4%	2.2%
Moscone / Convention Facilities	40.22	22.0%	28.79	15.8%	7.3%
Grants for the Arts	18.35	10.1%	13.99	7.7%	7.3%
War Memorial & Performing Arts	10.85	5.9%	8.97	4.9%	7.3%
Convention & Visitors Bureau	9.45	5.2%	7.86	4.3%	7.3%
Yerba Buena Gardens (SFRA)	5.48	3.0%	5.96	3.3%	7.4%
Low-Income Housing - Capital Projects	6.37	3.5%	5.00	2.7%	n/a
Fine Arts Museum	5.73	3.1%	4.77	2.6%	7.3%
Cultural Equity Endowment	2.50	1.4%	2.08	1.1%	7.3%
Asian Art Museum	2.27	1.2%	1.89	1.0%	7.3%
Cultural Centers	2.21	1.2%	1.84	1.0%	7.4%
Academy of Sciences	-	0.0%	1.37	0.7%	7.3%
Low-Income Housing - Rental Assistance	0.60	0.3%	0.60	0.3%	0.0%
Administration (Tax Collector)	0.16	0.1%	0.13	0.1%	7.5%
TOTAL	\$ 182.60	100%	\$ 182.60	100.0%	7.3%
Budgeted in General Fund	\$ 109.63	60.0%	\$ 125.43	68.7%	3.3%
Budgeted in Non-General Fund	67.50	37.0%	51.22	28.1%	5.3%
CCSF Subtotal	\$ 177.13	97%	\$ 176.65	97%	3.8%
Budgeted in SFRA (Redevelopment)	5.48	3.0%	5.96	3.3%	7.4%
Total All Funds	\$ 182.60	100%	\$ 182.60	100%	7.3%

Parking Tax: Parking tax is expected to increase \$2.93 million (8.8 percent) compared to FY 2005-06 budget of \$33.12 million, which is also a 3.0 percent increase over FY 2005-06 9-Month projection of \$35.00 million. This projected level of growth assumes a gradual economic recovery during FY 2005-06, increased parking rates, and continued compliance levels by operators as a result of collection efforts by the Treasurer/Tax Collector. Parking tax is highly correlated to business activity and employment, which are rebounding gradually. The amount in Chart A includes only the 60 percent portion of the parking tax accruing to the General Fund. Chart A does not include the 40 percent portion of parking tax revenue that accrues to the Municipal Transportation Agency, which is budgeted in MUNI's enterprise fund.

Public Safety Sales Tax: The Mayor's FY 2006-07 Proposed Budget for Public Safety (Proposition 172) Sales Tax is \$74.03 million, reflecting growth of 5.8 percent more than the FY 2005-06 Original Budget or 5.0 percent more than the FY 2005-06 9-Month Report projection. These revenues are allocated to counties by the State separately from local sales tax discussed earlier. Public Safety Sales Tax revenues depend on the State's allocation formula, which includes both statewide and local sales tax activity.

Motor Vehicle In-Lieu: Motor vehicle in lieu subventions proposed for FY 2006-07 are projected to decrease \$31.06 million to only \$5.60 million from the FY 2005-06 budget level, or \$29.01 million less than the FY 2005-06 9-Month Report projection. The sharp decline is related to a \$29.74 million one-time repayment by the State to San Francisco for VLF payments diverted during FY 2003-04.

Prior-Year Fund Balance

Each year, the budget includes the City’s estimated year-end surplus from the prior year as a source of funds. The reconciliation of the FY 2005-06 year-end surplus will not be finalized until the independent audit is completed around November 2006. Given actual revenue collections through early June (Real Property Transfer Tax and Street Space Deposits in particular) along with anticipated required deposits into the Rainy Day Reserve’s capital and economic stabilization accounts, baseline requirements and planned project close-outs, the Mayor’s FY 2006-07 Proposed Budget assumed available General Fund prior-year fund balance of \$95.09 million. Based upon current projections, we estimate the available year-end fund balance will be greater by approximately \$3.65 million in large part due to the Controller’s Office freezing non-salary expenditures in the Police department to cover the \$2.84 million shortfall assumed in the 9-Month Report. A summary of key anticipated changes to the fund balance are outlined below.

Chart F: FY 2006-07 Projected Year-End Surplus Fund Balance Available to Support The Mayor’s FY 2006-07 Proposed Budget (\$ millions)

General Fund	FY 2006-07
Nine-Month Report Fund Balance Projection	\$ 95.21
Post 9-Month Report - Additional Changes	
Street Space Deposit Revenue Closeouts	3.00
Real Property Transfer Tax - Continued Strength in Commercial Sales	6.00
Required Deposit into the Rainy Day Reserve's Economic Stabilization Account	(4.50)
Required Deposit into the Rainy Day Reserve's Capital & One-Time Spending Account	(2.25)
Baseline Obligation for Children's Services, the Library, MUNI & Parking & Traffic	(1.44)
Operating Savings - Trial Courts Benefit Cost Recoveries	0.41
Operating Savings - Use of Unspent Non-Salary Budget to Cover Police Overtime	2.84
Operating Recovery Shortfall - City Attorney	(3.20)
Project Closeouts	0.96
Transfer In from Building Inspection's Repair & Demolition Fund	1.70
Total Surplus/Fund Balance Available for Appropriation	\$ 98.73
Assumed in FY 2006-07 Mayor's Proposed Budget	\$ 95.09
Available Fund Balance Surplus / (Shortfall)	\$ 3.64

The Mayor’s Proposed Budget also includes an estimated \$140.20 million in fund balance for funds other than the General Fund. Of this total, \$104.05 million represents enterprise departments and internal service department funding, \$32.39 million for departments supported in whole or part through Special Revenue funding, and \$3.76 million of general government capital funds.

Prior-Year Reserves

The Mayor’s FY 2006-07 Proposed Budget includes \$22.98 million in reserves established in prior years. A summary of these reserved funds is outlined in Chart G below.

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

	FY 2006-07 Proposed		
	General Fund	Other Funds	All Funds
Rainy Day Reserve	\$ 13.65	\$ -	\$ 13.65
Baseline Reserves	3.60	-	3.60
Budget Savings Incentive Reserve	2.63	-	2.63
Rec & Park's Savings Reserve	3.10	-	3.10
Total Reserves	\$ 22.98	\$ -	\$ 22.98

Rainy Day Reserve: The Mayor’s Proposed Budget assumes the use of \$13.65 million from the Rainy Day Reserve’s Capital & One-Time Spending Account in FY 2006-07. At this time, the projected FY 2005-06 year-end balances for both the Rainy Day Reserve’s Economic Stabilization Account and the Capital & One-Time Spending Account are projected to be \$81.57 million and \$16.72 million respectively. The Mayor’s Proposed Budget only taps into the Capital & One-Time Spending Account for \$13.65 million of the currently projected total \$15.90 million, leaving an additional \$2.25 million on account. In addition, all of the \$81.57 million in the Rainy Day Reserve’s Economic Stabilization Account remains on deposit and will be available during the City’s next economic downturn.

Baseline Reserves: The Mayor’s Proposed Budget assumes the use of \$3.60 million from the Children’s Baseline Reserve. At this time, based upon updated projections since the 9-Month Report, we currently project an additional \$0.42 million will be available in Children’s Baseline Reserve funding. As for the other baselines, we currently project additional Baseline Reserve funding of \$0.20 million for the Library, \$0.60 million for the Municipal Railway and \$0.22 million for Parking & Traffic.

Budget Savings Incentive Reserve: Administrative Code Section 3.17 requires that the greater of \$2.00 million or 10 percent of departments’ year-end balances be set aside in a savings incentive account to be used only to *reduce the cost of service delivery and make departmental activities more efficient*. The Mayor’s FY 2006-07 Proposed Budget includes the projected \$2.63 million noted in the Controller’s 9-Month Report to fund one-time technology and equipment upgrades targeted at increasing operating efficiencies. Legislation that would increase the Budget Savings Incentive Reserve set aside to 25 percent of net year-end savings has been proposed along with the FY 2006-07 Proposed Budget.

