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June 14, 2007

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 2007-08 Proposed Budget
[Revenue Letter - Fiscal Year 2007-08]**

Dear Members of the Board:

Charter Section 9.102 requires that the Controller "provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates [in the Mayor's Proposed Budget] and the reasonableness of such estimates and revisions." On June 1, 2007, Mayor Gavin Newsom issued his FY 2007-08 Proposed Budget to the Board of Supervisors. The FY 2007-08 Proposed Budget of \$6.07 billion reflects projected growth of \$316.8 million, 5.5 percent more than the FY 2006-07 original budget. **Overall, the budgetary sources assumed in the Mayor's Proposed Budget appear to be reasonable given current trends including continued economic strengthening and job growth in San Francisco and 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, set-asides 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.

The Bay Area economy continues to grow, as witnessed by activity expansion and steady growth in jobs-related local revenues. Property-related revenues, including both Property Tax and Real Property Transfer Tax, proposed in this budget also reflect 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 All Funds Sources from the FY 2006-07 Original Budget

- \$316.82 million or 5.5 percent growth in total sources resulting in a total City budget of \$6.07 billion;
- \$333.47 million or 6.1 percent growth in **service charge, tax, intergovernmental and other regular revenues**, including \$85.63 million (3.4 percent) increase for non-General Fund funds¹;
- \$2.15 million less in **Prior-Year Reserves** as discussed below in the General Fund section; and
- \$14.49 million (6.0 percent) less in **Prior-Year Fund Balance**.

Summary of Changes in General Fund Sources from the FY 2006-07 Original Budget

- \$247.84 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, Business Tax, Hotel Room Tax, and Intergovernmental Revenues from the Federal and State governments with partially offsetting weakness in Real Property Transfer Tax, Recoveries, Other Revenues, and Fines and Forfeitures;
- \$2.15 less in **Prior-Year Reserves** as a budgetary source of funds for a total of \$23.50 million assumed in the Mayor's Proposed Budget, including \$15.83 million of Rainy Day Capital & One-Time Spending Reserves, \$6.27 million of Budget Savings Incentive Reserves, and \$1.40 million of Children's Baseline Reserves;
- \$6.70 million growth in **Prior-Year Fund Balance** available for appropriation; and
- \$4.41 million less in **Net Transfers** related to project appropriation funding.

Also of note, we have incorporated substantive technical adjustments impacting revenues as proposed by the Mayor's Office through June 14 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, where applicable.

**Controller's Discussion of the Mayor's Fiscal Year 2007-08 Proposed Budget
[Revenue Letter – FY 2007-08]**

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

Overall, the Mayor's FY 2007-08 Proposed Budget has increased 9.3 and 5.5 percent for the General Fund and All Funds budgets respectively. This includes regular revenue growth of 9.8 percent in the General Fund and 6.1 percent for All Funds over FY 2006-07 Original Budget levels – growth commensurate with continued economic expansion in the Bay Area.

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

(\$ millions)

All Funds including General Fund

	FY 2006-07		FY 2007-08		Change	
	AAO	Mayor's Proposed	\$	%	\$	%
Prior-Year						
Fund Balance	\$ 239.71	\$ 225.22	\$ (14.49)	-6.0%		
Reserves	25.65	23.50	\$ (2.15)	-8.4%		
Subtotal	265.36	248.72	(16.64)	-6.3%		
Current-Year						
Regular Revenues	5,483.81	5,817.27	\$ 333.47	6.1%		
Transfers, net	n/a	n/a	n/a	n/a		
Subtotal	5,483.81	5,817.27	333.47	6.1%		
Total Sources	\$ 5,749.17	\$ 6,065.99	\$ 316.82	5.5%		

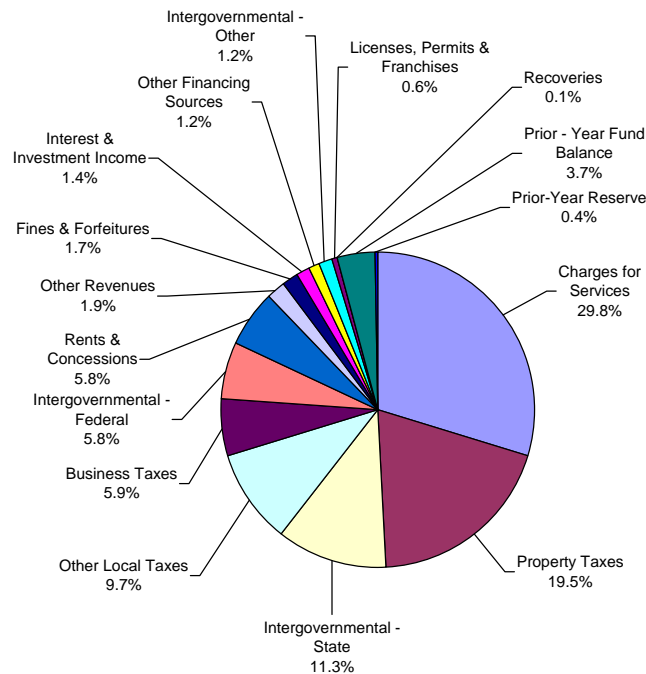
General Fund

	FY 2006-07		FY 2007-08		Change	
	AAO	Mayor's Proposed	\$	%	\$	%
Prior-Year						
Fund Balance	\$ 99.48	\$ 106.17	\$ 6.70	6.7%		
Reserves	25.65	23.50	(2.15)	-8.4%		
Subtotal	125.13	129.67	4.55	3.6%		
Current-Year						
Regular Revenues	2,522.53	2,770.37	247.84	9.8%		
Transfers, net	16.89	12.48	(4.41)	-26.1%		
Subtotal	2,539.42	2,782.85	243.43	9.6%		
Total Sources	\$ 2,664.55	\$ 2,912.53	\$ 247.98	9.3%		

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

Sources of Funds	Sorted by Size			Change from Prior Year	
	FY 2006-07 AAO	FY 2007-08 Proposed	FY 2007-08 % of Total	\$	%
Charges for Services	\$ 1,759.36	\$ 1,805.25	29.8%	\$ 45.89	2.6%
Property Tax	1,068.70	1,184.51	19.5%	115.81	10.8%
Intergovernmental - State	651.56	685.41	11.3%	33.86	5.2%
Other Local Taxes	529.02	588.00	9.7%	58.98	11.1%
Business Taxes	332.72	360.55	5.9%	27.84	8.4%
Intergovernmental - Federal	353.93	350.56	5.8%	(3.37)	-1.0%
Rents & Concessions	329.02	349.11	5.8%	20.10	6.1%
Other Revenues	82.69	112.54	1.9%	29.84	36.1%
Fines & Forfeitures	108.43	104.89	1.7%	(3.54)	-3.3%
Interest & Investment Income	62.47	83.98	1.4%	21.51	34.4%
Other Financing Sources	93.41	75.79	1.2%	(17.62)	-18.9%
Intergovernmental - Other	68.68	71.64	1.2%	2.96	4.3%
Licenses, Permits & Franchises	33.52	36.29	0.6%	2.77	8.3%
Recoveries	10.30	8.75	0.1%	(1.55)	-15.1%
Regular Revenues	\$ 5,483.81	\$ 5,817.27	95.9%	\$ 333.47	6.1%
Prior-Year Fund Balance	239.71	225.22	3.7%	(14.49)	-6.0%
Prior-Year Reserve	25.65	23.50	0.4%	(2.15)	-8.4%
Total Sources	\$ 5,749.17	\$ 6,065.99	100.0%	\$ 316.82	5.5%

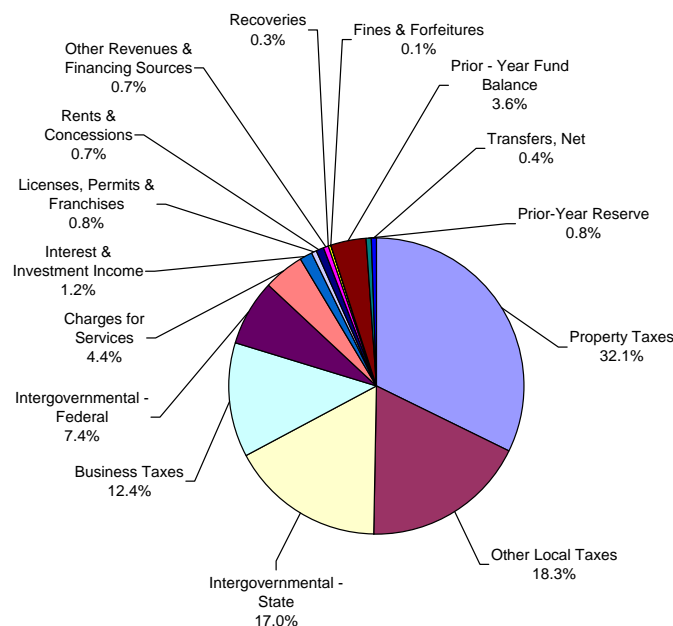
Sources of Funds - All Funds



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

General Fund Sources of Funds	Sorted by Size			Change from Prior Year	
	FY 2006-07 AAO	FY 2007-08 Proposed	FY 2007-08 % of Total	\$	%
Property Tax	\$ 837.54	\$ 934.72	32.1%	\$ 97.18	11.6%
Intergovernmental - State	470.27	494.68	17.0%	24.41	5.2%
Other Local Taxes	455.51	531.92	18.3%	76.41	16.8%
Business Taxes	332.17	359.72	12.4%	27.55	8.3%
Intergovernmental - Federal	194.27	215.00	7.4%	20.73	10.7%
Charges for Services	123.67	128.31	4.4%	4.64	3.7%
Interest & Investment Income	33.99	35.48	1.2%	1.49	4.4%
Licenses, Permits & Franchises	20.92	22.00	0.8%	1.08	5.2%
Rents & Concessions	20.14	19.81	0.7%	(0.33)	-1.6%
Other Revenues	17.95	14.82	0.5%	(3.13)	-17.4%
Recoveries	10.30	8.75	0.3%	(1.55)	-15.1%
Fines & Forfeitures	4.90	3.90	0.1%	(1.00)	-20.4%
Other Financing Sources	0.90	1.28	0.0%	0.38	41.9%
Regular Revenues	\$ 2,522.53	\$ 2,770.37	95.1%	\$ 247.84	9.8%
Transfers, Net	16.89	12.48	0.4%	(4.41)	-26.1%
Prior-Year Fund Balance	99.48	106.17	3.6%	6.70	6.7%
Prior-Year Reserves	25.65	23.50	0.8%	(2.15)	-8.4%
Total Sources	\$ 2,664.55	\$ 2,912.53	100.0%	\$ 247.98	9.3%

Sources of Funds - General Fund



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 June 1, 2007, Mayor Gavin Newsom issued his FY 2007-08 Proposed Budget. The most recent Joint Report, which was published in March 2007, included a projected shortfall of \$25.4 million for FY 2007-08. The Mayor’s FY 2007-08 Proposed Budget closed this shortfall along with subsequent salary increase costs related to open contracts with targeted spending reductions and increased revenue projections.

