



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

TO: Mayor Gavin Newsom
Board of Supervisors

FROM: Ben Rosenfield, Controller

DATE: September 14, 2009

SUBJECT: State Budget Impact – Updated Report

This memo updates our August 4, 2009 preliminary report on the estimated City General Fund impact from adoption of the State budget, in compliance with Section 9.3 of the FY 2009-10 Annual Appropriation Ordinance (AAO).

As shown in the attachment, our updated estimate of the State budget impact to general fund programs is \$26.5 million, down from \$36.7 million in our draft report. The reduced projected impact is primarily due to updated figures on the formulas used to allocate cuts to Human Services programs, and updated information on program reductions received by the Department of Public Health. In addition, the California Legislature acted to restore funding for the Healthy Families program, eliminating a potential requirement of \$2.2 million to backfill those services in San Francisco.

The FY 2009-10 budget includes a set-aside of \$18.0 million for potential State revenue reductions. Accordingly, net additional local budget solutions of \$8.5 million would be required if the City chose to reinstate all services impacted by the State budget reductions.

The State's plan to shift Redevelopment property tax increment funds was listed in our preliminary report as having a potential general fund impact of \$14.3 million. This proposal is the subject of litigation by the California Redevelopment Association. In any case, based on conversations with staff, we anticipate that the San Francisco Redevelopment Agency would be able to make the payment from fund balance and through financing options without requiring additional current property tax increment funds or other general fund support. However, spending on some Agency programs planned in the current year might be delayed.

The State's plan to borrow 8% of property tax funds from local jurisdictions under the provisions of Proposition 1A was listed in the preliminary report as having a potential general fund impact of \$71.2 million, with additional potential impacts to the MTA of \$9.0 million, and to the Library Fund, Children's Fund and Open Space Fund of a combined total of \$13.7 million. Plans by the State to make financing available through a joint powers authority have progressed, and we believe that the interest rate authorized by the State of up to 8% (tax-exempt) is likely to be more than sufficient to attract market interest. Accordingly, we are currently confident that the property tax borrowing can be financed at little or no City general fund cost. Such financing would require Mayor and Board approval. Therefore, this report projects no impact from the borrowing of

property tax to the general fund, Municipal Transportation Authority or special funds (Library, Children's Fund and Open Space Fund).

In accord with the Administrative Provisions of the Annual Appropriation Ordinance (AAO), the Mayor's Office is required to issue a report to the Board of Supervisors outlining a plan to address the shortfall within 21 days of the date of this report (by Monday, October 5th). The Controller's Office will submit an ordinance reflecting reductions to appropriations proposed by the Mayor's plan. The AAO provides that reductions proposed by the Mayor in his plan shall not take effect for 45 days during which the Board of Supervisors is in session, to allow for the Board to adopt or amend the ordinance or to take no action.

Note that the Controller's Office will provide updated projections for other major revenue streams supporting the City's budget, including property taxes, payroll taxes, sales tax and hotel tax, in our Six Month Report, scheduled for early February 2010. We may provide earlier ad-hoc notifications to the Mayor and Board of significant changes to those projections as circumstances require.

If you have any questions, please contact me or Monique Zmuda, Deputy Controller, at (415) 554-7500.

Attachment

FY 2009-10 Estimated Local Impact of July 2009 State Budget Adjustments

General Fund Savings/(Cost), \$M

Budget Item	8/4/09 Preliminary	9/14/09 Update	Notes
Public Health			
Statewide Medi-Cal reductions	(8.6)	(8.1)	This includes 3 components: miscellaneous Medi-Cal reimbursement reductions totalling \$6.0M, a 50% State Department of Mental Health Managed Care allocation reduction totalling approximately \$1.3M, and a 10% cut in reimbursements for drug and alcohol programs, totalling approximately \$800K, and a \$33K cut for perinatal Medi-cal services.
State Office of AIDS reductions	(4.6)	(4.2)	Includes \$2.4M cut in State funding for HIV Education and Prevention (out of a total budget of \$2.9M), plus cuts in State funding and reallocation of federal Ryan White funding for HIV Health Services netting to \$1.8M.
Eliminates funding for Prop 36 Substance Abuse Treatment & Crime Prevention and Substance Abuse Offender Treatment	(2.9)	(2.0)	The State funding reduction is \$2.9M, which is expected to be partially offset with new federal (Byrne) funds.
Reduced state support state support for Healthy Families	(2.2)	0.0	This State action would have cut insurance for 600K children statewide. However, the program now appears to be restored statewide to its prior level, from a combination of \$81M committed by First Five California, along with new funds recently restored by the Legislature.
Elimination of Prop. 99 funds for County Health Services	(1.2)	(1.1)	This reduction represents a passthrough from the State to the San Francisco emergency room physicians. Based on estimated prior year actuals, the funding includes \$867K to community physicians (i.e., all emergency rooms other than San Francisco General Hospital (SFGH)), and \$217K to University of California physicians who work in SFGH's emergency room. There is also a reduction of \$100K in administrative overhead paid to DPH.
Elimination of funds for Immunization Program; Maternal, Child and Adolescent Health Program; and Children's Dental Disease Prevention Program	(0.6)	(0.9)	This reduction includes all State general fund support for the Immunization Program (\$250K); Maternal, Child, and Adolescent Health programs (\$280K); and Children's Dental Disease Prevention (\$60K). In addition, the MCAH program funding is used to draw down \$300K in federal Medi-Cal funding which was not reflected in the preliminary estimate.
Subtotal - Public Health	(20.1)	(16.4)	