Recreation & Park’s Savings Reserve: The Mayor’s Proposed Budget also includes the use of the projected \$3.10 million in Recreation & Park’s net expenditure savings outlined in the 9-Month Report. Under Section 16.107 of the San Francisco Charter, savings must be retained by the Recreation & Park Department and be dedicated to one-time expenditures. The Mayor’s Proposed Budget includes a number of proposed expenditures far exceeding this \$3.10 million for capital, technology and equipment at the Recreation & Park Department in FY 2006-07.

Key One-Time Revenues & Transfers-In

The Mayor’s FY 2006-07 Proposed Budget includes a number of one-time sources other than Prior-Year Fund Balance and Reserves, which were already discussed above. Chart H below summarizes key one-time revenue and transfer-in sources. As a point of comparison, the FY 2005-06 budget included \$44.86 million in one-time General Fund sources and \$1.84 million in non-General Fund sources versus the \$13.35 million and \$3.00 million outlined below, respectively.

**Chart H: Key One-Time, Departmental Regular Revenues & Transfers-In
 Included in the Mayor’s FY 2006-07 Proposed Budget
 (\$ millions)**

	FY 2006-07 Proposed		
	General Fund	Non- General Fund	Total
Revenues			
Sales of Buildings & Land	\$ 10.65		\$ 10.65
<i>General City - 525 Golden Gate</i>	7.00		
<i>Fire Department</i>	3.65		
Fines, Penalties & Settlements	0.90	\$ 3.00	3.90
<i>General City Settlements</i>	0.60		
<i>District Attorney's Office</i>	0.30		
<i>Airport</i>		3.00	
Gifts and Private Grants	0.10		0.10
<i>Gift - Sheriff</i>	0.05		
<i>Gift - City Planning</i>	0.05		
Subtotal - One-Time Revenues	\$ 11.65	\$ 3.00	\$ 14.65
Transfers			
From Building Inspection	1.70		1.70
Total One-Time Sources	\$ 13.35	\$ 3.00	\$ 16.35

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

The Mayor's FY 2006-07 Proposed Budget assumes various fee and fine increases. The table below highlights the key assumptions and associated revenue changes.

Chart I: Key Fee & Fine Changes included in FY 2006-07 Proposed Budget
 (\$ millions)

Description A	Dept B	Amount in		Amount in	Incremental
		FY 2005-06 Adopted Budget C	FY 2005-06 Projection D	FY 2006-07 Proposed Budget E	Fee Revenue Assumed in FY 2006-07 F=E-D
GENERAL FUND SUPPORTED					
Fees Increases for Existing Services & Permits	Fire	\$ 0.34	\$ 0.34	\$ 0.42	\$ 0.09
Garage Rates (as set by MTA)	Rec & Park	7.18	7.17	7.60	0.43
Patient Rates	Public Health	415.74	457.28	458.38	1.10
Tree Removal Permit Fee (self appropriating)	Public Works	-	-	-	-
Current Planning Fees (Changes to Existing Fees)	City Planning	13.70	14.08	16.11	2.02
Notification Fee (new)	City Planning	-	-	0.20	0.20
Billboard Code Enforcement Fee (new)	City Planning	-	-	0.39	0.39
Long-Range Planning Surcharge (new Fee Surcharge)	City Planning	-	-	2.24	2.24
Civic Design Review Fee	Arts Commission	0.05	0.01	0.05	0.04
NSF Check Fee	Tax Collector	0.18	0.10	0.14	0.04
Duplicate Business Tax Certificates	Tax Collector	0.003	0.003	0.01	0.00
Entertainment Commission License Fees	Admin Services	0.20	0.20	0.26	0.06
Permit Appeals Board Surcharge	Board of Appeals	0.41	0.35	0.53	0.18
Camp Mather Fees	Rec & Park	1.60	1.52	1.60	0.07
Kezar Parking Fees	Rec & Park	0.40	0.42	0.43	0.01
Professional Tennis Lesson Fees	Rec & Park	0.04	0.01	0.03	0.01
Stadium Rentals	Rec & Park	0.18	0.20	0.23	0.03
Golden Gate Park Carousel Fee	Rec & Park	0.02	0.01	0.02	0.01
Japanese Tea Garden Fee	Rec & Park	1.20	1.20	1.20	-
Coit Tower Fee	Rec & Park	0.26	0.26	0.38	0.12
Rent Board Fee	Rent Board	3.34	3.60	4.00	0.40
	Subtotal	\$ 444.82	\$ 486.76	\$ 494.19	\$ 7.44
OTHER FUNDS					
Golf Fees (Harding Park & Fleming Golf Courses)	Rec & Park	4.88	4.88	5.47	0.58
Wastewater/Sewer Charges (+13%)	PUC - Wastewater	164.31	160.00	187.41	27.41
Retail Water Rates (+15% Retail)	PUC - Water	98.23	94.39	107.29	12.90
Garage Rates Increase	MTA	25.29	25.29	26.89	1.60
	Subtotal	\$ 292.71	\$ 284.56	\$ 327.06	\$ 42.50
Value of Auto CPI Adjustments	Various			\$ 1.22	\$ 1.22
Total		\$ 737.53	\$ 771.32	\$ 822.48	\$ 51.16

State Budget Impact

The Mayor’s FY 2006-07 Proposed Budget includes funding from the State for a number of City programs, such as State Mandated Reimbursements (SB90) of \$4.0 million, the Sales Tax Collection Enhancement Program of \$0.2 million, and a 5.4 percent long-term care rate reimbursement increase worth \$5.0 million. The Mayor’s Proposed Budget assumes no local service reduction due to proposed State program cuts. Of the estimated \$7.3 million in proposed health and human service program reductions, only the \$0.5 million associated with mental health services would have a direct service impact. The Mayor’s Budget assumes the remainder is absorbed by General Fund support. Additionally, potential revenue increases (and probably cost increases too) related to Prop 63 mental health services of \$2.1 million, enhanced handicapped and disabled student services (under AB 3632) of \$1.1 million, Juvenile Justice Crime Prevention Act funding of \$0.5 million, and Citizen’s Options for Public Safety (COPS) funding of \$0.5 million may be available, but are not currently assumed in the Proposed Budget as various program requirements are still not known. The summary table below outlines key program changes from both the Governor’s Proposed Budget in January as well as the recent May Revise. As additional information becomes available, and as we are able to verify State revenue allocations, we will advise the Board of those changes.

Chart J: Summary of State Budget Changes
 (\$ millions)

Dept	State Budget Item	January Budget	May Revise	Total
<u>DISCRETIONARY REVENUE INCREASES</u>				
Various	State Mandated Reimbursement*	\$ 3.00	\$ 1.00	\$ 4.00
Citywide	Sales Tax Collection Enhancement Program*	0.20		0.20
	CCSF Discretionary Revenues	3.20	1.00	4.20
<u>PROGRAM FUNDING INCREASES</u>				
DPH	5.4% Increase in Reimbursement Rates for Long-Term Care Facilities*	5.00		5.00
DPH	Increased Prop 63 Funds for Mental Health Services		2.10	2.10
DPH	Enhanced Handicapped & Disabled Student (AB3632) Funding		1.10	1.10
JUV	Juvenile Justice Crime Prevention Act		0.50	0.50
Various	Citizen's Options for Pubilc Safety (COPS)		0.50	0.50
	General Fund Program Funding Increases	5.00	4.20	9.20
MTA	State Transit Assistance Funding*	2.40	1.50	3.90
MTA	Prop 42 Transportation Funding*	0.90		0.90
	Non-General Fund Program Funding Increases	3.30	1.50	4.80
<u>PROGRAM FUNDING CUTS</u>				
DHS	No Cost of Business Increase in Social Services Programs	(6.00)		(6.00)
DHS	CalWorks Budget Year Single Allocation Cut	(0.80)		(0.80)
DPH	Community Mental Health Services	(0.50)		(0.50)
	Program Loss Subtotal	(7.30)	-	(7.30)
	CCSF GENERAL FUND TOTAL	0.90	5.20	6.10
	NON-GENERAL FUND TOTAL	3.30	1.50	4.80
	TOTAL CITY IMPACT	\$ 4.20	\$ 6.70	\$ 10.90