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 as well as additional assumed Property Taxes related to increased backlog processing by the Assessor’s Office and higher Transfer Tax revenues.

Overall, discretionary General Fund revenues are projected to grow 10.3 percent from the FY 2006-07 budgeted levels or 4.9 percent from the Controller’s 9-Month Report projection. Of note is the reduction to Transfer Tax revenues as compared to the 9-Month Report Projection, which are budgeted lower because of a concern regarding the one-time nature of many recent large, commercial property transactions.

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

	FY 2006-07		FY 2007-08				
	Revised Budget	9-Month Year-end Projection	Mayor's Proposed Budget	Change from PY			
				Budget		Projection	
			\$	%	\$	%	
Property Taxes (1)	\$837.54	\$864.86	\$ 934.72	\$ 97.18	11.6%	\$ 69.86	8.1%
Business Taxes	332.17	340.76	359.72	27.55	8.3%	18.96	5.6%
Sales Tax	106.24	106.24	111.55	5.31	5.0%	5.31	5.0%
Utility Users Tax	79.44	77.87	80.21	0.77	1.0%	2.34	3.0%
Property Transfer Tax	105.00	146.40	123.52	18.52	17.6%	(22.88)	-15.6%
Hotel Room Tax (2)	125.91	137.85	148.87	22.96	18.2%	11.02	8.0%
Parking Tax	58.35	63.84	64.82	6.47	11.1%	0.98	1.5%
Public Safety Sales Tax	74.03	69.78	73.27	(0.76)	-1.0%	3.49	5.0%
Motor Vehicle In-Lieu (MVL)	5.60	5.09	5.29	(0.31)	-5.5%	0.20	4.0%
Total - Discretionary Revenues	\$1,724.27	\$1,812.69	\$ 1,901.96	\$ 177.69	10.3%	\$89.27	4.9%

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 \$148.87 million budgeted in FY 2007-08, \$120.21 million is Unallocated (discretionary).

Discussion of Budget Estimates for General Fund Discretionary Revenues

Property Taxes: The FY 2007-08 General Fund share of property tax revenue is projected to be \$934.72 million, which is \$97.18 million (11.6 percent) more than the FY 2006-07 Budget or 7.8 percent more than the FY 2006-07 9-Month Report projection. The Mayor's Proposed Budget assumes \$10.00 million in higher property tax revenues related to increased funding for staff proposed at the Assessor's Office from further reducing assessment backlog processing.

Of Proposition 13's one percent countywide tax rate, approximately 57 percent of property taxes accrue to the General Fund, and amounts equal to 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 0.135 percent for FY 2006-07 for a total property tax rate of 1.135 percent.

A portion of property tax is also allocated to the Redevelopment Agency² 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 2007-08, tax increment funding allocated to the Redevelopment Agency is projected to increase to \$78.70 million from \$71.24 million in FY 2006-07 or a \$7.46 million increase. The incremental impact to the General Fund of this \$7.46 million increase is \$4.23 million (57% of property tax increment).

Preliminary working roll estimates from the Assessor's Office are indicative of the FY 2007-08 secured tax roll increasing between 6.5 and 7.0 percent from the FY 2006-07 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 2006-07 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 backlog processing backlog and changes due to State budgetary shifts, like the State Sales Tax shift (i.e. the *Triple Flip*) and Vehicle License Fee Swap, are considered.

Property tax delinquencies decreased from prior-recession highs of 4.02 percent to 1.20 percent for FY 2004-05 and 1.27 percent for FY 2005-06. The Mayor's FY 2007-08 Proposed Budget includes an assumed overall delinquency rate of 1.32 percent – in line with recent experience and an improving economy.

² The gross tax increment assumed for the Redevelopment Agency is projected to be \$78.70 in FY 2007-08, compared to \$71.24 million in FY 2006-07, \$70.56 million in FY 2005-06, \$55.19 million in FY 2004-05, and \$38.23 million in FY 2003-04.

Business Taxes: Business taxes are budgeted at \$359.72 million, which is \$27.55 million (8.3 percent) more than the \$332.17 million budgeted in FY 2006-07, or \$18.96 million (5.6 percent) more than the FY 2006-07 year-end projections. The Proposed Budget is based on moderate growth in employment of approximately 1.0 to 2.0 percent and 3.0 to 4.0 percent wage increases. Business tax revenue is comprised of business license registration fees and payroll taxes with the latter totaling \$351.03 million.

On a related note, the Mayor's FY 2007-08 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 2007-08 debt service on the judgement bonds is \$7.25 million, \$0.50 million more than in FY 2006-07. The judgment bonds are fixed rate and payable through FY 2010-11, assuming no prepayment or subsequent refunding occurs.

Sales Tax: Sales tax in FY 2007-08 is expected to generate \$111.55 million in revenue, up by \$5.31 million (5.0 percent) from both the FY 2006-07 year-end projection and the FY 2006-07 original budget. San Francisco sales tax continues to be more dependent on tourism than most other cities in California. Growth in tourism, as well as increased employment, accounts for a significant portion of the 5.0 percent underlying sales activity growth assumed in the FY 2007-08 budget.

Utility Users Tax: Utility users tax revenue is budgeted at \$80.21 million in FY 2007-08, which is \$0.77 million (1.0 percent) over the FY 2006-07 Original Budget or \$2.34 million (3.0 percent) over the FY 2006-07 9-Month Report projection. Growth is related to increased commercial and cellular telephone usage. On a related note to this revenue, on May 25, 2006, the US Treasury Department announced that it would eliminate the three percent Federal Excise Tax on long-distance telephone calls and refund about \$13 billion collected to taxpayers. The City continues to evaluate the US Treasury's reinterpretation of the Federal Excise Tax provisions to see if there may be any adverse impact to our local telephone utility users tax.

Real Property Transfer Tax: Real property transfer tax is budgeted at \$123.52 million, which is \$18.52 million more than the FY 2006-07 budget level of \$105.00 million. The Proposed Budget is, however, projecting \$22.88 million less in FY 2007-08 than the \$146.40 million current projection for FY 2006-07. FY 2004-05, FY 2005-06 and FY 2006-07 all witnessed unprecedented sales activity in the commercial real estate sector in particular. The table below summarizes recent history for this revenue by transaction size and illustrates the high levels of revenue being generated due to the transactions in excess of \$1 million in purchase price.

Chart B: Real Property Transfer Tax Revenues by Transaction Size (\$ millions)

Fiscal Year	Real Property Transfer Tax Revenue (\$ millions)					Transaction Count			
	@ 0.50%	@ 0.68%	@ 0.75%	Timing	Total	@ 0.50%	@ 0.68%	@ 0.75%	Total
	<\$250K	>\$250K	>\$1 M	Differences	Revenue*	<\$250K	>\$250K	>\$1 M	Total
FY 1997-98	\$ 2.77	\$ 19.34	\$ 22.89	\$ (0.99)	\$ 44.01	4,363	6,449	673	11,485
FY 1998-99	\$ 2.05	\$ 23.20	\$ 31.87	\$ (0.99)	\$ 56.13	3,424	7,425	925	11,774
FY 1999-00	\$ 1.18	\$ 25.51	\$ 41.57	\$ 1.62	\$ 69.88	2,019	7,368	1,360	10,747
FY 2000-01	\$ 0.46	\$ 22.87	\$ 38.96	\$ 0.05	\$ 62.34	665	6,076	1,362	8,103
FY 2001-02	\$ 0.41	\$ 25.38	\$ 21.21	\$ 0.28	\$ 47.27	625	6,760	1,270	8,655
FY 2002-03	\$ 0.48	\$ 29.31	\$ 21.37	\$ 0.31	\$ 51.48	693	7,513	1,311	9,517
FY 2003-04	\$ 0.74	\$ 37.78	\$ 41.05	\$ (0.72)	\$ 78.85	1,180	9,460	2,237	12,877
FY 2004-05	\$ 0.65	\$ 37.16	\$ 78.89	\$ 0.10	\$ 116.80	1,176	8,699	3,056	12,931
FY 2005-06	\$ 0.46	\$ 31.44	\$ 98.33	\$ 1.05	\$ 131.28	931	7,400	3,355	11,686
FY 2006-07 Budget	\$ 0.55	\$ 26.76	\$ 77.68	\$ (0.00)	\$ 105.00	1,054	8,050	3,206	12,309
FY 2006-07 Projection	\$ 0.49	\$ 27.64	\$ 118.25	\$ 0.00	\$ 146.40	796	7,277	2,959	11,032
FY 2007-08 Budget	\$ 0.42	\$ 27.18	\$ 95.92	\$ 0.00	\$ 123.52	680	7,160	2,640	10,480

\$1M+ ... Strong Market Activity

Thru May Actuals									
FY 2005-06 YTD	\$ 0.42	\$ 28.46	\$ 86.31		\$ 115.19	833	6,711	3,002	10,546
FY 2006-07 YTD	\$ 0.41	\$ 26.65	\$ 89.54		\$ 116.60	712	6,599	2,648	9,959
YTD Change	-0.7%	-6.4%	3.7%		1.2%	-14.5%	-1.7%	-11.8%	-5.6%

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 assumed to be sustainable in the Proposed Budget. The Controller's Office monitors transfer tax collection rates and transaction volumes closely to provide updates throughout the fiscal year. On a cautionary note, transaction volumes are down 5.6 percent through the first eleven months of FY 2006-07 compared to the same period in the prior year. Given these trends, an estimated \$123.52 million for FY 2007-08 appears to be reasonable at this time.

