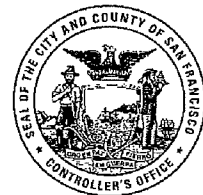


# City and County of San Francisco

Office of the Controller

## FY 2016-17 Nine-Month Budget Status Report



May 10, 2017

File #170379  
Received in  
Committee  
5/18/17 *fn*





# City and County of San Francisco

## Office of the Controller

FY 2016-17 Nine-Month Budget Status Report

May 10, 2017

### Summary

The Controller's Office provides periodic budget status updates to the City's policy makers during the course of each fiscal year, as directed by Charter Section 3.105. This report provides expenditure and revenue information and projections as of March 31, 2017, incorporating more current information up to the date of publication as available. Report highlights include:

- Overall revenue growth and expenditure savings will result in a projected current year ending balance of \$396.5 million in the General Fund. This is a \$96.7 million improvement from the projections contained in Six-Month Report.
- The March, 2017 updated Five Year Financial Plan projected shortfalls of \$87.1 million in FY 2017-18 and an additional \$200.5 million in FY 2018-19, for a cumulative total of \$287.6 million. Application of this additional current year fund balance would reduce these shortfalls to \$191.0 million over the two year period.
- The current year improvement versus the adopted budget is driven by increased General Fund revenues and departmental savings. Generally, property-value based taxes are exceeding budgeted levels, offset by weakness in hotel and several other local taxes. Departmental savings are predominantly driven by net savings in the Department of Public Health (DPH) and the Human Services Agency.
- The most significant variance from the Six-Month Report is a \$63.6 million increase in projected ending balance at DPH. This improvement is driven by revenue surpluses projected at Zuckerberg San Francisco General Hospital (ZSFGH). These revenues include improved net patient revenues in the new, larger hospital, higher reimbursement payments received under the recently adopted Medi-Cal waiver, and certain one-time payments associated with prior year expenses.
- Historically high transfer tax returns are projected, requiring a \$94.7 million deposit to the Budget Stabilization Reserve and \$5.7 million to the City and School Rainy Day Reserves. The City's economic reserves are projected to total \$398.0 million at year-end, or 8.5% of General Fund revenues. The City's target for economic reserves is 10% of General Fund revenues.
- Economic growth is also contributing to increased fund balances at several of the City's enterprises, including the Airport and PUC, as described in Appendix 4.

**Table 1. FY 2016-17 Projected General Fund Variances to Budget (\$ Millions)**

FY 2015-16 Ending Fund Balance	435.2
Appropriation in the FY 2016-17 Budget	(172.1)
Reserved for FY 2017-18 Contingencies	(60.0)
<b>A. FY 2016-17 Starting Fund Balance</b>	<b>203.1</b>
Citywide Revenue Surplus	141.6
Baseline Contributions	(1.8)
Departmental Operations	158.1
Approved & Projected Supplemental Appropriations	(1.7)
Projected Use of General Reserve	1.7
<b>B. Current Year Revenues and Expenditures</b>	<b>297.9</b>
Deposit to Budget Stabilization Reserve	(94.7)
Deposit to Rainy Day Reserves	(5.7)
Deposit to Budget Savings Incentive Fund	(4.0)
<b>C. Withdrawals from / (Deposits) to Reserves</b>	<b>(104.4)</b>
<b>D. FY 2016-17 Projected Ending Balance</b>	<b>396.5</b>
Previous Projected Ending Balance - Six-Month Report	299.8
<b>E. Improvement versus Six-Month Report</b>	<b>96.7</b>

**A. General Fund Starting Balance**

Total projected ending fund balance at the time the FY 2016-17 and FY 2017-18 budget was adopted was \$423.3 million, of which \$172.1 million was appropriated in FY 2016-17, \$191.2 million was appropriated in FY 2017-18, and \$60 million was reserved for FY 2017-18 contingencies. The General Fund available fund balance at the end of FY 2015-16 was \$435.2 million, or \$11.9 million more than appropriated in the adopted budget for FY 2017-18 and FY 2018-19.

**B. Current Year Revenues and Expenditures**

**Citywide Revenue Surplus**

As shown in Table 2, citywide revenues have improved by \$141.6 million compared to revised budget, primarily due to higher than budgeted property and property transfer tax revenues, offset by shortfalls in hotel, parking, and sales tax. Of the \$44.9 million projected shortfall in sales tax revenue, \$37.5 million reflects the loss of sales tax revenue anticipated in the budget that will not

be realized given the failure of Proposition K on the November 2016 ballot. Revenue variances are further described in Appendix 1.

**Table 2. General Fund Citywide Revenues Variances to Budget (\$ Millions)**

	<b>Revised Budget</b>	<b>6-Month Projection</b>	<b>9-Month Projection</b>	<b>Surplus (Shortfall)</b>
Property Taxes	1,412.0	1,450.0	1,472.0	60.0
Business Taxes	669.5	683.2	676.6	7.1
Sales Tax - Local 1% and Public Safety	339.6	298.1	294.6	(44.9)
Hotel Room Tax	409.3	381.9	371.3	(38.0)
Utility User & Access Line Taxes	141.3	143.6	148.1	6.8
Parking Tax	92.8	84.7	81.4	(11.5)
Real Property Transfer Tax	244.0	360.0	400.0	156.0
Interest Income	14.0	15.3	18.0	4.0
1991 and Public Safety Realignment	220.1	218.7	218.8	(1.3)
Motor Vehicle In-Lieu and All Other	-	(1.0)	2.0	2.0
Franchise Taxes	16.8	16.8	17.0	0.2
Airport Transfer-In	43.6	45.3	44.7	1.1
<b>Total Citywide Revenues</b>	<b>3,602.8</b>	<b>3,696.7</b>	<b>3,744.4</b>	<b>141.6</b>

**Baseline Contributions**

Table 3 shows projections for baseline and parking tax in-lieu transfers to the MTA, Public Library, and Public Education Enrichment Fund are increased by a net \$1.8 million compared to budget. The MTA baseline is projected to grow by \$18.3 million due to growth in Aggregate Discretionary Revenue (ADR), while the Prop B MTA population baseline is adjusted downward by \$7.0 million due to lower than projected employment growth during 2015. Both adjustments reduce growth in San Francisco's daytime population. Together with a projected \$9.2 million reduction in the MTA's parking tax in-lieu transfer, the net change in MTA baselines is an increase of \$2.2 million over budget. The Library baseline is projected to be reduced by \$0.6 million because the projected increase of \$4.6 million due to ADR growth is offset by the return of the portion of operating surplus attributable to the baseline contribution at year end, or approximately \$5.2 million

**Table 3. General Fund Baseline and In-Lieu Transfers (\$ Millions)**

	<b>Original Budget</b>	<b>6-Month Projection</b>	<b>9-Month Projection</b>	<b>Variance</b>
<b>Aggregate Discretionary Revenues (ADR)</b>	<b>3,169.8</b>	<b>3,321.2</b>	<b>3,370.9</b>	<b>201.0</b>
MTA Baseline 9.2% ADR	291.5	305.3	309.9	18.3
MTA Population Change Baseline	38.0	33.5	31.0	(7.0)
80% Parking Tax In-Lieu Transfer to MTA	74.3	67.8	65.1	(9.2)
<b>MTA Baseline Transfers</b>	<b>403.8</b>	<b>406.6</b>	<b>406.0</b>	<b>2.2</b>
Library Baseline 2.3% ADR	72.5	71.4	71.8	(0.6)
Public Education Fund Baseline 0.3% ADR	4.6	4.8	4.9	0.3
<b>Total Baseline Transfers</b>	<b>480.9</b>	<b>482.8</b>	<b>482.7</b>	<b>1.8</b>

## Departmental Operations

The Controller's Office projects a net departmental operations surplus of \$158.1 million, summarized in Table 4 below and further detailed and discussed in Appendix 2. Expenditure savings in Homelessness and Supporting Housing, Public Works, and General City Responsibility are offset by the shortfall in sales tax in Table 2 above, and reflect expenditures supported by sales tax revenue anticipated in Proposition K that remain on reserve following the failure of the measure.

**Table 4. FY 2016-17 Departmental Operations Summary (\$ Millions)**

<b>Net Surplus Departments</b>	<b>Revenue Surplus / (Shortfall)</b>	<b>Uses Savings / (Deficit)</b>	<b>Net Surplus / (Shortfall)</b>
Public Health	114.0	(20.5)	93.6
Human Services	(32.9)	38.9	6.0
Homelessness & Supportive Housing*	-	7.0	7.0
Public Works*	0.4	8.1	8.4
General City Responsibility*	-	28.6	28.6
Juvenile Probation	0.3	1.9	2.2
City Administrator	0.3	1.7	2.0
Retirement System	1.7	-	1.7
Fire Department	1.4	-	1.4
Treasurer/Tax Collector	(0.9)	2.2	1.3
Other Net Surplus	(6.3)	12.2	5.9
<b>Subtotal Departments with Net Surplus \$</b>	<b>78.1 \$</b>	<b>80.0 \$</b>	<b>158.1</b>

\*Expenditure savings offset by sales tax revenue shortfall as described in Appendix 2.

The Department of Emergency Management, the Department of Public Health, Police Department, Fire Department, Sheriff, and Public Utilities Commission will require supplemental appropriations to use funds from expenditure savings, including savings from permanent salaries and benefits, to cover over-expenditures in overtime, pursuant to San Francisco Administrative Code Section 3.17.