*Assumed in Proposed Budget

III. SELECT GENERAL FUND SUBSIDIZED DEPARTMENTS

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

Public Health

The Department of Public Health, which consists of both the Community Health Network Division and the Public Health Division, has total net budget sources of funds of \$1,217.33 million in FY 2006-07. The \$1,217.33 million of total sources is comprised of two major categories: 1) net departmental sources of \$892.71 million (up \$50.11 million or 5.9 percent from FY 2005-06 Original Budget levels) primarily from Federal and State sources such as Medicare, MediCal and net patient revenue, and 2) General Fund support of \$324.62 million (up \$51.23 million or 18.7 percent from FY 2005-06 Original Budget levels).

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

Sources of Funds	FY2005-06	FY2006-07	Change from Original	
	Original Budget	Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
Patient Revenues	\$ 497.74	\$ 490.38	\$ (7.35)	-1.5%
Departmental Transfer Adjustment	(82.00)	(32.00)	50.00	-61.0%
Adjusted Patient Revenues	415.74	458.38	42.65	10.3%
General Fund Support	273.39	324.62	51.23	18.7%
State Intergovernmental	262.77	272.54	9.78	3.7%
Health & Welfare Realignment-MVL	92.69	90.48	(2.21)	-2.4%
Health & Welfare Realignment-Sales Tax	68.50	71.09	2.59	3.8%
Short-Doyle Medi-Cal	48.63	51.51	2.88	5.9%
State Alcohol Funds	19.68	19.66	(0.03)	-0.1%
Community Mental Health Services	11.82	17.45	5.63	47.6%
California Children Services	6.08	6.21	0.13	2.1%
State Mandated Program Reimbursements	1.97	3.80	1.83	92.6%
Prop 99 - Tobacco Tax	2.70	2.70	(0.00)	0.0%
Other State	10.70	9.66	(1.04)	-9.7%
Federal Intergovernmental	76.03	75.31	(0.72)	-0.9%
Fund Balance & PY Reserves	6.05	0.60	(5.45)	-90.1%
Other Service Charges	8.96	9.39	0.43	4.8%
Recoveries	50.59	54.12	3.53	7.0%
Other Revenue	15.84	15.22	(0.62)	-3.9%
Licenses & Fines	6.62	7.14	0.52	7.8%
Total Sources of Funds	\$ 1,115.98	\$ 1,217.33	\$ 101.34	9.1%
High-Level Summary				
Net Departmental Sources	\$ 842.60	\$ 892.71	\$ 50.11	5.9%
General Fund Support	273.39	324.62	51.23	18.7%
Total Sources of Funds	\$ 1,115.98	\$ 1,217.33	\$ 101.34	9.1%

Key Net Increases in Public Health Revenues

More specifically, the growth in Public Health sources budget is mainly due to growth in General Fund Support and growth in adjusted patient revenues. General Fund Support is proposed to increase \$51.23 million or 18.7 percent. Patient revenues (net of departmental transfer adjustments), which consist of Medicare, MediCal, private insurance, capitated fees, health plan settlements and Safety Net Care Pool funding, are proposed to increase of \$42.65 million (10.3 percent) from the FY 2005-06 Original Budget levels. The increase is primarily due to increasing Medi-Cal per diem rates for skilled nursing and improved collections.

Recoveries are projected to increase by \$3.53 million (7.0 percent). The increases are primarily due to increases in the work order with the Sheriff for Jail Health (\$1.58 million), the Department of Children, Youth and their Families (\$1.06 million) and the First Five Commission for Healthy Kids (\$0.77). Additionally, licenses and fines are projected to increase \$0.52 million (7.8 percent) primarily due to the annualization of the FY 2005-06 fees increase for Environmental Health programs.

State intergovernmental revenues show a \$9.78 million (3.7 percent) increase as a result of

- +\$5.63 million in additional Community Mental Health revenues,
- +\$2.88 million in additional Short-Doyle MediCal revenue,
- +\$1.83 million in additional State mandated program reimbursements, and
- -\$0.56 million in net decreases for other State revenues.

Key Net Decreases in Public Health Revenues

The use of fund balance and prior year reserves are proposed to decrease from \$6.05 to \$0.60 million. The \$0.60 million budgeted in FY 2006-07 is from the Rainy Day Reserve's Capital & One-time Spending Account for a capital project.

Other revenues are projected to be down \$0.62 million primarily due to lower miscellaneous operating revenues and private grants. Federal Intergovernmental revenues are projected to decrease by \$0.72 million due mainly to Medicare prescription reimbursement funding now being reflected as part of health benefit rates as opposed to being a revenue reimbursement.

Human Services Agency

The Human Services Agency, comprised of the Department of Human Services (DHS) and the Department of Aging and Adult Services (DAAS), has a total FY 2006-07 Proposed Budget of \$590.47 million. This total is an increase of \$18.75 million (3.3 percent) over FY 2005-06 Original Budget level.

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

Sources of Funds	FY 2005-06	FY 2006-07	Change from PY Original Budget	
	Original Budget	Proposed Budget	\$	%
Federal and State Operating	\$ 222.13	\$ 224.47	\$ 2.34	1.1%
Federal & State Aid	116.87	112.41	(4.47)	-3.8%
State Health & Welfare Realignment	57.46	62.01	4.55	7.9%
Subtotal - Federal & State Revenue	396.45	398.88	2.42	0.6%
Interdepartmental Recovery	13.69	15.83	2.13	15.6%
Other Revenue	7.21	7.59	0.38	5.2%
Subtotal - Recovery & Other Revenue	20.91	23.42	2.51	12.0%
Total Revenues All Funds	417.36	422.29	4.93	1.2%
General Fund Support	154.37	168.18	13.81	8.9%
Total Sources of Funds	\$ 571.73	\$ 590.47	\$ 18.75	3.3%

The FY 2006-07 Proposed Budget shows an increase of \$2.42 million (0.6 percent) in Federal and State revenues. Major changes include:

- +\$6.09 million in Federal and State grants due mainly to \$3.06 million in increased In-Home Supportive Services (IHSS) funding, \$1.97 million in increased Homeless Grant funding, and \$1.05 million in increased Food Stamps funding;
- +\$4.55 million in State Health and Welfare Realignment;
- -\$0.45 million in Adoption Aid funding;
- -\$3.75 million in CalWIN funding which was temporarily higher in FY 2005-06 due to new system implementation costs; and
- -\$4.02 million CalWORKs aid payment due to decreasing caseloads.

Interdepartmental recoveries and other revenues are projected to increase by \$2.51 million (12.0 percent) in FY 2006-07. The growth is largely due to a recovery increase in Childcare for Homeless Families and a small increase in the recovery of reimbursement costs of health benefits for IHSS workers.

IV. BASELINES & MANDATED FUNDING REQUIREMENTS

The Mayor's FY 2006-07 Proposed Budget includes required funding for baselines and other mandated funding requirements. The chart below identifies the required and proposed levels of appropriation funding for Key & New Baselines & Mandated Requirements. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending.