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

Fiscal Year	Property Transfer Tax Revenue US\$ million		Annual Growth		Amount Over / (Under) Budget
	Budget	Actual / Projected*	\$ Change	% Change	
FY 1982-83	\$ 7.50	\$ 11.85			\$ 4.35
FY 1983-84	\$ 11.30	\$ 12.96	\$ 1.11	9.3%	\$ 1.66
FY 1984-85	\$ 12.80	\$ 13.87	\$ 0.92	7.1%	\$ 1.07
FY 1985-86	\$ 16.00	\$ 18.79	\$ 4.91	35.4%	\$ 2.79
FY 1986-87	\$ 18.00	\$ 19.06	\$ 0.27	1.4%	\$ 1.06
FY 1987-88	\$ 20.00	\$ 19.19	\$ 0.13	0.7%	\$ (0.82)
FY 1988-89	\$ 17.00	\$ 24.79	\$ 5.60	29.2%	\$ 7.79
FY 1989-90	\$ 21.00	\$ 20.72	\$ (4.07)	(16.4%)	\$ (0.28)
FY 1990-91	\$ 21.00	\$ 13.70	\$ (7.02)	(33.9%)	\$ (7.31)
FY 1991-92	\$ 18.00	\$ 13.80	\$ 0.10	0.8%	\$ (4.20)
FY 1992-93	\$ 16.00	\$ 13.07	\$ (0.73)	(5.3%)	\$ (2.94)
FY 1993-94	\$ 13.70	\$ 15.86	\$ 2.79	21.4%	\$ 2.16
FY 1994-95	\$ 18.96	\$ 20.04	\$ 4.18	26.4%	\$ 1.08
FY 1995-96	\$ 20.43	\$ 22.97	\$ 2.93	14.6%	\$ 2.54
FY 1996-97	\$ 23.44	\$ 33.57	\$ 10.61	46.2%	\$ 10.13
FY 1997-98	\$ 32.21	\$ 44.01	\$ 10.43	31.1%	\$ 11.80
FY 1998-99	\$ 42.35	\$ 56.13	\$ 12.13	27.6%	\$ 13.78
FY 1999-00	\$ 42.00	\$ 69.88	\$ 13.75	24.5%	\$ 27.88
FY 2000-01	\$ 52.77	\$ 62.34	\$ (7.55)	(10.8%)	\$ 9.57
FY 2001-02	\$ 48.00	\$ 47.27	\$ (15.07)	(24.2%)	\$ (0.73)
FY 2002-03	\$ 45.15	\$ 51.48	\$ 4.21	8.9%	\$ 6.33
FY 2003-04	\$ 55.00	\$ 78.85	\$ 27.37	53.2%	\$ 23.85
FY 2004-05	\$ 70.00	\$ 116.80	\$ 37.95	48.1%	\$ 46.80
FY 2005-06	\$ 83.00	\$ 131.28	\$ 14.48	12.4%	\$ 48.28
9-Month Projection FY 2006-07*	\$ 105.00	\$ 146.40	\$ 15.12	11.5%	\$ 41.40
Proposed Budget FY 2007-08*	\$ 123.52	\$ 123.52	\$ (22.88)	(15.6%)	\$ -

Hotel Room Tax: Hotel room tax revenue is estimated to be \$210.34 million in FY 2007-08 (including All City Funds and the portion accruing to the Redevelopment Agency), which is a 15.2 percent increase budget to budget and an 8.1 percent increase from the FY 2006-07 year-end projection. The Mayor’s FY 2007-08 Proposed Budget generally reflects growth of 10.0 percent (as compared to 8.1 percent overall growth) in allocations for dedicated purposes that had in recent years been frozen. Additionally, the Mayor’s Proposed Budget includes a 50.0 percent increase in the Low Income Housing – Rental Subsidy allocation and continues to fund \$5.00 million in 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 2006-07 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 1.5 percent, average daily room rate growth of approximately 5.7 to 6.0 percent, and 1.0 percent growth in 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 revenues (including both allocated and discretionary) once again are on track to exceed the prior boom’s peak.

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

Fiscal Year	Total	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	\$ (3.63)	(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%
FY 2005-06	\$ 179.47	\$ 21.53	13.6%	13.6%
9-Month Projection FY 2006-07	\$ 194.55	\$ 15.07	8.4%	8.4%
Proposed Budget FY 2007-08	\$ 210.34	\$ 15.80	8.1%	8.1%

The amount of hotel room tax budgeted in the General Fund is \$148.87 million, of which \$120.21 million is unallocated or discretionary. Chart E below illustrates how Hotel Room Tax revenues are allocated pursuant to the Municipal Code as well as the Mayor's FY 2007-08 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 2007-08 (\$ millions)

	FY 2007-08 Municipal Code \$ Allocation	% of Total	FY 2007-08 Proposed \$ Allocation	% of Total	% Chg. from PY Budget	% Chg. from 9-Month
General Fund Unallocated (discretionary)	90.28	42.9%	120.21	57.1%	20.4%	7.5%
Moscone / Convention Facilities	46.11	21.9%	31.67	15.1%	10.0%	10.0%
Grants for the Arts	21.51	10.2%	15.39	7.3%	10.0%	10.0%
War Memorial & Performing Arts	12.72	6.0%	9.86	4.7%	10.0%	10.0%
Convention & Visitors Bureau	11.07	5.3%	8.64	4.1%	10.0%	10.0%
Yerba Buena Gardens (SFRA)	5.39	2.6%	5.39	2.6%	-1.6%	-1.6%
Low-Income Housing - Capital Projects	7.57	3.6%	5.00	2.4%	0.0%	0.0%
Fine Arts Museum	6.72	3.2%	5.24	2.5%	10.0%	10.0%
Cultural Equity Endowment	2.93	1.4%	2.29	1.1%	10.0%	10.0%
Asian Art Museum	2.66	1.3%	2.08	1.0%	10.0%	10.0%
Cultural Centers	2.59	1.2%	2.02	1.0%	10.0%	10.0%
Academy of Sciences - Steinhart Aquarium	-	0.0%	1.50	0.7%	10.0%	10.0%
Low-Income Housing - Rental Assistance	0.60	0.3%	0.90	0.4%	50.0%	50.0%
Administration (Tax Collector)	0.19	0.1%	0.14	0.1%	10.0%	10.0%
TOTAL	210.34	100%	210.34	100%	15.2%	8.1%
Budgeted in General Fund	\$ 126.88	60.3%	\$ 148.87	70.8%	18.2%	8.0%
Budgeted in Non-General Fund	78.07	37.1%	56.08	26.7%	9.5%	9.5%
CCSF Subtotal	204.94	97.4%	204.95	97.4%	15.7%	8.4%
Budgeted in SFRA (Redevelopment)	5.39	2.6%	5.39	2.6%	-1.6%	-1.6%
Total All Funds	\$ 210.34	100.0%	\$ 210.34	100.0%	15.2%	8.1%

Parking Tax: Parking tax is expected to increase \$6.47 million (11.1 percent) compared to FY 2006-07 budget of \$58.35 million, which is also a 1.5 percent increase over the FY 2006-07 projection of \$63.84 million. This projected level of growth assumes continued economic growth during FY 2007-08 and increased parking rates. Parking tax is highly correlated to business activity and employment, which are rebounding gradually. The amount in Chart A includes 100 percent of the parking tax, however, an amount equivalent to 40 percent is transferred to the MTA for public transit as mandated by Charter Section 16.110.

Public Safety Sales Tax: The Mayor's FY 2007-08 Proposed Budget for Public Safety (Proposition 172) Sales Tax is \$73.27 million, or 1.0 percent less than the FY 2006-07 Original Budget yet 5.0 percent more than the FY 2006-07 year-end projection. These revenues are allocated to counties by the State separately from local sales tax discussed earlier. The growth of Public Safety Sales Tax revenue allocations are a function of both statewide and local sales tax activity and can vary from the local sales tax growth.

Motor Vehicle In-Lieu: Motor vehicle in lieu subventions proposed for FY 2007-08 are projected to decrease \$0.31 million to \$5.29 million from the FY 2006-07 budget level yet be \$0.20 million more than the FY 2006-07 year-end projection.

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 2006-07 year-end surplus will not be finalized until the independent audit is completed around November 2007. Given actual revenue collections through early June, 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 2007-08 Proposed Budget assumes available General Fund prior-year fund balance of \$106.17 million. We concur with this updated projection. 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 2007-08 Proposed Budget (\$ millions)

General Fund	Mayor's Proposed FY 2007-08
<hr/>	
Nine-Month Report Fund Balance Projection	\$ 98.41
Post 9-Month Report - Additional Changes	
Managed Care & Various Inactive Project Closeouts	\$ 3.65
DHS CAAP Reserve Closeout	\$ 4.00
ECD Move Expense Project Reserve Close Out	\$ 0.11
<i>Subtotal</i>	<hr/> \$ 7.76
Total Surplus/Fund Balance Available for Appropriation	<hr/> \$ 106.17 <hr/>

The Mayor’s Proposed Budget also includes an estimated \$119.05 million in fund balance for funds other than the General Fund. Of this total, \$82.86 million represents enterprise department funding, \$29.99 million for departments supported in whole or part through Special Revenue funding, and \$6.20 million of general government capital funds.