## Approved and Pending Supplemental Appropriations – Projected Use of General Reserve

To date, two supplemental appropriations using the General Reserve have been finally approved, including \$0.1 million to the Department of Emergency Management for earthquake relief to Italy and \$1.5 million for legal aid and services to immigrants provided through various departments. An allocation of \$0.1 million has been made to the Ethics Department to implement the requirements of Proposition T, approved in November 2016. Total uses of \$1.7 million, shown in Table 5 below and reflected in section B of Table 1 above, will result in a projected ending balance of \$89.1 million, which will be carried forward to FY 2017-18. The approved budget includes a \$16.2 million deposit to the reserve in FY 2017-18, which will have to be increased by the \$1.7 million in current year uses to meet required reserve levels.

**Table 5. FY 2016-17 Uses of General Reserve (\$ Millions)**

<b>Department</b>	<b>Status</b>	<b>Use</b>
Emergency Management - Italy Earthquake Relief	Approved	\$ 0.1
Ethics - Lobbyists & Campaign Contributions, Proposition T	Approved	0.1
Various - Legal Aid & Services to Immigrants	Approved	1.5
<b>Uses of General Reserve</b>		<b>\$ 1.7</b>

This report also incorporates an approved supplemental appropriation funded by an estimated \$9.0 million in new real property transfer tax revenue generated by tax rate increases approved via Proposition W in November 2016 to provide free access to City College. Accordingly, the budget for real property transfer tax revenue has been revised from \$235.0 million to \$244.0 million.

**C. Withdrawals from / Deposits to Reserves**

A total of \$104.4 million is projected to be deposited into reserves, including \$94.7 million to the Budget Stabilization Reserve due to real property transfer tax revenue above the five-year average, \$5.7 million to the City and School Rainy Day Reserves and \$4.0 million to the Citywide Budget Savings Incentive Fund due to projected departmental expenditure savings. A discussion of the status of reserves is included in Appendix 3.

**D. Projected Ending Fund Balance: \$396.5 Million**

Based on the above assumptions and projections, this report anticipates an ending available General Fund balance for FY 2016-17 of \$396.5 million.

**E. Improvement versus Prior Projection: \$96.7 Million**

The projected ending fund balance of \$396.5 million is \$96.7 million higher than the Six-Month Report projection of \$299.8 million.

**F. Other Funds**

Special revenue funds are used for departmental activities that have dedicated revenue sources or legislative requirements that mandate the use of segregated accounts outside the General Fund. Some of these special revenue funds receive General Fund baseline transfers and other subsidies. Enterprise funds are used primarily for self-supporting agencies, including the Airport, Public Utilities Commission and the Port. The Municipal Transportation Agency receives a significant General Fund subsidy.

Projected General Fund Support requirements for these funds are included in the department budget projections in Appendix 2. Appendix 4 provides a table of selected special revenue and enterprise fund projections and a discussion of their operations.

## **G. Projection Uncertainty Remains**

Projection uncertainties include:

- The potential for continued fluctuations in general tax revenues, particularly in transfer and business taxes, given the length of the current economic expansion, and economically sensitive sources, such as hotel, sales, and parking taxes, which are experiencing slow to negative growth.
- The FY 2016-17 original budget includes \$1.2 billion of federal subvention revenue, of which \$1 billion is for entitlement programs administered by the state, including Medi-Cal, Medicare, CalWORKs, and CalFRESH. In addition, the City has budgeted approximately \$200 million in federal grants. The Controller's Office will continue to monitor federal budget and policy changes and reflect their financial impact on the City in future financial reports and plans.

## **H. Nine-Month Overtime Report**

Administrative Code Section 18.13-1 requires the Controller to submit overtime reports to the Board of Supervisors at the time of the Six-Month and Nine-Month Budget Status Reports, and annually. Appendix 5 presents budgeted, actual, and projected overtime.

## **J. Appendices**

1. General Fund Revenues and Transfers In
2. General Fund Department Budget Projections
3. Status of Reserves
4. Other Funds Highlights
5. Overtime Report



## Appendix 1. General Fund Revenues and Transfers In

As shown in Table A1-1, total General Fund revenues are projected to be \$124.9 million above revised budget, of which \$141.6 million is due to improvements in citywide revenue as discussed in this Appendix 1, offset by departmental General Fund shortfalls of \$16.7 million.

**Table A1-1: Detail of General Fund Revenue and Transfers In**

GENERAL FUND (\$ Millions)	FY 2015-16		FY 2016-17			
	Year End Actual	Original Budget	Revised Budget	6-Month Projection	9-Month Projection	Surplus/ (Shortfall)
<b>PROPERTY TAXES</b>	\$ 1,392.3	\$ 1,412.0	\$ 1,412.0	\$ 1,450.0	\$ 1,472.0	\$ 60.0
<b>BUSINESS TAXES</b>	659.1	669.5	669.5	683.2	676.6	7.1
<b>OTHER LOCAL TAXES</b>						
Sales Tax	167.9	237.5	237.5	198.8	195.5	(42.0)
Hotel Room Tax	387.7	409.3	409.3	381.9	371.3	(38.0)
Utility Users Tax	98.7	94.3	94.3	96.7	98.6	4.3
Parking Tax	86.0	92.8	92.8	84.7	81.4	(11.5)
Real Property Transfer Tax	269.1	235.0	244.0	360.0	400.0	156.0
Stadium Admission Tax	1.2	1.4	1.4	1.4	1.4	-
Access Line Tax	43.6	47.0	47.0	47.0	49.5	2.5
<b>Total Other Local Taxes</b>	<b>1,054.1</b>	<b>1,117.2</b>	<b>1,126.2</b>	<b>1,170.3</b>	<b>1,197.6</b>	<b>71.3</b>
<b>LICENSES, PERMITS &amp; FRANCHISES</b>						
Licenses & Permits	11.1	12.0	12.0	12.0	12.0	-
Franchise Tax	16.8	16.8	16.8	16.8	17.0	0.2
<b>Total Licenses, Permits &amp; Franchises</b>	<b>27.9</b>	<b>28.9</b>	<b>28.9</b>	<b>28.9</b>	<b>29.0</b>	<b>0.2</b>
<b>FINES, FORFEITURES &amp; PENALTIES</b>	9.0	4.6	4.7	4.7	4.7	-
<b>INTEREST &amp; INVESTMENT INCOME</b>	15.1	14.0	14.0	15.3	18.0	4.0
<b>RENTS &amp; CONCESSIONS</b>						
Garages - Rec/Park	10.0	9.8	9.8	8.1	9.3	(0.5)
Rents and Concessions - Rec/Park	6.5	5.3	5.3	5.3	5.3	-
Other Rents and Concessions	1.7	1.0	1.0	1.0	1.3	0.3
<b>Total Rents and Concessions</b>	<b>18.2</b>	<b>16.1</b>	<b>16.1</b>	<b>14.4</b>	<b>15.9</b>	<b>-0.2</b>
<b>INTERGOVERNMENTAL REVENUES</b>						
<b>Federal Government</b>						
Social Service Subventions	243.6	250.6	256.3	242.8	234.9	(21.3)
Other Grants & Subventions	(5.8)	2.7	2.7	2.5	2.9	0.3
<b>Total Federal Subventions</b>	<b>237.8</b>	<b>253.3</b>	<b>258.9</b>	<b>245.2</b>	<b>237.9</b>	<b>(21.1)</b>
<b>State Government</b>						
Social Service Subventions	204.6	218.9	221.2	208.4	213.0	(8.2)
Health & Welfare Realignment - Sales Tax	138.3	144.7	144.7	142.6	142.6	(2.0)
Health & Welfare Realignment - VLF	38.0	34.9	34.9	35.2	35.2	0.3
Health & Welfare Realignment - CalWORKs MOE	11.7	22.6	22.6	21.1	19.3	(3.4)
Health/Mental Health Subventions	111.2	120.4	120.4	131.7	134.9	14.6
Public Safety Sales Tax	97.0	102.0	102.0	99.4	99.1	(2.9)
Motor Vehicle In-Lieu	0.6	-	-	0.7	0.7	0.7
Public Safety Realignment (AB109)	39.8	40.5	40.5	40.9	40.9	0.4
Other Grants & Subventions	24.6	16.3	16.3	17.7	17.7	1.4
<b>Total State Grants and Subventions</b>	<b>665.9</b>	<b>700.3</b>	<b>702.5</b>	<b>697.6</b>	<b>703.5</b>	<b>1.0</b>
<b>Other Regional Government</b>						
Redevelopment Agency	2.5	5.5	5.5	4.9	4.9	(0.6)
<b>CHARGES FOR SERVICES:</b>						
General Government Service Charges	58.8	66.1	66.3	64.8	66.5	0.1
Public Safety Service Charges	46.9	41.8	41.8	42.0	42.1	0.3
Recreation Charges - Rec/Park	19.8	19.4	19.4	19.4	19.4	-
MediCal, MediCare & Health Service Charges	82.0	80.6	79.9	83.6	84.1	4.2
Other Service Charges	17.9	17.4	17.4	14.3	14.2	(3.2)
<b>Total Charges for Services</b>	<b>225.4</b>	<b>225.2</b>	<b>224.8</b>	<b>224.1</b>	<b>226.3</b>	<b>1.5</b>
<b>RECOVERY OF GEN. GOV'T. COSTS</b>	9.7	10.9	10.9	10.9	10.9	-
<b>OTHER REVENUES</b>	48.7	62.2	96.4	62.0	97.0	0.6
<b>TOTAL REVENUES</b>	<b>4,365.6</b>	<b>4,519.7</b>	<b>4,570.4</b>	<b>4,611.3</b>	<b>4,694.2</b>	<b>123.8</b>
<b>TRANSFERS INTO GENERAL FUND:</b>						
Airport	42.5	43.6	43.6	45.3	44.7	1.1
Other Transfers	164.0	118.4	143.4	125.5	143.4	-
<b>Total Transfers-In</b>	<b>206.5</b>	<b>162.0</b>	<b>186.9</b>	<b>170.9</b>	<b>188.1</b>	<b>1.1</b>
<b>TOTAL GENERAL FUND RESOURCES</b>	<b>\$ 4,572.1</b>	<b>\$ 4,681.7</b>	<b>\$ 4,757.3</b>	<b>\$ 4,782.2</b>	<b>\$ 4,882.3</b>	<b>\$ 124.9</b>

**Property Tax** revenue in the General Fund is projected to be \$60.0 million (4.2%) above budget and \$79.7 million (5.7%) over prior year actual revenue. The improvement is primarily due to additional increases in expected supplemental and escape property tax assessments enrolled by the Assessor. Property tax set asides to special revenue funds are increased by \$8.4 million, as shown below.