Chart M: Key Baseline & Mandated Funding Requirements
 (\$ millions)

Baseline	FY 2006-07					
	Required Baseline	Less PY Pre-Payment	Mayor's Proposed	Surplus / (Shortfall) Contribution	Change from PY Original Budget	
					\$	%
Revenue-Driven						
Municipal Transportation Authority	\$ 157.26		\$ 157.26	\$ -	\$ 17.39	12.4%
<i>MTA - Municipal Railway</i>	<i>114.13</i>		<i>114.13</i>	<i>-</i>	<i>11.40</i>	<i>11.1%</i>
<i>MTA - Parking & Traffic</i>	<i>43.12</i>		<i>43.12</i>	<i>-</i>	<i>6.00</i>	<i>16.2%</i>
Children's Services	89.75		92.50	2.75	13.64	17.3%
Library Preservation	37.80		37.80	-	4.00	11.9%
Public Education Baseline Services	4.98		5.58	0.60	0.89	19.0%
Municipal Symphony	1.48		1.48	-	0.08	5.9%
Key Revenue-Driven Baselines	291.27	-	294.62	3.35	36.02	13.9%
Expenditure-Driven						
Police Minimum Staffing at 1,971 Full Duty Officers	210.00		210.00	-	8.80	4.4%
Fire Neighborhood Firehouse Funding	164.90		187.12	22.22	7.17	4.0%
Public Education Enhancement Funding	20.00	13.33	6.67	-	(16.66)	-71.4%
<i>Unified School District</i>	<i>13.33</i>	<i>13.33</i>	<i>-</i>	<i>-</i>	<i>(20.00)</i>	<i>-100.0%</i>
<i>First Five Commission</i>	<i>6.67</i>		<i>6.67</i>	<i>-</i>	<i>3.34</i>	<i>100.3%</i>
City Services Auditor	10.32		10.32	-	1.27	14.0%
Key Expenditure-Driven Baselines	405.22	13.33	414.11	22.22	0.58	0.1%
Total Baseline Spending	\$ 696.49	\$ 13.33	\$ 708.73	\$ 25.57	\$ 36.59	5.4%

REVENUE-DRIVEN BASELINES

Municipal Transportation Baselines. Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the Municipal Transportation Agency [MTA]. Consistent with the Charter, in FY 2000-01 a Base Amount of funding was established. Charter subsection (c)(1) requires the Controller's Office to adjust the Base Amount from year to year by the percent increase or decrease in aggregate City discretionary revenues. Beginning in FY 2002-03, this Charter section also establishes a level of funding (required baseline) for the Parking and Traffic Commission based upon FY 2001-02 appropriations. These Baseline amounts can also vary if a new source of revenue is generated, in which case the new revenues are effectively divided equally between the Municipal Transportation Fund and the City's discretionary revenues.

Municipal Railway (MUNI): The Mayor's FY 2006-07 Proposed Budget includes MUNI Baseline funding at the \$114.13 million required level. In the budget year, the baseline funding to MUNI is mainly affected by the growth in discretionary revenues.

Parking and Traffic: The Mayor's FY 2006-07 Proposed Budget includes Parking and Traffic Baseline funding at the \$43.12 million required level, adjusted for lower Parking Fines. In the budget year, the baseline funding to MUNI is affected by the growth in discretionary revenues as well as the reflection of the department's litigation accounting in their operating fund.

Children's Baseline. The Mayor's FY 2006-07 Proposed Budget includes Children's Baseline funding of \$92.50 million. The required baseline for FY 2006-07 is \$86.15 million. In addition to the FY 2006-07 funding requirement of \$86.15 million, the Children's Baseline has available prior year funding of \$3.60 million bringing the total up to \$89.75 million. All combined the result is total surplus funding of \$2.75 million in the FY 2006-07 Proposed Budget.

Library Baseline. The Mayor's FY 2006-07 Proposed Budget includes Library Baseline funding at the \$37.80 million required level.

Public Education Services Baseline. Proposition H passed by voters in March 2003 required not only enhancement funding for public education but also baseline funding based on the FY 2002-03 appropriation levels, which were to be adjusted in subsequent years according to changes in aggregate discretionary revenues. The Mayor's FY 2006-07 Proposed Budget includes increased funding for Public Education Services and is proposing to surplus fund the baseline requirement by \$0.60 million. These appropriations are shown in the budget in the Department of Children, Youth & Their Families as well as the County Office of Education.

Municipal Symphony Baseline. The Mayor's FY 2006-07 Proposed Budget includes Municipal Symphony Baseline funding at the \$1.48 million required level. San Francisco 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 appropriation is budgeted at the Arts Commission.

EXPENDITURE-DRIVEN BASELINES & MANDATES

Police Staffing Baseline. The Mayor's FY 2006-07 Proposed Budget assumes estimated funding of \$210.00 million for Police Staffing Baseline costs.⁵ San Francisco Charter Section 4.127 mandates a police minimum staffing baseline of not less than 1,971 full-duty officers. This minimum staffing level may be adjusted downward pursuant to Charter Section 16.123, which provides that the Mayor and Board may convert a position from a sworn officer to civilian through the budget process. Reductions are permitted if the Controller and the Chief of Police jointly certify that the reduction will not decrease the number of police officers dedicated to

⁵ The estimated cost of funding the Police Staffing Baseline is based on average salary and fringe costs. As a point of comparison the Q3 Police Officer has an average base pay of \$89,279 with fringe benefits costs of \$17,265 for FY 2006-07. Additionally, while police officers may be eligible to earn premiums, holiday pay and overtime, these costs have not been included in the estimates unless noted.

neighborhood community policing, patrol and investigation and will not substantially interfere with the delivery of police services or the ability of the Police Department to protect the public in the event of an emergency.

The Mayor's FY 2006-07 Proposed Budget also assumes 34 positions previously filled by officers will be filled by civilians (including 21 civilianized in FY 2005-06 and an additional 13 in FY 2006-07), which would have the effect of reducing the required 1,971 full-duty officers to 1,937 if those 34 positions were approved. The FY 2006-07 Proposed Budget's net funding authority equates to 1,972 officers (1,849 from General Fund and Special Revenue fund personnel appropriations and the equivalent of 123 positions from the department's overtime budget). While appropriation funding equates to the equivalent of 1,972 officers, this funding is used to cover the cost of all officers including those on full duty, modified duty, leave and in the academy.

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. The Act included minimum baseline requirements for the 24-hour staffing of 42 firehouses, the Arson / Fire Investigation Unit, no fewer than 4 ambulances, and 4 Rescue Captains (medical supervisors). The Mayor's FY 2006-07 Proposed Budget fully funds the \$187.12 million Neighborhood Firehouse baseline requirement plus funds an additional \$22.22 million of services.

Public Education Enhancement Baseline. The Mayor's FY 2006-07 Proposed Budget includes \$6.67 million for the Public Education Enhancement Fund. This funding, which was passed by voters in March 2004 (Proposition H), requires increasing support to education initiatives beginning with \$10 million for FY 2005-06, \$20 million for FY 2006-07, \$30 million for FY 2007-08, \$45 million for FY 2008-09, and \$60 million for FY 2009-10. In FY 2005-06, the City advanced \$13.33 million to the School District, which results in only \$6.67 million of funding being appropriated to the Children and Families Commission for preschool programs in FY 2006-07. In addition to the Enhancement Baseline discussed here, the City is required to fund the Education Services Baseline, which is discussed on the previous page.

City Services Auditor Baseline. The Mayor's FY 2006-07 Proposed Budget includes \$10.32 million for the City Services Auditor Baseline (\$5.15 million of this is General Fund). This Baseline was approved by voters in November 2003 and mandates that 2/10ths of one percent of the budget be used to fund the auditing of City services. FY 2004-05 was the first year for the City Services Auditor to receive baseline funding.

RESULTING GENERAL FUND DISCRETIONARY SPENDING CAPACITY

After factoring in the above baselines and Charter-mandated spending as well as grant and federal, state and local employment provisions, the General Fund has an ‘effective’ level of discretionary spending capacity of less than half of total General Fund revenues and transfers-in sources. Said another way, only about \$1 billion of the total \$5.7 billion total City budget is available for general discretionary spending. A high-level summary of the General Fund’s revenue and transfer-in sources less required set-asides, baselines and other earmarked funding provisions is summarized below.