Prior-Year Reserves

The Mayor’s FY 2007-08 Proposed Budget includes \$23.50 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 2007-08 Proposed		
	General Fund	Other Funds	All Funds
Rainy Day Reserve	\$ 15.83	\$ -	\$ 15.83
Baseline Reserves (Children's Services)	1.40	-	1.40
Budget Savings Incentive Reserve	6.27	-	6.27
Rec & Park's Savings Reserve	-	-	-
	\$ 23.50	\$ -	\$ 23.50

Rainy Day Reserve: The Mayor’s Proposed Budget assumes the use of \$15.83 million from the Rainy Day Reserve’s Capital & One-Time Spending Account in FY 2007-08. At this time, the projected FY 2006-07 year-end balances for both the Rainy Day Reserve’s Economic Stabilization Account and the Capital & One-Time Spending Account are projected to be \$117.09 million and \$15.83 million respectively. The Mayor’s Proposed Budget taps into the Capital & One-Time Spending Account for the entire \$15.83 million of the currently projected total balance. In addition, all of the \$117.09 million in the Rainy Day Reserve’s Economic Stabilization Account is assumed to remain on deposit and be available during the City’s next economic downturn. On a related note, given the stronger revenue growth included in the FY 2007-08 Proposed Budget, the City is projected to be under the deposit threshold by only \$0.64 million in the budget year. The Mayor’s Proposed Budget includes funding for Disability Access (at multiple sites) as well as funding for the rebuilding of San Francisco General Hospital.

Baseline Reserves: The Mayor’s Proposed Budget assumes the use of \$1.40 million from the Children’s Baseline Reserve. This represents use of the entire Baseline Reserve for Children’s services as currently projected.

Budget Savings Incentive Reserve: The Mayor’s Proposed Budget assumes use of \$6.27 million of projected Budget Savings Incentive Reserves. The City’s previous Budget Savings Incentive Reserve requirements were most recently amended by Ordinance 210-06 in July 2007, which required that 25 percent of departments’ year-end savings be carried forward and used for the purpose of encouraging departments to implement cost saving strategies and to fund one-time expenditures, including expenditure that improve the efficiency of departmental operations, reduce the cost of service delivery, generate additional revenue or meet deferred maintenance needs. The Proposed Budget assumes use of these reserves instead of them being carried forward and available for allocation through the process outlined in Ordinance 210-06.

Recreation & Park’s Savings Reserve: The Mayor’s Proposed Budget does not include the use of any funds from the Recreation and Parks Department’s Savings Reserve as there are no reserves currently projected. As noted under Section 16.107 of the San Francisco Charter, any savings must be retained by the Recreation & Park Department and be dedicated to one-time expenditures.

Key One-Time Revenues & Transfers-In

The Mayor’s FY 2007-08 Proposed Budget includes a number of one-time sources other than the Prior-Year Fund Balance and Reserves discussed above. Chart H below summarizes key one-time revenue and transfer-in sources.

**Chart H: Key One-Time, Departmental Revenues
 Included in the Mayor’s FY 2007-08 Proposed Budget (\$ millions)**

	General Fund Supported	Non- General Fund Supported	Total All Funds
Revenues			
Sales of Buildings & Land	\$ 9.42		\$ 9.42
<i>PUC Steam Loop & Francisco Purchase</i>	<i>5.20</i>		
<i>525 Golden Gate Avenue</i>	<i>2.90</i>		
<i>DPW Sale of Embarcadero Parcels (Gas Tax Fund)</i>	<i>1.32</i>		
Fines, Penalties & Settlements	-	\$ 5.70	5.70
<i>Airport</i>		<i>5.70</i>	
Gifts and Grants	2.84		2.84
Total One-Time Sources	\$ 12.26	\$ 5.70	\$ 17.96

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

The Mayor’s FY 2007-08 Proposed Budget assumes various fee and fine increases. The table below highlights key assumptions and associated revenue changes.

Chart I: Key Fee & Fine Changes included in FY 2007-08 Proposed Budget (\$ millions)

Description	Dept	Amount in FY 2007-08 Proposed Budget	Incremental Fee Revenue Assumed in FY 2007-08
GENERAL FUND SUPPORTED			
Garage Rates (as set by MTA)	Rec & Park	\$ 8.50	\$ 0.37
Patient Rates	Public Health	203.60	2.00
Medical Examiner Fee Increases	GSA-ADM	0.50	0.06
Various Fire Prevention Fee Increases	FIR	6.69	1.09
Various Permit Fee & Service Charge Increases	DPW	4.82	0.59
Golf Fees - Twilight Pricing & Related Changes	Rec & Park	4.70	0.16
Subtotal, General Fund Supported		228.82	4.27
OTHER FUNDS			
Rent Board Fee	Rent Board	4.51	0.51
Wastewater/Sewer Charges (+9%)	PUC - Wastewater	194.13	16.61
Retail Water Rates (+15% Retail)	PUC - Water	218.79	14.37
Subtotal, PUC		412.92	30.98
Airport Fees - Airlines - Landing Fees, Terminal Rentals	AIR	243.07	(8.52)
Airport Fees - Non Airlines - Parking, Concessions, Rentals	AIR	237.22	19.62
Subtotal, AIR		480.29	11.10
Parking Garage Rate Increase	MTA	34.39	7.50
Auto Towing Rate Increase	MTA	4.80	1.47
Rentals of Historic Vehicles	MTA	0.23	0.19
Delinquent Citation Collection Fee	MTA	1.90	1.90
Subtotal, MTA		41.32	11.06
Subtotal, Other Funds		\$ 939.04	\$ 53.65
Value of Auto CPI Adjustments	Various	\$ 1.26	\$ 1.26
Total		\$ 1,169.12	\$ 59.18

State Budget Impact

The Governor’s May Revise for FY 2007-08 includes funding increases for a number of City programs, including \$2.3 million for Proposition 63 Mental Health Services Act funding and \$10.0 million in Proposition 1B bond funding for local road repairs, both of which are assumed in the Mayor’s Proposed Budget. An increases of \$1.3 million to expand probation services was not included in the Mayor’s Proposed budget as there will be a competitive process to allocate funds among counties and the precise local share is uncertain. An increase of \$1.6 million for cost of business increases in Food Stamps, IHSS, and Medi-Cal is also not assumed in the Mayor’s Proposed Budget because it is uncertain at this time whether the change will be implemented.

The Governor’s budget includes a reduction of \$1.3 million in Gas Tax subvention, which is assumed in the Mayor’s Proposed Budget. Other cuts include \$2.8 million due to the elimination of integrated services for homeless adults with mental illness, \$2.0 million in Proposition 36 Treatment Access Program funds, and \$34.2 million in State Transit Assistance Funding which will primarily affect the MTA’s capital plan, not its assumed operating revenue. These cuts are not reflected in Mayor’s Proposed Budget. The summary table below outlines key program changes between the Governor’s Proposed Budget in January and May Revise.

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

Dept	State Budget Item	January Budget	May Revise
PROGRAM FUNDING CUTS			
DPH	Eliminates Integrated Services fo Homeless Adults with Mental Illnesses	(2.8)	(2.8)
DPH	Treatment Access Program (Prop 36)	(2.0)	(2.0)
DPW	Gas Tax Subvention	(1.3)	(1.3)
General Fund Program Loss Subtotal		(6.1)	(6.1)
MTA	State Transit Assistance Funding	(20.4)	(34.2)
Non-General Fund Program Loss Subtotal		(20.4)	(34.2)
PROGRAM FUNDING INCREASES			
DPH	Mental Health Services Act (Prop 63)	2.3	2.3
ADP	Expanded Probation Services Targeted at 18-25 Year Olds	1.3	1.3
DSS	Cost of Business Increase for Food Stamps, IHSS and Medi-Cal	1.6	1.6
DPW	Bond Funding for Local Road Repairs	4.0	10.0
General Fund Program Funding Increases		9.2	15.2
General Fund Total		3.1	9.1
Non-General Fund Total		(20.4)	(34.2)
All Funds Projected Impact		(17.3)	(25.1)

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 (DPH), which consists of both the Community Health Network Division and the Public Health Division, has total net budget sources of funds of \$1,315.43 million in FY 2007-08. The \$1,315.43 million of total sources is comprised of two major categories: 1) net departmental sources of \$959.73 million (up \$68.91 million or 7.7 percent from FY 2006-07 Original Budget levels) primarily from the new Healthy San Francisco Program in FY 2007-08, Federal and State sources such as Medicare and Medi-Cal reimbursement and net patient revenue, as well as 2) General Fund support of \$355.69 million (up \$21.55 million or 6.4 percent from the FY 2006-07 Original Budget).