**Property Tax Set Asides**

	<b>Original Budget</b>	<b>6-Month Projection</b>	<b>9-Month Projection</b>	<b>Variance</b>
Children's Fund	72.6	74.8	76.0	3.5
Open Space Fund	51.8	53.5	54.3	2.4
Library Preservation Fund	51.8	53.5	54.3	2.4
<b>Total</b>	<b>176.2</b>	<b>181.8</b>	<b>184.6</b>	<b>8.4</b>

**Business Tax** revenues in the General Fund include business registration fees, payroll taxes, gross receipts taxes and administrative office taxes. Business tax revenue is projected to be \$7.1 million (1.1%) above budget, and \$17.5 million (2.7%) over prior year actual revenues. The projected growth in business tax revenues is due to continued but slowing growth in wages and employment in San Francisco. For FY 2015-16, the Bureau of Labor Statistics reported 6.0% growth in employment and 9.0% wage growth over the previous fiscal year.

The City began phasing out its payroll tax in the second half of FY 2013-14 and phasing in a gross receipts tax by reducing the payroll tax rate and increasing the gross receipts tax rates. While the payroll tax base in San Francisco is expected to grow, payroll tax collections are expected to decline by 27.0% between FY 2015-16 and FY 2016-17 due to the lower tax rate. Gross receipts collections are expected to grow by 101.7% from prior year, due mainly to the increasing tax rates. Year-to-date collections in the administrative office tax have been strong and are expected to grow by 46.3% over prior year. Business registration is projected to grow by 6% over prior year, which reflects the expectations of continued but slower growth in employment and wages.

**Local Sales Tax** revenues are projected to be \$42.0 million (17.7%) below budget and \$27.6 million (16.4%) over FY 2015-16 receipts. Adjusting to include the annualized effect of the Triple Flip, revenue is projected to increase by \$2.2 million (1.1%) from FY 2015-16. The shortfall compared to FY 2016-17 budget is primarily due to the failure of the November 2016 sales tax ballot initiative (Proposition K), as well as a reduction in the underlying growth assumption from 3.5% to 1.1% given recent performance. Continued decline in sales of general consumer goods, low fuel prices for much of the year, declines in receipts from the business to business sector, as well as payment anomalies contribute to a lower projected growth rate.

**Hotel Room Tax** revenues are projected to be \$38.0 million (9.3%) below budget and \$16.4 million (4.2%) below prior year actual revenues. The decrease from budget and prior year collections is due to weaker than expected collections growth in the first nine months of the fiscal year, and revised expectations of changes to Revenue per Available Room (RevPAR). RevPAR, which is the combined effect of occupancy, average daily room rates, and room supply,

experienced year-over-year declines every month between June 2016 and November 2016. Most of this decline is due to lower room rates.

San Francisco and a number of other jurisdictions in California and the U.S. are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. Final year-end revenue will be either greater or less than our projection depending on developments with these lawsuits.

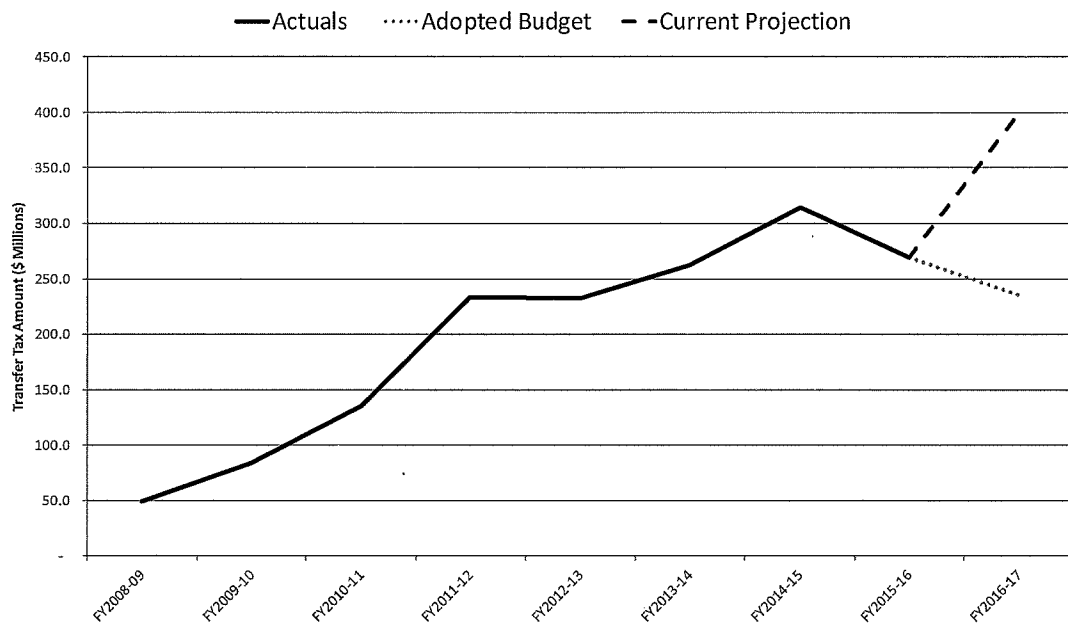
**Utility Users Tax** revenues are projected to be \$4.3 million (4.6%) above budget and \$0.1 million (0.0%) below FY 2015-16 actual revenues. This projection reflects continued higher than expected collections for gas and electric users tax through the first nine months of the fiscal year and an increase in telephone users tax revenue over the previous three months. The FY 2016-17 projection includes \$0.3 of prepaid mobile telephony service revenue which the City began collecting on April 1, 2016.

**Parking Tax** revenues are projected to be \$11.5 million (12.3%) below budget and \$4.6 million (5.4%) below prior year revenues. The downward revision is based on lower than expected collections in parking tax revenues in the first nine months of the fiscal year compared to prior year. The decline in FY 2015-16 was attributable to reduced rates in City-operated parking garages as well as the reduction in parking demand due to ride sharing. This trend is expected to continue in the current year. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the MTA for public transit under Charter Section 16.1110.

**Real Property Transfer Tax** revenues are projected to be \$156.0 million (66.4%) over budget and \$130.9 million (48.6%) above prior year actual revenues. Transfer tax revenue is one of the General Fund's most volatile sources and is highly dependent on a number of factors, including investor interest, economic cycles, interest rates, property values and credit availability, all of which have been favorable for San Francisco commercial and residential real estate in the past five years. Strong demand from institutional investors and owner-users for San Francisco real estate across all property types (office, hotel, retail, and residential) has continued from the prior year into FY 2016-17 at an increasing pace. This is due in large part to the relative attractiveness of San Francisco real estate compared with other investment options worldwide.

Voter approval of transfer tax rate increases for transactions over \$5 million in November 2016 (Proposition W) are projected to result in an incremental \$27.5M in revenue in the current year. In accordance with the City's financial policies, 75% of transfer tax above the prior five-year policy adjusted average is deposited to the Budget Stabilization Reserve. In FY2016-17, the deposit threshold is \$299.7 million. This rate change, as well as historically high transfer tax returns in the first nine months of the fiscal year, result in a projected increase of \$156.0 million over budget, as shown in the table below.

## Real Property Transfer Tax Revenue, FY 2008-09 to FY 2016-17 (\$millions)



**Access Line Tax** revenues are projected to be \$2.5 million (5.3%) above budget, and \$5.9 million (13.5%) above FY 2015-16 actual revenues. The projection includes recognition of a deferred credit from settlement in the amount of \$1.6 million and \$0.9 million increase in Access Line revenue. The City started to collect the access line tax for prepaid mobile telephony services (MTS) beginning April 1, 2016 due to the passage of AB 1717. FY 2016-17 projection includes \$0.3 million of prepaid MTS revenue.

**Interest & Investment** revenues are projected to be \$4.0 million (28.8%) above budget in the General Fund and \$2.9 (19.4%) million above prior year actual revenues. Average monthly pooled interest rates and cash balances were higher than budgeted due to Federal Reserve interest rate increases and higher than projected revenue, respectively.

**State and Federal Grants and Subventions** are projected to be \$32.4 million (3.4%) below budget and \$37.2 million (4.1%) greater than prior year actual revenues. The projected decrease from budget is due to a \$29.5 million decrease in federal and state social service subventions, \$1.6 million decrease in 1991 Health and Welfare Realignment and 2011 Public Safety Realignment, and \$2.9 million decrease in Public Safety Sales Tax, offset by small increases in other grants and subventions.