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

	Proposed FY 2006-07
General Fund Revenues & Transfers-In	\$ 2,566.80
Federal & State Dedicated Funding	
State Health, Welfare, Social Services	(379.10)
Federal Health, Welfare, Social Services	(193.68)
Voter-Approved Baselines & Required Programs	
Police Staffing Baseline, 1971 officers	(210.00)
Neighborhood Firehouse Baseline	(164.90)
Public Transportation Baselines, MUNI & PTC	(157.26)
Children's Services Baseline	(89.75)
Public Libraries Baseline	(37.80)
City Services Auditor Baseline	(5.14)
Public Education Enhancement Baseline (Prop H, March 2004)	(6.67)
Public Education Services Baseline (Prop H, March 2004)	(4.98)
Municipal Symphony Baseline	(1.48)
Office of Economic Analysis (Prop I, Nov. 2004)	(0.31)
Employee Benefit Costs	
Health & Dental Benefit Costs (Charter)	(115.03)
Pension Benefits - Req. Employer Match Only (Charter)	(107.21)
Retiree Health Requirements (Charter)	(46.89)
Social Security - Employer Portion Only (6.2% of salary)	(32.04)
Medicare - Employer Portion Only (1.45% of salary)	(14.77)
Unemployment Insurance (0.30% of salary)	(3.06)
Other Operating Costs	
Debt Service & Lease Revenue Bond Commitments	(30.30)
Estimated Discretionary Spending Capacity	\$ 966.43

V. SELF-SUPPORTING ENTERPRISE DEPARTMENTS

Enterprise departments such as the Airport, the Municipal Transportation Agency [MTA] (which includes Municipal Railway [MUNI] and Parking and Traffic), the Port, and the Public Utilities Commission [PUC] (which includes Hetch Hetchy, Wastewater, and Water), are supported by user fees and are generally not supported by the City's General Fund. As is summarized in the chart below, total enterprise sources of funds are projected to increase by \$73.17 million. The underlying assumptions of the FY 2006-07 Proposed Budget for these enterprises are highlighted in the narrative following the chart immediately below.

Chart O: Enterprise Sources of Funds (\$ millions)

Enterprise	FY2005-06 Original Budget	FY2006-07 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
AIRPORT	\$ 549.93	\$ 594.28	\$ 44.36	8.1%
MUNICIPAL TRANSPORTATION AGENCY				
MUNI - Municipal Railway	511.13	593.60	82.47	16.1%
Parking & Traffic	74.89	84.83	9.94	13.3%
Subtotal -MTA	\$ 586.02	\$ 678.43	\$ 92.40	15.8%
PORT	66.14	63.68	(2.46)	-3.7%
PUBLIC UTILITIES				
Hetch Hetchy	171.06	168.45	(2.61)	-1.5%
Wastewater	216.70	243.97	27.27	12.6%
Water	210.14	216.75	6.61	3.1%
PUC Bureaus, net of PUC recoveries *	0.44	0.44	-	0.0%
Subtotal - Public Utilities	\$ 598.33	\$ 629.61	\$ 31.28	5.2%
TOTAL	\$ 1,800.42	\$ 1,966.00	\$ 165.58	9.2%

Note: * PUC Bureaus are predominantly funded by the Wastewater, Water and Hetch Hetchy funds. The remaining \$0.44 M shown here is a recovery from MUNI through an interdepartmental workorder for information technology services.

AIRPORT
 (\$ millions)

	FY2005-06 Original Budget	FY2006-07 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
<u>Airport</u>				
Operating Revenues	\$ 522.52	\$ 533.71	\$ 11.19	2.1%
Other Sources [^]	27.41	60.57	33.16	121.0%
Total	\$ 549.93	\$ 594.28	\$ 44.36	8.1%

Note: [^]

Other Sources include Non-operating Funds, Settlements, Proceeds of Bonds/Debts, Expenditure Recovery, Other Transfer-In, Fund Balance, Departmental Transfer Adjustment, and General Fund Support if applicable.

The Mayor’s FY 2006-07 Proposed Budget for the Airport includes \$44.36 million (8.1 percent) increase in total sources of funds. Key changes in the Airport’s sources of funds include a \$11.19 million (2.1 percent) increase in operating revenues and a \$33.16 million (121.0 percent) increase in other sources.

Compared to FY 2005-06, the FY 2006-07 Proposed Budget reflects these major revenue changes:

Operating Revenues +\$11.19 million

- +\$4.31 million in Terminal and Other Rentals,
- +\$3.51 million in Transportation and Miscellaneous Fees,
- +\$2.88 million in Concessions,
- +\$1.71 million in Interest Income,
- +\$1.07 million in Airline Landing Fees, and
- -\$2.29 million in SFIA Garage, Airlines Employee Parking and all other net changes.

Other Sources & Non-operating Funds +\$33.16 million

- +\$12.10 million in Federal grants,
- +\$ 8.00 million in Return of Excess Deposits due to reduction in bond fund reserve requirement,
- +\$ 7.70 million in Settlements,⁶
- +\$ 2.63 million in Interest Income from an Arbitrage Rebate Refund,
- +\$ 2.05 million in Passenger Facility Charges, and
- +\$ 0.68 million in Fund Balance, Transfers and other miscellaneous revenues.

Terminal and other rentals growth is primarily attributable to a projected 5 percent rate increase. Growth in transportation and miscellaneous fees is mainly due to a fee increase in transportation and facilities fees. Concessions growth includes projected revenue increase in Duty Free, car

⁶ FY 2006-07 Proposed Budget (as presented May 31) included \$7.85 million from a single settlement, comprising of a \$4.85 million payment on June 30, 2006 and a \$3.00 million payment on June 30, 2007. This was subsequently amended through a technical adjustment made by the Mayor’s Office to properly reflect the portion being received in FY 2005-06 as revenue in FY 2005-06 and a like amount of fund balance being available for FY 2006-07.

rental and advertising. Concession revenue, which directly affects the transfer into the General Fund, is projected to increase 3.5 percent from budgeted FY 2005-06 levels.

The FY 2006-07 Proposed Budget includes the 15 percent concession-related transfer of \$22.06 million to the General Fund, which only represents a slight increase of 0.6 percent over the FY 2005-06 Original Budget level. The increase would have been larger had it not been for a \$1.66 million decrease in parking garage revenues, which are also included in the 15 percent base calculation. Airlines landing fees are projected to be \$1.07 million (1.1 percent) better because of traffic growth, and the Passenger Facility Charge (PFC) revenues are proposed to increase \$2.05 million (3.3 percent). PFC revenue is derived from the \$4.50 fee assessed on all enplaning passengers, net of airline administration fees.

MUNICIPAL TRANSPORTATION AGENCY

(\$ millions)

	FY2005-06 Original Budget	FY2006-07 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
<u>Municipal Transportation Agency</u>				
MUNI				
Operating Revenues	\$ 384.14	\$ 415.41	\$ 31.27	8.1%
Other Sources [^]	126.99	178.19	51.20	40.3%
MUNI	\$ 511.13	\$ 593.60	\$ 82.47	16.1%
Parking & Traffic				
Operating Revenues	\$ 45.88	\$ 48.33	\$ 2.45	5.3%
Other Sources [^]	29.01	36.50	7.49	25.8%
Parking & Traffic	\$ 74.89	\$ 84.83	\$ 9.94	13.3%
TOTAL (June 1 Proposed)	\$ 586.02	\$ 678.43	\$ 92.40	15.8%

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

The FY 2006-07 Proposed Budget for the Municipal Transportation Agency [MTA] grows by \$92.40 million (15.8 percent) in total revenue sources from \$586.02 million to \$678.43 million, including growth of \$33.72 million (7.8 percent) in operating revenues and \$58.69 million (37.6 percent) in other sources over the FY 2005-06 Original Budget levels. Of the total \$92.40 million increase, \$82.47 million (16.1 percent) of the increase is attributed to the Municipal Railway [MUNI] and \$9.94 million (13.3 percent) to Parking and Traffic.