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

Sources of Funds	FY2006-07	FY2007-08	Change from Original	
	Original Budget	Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
Patient Revenues	\$ 490.83	\$ 522.89	\$ 32.07	6.5%
Departmental Transfer Adjustment	(32.00)	(32.00)	-	0.0%
Adjusted Patient Revenues	458.83	490.89	32.07	7.0%
General Fund Support	334.15	355.69	21.55	6.4%
State Intergovernmental	272.54	285.99	16.95	6.2%
Health & Welfare Realignment-MVL	90.48	93.20	2.72	3.0%
Health & Welfare Realignment-Sales Tax	71.09	73.22	2.14	3.0%
Short-Doyle Medi-Cal	51.51	56.14	4.63	9.0%
State Alcohol Funds	19.66	19.66	-	0.0%
Community Mental Health Services	17.45	21.40	3.95	22.6%
California Children Services	6.21	6.25	2.45	64.4%
State Mandated Program Reimbursements	3.80	3.80	1.10	40.8%
Prop 99 - Tobacco Tax	2.70	2.75	0.05	0.5%
Other State	9.66	9.58	(0.08)	-0.8%
Federal Intergovernmental	75.31	62.28	(13.04)	-17.3%
Healthy San Francisco	-	25.84	25.84	100.0%
Fund Balance & PY Reserves	0.75	-	(0.75)	-100.0%
Other Service Charges	9.39	10.25	0.86	9.1%
Recoveries	55.14	60.64	5.50	10.0%
Other Revenue	15.22	16.37	1.15	7.6%
Licenses & Fines	7.14	7.48	0.34	4.8%
Total Sources of Funds	\$ 1,228.47	\$ 1,315.43	\$ 90.46	7.4%
High-Level Summary				
Net Departmental Sources	\$ 894.33	\$ 959.73	\$ 68.91	7.7%
General Fund Support	334.15	355.69	21.55	6.4%
Total Sources of Funds	\$ 1,228.47	\$ 1,315.43	\$ 90.46	7.4%

Key Net Increases in Public Health Revenues

More specifically, the growth in Public Health sources budget is mainly due to patient revenues growing, the new Healthy San Francisco Program (universal healthcare) being implemented in FY 2007-08, and growth in General Fund Support. In FY 2007-08, DPH will receive new Healthy San Francisco Program revenue of \$25.84 million. General Fund Support is proposed to increase \$21.55 million or 6.4 percent. Patient revenues (net of departmental transfer adjustments), which consist of Medicare, Medi-Cal, private insurance, capitated fees, health plan settlements and Safety Net Care Pool funding, are proposed to increase by \$32.07 million (7.0 percent) from the FY 2006-07 Original Budget levels. The increase is primarily due to increased Commercial, MediCare and Medi-Cal revenue, a 1.0 percent increase in patient rates, increased Medi-Cal Distinct Part Nursing Facilities revenue and improved collections.

The Proposed Budget includes \$25.84 million in Healthy San Francisco (also referred to as the SF Health Access Program) revenue due to new program implementation in FY 2007-08. This includes \$21.03 million in State Health Care Coverage Initiative funding, \$4.75 million in participant enrollment fees and \$0.05 million in point of service fees.

Recoveries are projected to increase by \$5.50 million (10.0 percent). The increases are primarily due to increases in work orders with the Human Services Agency (\$4.37 million) including funding for IHSS health care services and the Homeless Outreach Team, the Public Utilities Commission-Water Bureau (\$0.40 million) for the construction of the Laguna Honda Hospital Rebuild, the Sheriff for Jail Health (\$0.38 million), and the Department of Emergency Management (\$0.35 million) for Homeland Security positions. Additionally, licenses and fines are projected to increase \$0.34 million (4.8 percent) primarily due to CPI and the annualization of FY 2006-07 fee increases for various programs.

State intergovernmental revenues show a \$16.95 million (6.2 percent) increase as a result of

- +\$4.86 million in additional Health & Welfare Realignment revenue;
- +\$4.63 million in additional Short-Doyle Medi-Cal revenue;
- +\$3.95 million in additional Community Mental Health revenues;
- +\$2.45 million in California Children Services revenue;
- +\$1.10 million in additional State mandated program reimbursements;
- +\$0.05 million in additional Tobacco Tax revenue, and
- -\$0.08 million in net decreases for other State revenues.

Other Revenue is projected to increase \$1.15 million (7.6 percent). This increase is primarily due to \$0.05 million for inoculations performed in the Primary Care Clinics, \$0.10 million for increased rents and leases at SF General Hospital, \$0.59 million for increased services provided at SF General Hospital to the other DPH divisions, \$0.96 million in increased delinquent revenue collections all of which are offset by a reduction of \$0.55 million in private grants.

Key Net Decreases in Public Health Revenues

In FY 2007-08, the Department of Public Health does not propose to use any fund balance or prior year reserves resulting in a decrease from \$0.75 million in FY 2006-07 to \$0 in FY 2007-08 as none are currently projected.

Federal Intergovernmental revenues are projected to decrease by \$13.04 million due mainly to a \$9.15 million decrease (32.7 percent decrease) in federal Ryan White CARE funding, as well as \$1.55 million in grant funding for Direct Access to Housing sites, \$1.53 million in Homeland Security grants, \$0.81 million in mental health grants for children.

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 2007-08 Proposed Budget of \$654.67 million. This total is an increase of \$53.28 million (8.9 percent) over FY 2006-07 Original Budget level.

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

Sources of Funds	FY 2006-07	FY 2007-08	Change from PY Original Budget	
	Original Budget	Proposed Budget	\$	%
Federal and State Operating	\$ 224.29	\$ 257.73	\$ 33.44	14.9%
Federal & State Aid	113.08	115.74	2.66	2.4%
State Health & Welfare Realignment	62.01	63.87	1.86	3.0%
Subtotal - Federal & State Revenue	399.37	437.33	37.96	9.5%
Interdepartmental Recovery	16.34	21.14	4.80	29.4%
Other Revenue	4.77	5.19	0.42	8.9%
Subtotal - Recovery & Other Revenue	21.11	26.33	5.22	24.7%
Total Revenues All Funds	420.48	463.66	43.18	10.3%
General Fund Support	180.91	191.00	10.10	5.6%
Total Sources of Funds	\$ 601.39	\$ 654.67	\$ 53.28	8.9%

The FY 2007-08 Proposed Budget shows an increase of \$37.96 million (9.5 percent) in Federal and State revenues. Major changes include:

- +\$11.65 million in Federal and State grants due mainly to \$5.89 million in increased Homeless Grant funding, \$5.14 million in increased Food Stamps funding, and \$624,000 in Hope House Grant.
- +\$4.84 million in Children’s Services Funding;
- +\$2.35 million in increased Adoption Services funding;
- +\$2.61 million in State revenue for the Transitional Housing Program Plus expansion;
- +\$3.05 million in increased Welfare To Work funding;
- +\$2.17 million in increased CalWORKs funding;
- +\$1.58 million in Adult Services funding; and
- +\$5.81 million in IHSS aid due to increase in provider hours and increase in providers’ wage. The wage for IHSS workers assumed in the FY 2007-08 Proposed Budget is \$11.50 per hour beginning October 2007, compared to their current wage of \$10.95 per hour.

Interdepartmental recoveries and other revenues are projected to increase by \$5.22 million (24.7 percent) in FY 2007-08. The growth is largely due to recovery increases in Childcare services, Preschool-For-All, and the recovery of reimbursement costs of health benefits for IHSS workers.

IV. BASELINES & MANDATED FUNDING REQUIREMENTS

The Mayor's FY 2007-08 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 Baselines & Mandated Spending 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)

Baselines & Set-Asides	FY 2007-08					
	Required Baseline	Mayor's Proposed	Surplus / (Shortfall) Contribution	Change from PY Original Budget		
				\$	%	
<u>Revenue-Driven</u>						
Municipal Transportation Authority	\$ 178.92	\$ 178.92	\$ -	\$ 20.69	13.1%	
<i>MTA - Municipal Railway</i>	130.82	130.82	-	15.97	13.9%	
<i>MTA - Parking & Traffic</i>	48.10	48.10	-	4.72	10.9%	
Children's Services	97.49	99.46	1.97	5.62	6.0%	
Library Preservation	42.15	42.15	-	4.12	10.8%	
Public Education Baseline Services	5.55	6.46	0.91	0.96	17.4%	
<u>Property Tax Related Set-Asides</u>						
Municipal Symphony	1.62	1.62	-	0.12	8.2%	
Children's Fund Set-Aside	39.95	39.95	-	4.46	12.6%	
Library Preservation Set-Aside	33.39	33.39	-	3.73	12.6%	
Open Space Set-Aside	33.39	33.39	-	3.73	12.6%	
Key Revenue-Driven Baselines & Set-Asides	432.47	435.35	2.87	43.41	11.1%	
<u>Expenditure-Driven</u>						
Police Minimum Staffing	200.87	200.87	-	(3.48)	-1.7%	
Fire Neighborhood Firehouse Funding	165.10	192.54	27.44	4.91	2.6%	
Public Education Enhancement Funding	30.00	30.00	-	23.33	349.8%	
<i>Unified School District</i>	20.00	20.00	-	20.00	n/a	
<i>First Five Commission</i>	10.00	10.00	-	3.33	49.9%	
City Services Auditor	10.73	10.73	-	0.41	4.0%	
Human Services Homeless Care Fund	14.06	14.06	-	(0.22)	-1.5%	
Key Expenditure-Driven Baselines	420.76	448.20	27.44	48.28	11.4%	
Total Baseline Spending	\$ 853.24	\$ 883.55	\$ 30.31	\$ 91.70	11.2%	

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 established 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 2007-08 Proposed Budget includes MUNI Baseline funding at the \$130.82 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 2007-08 Proposed Budget includes Parking and Traffic Baseline funding at the \$48.10 million required level. In the budget year, the baseline funding to MUNI is affected by the growth in discretionary revenues.

Children's Baseline. The Mayor's FY 2007-08 Proposed Budget includes Children's Baseline funding of \$99.46 million. The required baseline for FY 2007-08 is \$97.49 million, including the \$1.40 million funded through Baselines Reserves discussed above in the reserves section. All combined the result is total surplus funding of \$1.97 million in the FY 2007-08 Proposed Budget.

Library Baseline. The Mayor's FY 2007-08 Proposed Budget includes Library Baseline funding at the \$42.15 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 established pursuant to FY 2002-03 appropriation levels, which were to be adjusted in subsequent years according to changes in aggregate discretionary revenues. The Mayor's FY 2007-08 Proposed Budget includes increased funding for Public Education Services and is proposing to surplus fund the baseline requirement by \$0.91 million. These appropriations are shown in the budget in the Department of Children, Youth & Their Families.