## Appendix 2. General Fund Department Budget Projections

Table A2-1. General Fund Supported Operations (\$ millions) *Note: Figures may not sum due to rounding*

GENERAL FUND (\$ MILLIONS)	Expenditures - Revised Budget	Expenditures -Projected Year End	Revenue Surplus/ (Deficit)	Expenditure Savings/ (Deficit)	Net Surplus/ (Deficit)	Notes
<b>PUBLIC PROTECTION</b>						
Adult Probation	36.1	35.6	0.1	0.5	0.6	1
Superior Court	30.6	30.6	-	-	-	
District Attorney	47.0	46.5	-	0.5	0.5	2
Emergency Management	49.9	49.6	-	0.3	0.3	3
Fire Department	342.0	342.0	1.4		1.4	4
Juvenile Probation	40.0	37.5	0.3	1.9	2.2	5
Public Defender	33.7	33.5		0.2	0.2	6
Police	497.9	497.9			-	7
Department of Police Accountability	6.9	6.1	-	0.8	0.8	8
Sheriff	198.8	197.6	(1.2)	1.2	0.0	9
<b>PUBLIC WORKS, TRANSPORTATION &amp; COMMERCE</b>						
Public Works	56.7	48.7	0.4	8.1	8.4	10
Economic & Workforce Development	42.3	41.1	(1.2)	1.2	-	11
Board of Appeals	1.0	0.9	0.0	0.1	0.1	
<b>HUMAN WELFARE &amp; NEIGHBORHOOD DEVELOPMENT</b>						
Children, Youth and Their Families	40.6	40.6	-	-	-	
Human Services Agency	749.2	703.0	(32.9)	38.9	6.0	12
Human Rights Commission	3.4	3.2		0.2	0.2	
Homelessness and Supportive Housing	164.0	157.0	-	7.0	7.0	13
Status of Women	7.2	7.2	-	-	-	
<b>COMMUNITY HEALTH</b>						
Public Health	816.1	836.6	114.0	(20.5)	93.6	14
<b>CULTURE &amp; RECREATION</b>						
Asian Art Museum	10.8	10.8	-	-	-	
Arts Commission	5.4	5.4	0.0	0.0	-	
Fine Arts Museum	14.8	14.8	-	-	-	
Law Library	1.7	1.7	-	-	-	
Recreation and Park Department	89.5	89.0	(0.5)	0.5	-	15
Academy of Sciences	6.2	6.2		-	-	
<b>GENERAL ADMINISTRATION &amp; FINANCE</b>						
City Administrator	48.9	47.2	0.3	1.7	2.0	16
Assessor/Recorder	21.5	21.2	(0.1)	0.3	0.2	17
Board of Supervisors	14.5	13.9	-	0.6	0.6	18
City Attorney	12.0	11.4	(0.6)	0.6	-	19
Controller	14.3	14.0	0.1	0.3	0.4	20
City Planning	46.6	43.1	(3.5)	3.5	-	21
Civil Service Commission	1.0	1.0	-	-	-	
Ethics Commission	3.6	3.1	-	0.5	0.5	22
Human Resources	15.9	15.5	-	0.4	0.4	23
Health Service System	0.8	0.8	-	-	-	
Mayor	27.3	27.3	-	-	-	
Elections	15.0	14.5	0.5	0.5	1.0	24
Technology	2.7	2.7	-	-	-	
Treasurer/Tax Collector	33.2	31.0	(0.9)	2.2	1.3	25
Retirement System	2.2	2.2	1.7		1.7	26
<b>GENERAL CITY RESPONSIBILITY</b>	<b>157.3</b>	<b>128.7</b>	<b>-</b>	<b>28.6</b>	<b>28.6</b>	<b>27</b>
<b>TOTAL GENERAL FUND</b>	<b>3,708.6</b>	<b>3,620.7</b>	<b>78.1</b>	<b>80.0</b>	<b>158.1</b>	

## **Notes to General Fund Department Budget Projections**

The following notes provide explanations for the projected variances for select departments' actual revenues and expenditures compared to the revised budget.

### **1. Adult Probation**

The Adult Probation Department projects to end the fiscal year with a net surplus of \$0.6 million primarily due to salary and fringe savings.

### **2. District Attorney**

The District Attorney projects to end the fiscal year with a net surplus of \$0.5 million due to expenditure savings in the Independent Investigations Bureau Project.

### **3. Emergency Management**

The Department of Emergency Management projects to end the fiscal year with a net surplus of \$0.3 million due to salary and fringe savings partially offset by increased costs for services of other departments. A supplemental reappropriation has been requested to transfer salary and benefit savings to support a projected shortfall in overtime expenditures. The overtime spending increase is due to the increase in call volume, continued efforts to improve emergency call response times, more retirements than expected and staffing vacancies.

### **4. Fire Department**

The Fire Department projects to end the fiscal year with a net surplus of \$1.4 million mainly due to a \$0.3 million surplus from fire prevention revenue and \$1.2 million surplus in ambulance fee reimbursement that are partially offset by a \$0.1 million decrease in other revenues. The Department has requested a supplemental to re-appropriate Airport Fire Services' salary and benefit savings to overtime expenses to cover specialized training requirement that delayed staffing needs to the Airport.

### **5. Juvenile Probation**

The Juvenile Probation Department projects to end the fiscal year with a net surplus of \$2.2 million. Revenue is projected to be \$0.3 million over budget due to adjustments for prior year federal revenues and higher than projected juvenile activity and camps revenue. The Department is projecting expenditure savings in salary and fringe benefits of \$1.9 million due to a lower census at Juvenile Hall.

### **6. Public Defender**

The Public Defender's Office projects to end the fiscal year with a net surplus of \$0.2 million in salary and fringe benefits savings due to delayed hiring.

### **7. Police Department**

The Police Department projects to end the fiscal year at budgeted levels. The Department has requested a supplemental to reappropriate regular salaries and fringe benefit savings for overtime expenses due to training, court pay related overtime, and new or increased service requests.

### **8. Department of Police Accountability**

Proposition G, approved by voters in November 2016, renamed the Office of Citizen Complaints as the Department of Police Accountability and required that its budget be

separated from the Police Department budget. The Department is projecting to end the fiscal year with a net surplus of \$0.8 million from salary and benefit savings due to delays in hiring.

**9. Sheriff**

The Sheriff's Department projects to end the fiscal year on budget. The Department projects a revenue shortfall of \$1.2 million primarily due to housing fewer than expected federal prisoners, which will be largely offset by a \$0.5 million CalPERs reimbursement for advance disability and MOU Reserve use of \$0.5 million to cover payment for settlement of a labor case. Work order spending will be fully recovered from requesting departments. A supplemental to re-appropriate regular salaries and fringe benefit savings for overtime expenses is pending before the Board of Supervisors.

**10. Public Works**

The Department of Public Works projects to end the year with an \$8.4 million surplus. The Department projects a \$0.4 million net revenue surplus primarily due to street space revenue coming in higher than budget and \$8.0 million in expenditure savings on Controller's reserve related to the loss of funding from the failure of Proposition K sales tax revenue assumed in the budget.

**11. Economic and Workforce Development**

The Office of Economic and Workforce Development projects to end the year within budget. The Department projects a revenue shortfall of \$1.2 million primarily due to decreased developer revenues that are fully offset by expenditure savings in personnel and consulting services.

**12. Human Services Agency**

The Human Services Agency projects to end the fiscal year with a \$6.0 million surplus due to \$38.9 million expenditure savings offset by a \$32.9 million revenue shortfall. Overall expenditure savings are mainly comprised of lower than expected caseload costs in the IHSS (In-Home Supportive Services) program (\$3.9 million); reduced aid assistance payments due to declining caseloads in Child Welfare programs (\$4.4 million) and CAAP (\$1.2 million); and a net \$35.2 million savings due to delays in hiring and ramp up of new services, programmatic changes, and contract underspending, largely in Child Welfare, Department of Aging and Adult Services (DAAS), CalWORKs and Food Stamps. An overall revenue shortfall is attributed to lower than budgeted revenue for IHSS Assistance (\$3.2M), CalWORKs Administration (\$6.9 million), Food Stamps (\$7.0 million), Medi-Cal (\$5.5 million), 2011 Realignment (\$2.3 million), and Aging and Adult Services programs (\$6.6 million).

**Table A2.2. Human Services Agency (\$ Millions)**

<b>Program</b>	<b>Source Surplus / (Shortfall)</b>	<b>Use Savings / (Deficit)</b>	<b>Net Surplus / (Deficit)</b>
In Home Supportive Services (IHSS) Assistance	(3.2)	3.9	0.7
Child Welfare Assistance	(2.0)	4.4	2.4
CAAP Assistance	(0.5)	1.2	0.7
Other Assistance Programs	(1.9)	1.5	(0.4)
Child Welfare Administration	(1.7)	3.4	1.7
Department of Aging and Adult Services	(6.6)	9.6	3.0
CalWORKs Administration	(6.9)	9.3	2.4
Food Stamps	(7.0)	7.1	0.1
Medi-Cal	(5.5)	(2.6)	(8.1)
All Other Programs	2.4	1.1	3.5
<b>Total</b>	<b>(32.9)</b>	<b>38.9</b>	<b>6.0</b>

**13. Homelessness and Supportive Housing**

The Department of Homelessness and Supportive Housing projects \$1.1 million of savings in personnel costs due to hiring delays and staff vacancies, \$0.3 million in non-personnel services savings, and \$12.1 million of expenditures that were placed on reserve pending passage of the sales tax measure on the November 2016 ballot (Proposition K). Given the failure of the measure, the reserve will remain in place, and these expenditures will not occur. Savings are offset by \$6.5 million in expenditures included in the Mayor's post-election rebalancing plan, resulting in a projected balance of \$7.0 million.

**14. Public Health**

The Department of Public Health projects to end the fiscal year with a net General Fund surplus of \$93.6 million. Overall department revenues are projected to be \$114.0 million above budget, and expenditures are projected to be \$20.5 million above budget.