Budget Item	8/4/09 Preliminary	9/14/09 Update	Notes
Human Services Agency (HSA)			
IHSS eligibility reductions.	3.1	uncertain	The initial estimated savings of \$4.1M GF savings (offset by \$1M in lost DPH funding) was based a reduction in IHSS service hours by approximately 2 million hours, effective September 1, 2009. As of mid-September, however, the State has done nothing to implement the reduction. As a result, we can not quantify savings to the General Fund at this time.
CalWORKs: Welfare to Work employment services and childcare services cuts	(9.0)	(2.9)	Based on updated information on funding formulas, the Department has reduced their forecast of the anticipated impact to \$2.9M, of which \$2.8M is related to a 26% reduction in the State allocation for CalWorks Stage 1 Childcare direct subsidies and other provider assistance, with the remaining \$100K cut coming from the Employment Services allocation. The Department anticipates that direct childcare subsidy cuts could be met by voluntary reductions for some families who meet exemption categories. The other provider support funds are currently spent on Mental Health Child Care Consultation to Centers (\$1.5M), Health Consultation (through DPH) (\$500K), Facilities Fund administration and center start-up grants (\$700K), Capacity Grants for Peer Support (\$72K), and other provider support programs (\$72K).
TANF Shelter Funds and Subsidized Employment - Maintenance of Effort Requirement	(2.8)	(3.5)	This item is related to State budget language limiting the amount of maintenance-of-effort (MOE) funds that the State would supply to meet requirements to draw down federal stimulus funds. The State has not provided final figures as to the remaining potential County MOE requirement, but the Department estimates the potential impact at \$1.4M of family shelter funds, \$1.4M in rental assistance funds and \$0.7M in subsidized employment funds.
CWS: Child Welfare Services Allocation reduction and adjustments to provider rates	(4.5)	(2.9)	Based on updated information on the State's funding formulas, the Department has reduced the anticipated State impact for these items to \$2.9M, including a \$1.7M reduction to the State's Child Welfare Services (CWS) allocation (equivalent to approximately 30 social worker positions when loss of federal matching funds is also taken into account), a reduction of \$540K to the Transitional Housing Program-Plus for emancipated foster youth (equivalent to annual funding for 23 youth out of 127 currently served), and an estimated \$1.1M in reduced payments to adoptive parents, foster care group homes and foster family agency providers serving approximately 800 youth.
Medi-cal Administration 6.7% Cut and potential cuts to CalWIN and CWS/CMS welfare information systems maintenance allocations	(2.4)	0.0	HSA now expects no impact as CWDA predicts the cut will offset caseload-driven allocation growth.
Eliminate California Department of Aging support for Linkages case management program and Community Based Services Programs, including Alzheimer's Day Resource Center, Brown Bag, Respite Purchase of Services and Senior Companion Programs	(0.5)	(0.3)	Based on more recent information, the Department has reduced the estimated impact of these State cuts from \$500K to \$300K. This includes the entire State allocation of \$160K for the period beginning October 1, 2009 for the Linkages case management program currently serving 157 clients, and \$240K in reductions for the other community-based services programs.
Subtotal - Human Services Agency	(16.1)	(9.6)	

Budget Item	8/4/09 Preliminary	9/14/09 Update	Notes
Sheriff			
Court furloughs 1 day/month - Security Services Contract	(0.5)	(0.5)	Court furloughs reduce need for Sheriff's security services, and thus reduces the work order recovery available to the Sheriff from the Court. The estimated impact to the Sheriff's budget is a loss of ~\$500K. The impact may be reduced if the Sheriff can redeploy resources to jails to reduce overtime requirements
Court furloughs 1 day/month - Impact on jail population	unknown	unknown	Court furloughs will increase the amount of time certain individuals will need to be held in jail pending court hearings. The fiscal impact is unknown.
State reductions to Corrections budget that may result in earlier releases and shifts of prisoners to county jails	unknown	unknown	As of this writing, the California Legislature has not passed a specific plan to meet reduction targets for the State Corrections budget. However, based on current proposals, the Sheriff's Department does not anticipate significant increased general fund costs directly related to this item.
Subtotal Excluding Property Tax Shifts	(36.7)	(26.5)	
San Francisco Redevelopment Agency			
Redirect \$29 million in property tax increment from Redevelopment Agencies	(14.3)	0.0	This provision would shift \$28.7 million in FY 09-10 and \$6 million in FY 10-11 from San Francisco Redevelopment Agency (SFRA) property tax increment funds to support State funding for schools, and also extends existing redevelopment areas by one year to support financing of the payments from the additional future property tax increment. The California Redevelopment Association has sued, challenging the legality of the fund shift under the State constitution. The SFRA reports that even if the State prevails and the shift goes forward, they would be able to make the payment through use of existing fund balance and borrowing without requesting additional current property tax increment or City General Fund support. However, SFRA has stated they are considering delaying projects to free up financing capacity.
Property Tax Borrowing			
8% Property Tax Borrowing by State under Proposition 1A authority	(71.2)	0.0	As of this writing, the preparations for financing through a joint powers authority appear to be sound, and the State has authorized a maximum interest rate (up to 8.0%, tax-exempt) that appears to be more than high enough to attract sufficient market interest. Accordingly, we are confident this item can be financed without significant cost to the general fund or other funds benefitting from property taxes. The City may finance an additional \$13.7 million for property tax set-asides to the MTA, Library Fund, Children's Funds and Open Space Fund.
TOTAL PROJECTED CITY IMPACT	(122.2)	(26.5)	