

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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October 20, 2011

TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst
SUBJECT: October 26, 2011 Budget and Finance Committee Meeting

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Item 1**File 11-1010**

(This item was referred by the Board of Supervisors, at its meeting of October 18, 2011, to the Budget and Finance Committee due to a clerical error.)

Department:

Controller's Office of Public Finance

EXECUTIVE SUMMARY**Legislative Objectives**

- The proposed resolution authorizes the issuance “from time to time” of not to exceed \$1,355,991,219 of General Obligation (GO) Refunding Bonds and the specific parameters of the GO Refunding Bonds issuance(s), including (a) approving the form and terms, (b) authorizing the execution, authentication and registration, (c) approving the form and authorizing the execution and delivery of escrow agreements, (d) approving and directing the tax levy for repayment, (e) approving procedures for competitive or negotiated sales including approving forms of Official Notice of Sale and Notice of Intention to Sell, (f) authorizing the selection of underwriters and the execution and delivery of Bond purchase agreements, (g) approving the form and authorizing the execution and delivery of continuing disclosure certificates, and (h) authorizing the costs of issuance.

Key Points

- The proposed resolution authorizes the Director of Public Finance to determine (a) which prior GO Bonds would be refunded and (b) the sale dates, interest rates, maturity dates, redemption dates and the terms for such redemptions, such that the principal amounts do not exceed \$1,355,991,219.
- The proposed resolution would also approve the form and authorize the distribution of the Preliminary Official Statement and authorize the execution, delivery and distribution of the Official Statement for the initial series of approximately \$411,480,000 in GO Refunding Bonds to be issued on or around November 2011.

Fiscal Impact

- The proposed \$411,480,000 initial series GO Refunding Bonds issuance will have an estimated annual interest rate of 2.57 percent, through FY 2030-31 for a total debt service cost over 19 years of \$482,483,000 including (a) estimated total interest costs of \$71,350,000 and (b) estimated total principal costs of \$411,480,000.
- The City's proposed 2011 \$411,480,000 initial series GO Refunding Bond issuance would result in an estimated gross total savings to the City of approximately \$42,408,630. On a net present value basis, the estimated total savings would be approximately \$36,345,197 or 9.4 percent of the \$387,535,000 in outstanding GO Bonds as of September 12, 2011.

Policy Considerations

- The Budget and Legislative Analyst notes that the proposed resolution authorizing up to \$1,355,991,219 in GO Refunding Bonds from time to time at the discretion of the Controller's Office of Public Finance does not include a time limit, although the prior authorization included a five-year limitation. It is the Budget and Legislative Analyst's professional judgment that the proposed resolution should not provide open-ended authority for the Office of Public Finance to reissue GO Bonds, without any further review by the Board of Supervisors given the expectation that market conditions and the City's financial circumstances may change significantly over time.

Recommendations

- Amend the proposed resolution to limit the authorization issuance “from time to time” of not to exceed \$1,355,991,219 of G.O Refunding Bonds to five years.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Section 9.106 of the City's Charter provides that the Board of Supervisors is authorized to approve the issuance and sale of any General Obligation Refunding Bonds in accordance with State law or local procedures adopted by ordinance without voter approval if the Refunding Bonds result in net debt service savings to the City and County on a present value basis.

Background

San Francisco's General Obligation (GO) Bonds are secured by a pledge to levy Property Taxes in an amount necessary to fully pay the debt service. According to the Controller's Office of Public Finance document, "Debt Policy of the City and County of San Francisco", the City generally issues GO Bonds to finance the acquisition, improvement, and/or construction of real property, including libraries, hospitals, parks, public safety facilities, cultural facilities, and educational facilities.

GO Refunding Bonds are issued to achieve debt service savings for the City by redeeming previously issued higher interest rate GO Bonds with new lower interest rate GO Refunding Bonds. According to the City's Debt Policy, GO Refunding Bond issuances must produce minimum net debt service savings of at least three percent, when compared to the debt service costs of the original GO Bonds.