Major revenue changes are summarized below.

Municipal Railway [MUNI] – Operating/Grants Revenues +\$31.27 million

- +\$14.00 million in Proof of Payment Program revenues,
- +\$ 9.85 million in Transit Development Act (TDA) Sales Tax funding,
- +\$ 6.57 million in Transit Cash Fares, tokens and paratransit,
- +\$ 5.57 million in Cable Car revenues,
- +\$ 2.61 million in State sales tax AB1107,
- +\$ 2.04 million in State Transit Assistance (STA) operating revenue,
- +\$ 2.00 million in Transit Advertising,
- +\$ 1.74 million in Passes and Regional Tickets,
- +\$ 0.95 million in Garage Revenues,
- +\$ 0.91 million in Proposition 42 Transportation / Gas Tax funding,
- –\$ 0.08 million in miscellaneous net changes,
- –\$ 1.87 million in Bridge Tolls, and
- –\$13.02 million in Federal Transit Operating Assistance.

Municipal Railway [MUNI] – Other Sources +\$51.20 million

- +\$20.00 million in Federal grants for transit capital projects,
- +\$19.68 million in Fund Balance,
- +\$11.40 million in Baseline Contribution Transfers from General Fund,
- +\$2.50 million in Bridge Tolls, and
- –\$2.38 million in all other net changes including departmental transfer adjustments.

Parking and Traffic – Operating Revenues +\$2.45 million

- +\$1.80 million in Parking Meter Collections, and
- +\$0.65 million in Garage revenues.

Parking and Traffic – Other Sources +\$7.49 million

- +\$6.00 million in Baseline Contribution Transfers from General Fund, and
- +\$1.49 million in all other net changes including departmental transfer adjustments.

MUNI

Proof of Payment Program

The FY 2006-07 Proposed Budget includes \$14.00 million in new revenue from the Proof of Payment Program. This new initiative is designed to mitigate the rate of fare evasion by providing additional funding to staff gates as well as randomly patrol and survey 25 percent of the daily runs in an attempt to ensure that passengers have a valid fare instrument while riding the system. The budget assumes 52 new positions, including 46 Transit Fare Inspectors and 6 Fare Inspections Supervisor / Investigators, at an estimated total cost of \$2.83 million in FY 2006-07 (annualized at \$3.77 million). We will be recommending a spending reserve, to be released throughout the year as actual revenues are collected, against this revenue assumption.

Passenger/Paratransit Fare Revenues

The FY 2006-07 Proposed Budget includes \$13.88 million increase in passenger fare and paratransit fare revenues. The majority of this growth is primarily attributable to annualization of the rate increase that became effective on September 1, 2005 as well as projected growth of 2 percent on all passenger fares as a result of the recovering Bay Area economy. Paratransit fares are proposed to increase from \$1.00 to \$1.65 per trip for lift and group vans, resulting in increased revenues of \$0.20 million already noted in the June AAO for FY 2006-07.

Garage Rate Increases

MUNI receives dedicated revenues from seven parking garages, which include Golden Gateway Garage, Mission Bartlett Garage, Moscone Center Garage, Sutter-Stockton Garage, Moscone Commercial Garage, 5th and Mission Garage, and Ellis-O'Farrell Garage. The FY 2006-07 Proposed Budget includes projected growth of \$0.95 million reflecting an average hourly rate increase of 25 cents for all garages except Sutter-Stockton Garage and an average monthly rate increase of \$10 for all garages.

PARKING AND TRAFFIC

Parking Meter Collection

The FY 2006-07 Proposed Budget includes \$1.80 million growth due to annualization of parking meter rate increase in all on-street and off-street parking areas in the City.

Garage Rate Increases

Parking and Traffic receives dedicated revenues from seven parking garages, which include Lombard Street Garage, Performing Arts Garage, Polk-Bush Garage, St. Mary's Square Garage, Vallejo Street Garage, SFGH Campus Garage, and Japan Center Garage, as well as other parking lots. FY 2006-07 Proposed Budget includes the projected growth of \$0.65 million in garage revenue growth reflecting an average hourly rate increase of 25 cents and an average monthly rate increase of \$10.

PORT

(\$ millions)

	FY2005-06 Original Budget	FY2006-07 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
<u>Port</u>				
Operating Revenues	\$ 55.60	\$ 57.93	\$ 2.33	4.2%
Other Sources [^]	10.53	5.75	(4.79)	-45.4%
Total	\$ 66.14	\$ 63.68	\$ (2.46)	-3.7%

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

The Mayor’s FY 2006-07 Proposed Budget for the Port includes a projected increase in the Port’s operating revenues of \$2.33 million (4.2 percent). Operating highlights are provided below for the major operating divisions.

Commercial Property: The majority of the Port’s Operating revenues come from the leasing of its facilities. The San Francisco commercial real estate market has gone from a position of stabilizing in FY 2004-05 to one of growth over the past 12 months. During this period, demand for space along the waterfront has remained high relative to other areas of the City. Recent leasing activity has lowered the Port’s office vacancy factor to less than 3 percent, well below the citywide vacancy rate of approximately 15 to 17 percent depending on the area of town. Port warehouse and industrial space demand has remained strong and rents have been increasing. In the retail sector, the Port has seen growth in its percentage lease income with budgeted revenues growing by 3 percent.

Maritime: The Port continues to promote a wide array of maritime industries; ship repair, cruise and cargo generate the majority of maritime revenues. Cruise calls are expected to total 96 in FY 2005-06. Overall cruise revenues are projected to increase 16 percent in FY 2006-07. With respect to cargo, the Port has refocused their efforts to concentrate on breakbulk and bulk cargo at Piers 80, 92, and 94. The strongest area of cargo growth continued to be in bulk aggregate, imported for Bay Area construction projects.

PUBLIC UTILITIES, (\$ millions)

Enterprise	FY2005-06 Original Budget	FY2006-07 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
PUBLIC UTILITIES				
Operating Revenues	\$ 101.53	\$ 100.75	\$ (0.78)	-0.8%
All Other Sources	69.53	67.69	(1.84)	-2.6%
Hetch Hetchy	171.06	168.45	(2.61)	-1.5%
Operating Revenues	\$ 166.04	\$ 189.35	23.31	14.0%
All Other Sources	50.66	54.62	3.96	7.8%
Wastewater	216.70	243.97	27.27	12.6%
Operating Revenues	\$ 190.96	\$ 212.10	21.15	11.1%
All Other Sources	19.18	4.65	(14.53)	-75.8%
Water	210.14	216.75	6.61	3.1%
PUC Bureaus, net of PUC recoveries *	0.44	0.44	-	0.0%
Subtotal - Public Utilities	\$ 598.33	\$ 629.61	\$ 31.28	5.2%

The Mayor's FY 2006-07 Proposed Budget for Public Utilities includes revenues from the three utility enterprises: Hetch Hetchy (power), the Wastewater Enterprise, and the Water Enterprise. Total operating revenues of the Hetchy, Wastewater and Water for FY 2006-07 are projected to be \$100.75 million, \$189.35 million, and \$212.10 million respectively. Operating revenue growth is primarily due to the previously-approved 13 percent rate increase in sewage charges and the previously approved 15 percent rate increase in water charges. Further details are provided below.

Hetch Hetchy: Hetch Hetchy's operating revenues are expected to decrease by \$0.78 million as a result of lower projected power sales revenue. Other sources are budgeted to decrease \$1.84 million as a result of growth in recoveries and fund balance being more than offset by the absence of certificate of participation (COP) proceeds in FY 2006-07.