**Table A2.3. Department of Public Health (\$ Millions)**

<b>Fund</b>	<b>Sources Surplus/(Shortfall)</b>	<b>Uses Savings/(Deficit)</b>	<b>Net Surplus/(Shortfall)</b>
Public Health General Fund	18.7	9.9	28.7
Laguna Honda Hospital	6.7	0.2	6.9
Zuckerberg San Francisco General Hospital	88.6	(9.1)	79.5
DPH Management Reserve	-	(21.5)	(21.5)
<b>Total</b>	<b>114.0</b>	<b>(20.5)</b>	<b>93.6</b>

**Public Health General Fund**

Department of Public Health General Fund programs, including Primary Care, Mental Health, Substance Abuse, Jail Health, Health at Home, and Public Health, have a combined revenue surplus of \$18.7 million. This includes \$11.8 million in projected revenue for the first year of San Francisco's Whole Person Care pilot program under the Medi-Cal 1115 Waiver, \$5.0 million higher than expected revenue from Short-Doyle Medi-Cal for Mental Health, \$3.5 million higher than expected capitation revenue in Primary Care, and \$2.9 million surplus in other revenues. These revenue surpluses are partially offset by \$3.0 million less than budgeted reimbursement for Drug Medi-Cal for Substance Abuse and \$1.5 million below



budget Primary Care net patient revenues. Expenditures are expected to be \$9.9 million below budget, primarily due to delays in hiring new positions in Public Health and favorable prior year cost report settlements resulting in a surplus in professional services for Mental Health.

### **Laguna Honda Hospital**

The Department projects a \$6.9 million net surplus at Laguna Honda Hospital. A \$6.7 million revenue surplus is mainly due to a higher-than-budgeted increase in the Medi-Cal Skilled Nursing Facility per diem rate. Expenditures are projected to be \$0.2 million below budget in personnel costs.

### **Zuckerberg San Francisco General Hospital**

The Department projects \$79.5 million surplus at Zuckerberg San Francisco General Hospital (ZSFGH). Revenues are projected to be \$88.6 million above budget. ZSFG projects a \$51.2 million surplus in net patient revenues resulting from higher-than budgeted census in the new hospital building, rate increases and improved collection from commercial insurers. ZSFGH also projects \$23.0 million higher than budgeted gross revenues under the Medi-Cal 1115 Waiver's PRIME and Global Payment Programs, and a \$14.4 million surplus in capitation resulting from prior year payments.

Expenditures are projected to exceed the budget by \$9.1 million, of which \$7.3 million is due to higher than expected overtime and per-diem costs due to unexpectedly high patient census and unanticipated staffing costs during the first year of occupancy of the new acute care hospital. ZSFG also projects a \$1.9 million shortfall in services of other departments due to higher than budgeted costs for security services provided by the Sheriff's Department.

### **Revenue Loss Reserve**

Section 12.6 of the administrative provisions of the Annual Appropriation Ordinance authorizes the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future reductions or audit adjustments associated with the Affordable Care Act and funding allocations for indigent health services. This provision was adopted by the Board of Supervisors to smooth volatile state and federal revenues that can lead to large variances between budgeted and actual amounts due to unpredictable timing of payments, major changes in projected allocations, and delays in final audit settlements. Current projected uses of the Management Reserve total \$129.1 million, including potential liability of disallowed SB1128 reimbursement, reductions to supplemental payments for Medi-Cal managed care for Seniors and Persons with Disabilities, and greater budgeted withholding of 1991 health and welfare realignment subventions. This amount represents a \$21.5 million increase from the FY 2015-16 year end balance and is due to the need to reserve for the full loss of previously received SB 1128 federal reimbursements for Laguna Honda Hospital construction which were previously assumed payable by Laguna Honda Debt Service Fund balance, as discussed in Appendix 4 below.

## **15. Recreation and Park Department**

The Recreation and Park Department projects to end the fiscal year with a balanced budget. The Department projects a revenue shortfall of \$0.5 million from lower than expected net revenue from the Union Square and St. Mary's garages due to disruptions related to the Central Subway Project, partially offset by surpluses in permits and facility rentals. The

Department will mitigate this deficit through expense savings, including salary and fringe benefits.

**16. City Administrator**

The City Administrator projects a net surplus of \$2 million at year-end. A revenue surplus of \$0.3 million is projected due to higher than expected fee collections from marriage license and increased Central shops subtenant rent. Expenditure savings of \$1.7 million is projected largely due to delays in hiring resulting in salary and benefits savings.

**17. Assessor Recorder**

The Assessor Recorder projects to end the fiscal year with a \$0.2 million surplus at year end. The Department projects a revenue shortfall of \$0.1 million due to recorded document counts are projected to be lower than budget offset by expenditure surplus of \$0.3 million from salary and fringe benefit savings.

**18. Board of Supervisors**

The Board of Supervisors projects a \$0.6 million surplus at the end of the fiscal year, driven primarily from salary and fringe benefits savings.

**19. City Attorney**

The City Attorney's Office projects a \$0.6 million shortfall in revenue from the Office of Community Investment and Infrastructure (OCII), offset by increased work order recoveries through year end.

**20. Controller**

The Controller projects a revenue surplus of \$0.1 million from higher than expected property tax and transportation fund administrative cost reimbursements, and \$0.3 million in salary and other expenditure savings, for a net ending balance of \$0.4 million.

**21. City Planning**

The City Planning Department projects to end the year with a revenue deficit of \$3.5 million, which assumes the recognition of \$2.1 million in deferred credit. This deficit will be offset by expenditure savings in salary and fringe benefits and contracts. The budget assumed 4% growth in permit revenues, a slowdown from unprecedented growth in prior years. However, revenues are now projected to remain flat from FY 2015-16.

**22. Ethics**

The department projects expenditure savings \$0.5 million, largely in salaries and benefits.

**23. Human Resources**

The Department of Human Resources projects to end the fiscal year with a \$0.4 million surplus. The department projects \$0.9 million in expense savings offset by \$0.5 million in reduced recoveries for labor negotiation and other departmental projects.

**24. Elections**

The Elections Department projects to end the fiscal year with \$1.0 million surplus due to a \$0.5 million revenue surplus from unbudgeted reimbursement from the State for June 2016 election costs and a higher than anticipated number of paid ballot arguments submitted for the November 2016 election, \$0.1 million savings from salary and benefit due to delay in hiring, and \$0.4 million savings from the warehouse relocation project.

**25. Treasurer/Tax Collector**

The Treasurer/Tax Collector projects to end the fiscal year with a net surplus of \$1.3 million due to salary and fringe benefit savings of \$1.5 million and \$0.7 million savings from non-personnel services; the savings are offset by a \$0.9 million shortfall in revenue from pooled interest.

**26. Retirement System**

The department projects a surplus of \$1.7 million fees from the deferred compensation program from prior years.

**27. General City Responsibility**

General City Responsibility contains funds that are allocated for use across various City departments. Expenditure savings of \$17.3 million are projected as transfers to the MTA and reserve deposits assumed in the budget will remain on reserve due to the failure of Proposition K sales tax. These savings are offset by a like amount of sales tax revenue shortfall. A surplus of \$10.8 million in funds appropriated for nonprofit COLAs is projected as many departments can cover a portion of these costs within their existing budgets. In addition, project closeout savings will reduce the General Fund transfer to the Laguna Honda Hospital by \$2.3 million, and a \$1.0 savings in the retiree health subsidy is projected. These savings are partially offset by the need to allocate \$2.8 million toward anticipated litigation costs, resulting in a net savings of \$28.6 million.

### Appendix 3. Status of Reserves

Various code and Charter provisions govern the establishment and use of reserves. Key reserve uses, deposits, and projected year-end balances are displayed in Table A3.1 and discussed in detail below. Table A3.1 also includes deposits and withdrawals included in the approved FY 2017-18 budget.

**Table A3.1 Reserve Balances (\$ Millions)**

	FY 2016-17					FY 2017-18		
	FY 2015-16 Ending Balance	Starting Balance	Projected Deposits	Projected Withdrawals	Projected Ending Balance	Budgeted Deposits	Budgeted Withdrawals	Projected Ending Balance
General Reserve	\$ 69.9	\$ 90.4	\$ 0.5	\$ (1.7)	\$ 89.1	\$ 16.2	\$ -	\$ 105.3
Budget Savings Incentive Fund	58.9	58.6	4.0	-	62.6	-	-	62.6
Recreation & Parks Savings Incentive Reserve	8.7	3.6	-	-	3.6	-	(3.5)	0.1
Rainy Day Economic Stabilization City Reserve	75.0	75.0	2.8	-	77.8	-	-	77.8
Rainy Day Economic Stabilization School Reserve	43.1	43.1	0.9	-	44.1	-	-	44.1
Rainy Day One-Time Reserve	45.1	45.1	1.9	-	47.0	-	-	47.0
Budget Stabilization Reserve	178.4	178.4	94.7	-	273.1	-	-	273.1
Salary and Benefits Reserve	24.6	31.2	-	(31.2)	-	14.0	(14.0)	-
Contingency Reserve	-	60.0	-	-	60.0	-	(60.0)	-
Public Health Management Reserve	107.5	107.5	21.5	-	129.0	-	-	129.0
<b>Total</b>	<b>611.3</b>	<b>693.0</b>	<b>126.3</b>	<b>(33.0)</b>	<b>786.4</b>	<b>30.2</b>	<b>(77.5)</b>	<b>739.2</b>
Economic reserves					398.0			
Economic reserves as a % of General Fund revenues					8.5%			

**General Reserve:** To date, three supplemental appropriations that draw on the General Reserve have been approved: \$0.1 million for Earthquake Relief to Italy, \$0.1 million to the Ethics Department to comply with Proposition T (November 2016) restricting lobbying and campaign contributions, and \$1.5 million for legal aid and services to immigrants. In addition, the failure of the sales tax increase on the November 2016 ballot (Proposition K) reduces the required deposit to the reserve by \$0.5 million, resulting in a projected ending balance of \$89.1 million, which will be carried forward to FY 2017-18. The approved budget includes a \$16.2 million deposit to the reserve in FY 2017-18, must be increased by the \$1.7 million spent in the current year to meet code-required levels.