Municipal Symphony Baseline. The Mayor's FY 2007-08 Proposed Budget includes Municipal Symphony Baseline funding at the \$1.62 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.

Other Property Tax-Related Set-Asides. Voters have also mandated three property tax-related set-asides, including amounts equivalent to 3.0 percent of property tax revenues for Children's Services, 2.5 percent for Library Preservation and 2.5 percent for Open Space. The Mayor's FY 2007-08 Proposed Budget includes required set-aside funding of \$39.95 million for Children's Services, and \$33.39 million for both Libraries Open Space.

EXPENDITURE-DRIVEN BASELINES & MANDATES

Police Staffing Baseline. The Mayor's FY 2007-08 Proposed Budget assumes estimated funding of \$200.87 million for Police Staffing Baseline costs.³ San Francisco Charter Section 4.127

³ 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 a current average base pay of \$89,758 with fringe benefits costs of \$17,428

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 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 2007-08 Proposed Budget assumes 97 positions previously filled by officers will be filled by civilians (including 12 civilianized in FY 2004-05, 25 civilianized in FY 2005-06, 16 in FY 2006-07 and an additional 44 in FY 2007-08), which would have the effect of reducing the required 1,971 full-duty officers to 1,874 if those 97 positions were approved and the required joint certification is provided. After excluding full-duty officers assigned to the Airport, the FY 2007-08 Proposed Budget's net funding authority equates to 2,146 officers (1,965 from General Fund and Special Revenue fund personnel appropriations and the equivalent of 181 positions from the department's overtime budget). While appropriation funding equates to the equivalent of 2,146 officers, this funding is used to cover the cost of all officers including those on full duty, modified duty, leave, or in the academy. As of May 2007, 421 officers were not on full-duty status, including 214 on modified duty, 185 in the academy and 22 on leave. The Proposed Budget includes funding for 5 additional academies for FY 2007-08 including 250 officers. If joint certification were to occur as proposed, the minimum staffing baseline could be met if the funding for officers in field training as well as the position equivalents for overtime staffing are included.

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 2007-08 Proposed Budget funds \$192.54 million or \$27.44 million more than the \$165.10 million Neighborhood Firehouse baseline requirement.

Public Education Enhancement Funding. The Mayor's FY 2007-08 Proposed Budget includes \$30.00 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 addition to the Enhancement Funding discussed here, the City is required to fund the Public Education Services Baseline, which is discussed on the previous page.

City Services Auditor Baseline. The Mayor's FY 2007-08 Proposed Budget includes \$10.73 million for the City Services Auditor Baseline. 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.

for FY 2007-08. 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.

Human Services Homeless Care Fund. Also known as Care not Cash, the Human Services Homeless Care Fund, Proposition N, was passed by voters in November 2002 and first budgeted in FY 2003-04. The City is required to credit the fund with the difference between the average annual maximum cash grant for each program and the average annual special allowance or other residual cash payment provided by the City for each individual in the program that the City expects will be provided with in-kind benefits in lieu of the full cash grant during the year. These funds are to be used on homeless outreach and service programs. In FY 2007-08, funding will equal \$14.06 million, a 1.5 percent decrease from FY 2006-07 funding of \$14.28 million.

RESULTING GENERAL FUND DISCRETIONARY SPENDING CAPACITY

After factoring in the above key baselines, set asides, 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 40 percent of total General Fund revenues and transfers-in sources. Said another way, only about \$1.1 billion of the total \$6.07 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 2007-08 US\$ Millions
General Fund Revenues & Transfers In	\$ 2,832.6
Federal & State Dedicated Funding	
State Health, Welfare, Social Services	\$ (416.1)
Federal Health, Welfare, Social Services	\$ (215.0)
State Public Safety Sales Tax (1/2% for CA Prop 172)	\$ (73.3)
Voter-Approved Baselines & Required Programs	
Police Staffing Baseline, 1,971 officers	\$ (200.9)
Fire Operations Baseline, (Prop F, November 2005)	\$ (165.1)
Baseline for Public Transportation, MUNI & PTC	\$ (178.9)
Baseline for Children's Services	\$ (97.5)
Baseline for Public Libraries	\$ (42.2)
Baseline for Public Education Enhancement Fund (Prop H, March 2004)	\$ (30.0)
Baseline for Human Services Homeless Care Fund (Prop N, Nov. 2002)	\$ (14.1)
Baseline for Public Education Fund (Prop H, March 2004)	\$ (5.6)
Baseline for City Services Auditor (Prop C, November 2003)	\$ (5.6)
Baseline for Municipal Symphony	\$ (1.6)
Office of Economic Analysis (Prop I, Nov. 2004)	\$ (0.3)
Employee Benefit Costs	
Health & Dental Benefit Costs (Charter)	\$ (130.4)
Pension Benefits - Req. Employer Match Only (Charter)	\$ (71.4)
Retiree Health Requirements (Charter)	\$ (53.2)
Social Security - Employer Portion Only (6.2% of salary)	\$ (35.3)
Medicare - Employer Portion Only (1.45% of salary)	\$ (16.4)
Unemployment Coverage (new rate of 0.0% of salary for FY 2007-08)	\$ -
Paid Sick Leave (Prop F, November 2006)	\$ (8.3)
Other Operating Costs	
Debt Service & Lease Revenue Bond Commitments	\$ (31.4)
Estimated Discretionary Spending Capacity	\$ 1,112.6
% Discretionary Spending Capacity of General Fund	39.3%
% Discretionary Spending Capacity of Total Budget	18.3%

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 \$37.10 million. The underlying assumptions of the FY 2007-08 Proposed Budget for these enterprises are highlighted in the narrative following the chart immediately below.

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

Enterprise	FY2006-07 Original Budget	FY2007-08 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
AIRPORT	\$ 589.23	\$ 623.71	34.47	6.3%
MUNICIPAL TRANSPORTATION AGENCY				
MUNI - Municipal Railway	595.86	588.26	(7.61)	-1.5%
Parking & Traffic	85.71	98.25	12.53	16.7%
Subtotal -MTA	\$ 681.58	\$ 686.50	4.93	0.8%
PORT	63.66	67.16	3.50	5.5%
PUBLIC UTILITIES				
Hetch Hetchy	168.84	144.92	(23.92)	-14.2%
Wastewater	244.35	250.21	5.86	2.4%
Water	216.97	229.22	12.26	5.6%
PUC Bureaus, net of PUC recoveries *	0.44	0.44	-	0.0%
Subtotal - Public Utilities	\$ 630.60	\$ 624.80	\$ (5.80)	-1.0%
TOTAL	\$ 1,965.07	\$ 2,002.17	\$ 37.10	2.1%

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)

	FY2006-07	FY2007-08	\$	%
	Original	Proposed	Increase /	Increase /
	Budget	Budget	(Decrease)	(Decrease)
<u>Airport</u>				
Operating Revenues	\$ 533.37	\$ 547.37	\$ 14.00	2.6%
Other Sources [^]	55.86	76.34	20.47	36.7%
Total	\$ 589.23	\$ 623.71	\$ 34.47	5.9%

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 2007-08 Proposed Budget for the Airport includes a \$34.47 million (5.9 percent) increase in total sources of funds. Key changes in the Airport’s sources of funds include a \$14.00 million (2.6 percent) increase in operating revenues and a \$20.47 million (36.7 percent) increase in other sources.

Compared to FY 2006-07, the FY 2007-08 Proposed Budget reflects these major revenue changes:

Operating Revenues +\$14.00 million

- +\$5.79 million in Airline Support and Non-Airline Rentals;
- +\$5.53 million in Ground Transportation;
- +\$5.30 million in Public Parking;
- +\$2.99 million in Terminal Concessions;
- +\$1.67 million in Interest Income;
- +\$1.24 million in other net changes;
- -\$2.10 million in Airline Landing Fees, and
- -\$6.42 million in Airline Terminal Rentals.

Other Sources & Non-operating Funds +\$20.47 million

- +\$17.37 million in Fund Balance, Transfers and other miscellaneous revenues;
- +\$14.95 million in Federal grants;
- +\$1.13 million in Interest Income from an Arbitrage Rebate Refund;
- -\$ 1.97 million in Settlements;
- -\$ 3.01 million in Passenger Facility Charges, and
- -\$ 8.00 million from the removal of one-time FY 2006-07 revenue associated with the Return of Excess Deposits related to lower bond fund reserve requirements.

The projected increase in Public Parking is primarily due to the increase in long-term parking rates from \$12 to \$13 per day and the budget-to-budget passenger forecast increase of 6.2 percent. Ground Transportation increases are for similar reasons, reflecting rate increases and passenger growth. The projected increase in Terminal Concessions is primarily attributable to continuing sales growth resulting from increased passenger traffic and a successful domestic

food and beverage program and increased advertising revenues. Airline Support and Non-Airline rentals are projected to increase based on scheduled rent increases and new leases. Airline revenues, both Landing Fees and Terminal Rentals are proposed to decrease in order to provide more competitive pricing for airlines.

The FY 2007-08 Proposed Budget includes a 15 percent concession-related transfer of \$23.73 million to the General Fund, an increase of \$1.67 million (7.6 percent) over the FY 2006-07 Original Budget level. Budgeted Passenger Facility Charge (PFC) revenues decrease by \$3.01 million (4.7 percent), as a portion of revenue is being held for future capital needs. PFC revenue is derived from the \$4.50 fee assessed on all enplaning passengers, net of airline administration fees. Other sources are increasing mainly due to increased use of fund balance in FY 2007-08.