Section 9.106 of the City Charter Imposes a Debt Limit on GO Bonds

Section 9.106 of the City Charter limits the amount of GO Bonds the City can have outstanding at any given time to three percent of the total assessed value of property in the City. According to Ms. Nadia Sesay, Director of the Controller's Office of Public Finance, as of September 12, 2011, the City had a total of \$1,355,991,219 in GO Bonds outstanding (See Attachment), or approximately .85 percent of the \$158,649,887,998 total assessed property value in the City. According to Mr. Anthony Ababon, Bond Associate for the Controller's Office of Public Finance, as shown in the Attachment, \$1,164,889,772 of GO Bonds remains authorized, but unissued. If all \$1,164,889,772 in authorized but unissued GO Bonds were issued, the total GO Bonds outstanding would be \$2,520,880,991 or 1.59 percent of the total net assessed value of property in the City. Mr. Ababon advises that the authorized but unissued GO Bonds will be issued as needed to fund the various projects authorized by the San Francisco voters, including the San Francisco General Hospital Rebuild, Earthquake Safety and Emergency Response, and Clean and Safe Neighborhood Parks, depending on the specific funding and timing needs of each project.

The Board of Supervisors Previously Approved GO Refunding Bonds to Be Issued at the Discretion of the Office of Public Finance

On May 11, 2004, the Board of Supervisors approved a resolution authorizing the issuance "from time to time" of not-to-exceed \$800,000,000 in GO Refunding Bonds (Resolution No. 0272-04). This previously approved resolution provided the discretion to the Office of Public Finance to issue up to \$800,000,000 of GO Refunding Bonds for five years, or through June 30, 2009, but

retained the Board of Supervisors' authority to approve the Preliminary Official Statements and Official Statements for each GO Refunding Bond issuance during that five-year period. According to Mr. Ababon, while the City's total outstanding GO Bond debt was \$910,865,000 at the time the May 11, 2004 resolution was approved, the \$800,000,000 not-to-exceed amount was determined to be sufficient to refund all of the \$910,865,000 in total outstanding GO Bond debt before June 30, 2009 and was therefore chosen as the not-to-exceed amount for this authorization. According to Mr. Ababon, the City subsequently issued GO Refunding Bonds in the total principal amount of \$568,710,000 resulting in total net present value debt service savings of approximately \$41,293,098.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the issuance "from time to time" of not-to-exceed \$1,355,991,219 of G.O Refunding Bonds and the specific parameters for those GO Refunding Bonds issuance(s), including (a) approving the form and terms, (b) authorizing the execution, authentication and registration, (c) approving the form and authorizing the execution and delivery of escrow agreements, (d) approving and directing the Property Tax levy for repayments, (e) approving procedures for competitive or negotiated sales including approving forms of Official Notice of Sale and Notice of Intention to Sell, (f) authorizing the selection of underwriters and the execution and delivery of Bond purchase agreements, (g) approving the form and authorizing the execution and delivery of continuing disclosure certificates, and (h) authorizing the costs of issuance. Under the proposed resolution, the Board of Supervisors would still retain the authority to approve the Preliminary Official Statements and Official Statements for each issuance authorized under the proposed resolution.¹

The proposed resolution also authorizes the Director of Public Finance to determine (a) which series (or maturities within any series) of prior GO Bonds would be refunded, and (b) the sale dates, interest rates, maturity dates, redemption dates and the terms of any redemption of GO Bonds for a principal amount not-to-exceed \$1,355,991,219.

In addition, the proposed resolution authorizes the specific initial issuance (initial series) of \$411,480,000 in GO Refunding Bonds, including authorizing the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement.

The proposed resolution imposes the following terms and conditions on the sale of future GO Refunding Bonds:

- a) Total present value of the aggregated debt service to maturity on each GO Refunding Bond shall not exceed the total present value of the aggregated debt service to maturity on the prior GO Bonds to be refunded;

¹ According to Ms. Sesay, the Office of Public Finance would submit a proposed resolution to the Budget and Finance Committee to approve the Preliminary Official Statement and will also draft a summarizing memo. The Budget and Finance Committee would approve the Preliminary Official Statement and the Official Statement of each issuance based on the information provided in a summarizing memo which will confirm in detail that all essential criteria of issuance have been met for that issuance. Once the Budget and Finance Committee has approved the Preliminary Official Statement and Official Statement, approval will be subject to the full Board of Supervisors.

- b) GO Refunding Bonds must achieve a minimum three percent net present value savings, including costs of issuance;
- c) True interest cost of the GO Refunding Bonds must not exceed 12 percent;
- d) GO Refunding Bonds must not have a final maturity date later than the maturity date of the GO Bonds to be refunded;
- e) Cost of issuance must not exceed two percent and the underwriter's discount² must not exceed one percent of the principal amount of the GO Refunding Bonds.