There is one supplemental appropriation not reflected in this table, as it draws on real property transfer tax revenue rather than the General Reserve: \$9.0 million for free City College (approved). This is reflected in the revised budget for real property transfer tax in Appendix 1.

Pursuant to a financial policy approved by the Board of Supervisors in 2011 and codified in Administrative Code Section 10.60(b), year-end balances in the General Reserve are carried forward into subsequent years and thereby reduce the amount of future appropriations required to support minimum reserve requirements established by the policy. For FY 2016-17 and FY 2017-18, the policy requires the General Reserve to be no less than 2.0% and 2.25% of budgeted regular General Fund revenues, respectively.

**Budget Savings Incentive Fund:** The Citywide Budget Savings Incentive Fund (authorized by Administrative Code Section 10.20) receives 25% of year-end departmental expenditure savings to be available for one-time expenditures, unless the Controller determines that the City's financial condition cannot support deposits into the fund. At FY 2015-16 year end, the Reserve balance was \$58.6 million. Projected deposits of \$4.0 million and no budgeted uses result in a projected year-end balance of \$62.6 million. The current budget did not appropriate any of the balance for use in FY 2017-18.

**Recreation and Parks Savings Incentive Reserve:** Through FY 2015-16, this reserve, established by Charter Section 16.107(c), was funded by the retention of net year-end revenue and expenditure savings at the Recreation and Parks Department. This Reserve ended FY 2015-16 with \$8.7 million, of which \$5.6 million was appropriated in FY 2016-17, resulting in a starting balance of \$3.6 million. No deposits are projected for the current fiscal year, leaving a projected ending balance of \$3.6 million. The current budget also appropriated \$3.5 million in uses for FY 2017-18. Due to modifications approved by voters in June 2016 (Proposition B), beginning in FY 2016-17, 100% of net revenue surpluses will be deposited to the Recreation and Parks Savings Incentive Reserve and 25% of net expenditure savings will be deposited to the citywide Budget Savings Incentive Fund.

**Rainy Day Economic Stabilization Reserve:** Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve funded by 50% of excess of revenue growth in good years, which can be used to support the City General Fund and San Francisco Unified School District operating budgets in years when revenues decline. At FY 2015-16 year-end, the Rainy Day Economic Stabilization Reserve had a balance of \$75.0 million. A deposit of \$2.8 million and no withdrawal is projected for FY 2016-17, resulting in a projected ending balance of \$77.8 million.

Charter Section 9.113.5 was amended in November 2014 with the passage of Proposition C, which replaced the Rainy Day Economic Stabilization Reserve with two separate reserves—the School Reserve and the City Reserve. Of the excess revenue growth formerly deposited to the Rainy Day Economic Stabilization Reserve, 75% will be deposited to the City Reserve and 25% to the School Reserve.

**Rainy Day One-Time Reserve:** Charter Section 9.113.5 establishes a Rainy Day One-Time Reserve funded by 25% of excess revenue growth, which can be used for one-time expenses. This Reserve began the year with \$45.1 million. A deposit of \$1.9 million and no withdrawal is projected for FY16-17, resulting in an projected ending balance of \$47.0.

**Budget Stabilization Reserve:** Established in 2010 by Administrative Code Section 10.60(c), the Budget Stabilization reserve augments the Rainy Day Economic Stabilization Reserve. The Budget Stabilization Reserve is funded by the deposit each year of 75% of real property transfer taxes above the prior five year average (adjusted for policy changes) and ending unassigned fund balance above that appropriated as a source in the subsequent year's budget. The current balance of the Reserve is \$178.4 million. The budget did not assume any deposit in the current year. However, unexpectedly strong transfer tax revenues through April, including \$73.2 million in December 2016 alone, are projected to result in a deposit of \$94.7 million, and a projected ending balance of \$273.1 million.

**Salary and Benefits Reserve:** Administrative Provision Section 10.4 of the Annual Appropriation Ordinance (AAO) authorizes the Controller to transfer funds from the Salary and Benefits Reserve, or any legally available funds, to adjust appropriations for employee salaries and related benefits for collective bargaining agreements adopted by the Board of Supervisors. The Salary and Benefits Reserve had a fiscal year starting balance of \$31.2 million (\$14.7 million carried forward from FY 2015-16 and \$16.6 million appropriated in the FY 2016-17 budget). The Controller's Office has transferred \$2.0 million to City departments and anticipates transferring an additional \$21.3 million to City departments by year-end, as detailed in Table A3-2, leaving \$7.9 million, which will be used to reduce the required deposit in FY 2017-18.

**Table A3-2. Salary and Benefits Reserve (\$ Millions)**

<b>Sources</b>		
Adopted AAO Salary and Benefits Reserve	\$	16.6
Carryforward balance from FY 2015-16		14.7
<b>Total Sources</b>		<b>31.2</b>
<b>Uses</b>		
<b>Transfers to Departments</b>		
SEIU as needed temporary employees healthcare		0.7
Training, development, and recruitment		1.2
Visual display terminal insurance (Q1, Q2, Q3)		0.1
<b>Total Transfers to Departments</b>		<b>2.0</b>
<b>Anticipated Allocations</b>		
Public Safety, including wellness, premium, and one-time payouts		15.3
Citywide premium, retirement and severance payouts		3.5
Various training, tuition, and other reimbursements		1.7
SEIU as needed temporary employees healthcare (Q3 & Q4)		0.7
Visual display terminal insurance (Q3 & Q4)		0.1
<b>Total Anticipated Allocations</b>		<b>21.3</b>
<b>Roll Forward for FY 2017-18</b>		<b>7.9</b>
<b>Total Uses</b>		<b>31.2</b>
<b>Net Surplus / (Shortfall)</b>	\$	<b>0.0</b>

**Contingency Reserve:** The FY 2016-17 and FY 2017-18 budget assigned \$60.0 million in unappropriated fund balance to a Contingency Reserve for the purpose of managing cost and revenue uncertainty in the second year of the budget, for expenses including, but not limited to, labor agreement provisions open for negotiation in FY 2016-17. This report assumes the Contingency Reserve is liquidated in FY 2016-17 and appropriated to support wage and other costs in the next proposed budget.

**Public Health Management Reserve:** Section 12.6 of the administrative provisions of the Annual Appropriation Ordinance authorizes the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future reductions or audit adjustments associated with the Affordable Care Act and funding allocations for indigent health services. This provision was adopted by the Board of Supervisors to smooth volatile state and federal revenues that can lead to large variances between budgeted and actual amounts due to unpredictable timing of payments, major changes in projected allocations, and delays in final audit settlements. Current projected uses of the Management Reserve total \$129.1 million, including potential liability of disallowed SB1128 reimbursement, reductions to supplemental payments for Medi-Cal managed care for Seniors and Persons with Disabilities, and greater budgeted withholding of 1991 health and welfare realignment subventions. This is a \$21.5 million increase from the FY 2015-16 year end balance and is due to the need to reserve for the full loss of previously received SB 1128 federal reimbursements for Laguna Honda Hospital construction which were previously assumed payable by Laguna Honda Debt Service Fund balance, as discussed in Appendix 4. This deposit is included in the Public Health Department's projected ending balance in Table A2-1 above.

## Appendix 4. Other Funds Highlights

Table A4-1. Other Fund Highlights, \$ Millions

	Prior Year		FY 2016-17					FY 2017-18	Notes
	FY 2015-16 Year End Fund Balance	Fund Balance Used in FY 2016-17 Budget	Beginning Fund Balance	Revenue Surplus/ (Deficit)	Expenditures Savings/ (Deficit)	Net Operating Surplus/ (Deficit)	Estimated Ending Fund Balance	(July 2016) Board Approved Budgeted Use	
<b><u>SELECT SPECIAL REVENUE AND INTERNAL SERVICES FUNDS</u></b>									
Building Inspection Operating Fund	\$ 7.2	\$ 5.3	\$ 1.9	\$ 8.6	\$ 3.3	\$ 11.9	\$ 13.8	\$ 7.2	1
Children's Fund	4.6	2.9	1.7	3.2	0.9	4.1	5.7	-	2
Public Education Special Fund	2.8	-	2.8	0.6	-	0.6	3.3	-	3
Convention Facilities Fund	17.5	14.0	3.5	-	2.7	2.7	6.2	0.2	4
Golf Fund	3.3	-	3.3	(1.0)	0.2	(0.8)	2.5	-	5
Library Preservation Fund	29.1	-	29.1	1.6	4.2	5.9	35.0	-	6
Local Courthouse Construction Fund	0.1	0.1	0.0	(0.0)	-	(0.0)	(0.0)	-	7
Open Space Fund	19.5	3.0	16.5	2.4	3.7	6.1	22.6	-	8
Telecomm. & Information Systems Fund	9.8	4.7	5.0	-	1.7	1.7	6.8	0.6	9
General Services Agency-Central Shops Fund	1.5	-	1.5	(0.3)	-	(0.3)	1.2	-	10
Arts Commission Street Artist Fund	(0.3)	-	(0.3)	(0.1)	0.1	0.1	(0.2)	-	11
War Memorial Fund	1.8	0.7	1.1	0.1	0.5	0.6	1.7	0.6	12
Gas Tax Fund	3.6	1.1	2.5	0.1	-	0.1	2.6	1.1	13
Neighborhood Beautification Fund	0.5	-	0.5	-	-	-	0.5	-	14
Election Campaign Fund	6.9		\$ 6.9	\$ -	\$ (0.3)	\$ (0.3)	\$ 6.6		15
<b><u>SELECT ENTERPRISE FUNDS</u></b>									
Airport Operating Funds	\$ 145.3	\$ 37.4	\$ 107.9	\$ 9.6	\$ 25.8	\$ 35.3	\$ 143.2	\$ 37.7	17
MTA Operating Funds	276.1	45.4	230.8	(7.0)	16.2	9.2	240.0	47.3	18
Port Operating Funds	51.4	33.1	18.3	5.8	18.9	24.8	43.1	19.2	19
PUC Hetch Hetchy Operating Funds	64.0	11.6	52.4	(9.1)	14.8	5.7	58.1	10.3	20
PUC Wastewater Operating Funds	118.1	-	118.1	2.1	19.9	22.0	140.1	-	21
PUC Water Operating Funds	116.6	10.7	105.8	12.0	49.1	61.1	167.0	1.6	22
DPH Laguna Honda Debt Service Funds	21.0	-	21.0	(14.0)	-	(14.0)	7.0	-	23