Wastewater: Wastewater's FY 2006-07 operating revenues reflect a \$23.31 million increase primarily due to a 13 percent rate increase in sewage charges (the second year of a two-year increase previously approved during the FY 2005-06 budget process). Other sources are budgeted to increase \$3.96 million due primarily to an increase of \$7.16 million in bond proceeds offset by decreasing fund balance. The new rates will be effective July 1, 2006 and are projected to generate \$23.10 million as assumed in the proposed budget

Water: Water's FY 2006-07 operating revenues are expected to increase by \$21.15 million, and other sources are budgeted to decrease by \$14.53 million, for a net increase of \$6.61 million. The growth in revenues is primarily due to a 15 percent rate increase in water charges (here again the second year of a two-year increase previously approved during the FY 2005-06 budget process). The decline in other sources is primarily due to a drop in budgeted use of fund balance. Rates for retail water sales will be increased on July 1, 2006 by 15 percent and are projected to generate \$21.31 million as assumed in the proposed budget.

VI. RESERVES

CONTROLLER'S APPROPRIATION RESERVES

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

In the Mayor's FY 2006-07 Proposed Budget, the Controller will reserve \$7.19 million in expenditure appropriation pending proposed fee adoptions by the Board as previously discussed in the Key Fee & Fine Changes Section on page 19. Additionally, we will reserve capital project spending until bond proceeds are realized. Finally, we will reserve any subsequent supplemental spending from the MTA's \$10.00 million General Reserve pending actual revenue collections from the Proof of Payment Program. A total of \$14.00 in Proof of Payment revenue is assumed, and we believe this level could be optimistic for FY 2006-07. The chart below details the reserves and the action required for the department to subsequently expend funds.

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

Controller's Reserves - Excluding State Revenue Dependent Revenues

FY 2006-07

Department	Reserve	Explanation for Reserve	Required Action
<u>GENERAL FUND</u>			
Departmental Proposed Fees	\$ 6.60	See Proposed Fee Changes on Page 19.	Pending Fee Adoption by the Board
<u>OTHER FUNDS</u>			
Public Utilities - Wastewater	38.58	Wastewater Revenue Bonds	Pending Proceeds from Sale of Bonds
Recreation & Parks	25.00	Revenue Bonds	Pending Proceeds from Sale of Bonds
MTA - Municipal Railway	10.00	General Reserve	Pending Proof of Payment Revenues
Public Utilities - Water	9.00	Water Revenue Bonds	Pending Proceeds from Sale of Bonds
Recreation & Park	0.58	Golf Fees (Harding & Fleming)	Pending Fee Adoption by the Board
Subtotal	\$ 83.16		
Total	\$ 89.76		

OTHER RESERVES INCLUDED IN PROPOSED BUDGET

The Mayor’s FY 2006-07 Proposed Budget also includes \$98.73 million in reserves as outlined in the chart below. These appear to be prudent and reasonably reflect anticipated Memoranda of Understanding (MOUs) and Litigation costs.

Chart Q: Proposed Reserves (\$ millions)

General Fund	FY 2005-06 Original Budget	FY 2006-07 Proposed Budget	Change
General Reserve	\$ 24.26	\$ 25.00	\$ 0.74
Contingency Reserve	-	4.00	4.00
Salaries & Benefits Reserve	22.86	34.67	11.81
Litigation Reserve	7.00	11.00	4.00
Total Reserves - General Fund	\$ 54.12	\$ 74.67	\$ 20.55
All Other Funds			
General Reserve - MTA	-	\$ 10.00	\$ 10.00
General Reserve - Rec & Park, capital	-	5.32	5.32
General Reserve - PUC	10.94	-	(10.94)
General Reserve - All Other	1.84	-	(1.84)
Salaries Benefits	4.81	8.74	3.93
Baseline Reserves	0.56	-	(0.56)
Total Reserves - All Other Funds	\$ 18.16	\$ 24.06	\$ 5.90
Total Reserves - All Funds	\$ 72.28	\$ 98.73	\$ 26.46

Key General Fund Reserves

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 2006-07 Proposed Budget includes \$25.00 million in the General Reserve, \$0.74 million more than prior-year adopted budget of \$24.26 million.

Contingency Reserve: The Mayor’s FY 2006-07 Proposed Budget also provides for a general contingency reserve of \$4.00 million, which is available to fund technical adjustments during the budget process. To date, the Mayor’s Office has already used \$1.20 million, leaving a balance of \$2.80 million.

MOU Reserves: The Mayor’s FY 2006-07 Proposed Budget provides \$34.67 million in the General Fund and \$8.74 million in other General Fund Supported funds to cover negotiated salary and fringe benefit cost increases not otherwise budgeted directly in departments. This is a \$15.74 million increase budget to budget and considers projected retirements and pending and approved MOUs.

Litigation Reserve: The Mayor's FY 2006-07 Proposed Budget provides \$11.00 million to cover litigation. This is a \$4.00 million increase from the prior year, which was partially funded with carryforwards.

Key Other Fund Reserves

General Reserve - MTA: The MTA has also proposed a General Reserve of \$10.00 million which will be available to provide for revenue and expenditure uncertainties, including for example their actual revenue experience compared to the \$14 million of additional Proof of Payment Program revenue assumed in their budget.

General Reserve – Recreation & Parks: The Recreation & Parks Department's budget includes a \$5.32 million capital project reserve which represents additional appropriation capacity funded with revenue bond proceeds. Specific project spending proposals using this \$5.32 million will come before the Board at a later time.

VII. SELECT REPORTING REQUIREMENTS

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

911 Fee

The Emergency Communications Department has included \$40.01 million of 911 Fee revenue in the FY 2006-07 Proposed Budget. This reflects a \$1.90 million increase from the \$38.11 million included in the FY 2005-06 original budget. The Mayor's Proposed Budget is based on the current \$2.75 per telephone line equivalent⁷, with an assumed exempt lines factor of 15 percent⁸.

Based on 911 system-related costs budgeted in Emergency Communications, full cost recovery would be approximately equal to \$49.33 million, of which \$41.93 million could be recovered from non-exempt users of the system. The remaining costs are related to the exempt lines serviced by the 911 system. As outlined in the Emergency Response Fee section of the Business and Tax Regulations Code, the purpose of the ordinance is to require subscribers to telephone service in the City and County to pay a fee which is directly related to the benefit subscribers derive from the improvements to and operation of the 911 system. Furthermore, Section 750 of the Business and Tax Regulations Code states that the fee is intended to recover all costs related to the benefits the improved system will provide to nonexempt telephone subscribers. Because of these Code provisions, the costs associated with exempt lines cannot be shifted or charged to nonexempt users, and must be removed before calculating the per line fee for nonexempt subscribers.

The chart on the following page summarizes the Controller's findings based on the FY 2006-07 Proposed Budget. In order to have full cost recovery of non-exempt costs (i.e. 85 percent of total 911 system-related costs), on average a \$2.75 monthly 911 Fee would have to be charged for each nonexempt telephone line equivalent. The Mayor's FY 2006-07 Proposed Budget assumes \$2.75 per line per month as presently mandated by the Municipal Code.

The Controller is also required to report on the inflation-adjusted subscriber limit (i.e. the annual, calendar-year fee cap for any single subscriber). For calendar year 2006, the subscriber limit is \$56,183. This means that no single customer (subscriber) will pay more than \$56,183 for calendar year 2006. The subscriber limit for calendar year 2007 will be adjusted upward to \$57,281 based on consumer price index factor of 1.95 percent⁹.

⁷ Currently, the 911 Fee was based on \$2.75 per line equivalent, with the trunk line fee \$20.62 per month and the high-capacity trunk line fee \$371.15 per month. One trunk line is equivalent to 7.5 single access lines, whereas one high-capacity trunk is equivalent to 135 single access lines.

⁸ Telecommunications providers are not consistently reporting the number of exempt and nonexempt telephone lines, even though the Tax Collector includes these required data fields on the Emergency Response Fee Statement. Thus, the City makes estimates as to the proportion of exempt and nonexempt lines.