The proposed resolution authorizes the Preliminary Official Statement and authorizes the execution, delivery, and distribution of the Official Statement for the initial series of \$411,480,000 in GO Refunding Bonds.

The proposed resolution would approve the form and authorize the distribution of the Preliminary Official Statement and authorize the execution, delivery and distribution of the Official Statement for an initial issuance of an estimated initial series \$411,480,000 in GO Refunding Bonds. According to Ms. Sesay, this estimated initial series \$411,480,000 in GO Refunding Bonds would be issued around November, 2011 to refund (a) \$384,020,000 in outstanding tax-exempt GO Bonds and (b) \$3,515,000 in outstanding taxable GO Bonds. However, Ms. Sesay notes that the actual amount of this initial issuance of GO Refunding Bonds may be revised based on market conditions up to the day of the sale.

Based on an anticipated November, 2011 GO Refunding Bond issuance and redemption of the existing GO Bonds on December 2, 2011 and June 15, 2012, as shown in Table 2 below, the estimated cost of refunding the previously issued \$387,535,000 in GO Bonds is \$409,092,370, which is \$21,557,370 or 5.56 percent more than the current \$387,535,000 in outstanding principal on the previously issued GO Bonds. As shown in Table 1 below, this additional \$21,557,370 is due to (a) \$14,732,970 of interest expenses accruing on the existing GO Bonds from the last interest payment on June 15, 2011 until redemption of those GO Bonds on either December 2, 2011 or June 15, 2012, and (b) \$6,824,400 additional cost to redeem the GO Bonds being refunded at 100 to 102 percent of their existing principal.

² The underwriter's discount is the difference between the purchase price paid to the issuer for a new issue and the sum of the prices at which the bonds are initially offered to the investing public by the underwriter.

Table 1: Estimated Cost of Redeeming \$387,535,000 in Previously Issued GO Bonds						
	Principal Amount Remaining on GO Bonds to Be Refunded	Redemption Dates	Interest Expense from June 15, 2011 to Redemption Dates	Percentage of Principal Required to Redeem Tax-Exempt and Taxable Bonds	Redemption Premium in Dollars Over Principal Amount Required to Redeem Tax-Exempt and Taxable Bonds	Total Cost of Redeeming Bond Series
Taxable Bonds						
Total Taxable Bonds	\$3,515,000	12/2/2011	\$110,063	100%	0	\$3,625,063
Tax-Exempt Bonds						
	\$18,610,000	12/2/2011	\$335,682	100.5	\$93,050	\$19,038,732
	57,685,000	12/2/2011	1,054,043	101	576,850	59,315,893
	56,995,000	12/2/2011	1,169,838	102	1,139,900	59,304,738
	250,730,000	6/15/2012	12,063,344	102	5,014,600	267,807,944
Total Tax-Exempt Bonds	\$384,020,000		\$14,622,907		\$6,824,400	\$405,467,307
Total Estimated Cost to Redeem Previously Issued GO Bonds	\$387,535,000		\$14,732,970*		\$6,824,400*	\$409,092,370

*\$14,732,970 plus \$6,824,400 equals \$21,557,370

As shown in Table 1 above, because \$250,730,000 of the existing GO Bonds cannot be redeemed until June 15, 2012, Mr. Ababon estimates that approximately \$98,178 in interest will be earned from the new GO Refunding Bond issuance from November, 2011 through the June 15, 2012 redemption date. Therefore, as shown in Table 2 below, rather than \$409,092,370 being needed to redeem the bonds, costs would be reduced by \$98,178 from additional interest earnings, such that \$408,994,192 is estimated to be required to refund the subject bonds as of September 12, 2011.

Table 2: Estimated Net Cost of Redeeming Previously Issued GO Bonds	
Total Estimated Cost of Redeeming \$387,535,000 in GO Bonds	\$409,092,370
Interest Earned on \$141,283,268 Deposited in Escrow from November, 2011 through December 2, 2011	1,158*
Interest Earned on \$6,031,601 Deposited in Escrow from November, 2011 through December 15, 2011	70*
Interest Earned on \$261,679,322 Deposited in Escrow from November, 2011 through June 15, 2012	96,950*
Estimated Net Cost to Redeem Previously issued GO Bonds	\$408,994,192

*\$1,158 plus \$70 plus \$96,950 equals \$98,178

As summarized in Table 3 below, the total refunding cost from the initial series GO Refunding Bond issuance is estimated to be \$411,480,000, including (a) \$408,994,192 to redeem the outstanding \$387,535,000 from the previously issued \$384,020,000 in tax-exempt GO Bonds and \$3,515,000 in taxable GO Bonds, plus (b) \$2,485,808 in financing costs.