***Notes to Special Revenue, Internal Services and Enterprise Funds***

---

**Select Special Revenue & Internal Services Funds**

**1. Building Inspection Fund**

The Building Inspection operating fund began the fiscal year with \$1.9 million in available fund balance. In spite of an \$8.7 million decrease in collected revenues compared to this time last year, the department nevertheless projects an \$8.6 million surplus in operating revenues due to higher than expected revenues from plan review and code enforcement. The department's budget had anticipated an even greater slowdown from unprecedented growth levels in prior years, reflected in decreased valuation and number of permits. Expenditures are projected to be \$3.3 million under budget due to savings from salary and fringe benefits, resulting in a projected fiscal year-end available fund balance of \$13.8 million. In addition, the balances of the department's contingency and other post-employment benefit reserves are currently \$41.0 million and \$13.3 million, respectively. The approved FY 2017-18 budget appropriated the use of \$7.2 million of fund balance.

**2. Children's Fund**

The Children's Fund began the fiscal year with \$1.7 million in available fund balance. Current year revenues are projected to be \$3.2 million better than budget due to increases in property tax set-aside revenue net of baseline true-up. Current year expenditures are projected to be \$0.9 million below budget due to salary and fringe benefit savings. The projected fiscal year-end available fund balance is \$5.7 million.

**3. Children's Fund – Public Education Special Fund**

The Public Education Special Fund began the fiscal year with \$2.8 million in available fund balance. Revenues are expected to be \$0.6 million above budget, reflecting growth in General Fund Aggregate Discretionary Revenue (ADR). The projected fiscal year-end available fund balance is \$3.3 million.

**4. Convention Facilities Fund**

The Convention Facilities Fund began the fiscal year with \$3.5 million in available fund balance. Debt service savings of \$2.4 million and operational savings of \$0.3 million are projected for the Moscone project in the current year, resulting in a projected fiscal year-end available fund balance of \$6.2 million. The approved budget for FY 2017-18 appropriated \$0.2 million.

**5. Golf Fund**

The Golf Fund began the fiscal year with \$3.3 million in available fund balance. The Recreation and Parks Department projects a revenue shortfall of \$1.0 million in golf fees, partially offset by salary savings of \$0.2 million, resulting in a projected ending fund balance of \$2.5 million.

**6. Library Preservation Fund**

The Library Preservation Fund began the fiscal year with \$29.1 million in available fund balance. The Department projects a revenue surplus of \$7.0 million from increased property tax allocations and baseline revenue, and expenditure savings of \$4.2 million (\$2.5 million in personnel and \$1.7 million in non-personnel cost savings). Under the Charter, the portion of operating surplus attributable to the baseline contribution is returned to the General Fund at

year end, or approximately \$5.2 million, resulting in a net revenue surplus of \$1.6 million, a net operating surplus of \$5.9 million, and year-end fund balance of \$35.0 million.

**7. Local Courthouse Construction Fund**

The Local Courthouse Construction Fund began the fiscal year with just under \$0.1 million in fund balance. Revenue is projected to be slightly under budget, resulting in a slight decrease in ending balance. Any negative balances that develop in this subfund must be addressed at year end through increased General Fund support.

**8. Open Space Fund**

The Open Space Fund began the fiscal year with \$16.5 million in available fund balance. The Fund's property tax allocation is projected to exceed budget by \$2.4 million and the Department projects an expenditure savings of \$3.7 million from salary and benefit, resulting in a projected fiscal year-end available fund balance of \$22.6 million.

**9. Telecommunication & Information Services Fund**

The Telecommunication & Information Services Fund began the fiscal year with an available fund balance of \$5.0 million. The Department projects net expenditure savings of \$1.0 million in its annual project fund, largely from salary savings, and \$0.7 million in expenditure savings in the telephone fund due to account reconciliation efforts and salary savings, resulting in a projected year end balance of \$6.8 million.

**10. Central Shops Fund**

The Central Shops Fund began the year with an available fund balance of \$1.5 million. A revenue shortfall of \$0.3 million due to lower than budgeted fuel sales to non-city entities results in a projected ending balance of \$1.2 million.

**11. Arts Commission Street Artist Fund**

The Street Artist Program Fund began the fiscal year with a fund balance shortfall of \$0.3 million. The Department continues to project a small revenue shortfall for the year, offset savings and close out of unneeded appropriations, resulting in a projected ending shortfall of \$0.2 million. The Controller's Office and the Department will work to address the shortfall.

**12. War Memorial Fund**

The War Memorial Fund began the fiscal year with a fund balance of \$1.1 million. The Department projects revenue to be \$0.1 million above budget and expenditures to be \$0.5 million below budget, mainly from salary and benefit savings due to hiring delays and contract savings, resulting in a projected year-end fund balance of \$1.7 million, of which \$0.6 million has been appropriated in the approved FY 2017-18 budget.

**13. Gas Tax Fund**

The Gas Tax Fund began the year with an available fund balance of \$2.5 million. The Department of Public Works expects to end the year with a \$0.1 million revenue surplus, resulting in a projected year-end balance of \$2.6 million, of which \$1.1 million has been appropriated in the approved FY 2017-18 budget.

**14. Neighborhood Beautification Fund**

The Neighborhood Beautification Fund (which houses the Community Challenge Grant program) began the year with a \$0.5 million fund balance. Revenues and expenditures are expected to be on budget.

**15. Election Campaign Fund**

The Election Campaign Fund began the year with a \$6.9 million balance. Disbursements from the fund at year-end are projected to be \$1.0 million, or \$0.3 million more than budgeted. The resulting year-end balance is projected to be \$6.6 million.

**16. Disaster and Emergency Response and Recovery Fund (Give 2SF)**

Administrative Code Section 10.100-100(d) requires the Controller to report on this fund in the Six- and Nine-Month Reports. The FY 2016-17 beginning fund balance was \$437, and there have been \$1,736 in donations and no uses, resulting in a projected year-end balance of \$2,173.

**Select Enterprise Funds**

**17. Airport Operating Fund**

The Airport began the fiscal year with \$107.9 million in available fund balance, including \$95 million that has been set aside for postemployment benefits under GASB 45. The department projects a revenue surplus of \$9.6 million and net expenditure savings of \$25.8 million, for a net operating surplus of \$35.3 million.

The revenue projection includes \$8.6 million in increased operating revenue and \$1.0 million in increased non-operating revenue. In addition, \$25.8 million in expenditure savings are projected, including \$4.8 million in non-personnel expenditure savings, \$5.3 million in services of other departments, \$7.9 million in salary and benefit savings, \$7.4 million in public safety savings, and \$1.5 million in savings for materials and supplies, offset by a \$1.1 million increase to the Annual Service Payment. A fund balance of \$143.2 million is projected by year-end.

**18. Municipal Transportation Agency (MTA) Operating Funds**

MTA began the fiscal year with \$230.8 million in available operating fund balance net of the \$45.4 million appropriated to support the FY 2016-17 budget. The Agency is projected to end the year with a net operating surplus of \$9.2 million, resulting in a projected year-end fund balance of \$240.0 million. The FY 2017-18 approved budget includes the use of \$47.3 million of fund balance.

The Agency projects a net revenue shortfall of \$7.0 million primarily due to a \$18.4 million increase in General Fund baseline transfers and \$7.2 million revenue surplus from traffic fines, offset by a \$9.2 million shortfall in parking tax revenue, \$2.1 million shortfall in fares and \$7.3 million shortfall in State Transit Assistance (STA). In addition, given the failure of the November 2016 Sales Tax measure (Prop K) the Agency will forego \$16.1 million of General Fund transfers from sales tax and corresponding expenditures.

**19. Port Operating Funds**

The Port began the fiscal year with \$18.3 million in available fund balance. The department projects a revenue surplus of \$5.8 million, and net expenditure savings of \$18.9 million, for a net operating surplus of \$24.8 million and a projected year end fund balance of \$43.1 million. The FY 2017-18 approved budget includes the use of \$19.2 million of fund balance.