MUNICIPAL TRANSPORTATION AGENCY (\$ millions)

	FY2006-07 Revised Budget	FY2007-08 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
<u>Municipal Transportation Agency</u>				
MUNI				
Operating Revenues	\$ 415.61	\$ 388.66	\$ (26.95)	-6.5%
Other Sources [^]	180.25	199.60	19.35	10.7%
MUNI	\$ 595.86	\$ 588.26	\$ (7.61)	-1.3%
Parking & Traffic				
Operating Revenues	\$ 48.32	\$ 49.69	\$ 1.36	2.8%
Other Sources [^]	37.39	48.56	11.17	29.9%
Parking & Traffic	\$ 85.71	\$ 98.25	\$ 12.53	14.6%
TOTAL (June 1 Proposed)	\$ 681.58	\$ 686.50	\$ 4.93	0.7%

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 FY 2007-08 Proposed Budget for the Municipal Transportation Agency [MTA] grows by \$4.93 million (0.7 percent) in total revenue sources from \$681.58 million to \$686.50 million, including in MUNI a reduction of \$26.95 million in operating revenues and an increase of \$19.35 million in other sources over FY 2006-07 Original Budget levels. Of the total \$4.93 million overall increase, \$12.53 million (14.6 percent) of the increase is attributed to the Parking and Traffic Fund, which is offset by a \$7.61 million (1.3 percent) reduction in the Municipal Railway Fund [MUNI]. Major revenue changes are summarized below.

Municipal Railway Fund [MUNI] – Operating/Grants Revenues -\$26.95 million

- -\$15.43 million in Urban Mass Transportation Federal Grants;
- -\$14.00 million in Proof of Payment Program revenues;
- -\$10.16 million in Transit tokens, cash fares, and regional tickets;

- -\$6.19 million in Cable car cash and souvenir tickets;
- -\$3.41 million in Transit Development Act (TDA) Sales Tax funding;
- -\$1.70 million in Parking Traffic Fines;
- -\$1.53 million in miscellaneous net changes;
- +\$1.50 million in Bring Tolls;
- +\$1.88 million in Transit Advertising;
- +\$2.33 million in State sales tax AB1107;
- +\$2.95 million in State Transit Assistance (STA) operating revenue;
- +\$3.39 million in 1-, 3-, 7-day Cable Car passport revenues;
- +\$6.58 million in Muni Regular Passes, and
- +\$6.83 million in Garage revenues.

Municipal Railway Fund [MUNI] – Other Sources +\$19.35 million

- +\$1.75 million in General Fund Transfer in lieu of Parking Tax;
- +\$15.97 million in Baseline Contribution Transfers from General Fund;
- +\$2.96 million in Fund Balance, and
- -\$1.33 million in all other net changes including departmental transfer adjustments.

Parking and Traffic Fund – Operating Revenues +\$1.36 million

- +\$1.47 million in Tow Surcharge fees;
- +\$1.46 million in Parking Card Meter revenues;
- +\$0.57 million in Garage revenues;
- -\$0.12 million in all other net changes, and
- -\$2.02 million in Parking Meter Collections.

Parking and Traffic Fund – Other Sources +\$11.17 million

- +\$4.72 million in Baseline Contribution Transfers from General Fund;
- +\$4.95 million in Fund Balance;
- +\$4.52 million in interdepartmental recoveries, and
- -\$3.02 million in all other net changes including departmental transfer adjustments.

Passenger/Paratransit Fare Revenues

The FY 2007-08 Proposed Budget includes a \$7.77 million decrease in passenger fare and paratransit fare revenues. The majority of this decrease is based on a projection using FY 2006-07 actual revenues. Paratransit fares remain unchanged at \$1.65 per trip for lift and group vans.

Garage Rate Revenues

MUNI Fund 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 2007-08 Proposed Budget includes projected growth of \$6.83 million reflecting an average hourly rate increase of \$1.60 (or an increase of 20.0 percent from FY 2006-07) for all garages except Sutter-Stockton Garage and an average monthly rate increase of \$20 (or an increase of 10.0 percent from FY 2006-07) for all garages.

Other Revenues

The following fee increases are reflected in the FY 2007-08 Proposed Budget:

- Hourly rate for rental of cable cars increase by \$90.00 for non-profit businesses (or an increase of 53.3 percent from FY 2006-07) and by \$348.00 for private businesses (or an increase of 205.9 percent from FY 2006-07)
- Hourly rate for historic vehicles increase by \$21.00 for non-profit businesses (or an increase of 13.0 percent from FY 2006-07) and by \$205.00 for private businesses (or an increase of 125.0 percent from FY 2006-07).

PARKING AND TRAFFIC

Parking Meter Revenues

The FY 2007-08 Proposed Budget includes a \$0.56 million reduction based on FY 2006-07 collection levels for on-street and off-street parking areas in the City. There are no meter rate increases proposed in FY 2007-08.

Garage Rate Revenues

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. The FY 2007-08 Proposed Budget includes growth of \$0.57 million in garage revenue reflecting an average hourly rate increase of \$0.40 (or an increase of 10.0% from FY 2006-07) and an average monthly rate increase of \$15.00 (or an increase of 10.0% from FY 2006-07).

Other Revenues

The following fee increases are reflected in the FY 2007-08 Proposed Budget:

- Auto Tow Fee increase from \$188.25 to \$238.75 (or an increase of 26.8 percent from FY 2006-07).
- Daily Storage Rate for Towed Vehicles increase from \$36.75 to \$50.00 (or an increase of 36.1percent from FY 2006-07).
- Special Collections Fee of \$25.00 is established for delinquent citations requiring significant collection efforts.

PORT (\$ millions)

	FY2006-07 Original Budget	FY2007-08 Proposed Budget	\$ Increase / (Decrease)	% Increase / (Decrease)
<u>Port</u>				
Operating Revenues	\$ 57.93	\$ 61.61	\$ 3.68	6.4%
Other Sources [^]	5.73	5.55	(0.18)	-3.1%
Total	\$ 63.66	\$ 67.16	\$ 3.50	5.5%

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 2007-08 Proposed Budget for the Port includes a projected increase in the Port’s operating revenues of \$3.68 million (6.4 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. FY 2007-08 commercial revenue is projected to increase by \$1.7 million, or five percent, over the FY 2006-07 budget. The increase is mainly driven by the high demand for space along the waterfront and increased tourism. A recent study shows Port vacancy rates at about four percent compared to 10.6 percent citywide. The parking revenue budget increased by \$0.60 million, or seven percent compared to FY 2006-07. This is primarily due to increased tourism and a strong economy.

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 72 in FY 2006-07. Overall cruise revenues are projected to exceed \$1.5 million in FY 2007-08. With respect to cargo, the Port continues to focus its efforts on breakbulk and bulk cargo at Piers 80, 92, and 94. The strongest area of cargo growth has been in bulk aggregate, imported for Bay Area construction projects.

PUBLIC UTILITIES (\$ millions)

	FY2006-07	FY2007-08	\$	%
	Original	Proposed	Increase /	Increase /
	Budget	Budget	(Decrease)	(Decrease)
<u>Public Utilities</u>				
Hetch Hetchy				
Operating Revenues	\$ 100.75	\$ 109.03	\$ 8.28	8.2%
Other Sources ^	68.09	35.89	(32.20)	-47.3%
Hetch Hetchy	\$ 168.84	\$ 144.92	\$ (23.92)	-14.2%
Wastewater				
Operating Revenues	\$ 183.43	\$ 200.78	\$ 17.35	9.5%
Other Sources ^	60.92	49.43	(11.50)	-18.9%
Wastewater	\$ 244.35	\$ 250.21	\$ 5.86	2.4%
Water				
Operating Revenues	\$ 217.36	\$ 241.33	\$ 23.97	11.0%
Other Sources ^	(0.39)	(12.10)	(11.71)	2967.2%
Water	\$ 216.97	\$ 229.22	\$ 12.26	5.6%
PUC Bureaus *				
Other Sources ^	\$ 0.44	\$ 0.44	\$ -	0.0%
TOTAL	\$ 630.60	\$ 624.80	\$ (5.80)	-0.9%

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

* The \$0.44 million is a recovery from MUNI - an interdepartmental workorder between PUC Bureaus and MUNI for information technology services.

The Mayor's FY 2007-08 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 these enterprises for FY 2007-08 are projected to be \$109.03 million, \$200.78 million, and \$241.33 million, respectively. Operating revenue growth is primarily due to the rate increases adopted by the Public Utilities Commission on May 8, 2007. These rate increases are currently under review by the Board of Supervisors.

Hetch Hetchy: Hetch Hetchy's operating revenues are expected to increase by \$8.28 million, mainly due to increases in the sale of electricity. Other sources are budgeted to decrease \$32.20 million as a result of a decrease in budgeted use of fund balance, partially offset by increases in interdepartmental recoveries.

Wastewater: Wastewater's FY 2007-08 operating revenues reflect a \$17.35 million, or 9.5 percent, increase primarily due to a 9.0 percent average rate increase in sewage charges (currently being reviewed by the Board of Supervisors). Other sources are budgeted to decrease \$11.50 million due primarily to decrease in the use of budgeted fund balance, partially offset by increased interdepartmental recoveries and bond proceeds.

Water: Water's FY 2007-08 operating revenues are expected to increase by \$23.97 million, and other sources are budgeted to decrease by \$11.71 million, for a net increase of \$12.26 million. The growth in revenues is primarily due to a 15.0 percent average rate increase in water charges (currently being reviewed by the Board of Supervisors). The decline in other sources is primarily due to a drop in budgeted use of fund balance, and the negative amount indicates the transfer of funds to Hetch Hetchy.

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 2007-08 Proposed Budget, the Controller will reserve \$4.27 million in expenditure appropriation pending proposed fee adoptions by the Board as previously discussed in the Key Fee & Fine Changes Section on page 17. Additionally, we will reserve \$74.51 million of capital project and equipment lease finance spending until bond proceeds are realized. This includes \$39.14 million for improvements to the City's wastewater system related to odor control and flooding, \$12.50 million to rebuild playing fields, City parks and Sava Pool and \$22.87 million for Citywide equipment purchases. The chart below details the reserves and the action required for the department to subsequently expend funds.