⁹ US Bureau of Labor Statistics, CPI-U Urban San Francisco-Oakland-San Jose, CA, All Items, 1982-84=100.

Chart R: 911 Fee Analysis

Total 911 System Related Costs	\$	49,323,824
Estimated Eligible Costs Attributed to Non-Exempt Users	\$	41,925,250
Based on Assumption of 15% of Users Exempt & 85% Nonexempt		85%

Cost Recovery of Non-Exempt Costs Only	Cost Recovery of Total Costs	\$ Per Line Equivalent Per Month	Estimated Over/(Under) Recovery From Non- Exempt Only (US\$ millions)	
100%	85%	\$ 2.75	\$ -	Current Fee since Nov 2004
91%	77%	\$ 2.50	\$ (3.77)	
82%	70%	\$ 2.25	\$ (7.55)	
73%	62%	\$ 2.00	\$ (11.40)	
64%	54%	\$ 1.75	\$ (15.18)	Nov 2003 - Oct 2004
46%	39%	\$ 1.25	\$ (22.81)	Dec 2002 - Oct 2003
37%	31%	\$ 1.00	\$ (26.62)	Dec 1997 - Nov 2002
18%	15%	\$ 0.50	\$ (34.29)	Prior to Dec 1997

Key Assumptions & Estimates

Telephone Line Equivalents (Monthly) - Total	1,497,000
% of Telephone Lines Subject to Fee (Nonexempt)	85.0%
Telephone Line Equivalents (Monthly) - Nonexempt	1,272,000
Telephone Line Equivalents (Monthly) - Exempt	225,000

Calendar Year Annual Cap	CPI Adjusted from Prior CY	Annual CPI Adjustment
2007	\$ 57,281	1.95%
2006	\$ 56,183	2.15%
2005	\$ 55,000	

Downtown Park Fund

The San Francisco Planning Code requires that the Controller's Office file annually a report with the Board of Supervisors outlining the amount of money collected in the Downtown Park Fund. The Recreation and Park Commission and the City Planning Commission administer this fund jointly. This fund accrues both fee and interest revenue. Fee revenues are a function of the \$2 per square foot charge on the net addition of gross office floor area for specified C-3 Use District development. This fund is to be used to acquire and develop public recreation and park facilities for use by the daytime population of the C-3 Use Districts.

The charts below summarize the Fund's budget activity for the most recent five-year period and the Proposed Budget. Additionally, a detailed breakdown of sources by fee and interest revenue is provided. At this time, the projected FY 2005-06 year-end fund balance is \$0.23 million. The FY 2006-07 Proposed Budget does not appropriate any sources or uses for this fund. However, we project up to \$0.34 million of available appropriation capacity for FY 2006-07.

Chart S: Downtown Park Fund (\$ millions)

Fiscal Year	Original Budget		Estimated Fund Balance Available for Appropriation as of June 30
	Sources	Uses	
FY 2006-07 Proposed	\$ -	\$ -	\$ 0.34
FY 2005-06	0.55	0.55	0.23
FY 2004-05	2.43	2.43	0.64
FY 2003-04	1.20	1.20	
FY 2002-03	0.90	0.90	

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

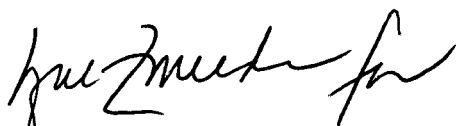
	Fees	Interest	Total
FY 2006-07 Projected	\$ -	\$ 0.11	\$ 0.11
FY 2005-06 Projected	0.03	0.11	0.14
FY 2004-05 Actual	0.11	0.07	0.19
FY 2003-04 Actual	-	0.07	0.07
FY 2002-03 Actual	1.13	0.11	1.24

VIII. CONCLUSION

Overall, the assumptions included in the Mayor's FY 2006-07 Proposed Budget appear to be reasonable. To arrive at this conclusion, the Controller's Office conducted a thorough review of budgeted sources of funds as well as a review of the underlying economic assumptions. As additional information becomes available, we will advise the Board of those changes.

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

Sincerely,



ED HARRINGTON
Controller

Attachments:

A – General Fund Revenue Comparison to Average California City and County

B – All Funds Revenue Comparison to Average California City and County

cc: Mayor Gavin Newsom

Noelle Simmons, Mayor's Budget Office

Gloria Young, Board of Supervisors, Clerk of the Board

Harvey Rose, Board of Supervisors, Budget Analyst

ATTACHMENT A

General Fund Sources Comparison to Average California City and County

General Fund

Sorted by Size

Sources of Fund	FY 2006-07			Average California *	
	Mayor's Proposed Budget (\$ millions)	% of Total		City	County
Property Tax	\$ 828.60	31.33%		20.93%	12.77%
Intergovernmental - Federal, State & Other	664.08	25.11%		12.71%	60.35%
Other Local Taxes	455.03	17.20%		52.59%	3.72%
Business Taxes	332.17	12.56%		5.89%	0.00% (1)
Charges for Services	122.97	4.65%		0.00%	11.72%
Interest & Investment	32.24	1.22%		4.70%	1.07%
Licenses, Permits & Franchises	20.92	0.79%		0.16%	1.16%
Rents & Concessions	20.14	0.76%		0.00%	0.00% (3)
Other Revenues	17.40	0.66%		2.17%	2.31%
Recoveries	10.30	0.39%		0.00%	0.00% (2)
Fines & Forfeitures	4.90	0.19%		0.84%	2.10%
Other Financing Sources	0.90	0.03%		0.00%	4.81% (4)
Total Sources	\$ 2,509.64	94.89%		100.00%	100.00%
Transfers, Net	17.06	0.65%		0.00%	0.00% (2)
PY Fund Balance	95.09	3.60%		0.00%	0.00% (3)
PY Reserve	22.98	0.87%		0.00%	0.00% (3)
	\$ 2,644.77	100.00%		100.00%	100.00%

Source: California Controller Annual Reports. City data as of FY 2002-03, and County data as of FY 2003-04.

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

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

(1) County Data - Included in Other Local Taxes

(2) Not Applicable

(3) Included in Interest & Investment

(4) City Data - Not Applicable

ATTACHMENT B

All Funds Sources Comparison to Average California City and County

All Funds

Sorted by Size

Sources of Fund	FY 2006-07 Mayor's Proposed Budget			Average California *	
	(\$ millions)	% of Total	City	County	
Charges for Services	\$ 1,759.33	30.70%	36.33%	10.23%	
Intergovernmental - Federal, State & Other	1,074.46	18.75%	13.03%	52.67%	
Property Tax	1,058.15	18.46%	6.91%	11.15%	
Other Local Taxes	528.54	9.22%	20.91%	3.24%	
Business Taxes	332.72	5.81%	1.94%	0.00%	(1)
Rents & Concessions	329.02	5.74%	0.00%	0.00%	(2)
Other Revenues	104.39	1.82%	6.04%	14.73%	(3)
Fines & Forfeitures	100.78	1.76%	1.07%	1.84%	
Other Financing Sources	81.59	1.42%	8.38%	4.20%	
Interest & Investment	59.68	1.04%	4.00%	0.93%	
Licenses, Permits & Franchises	33.52	0.58%	1.39%	1.01%	
Recoveries	10.30	0.18%	0.00%	0.00%	(4)
Total Sources	\$ 5,472.48	95.49%	100.00%	100.00%	
PY Fund Balance	235.29	4.11%	0.00%	0.00%	(2)
PY Reserve	22.98	0.40%	0.00%	0.00%	(2)
	\$ 5,730.75	100.00%	100.00%	100.00%	

Source: California Controller Annual Reports. City data as of FY 2002-03, and County data as of FY 2003-04.

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

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

(1) County Data - Included in Other Local Taxes

(2) Included in Interest & Investment

(3) Including Enterprise Revenues & Special Benefit Assessments

(4) Not Applicable