The \$5.8 million revenue surplus is due to \$1.6 million in one-time revenues associated with the Forest City development project at Pier 70 and \$6.4 million from Pacific Waterfront

Partners LLC participation proceeds for the sale of The Piers office and retail development. These increases are offset by a \$1.6 million shortfall in maritime revenues and a \$0.8 million shortfall in real estate and other miscellaneous revenues. The \$18.9 million expenditure savings is due to a \$13.4 million reduction in budgeted deposits to reserves for future capital uses, \$2.1 million savings in salaries and fringe benefits from vacant positions, \$1.1 million in non-personnel services, \$1.8 million in work orders, and \$0.5 million in annual projects due to the preservation of funds for contingency purposes such as oil spills and hazardous material clean up.

**20. Public Utilities Commission – Hetch Hetchy Operating Fund**

The Hetch Hetchy Operating Fund began the fiscal year with \$52.4 million in available fund balance. The Department projects a net revenue shortfall of \$9.1 million mainly due to lower than expected electricity consumption by City departments and lower sales to the Modesto and Turlock Irrigation Districts, partially offset by a \$1.9 million higher than expected other revenue income primarily due to unbudgeted Rim Fire insurance payments. The Department projects expenditure savings of \$14.8 million consisting of \$3.1 million from salaries and benefit savings due to delay in filling vacant positions, \$3.3 million from lower power purchases due to wet weather conditions, \$3.7 million from lower distribution, CAISO and scheduling charges, and \$4.0 million in contingency reserve. This results in a projected year-end fund balance of \$58.1 million.

**21. Public Utilities Commission – Wastewater Operations Fund**

The Wastewater Operations Fund began the fiscal year with \$118.1 million in available fund balance. The Department projects revenue to be \$2.1 million higher than budget mainly due to increased sewer discharge volumes. Expenditure savings of \$1.5 million and unspent general reserves of \$18.4 million will result in a projected net operating surplus of \$22 million and a fiscal year-end available fund balance of \$140.1 million.

**22. Public Utilities Commission – Water Operating Fund**

The Water Operating Fund began the fiscal year with \$105.8 million in available fund balance. Water Department revenues are projected to be \$12.0 million higher than budget, mainly due to increased wholesale water sales and from the sale of surplus property. The Department projects \$49.1 million of expenditure savings including \$1.0 million of salary savings, \$20.9 million of savings from debt service refunding and \$27.0 million of planned underuse of general reserves. This results in a projected fiscal year-end available fund balance of \$167.0 million.

**23. Public Health – Laguna Honda Hospital Debt Service Fund**

The Laguna Honda Hospital Debt Service Fund began the fiscal year with \$21.0 million in available fund balance. At FY 2015-16 year end, the department booked a receivable for a \$14.0 million in federal reimbursements for the construction of skilled nursing facilities passed through the state under the authority of SB 1128. The state is currently withholding this payment pending negotiations with the City about its eligibility for prior year reimbursements already received. Given the uncertainty of when the negotiations will be resolved, the department assumes having to write off this FY 2015-16 receivable, resulting in a \$14.0 million revenue shortfall and a projected ending balance of \$7.0 million.

## Appendix 5. Overtime Report

### 5-Year History of Overtime Spending by Department (\$ Millions)

Department	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17			FY 2016-17 Projection Change from Prior Year Actual		
	Actual	Actual	Actual	Actual	Revised Budget	July through March 2017	Straight Line Projection	Surplus/ (Deficit)	\$ Million	Percent
<b>MTA</b>										
Municipal Railway	46.6	53.3	53.0	56.4	35.4	43.4	57.9	(22.5)	1.5	3%
Parking & Traffic	2.3	2.4	3.3	3.7	1.5	2.4	3.2	(1.6)	(0.6)	-15%
Subtotal - MTA	48.9	55.6	56.3	60.1	36.9	45.8	61.0	(24.1)	0.9	2%
<b>Police</b>										
General Fund Operations	12.7	14.3	19.3	24.6	20.8	18.3	24.4	(3.5)	(0.2)	-1%
Special Law Enforcement Services (10B)	11.3	10.2	10.5	13.0	-	9.5	12.7	(12.7)	(0.3)	-3%
Grants & Other Non-10B Special Revenues	1.7	1.9	2.1	3.1	2.1	1.2	1.6	0.6	(1.5)	-50%
Airport	1.5	1.1	1.2	2.0	2.1	1.4	1.9	0.3	(0.1)	-6%
Municipal Transportation Agency	0.1	0.1	0.1	0.1	-	0.1	0.1	(0.1)	0.0	17%
Subtotal - Police	27.3	27.7	33.2	42.8	25.1	30.5	40.6	(15.5)	(2.2)	-5%
<b>Public Health</b>										
SF General	5.1	5.2	6.6	8.0	6.2	7.7	10.3	(4.1)	2.3	29%
Laguna Honda Hospital	6.4	5.6	6.1	6.0	6.3	5.2	6.9	(0.5)	0.9	15%
All Other Non-Hospital Operations	1.1	1.2	1.5	1.5	1.4	1.2	1.6	(0.3)	0.2	13%
Subtotal - Public Health	12.6	11.9	14.2	15.4	13.9	14.1	18.8	(4.9)	3.4	22%
<b>Fire</b>										
General Fund Operations	40.1	38.0	33.7	42.0	36.0	26.1	34.8	1.2	(7.3)	-17%
Grants & Other Special Revenues	-	0.1	0.2	0.0	(0.0)	0.0	0.0	(0.0)	0.0	9575%
Airport	3.0	4.5	3.9	4.0	4.4	3.4	4.6	(0.2)	0.5	13%
Port	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.0	0.0	9%
Subtotal - Fire	43.5	42.8	38.2	46.4	40.7	29.8	39.7	1.0	(6.7)	-14%
<b>Sheriff</b>										
General Fund Operations	9.8	9.7	14.2	19.0	12.6	18.2	24.3	(11.7)	5.3	28%
Grants & Other Special Revenues	0.9	0.8	0.6	0.4	0.4	0.4	0.6	(0.2)	0.2	38%
Subtotal - Sheriff	10.7	10.5	14.8	19.5	13.0	18.7	24.9	(11.9)	5.4	28%
<b>Subtotal - Top 5</b>	<b>142.8</b>	<b>148.5</b>	<b>156.8</b>	<b>184.2</b>	<b>129.6</b>	<b>138.7</b>	<b>185.0</b>	<b>(55.4)</b>	<b>0.8</b>	<b>0%</b>
Public Utilities Commission	6.0	6.9	6.9	6.7	4.0	5.2	7.0	(2.9)	0.3	4%
Emergency Management	1.1	1.6	2.6	3.5	3.2	2.9	3.8	(0.6)	0.3	9%
Human Services	0.8	2.9	3.8	3.7	0.5	2.4	3.3	(2.7)	(0.4)	-12%
Airport Commission	2.8	3.0	3.9	3.3	3.2	2.2	2.9	0.3	(0.4)	-11%
Public Works	2.0	2.3	2.8	2.2	1.8	1.9	2.6	(0.7)	0.4	19%
City Admin	0.8	1.3	1.4	1.9	0.7	1.5	2.0	(1.2)	0.1	5%
Juvenile Probation	1.4	1.5	1.6	1.6	0.8	1.1	1.4	(0.7)	(0.2)	-12%
Technology	1.0	1.1	1.0	0.9	0.5	0.9	1.1	(0.6)	0.2	24%
Recreation and Park Commission	0.8	1.2	1.2	1.0	1.4	0.8	1.1	0.3	0.1	14%
Fine Arts Museum	0.7	0.9	0.9	1.1	0.5	0.7	1.0	(0.5)	(0.1)	-13%
All Other Departments	2.2	1.7	2.1	2.4	1.8	2.0	2.6	(0.8)	0.2	9%
<b>Citywide Total</b>	<b>162.6</b>	<b>172.9</b>	<b>184.9</b>	<b>212.4</b>	<b>148.2</b>	<b>160.3</b>	<b>213.7</b>	<b>(65.6)</b>	<b>1.4</b>	<b>1%</b>
<b>Top 5 % of Total</b>	<b>88%</b>	<b>86%</b>	<b>85%</b>	<b>87%</b>	<b>87%</b>	<b>87%</b>	<b>87%</b>			
Change from Prior Year Actual	9.7	10.3	12.0	27.5			1.4			
<b>Total Gross Salaries (Cash Compensation)</b>	<b>2,802</b>	<b>2,870</b>	<b>2,951</b>	<b>3,201</b>	<b>3,494</b>	<b>2,366</b>	<b>3,155</b>			
<b>Overtime as a % of Total Gross Salaries</b>	<b>5.8%</b>	<b>6.0%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>4.2%</b>	<b>6.8%</b>	<b>6.8%</b>			

## **Staff Contacts**

---

Michelle Allersma, Director of Budget & Analysis, [Michelle.Allersma@sfgov.org](mailto:Michelle.Allersma@sfgov.org)

Maggie Han, Budget and Revenue Analyst, [Maggie.x.Han@sfgov.org](mailto:Maggie.x.Han@sfgov.org)

Yuri Hardin, Budget and Revenue Analyst, [Yuri.Hardin@sfgov.org](mailto:Yuri.Hardin@sfgov.org)

Theresa Kao, Citywide Budget Manager, [Theresa.Kao@sfgov.org](mailto:Theresa.Kao@sfgov.org)

Jay Liao, Budget and Revenue Analyst, [Jay.Liao@sfgov.org](mailto:Jay.Liao@sfgov.org)

Carol Lu, Citywide Revenue Manager, [Carol.Lu@sfgov.org](mailto:Carol.Lu@sfgov.org)

Michael Mitton, Budget and Revenue Analyst, [Michael.Mitton@sfgov.org](mailto:Michael.Mitton@sfgov.org)

Jamie Whitaker, Property Tax Manager, [James.Whitaker@sfgov.org](mailto:James.Whitaker@sfgov.org)