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

Department	Reserve	Explanation for Reserve	Required Action
<u>GENERAL FUND SUPPORTED</u>			
REC Garage Rates (as set by MTA)	0.37	Variance in projections.	Pending Actual Collections at six months.
DPH Patient Rates	2.00	Not finally approved.	Pending Final Fee Adoption
ADM Medical Examiner Fee Increases	0.06	Not finally approved.	Pending Final Fee Adoption
FIR Various Fire Prevention Fee Increases	1.09	Not finally approved.	Pending Final Fee Adoption
DPW Various Permit Fee & Service Charge Increases	0.59	Not finally approved.	Pending Final Fee Adoption
REC Golf Fees - Discounted Pricing & Related Change	0.16	Not finally approved.	Pending Final Fee Adoption
Subtotal	4.27		
<u>OTHER FUNDS</u>			
PUC Rate Changes	30.98	Not finally approved.	Pending Final Fee Adoption
MTA Rate Increases			
Delinquent Citation Collection Fee	1.90	New fee, difficult to collect.	Pending Actual Collections at six months.
All Other	9.16	Not finally approved.	Pending Final Fee Adoption
Subtotal	42.04		
<u>OTHER FUNDS</u>			
Public Utilities - Wastewater	39.14	Wastewater Revenue Bonds	Pending Proceeds from Sale of Bonds
Recreation and Park	12.50	Revenue Bonds	Pending Proceeds from Sale of Bonds
General City Responsibility	22.87	Equipment Lease Finance	Pending Proceeds from Sale of Bonds
Subtotal \$	74.51		
Total	\$ 120.83		

OTHER RESERVES INCLUDED IN PROPOSED BUDGET

The Mayor’s FY 2007-08 Proposed Budget also includes \$92.93 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, workorder recoveries and general contingency reserves.

Chart Q: Proposed Reserves (\$ millions)

General Fund	FY 2006-07 Original Budget	FY 2007-08 Proposed Budget	Change
General Reserve	\$ 25.00	\$ 25.00	\$ -
Salaries & Benefits Reserve	24.38	41.38	17.01
Litigation Reserve	11.00	11.00	-
Reserve for Technical Adjustments	-	2.50	2.50
Total Reserves - General Fund	\$ 60.38	\$ 79.88	\$ 19.51
All Other Funds			
General Reserve - MTA	\$ 10.00	\$ 10.00	\$ -
General Reserve - Rec & Park, Capital	5.32	-	(5.32)
General Reserve - Rec & Park, Downtown Parks	0.34	0.11	(0.23)
General Reserve - Marina Yacht Harbor	0.08	0.57	0.49
General Reserve - Library Preservation Fund	-	1.56	1.56
General Reserve - All Other	0.03	0.81	0.78
Total Reserves - All Other Funds	\$ 15.77	\$ 13.05	\$ (2.72)
Total Reserves - All Funds	\$ 76.15	\$ 92.93	\$ 16.79

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 2007-08 Proposed Budget includes \$25.00 million in the General Reserve, the same level that was included in the FY 2006-07 budget.

MOU Reserves: The Mayor’s FY 2007-08 Proposed Budget provides \$41.38 million in the General Fund to cover negotiated salary and fringe benefit cost increases not otherwise budgeted directly in departments. This is a \$17.01 million increase budget-to-budget and considers projected retirements as well as pending and approved MOUs.

Litigation Reserve: The Mayor’s FY 2007-08 Proposed Budget provides \$11.00 million to cover litigation. This is the same level at which litigation costs were funded in FY 2006-07.

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 \$6.00 million for MUNI and \$4.00 million for Parking and Traffic.

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 \$43.54 million of 911 Fee revenue in the FY 2007-08 Proposed Budget. This reflects a \$3.53 million increase from the \$40.01 million included in the FY 2006-07 original budget. The Mayor's Proposed Budget is based on the current \$2.75 per telephone line equivalent⁴, with an assumed exempt lines factor of 15 percent⁵.

Based on 911 system-related costs budgeted in Emergency Communications, full cost recovery would be approximately equal to \$57.69 million, of which \$49.04 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 2007-08 Proposed Budget. After adjusting for the \$5.50 million of accumulated fund balance used in the FY 2007-08 Proposed Budget, current fee collections of \$2.75 per line are estimated to cover 85 percent of total costs, or 100 percent of eligible, non-exempt costs. The Mayor's FY 2007-08 Proposed Budget assumes level rates at \$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 2007, the subscriber limit is \$57,281. This means that no single customer (subscriber) will pay more than \$57,281 for calendar year 2007. The subscriber limit for calendar year 2008 will be adjusted upward to \$59,252 based on consumer price index factor of 3.44 percent.⁶

⁴ 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.

⁵ 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.

⁶ 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 Eligible Costs	\$57.69
Estimated Eligible Costs Attributed to Non-Exempt Users	\$49.04

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	(\$0.00)	Current Fee Since Nov 2004
91%	77%	\$2.50	(\$3.96)	
82%	70%	\$2.25	(\$7.92)	
73%	62%	\$2.00	(\$11.87)	
64%	54%	\$1.75	(\$15.83)	Nov 2003 - Oct 2004
45%	39%	\$1.25	(\$23.75)	Dec 2002 - Oct 2003
36%	31%	\$1.00	(\$27.70)	Dec 1997 - Nov 2002
18%	15%	\$0.50	(\$35.62)	Prior to Dec 1997

Key Assumptions		Estimated Total Revenue
% of Telephone Lines Subject to Fee (Non-Exempt)	85%	
Telephone Line Equivalents (Monthly) - Total	1,552,050	\$43.54
Telephone Line Equivalents (Monthly) - Non-Exempt	1,319,240	\$43.54
Telephone Line Equivalents (Monthly) - Exempt	232,810	\$0.00

Calendar Year	CPI Adjusted Annual Cap	Annual CPI Adjustment
2008	\$59,252	3.44%
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 2006-07 year-end fund balance is \$0.59 million. The FY 2007-08 Proposed Budget does not appropriate any sources or uses for this fund. Therefore, we project additional appropriation capacity for FY 2007-08 of \$0.60 million.

Chart S: Downtown Park Fund (\$ millions)

Fiscal Year	Original Budget		Estimated Fund Balance Available for Appropriation as of June 30
	Sources	Uses	
FY 2007-08 Proposed	\$ 0.11	\$ 0.11	\$ 0.60
FY 2006-07	0.34	0.34	0.60
FY 2005-06	0.55	0.55	
FY 2004-05	2.43	2.43	
FY 2003-04	1.20	1.20	
FY 2002-03	0.90	0.90	

	Fees	Interest	Total
FY 2007-08 Projected	\$ -	\$ 0.11	\$ 0.11
FY 2006-07 Projected	0.58	0.12	0.71
FY 2005-06 Actual	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 2007-08 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

Nani Coloretti, Mayor's Budget Office

Kay Gulbengay, Board of Supervisors, Interim 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 2007-08			Average California *	
	Mayor's Proposed Budget (\$ millions)	% of Total		City	County
Property Tax	\$ 934.72	32.09%		20.53%	18.36%
Intergovernmental - Federal, State & Other	709.68	24.37%		4.32%	56.20%
Other Local Taxes	531.92	18.26%		63.00%	3.95%
Business Taxes	359.72	12.35%		5.69%	0.00% (1)
Charges for Services	128.31	4.41%		0.00%	11.64%
Interest & Investment	35.48	1.22%		3.54%	1.37%
Licenses, Permits & Franchises	22.00	0.76%		0.17%	1.20%
Rents & Concessions	19.81	0.68%		0.00%	0.00% (3)
Other Revenues	14.82	0.51%		1.89%	2.36%
Recoveries	8.75	0.30%		0.00%	0.00% (2)
Fines & Forfeitures	3.90	0.13%		0.86%	2.09%
Other Financing Sources	1.28	0.04%		0.00%	2.83% (4)
Total Sources	\$ 2,770.37	95.12%		100.00%	100.00%
Transfers, Net	12.48	0.43%		0.00%	0.00% (2)
PY Fund Balance	106.17	3.65%		0.00%	0.00% (3)
PY Reserve	23.50	0.81%		0.00%	0.00% (3)
	\$ 2,912.53	100.00%		100.00%	100.00%

Source: California Controller Annual Reports data as of FY 2004-05.

* 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 2007-08 Proposed Budget		Average California *	
	(\$ millions)	% of Total	City	County
Charges for Services	\$ 1,805.25	29.76%	37.74%	10.31%
Intergovernmental - Federal, State & Other	1,107.61	18.26%	9.09%	49.81%
Property Tax	1,184.51	19.53%	7.21%	16.27%
Other Local Taxes	588.00	9.69%	26.23%	3.50%
Business Taxes	360.55	5.94%	2.00%	0.00% (1)
Rents & Concessions	349.11	5.76%	0.00%	0.00% (2)
Other Revenues	112.54	1.86%	6.24%	13.47% (3)
Fines & Forfeitures	104.89	1.73%	1.13%	1.85%
Other Financing Sources	75.79	1.25%	5.39%	2.51%
Interest & Investment	83.98	1.38%	3.28%	1.21%
Licenses, Permits & Franchises	36.29	0.60%	1.69%	1.07%
Recoveries	8.75	0.14%	0.00%	0.00% (4)
Total Sources	\$ 5,817.27	95.90%	100.00%	100.00%
PY Fund Balance	225.22	3.71%	0.00%	0.00% (2)
PY Reserve	23.50	0.39%	0.00%	0.00% (2)
	\$ 6,065.99	100.00%	100.00%	100.00%

Source: California Controller Annual Reports data as of FY 2004-05.

* 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

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