Net Cost to Redeem Previously issued GO Bonds (see Table 1 above)	\$408,994,192
Financing Costs	
Underwriter's Discount	2,057,400
Cost of Issuance	428,408
Subtotal	\$2,485,808
Total Refunding Costs	\$411,480,000

FISCAL IMPACTS

Proposed issuance of not-to-exceed \$1,355,991,219 of GO Refunding Bonds is Equal to the Amount of GO Bond Debt Held by the City

According to Mr. Ababon, the Office of Public Finance is requesting authorization to issue not-to-exceed \$1,355,991,219 in GO Refunding Bonds "from time to time" in order to access favorable market opportunities in the future and achieve maximum savings for the City without having to delay such an issuance which may result from requiring Board of Supervisors approval and risk losing any portion of the possible savings which could be achieved given the current state of the market. As previously discussed, the City has a current total of \$1,355,991,219 in GO Bonds outstanding (see Attachment), or approximately .85 percent of the \$158,649,887,998 total assessed property value in the City.

Anticipated Annual Debt Service and Total Costs of the \$411,480,000 GO Refunding Bond Issuance

Ms. Sesay anticipates that the proposed initial series \$411,480,000 in GO Refunding Bonds issuance will have an estimated annual interest rate of 2.57 percent over 19 years, or through FY 2030-31 for a total debt service cost of approximately \$482,483,000 including (a) estimated total interest costs of \$71,350,000 and (b) estimated total principal costs of \$411,480,000. The current interest rate on the GO Bonds proposed to be refunded is 4.65 percent, such that the proposed refunding will result in a savings of approximately 2.08 percent. The average annual debt service payment over the 19-year period would be approximately \$25,393,842.

The issuance of the initial series \$411,480,000 in GO Refunding Bonds will result in an increase in the ratio of debt versus total assessed value of property by 0.01 percent, from .85 percent to .86 percent resulting in the City holding 0.86 percent of the assessed value of property in debt. This is within the previously discussed three percent legal debt limit.

Given that the purpose of the proposed refunding is to achieve annual debt service savings, as shown in Table 5 below, Ms. Sesay estimates that the City's proposed 2011 initial series \$411,480,000 in GO Refunding Bonds would result in an estimated gross total savings to the City of approximately \$42,408,630. On a net present value basis, the estimated total savings would be approximately \$36,345,197 or 9.4 percent of the \$387,535,000 outstanding GO Bonds as of September 12, 2011.

Fiscal Year	Current Debt Service on GO Bonds to be Refunded	Estimated Debt Service if Proposed GO Refunding Bonds are Issued	Gross Estimated Savings
FY 2011-12	\$53,574,478	\$49,877,890	\$3,696,588
FY 2012-13	53,485,150	49,803,928	3,681,222
FY 2013-14	44,722,675	41,522,319	3,200,356
FY 2014-15	39,384,553	36,157,841	3,226,712
FY 2015-16	39,328,588	36,105,489	3,223,099
FY 2016-17	39,284,758	36,044,914	3,239,844
FY 2017-18	39,230,805	35,995,475	3,235,330
FY 2018-19	39,191,355	35,948,995	3,242,360
FY 2019-20	39,196,218	35,970,674	3,225,544
FY 2020-21	35,912,546	32,683,676	3,228,870
FY 2021-22	28,280,728	25,966,318	2,314,410
FY 2022-23	26,151,488	24,019,966	2,131,522
FY 2023-24	22,492,156	20,635,616	1,856,540
FY 2024-25	16,623,225	15,288,388	1,334,837
FY 2025-26	4,897,263	4,580,858	316,405
FY 2026-27	4,898,000	4,586,570	311,430
FY 2027-28	4,896,500	4,583,003	313,497
FY 2028-29	4,895,000	4,580,260	314,740
FY 2029-30	4,893,000	4,577,676	315,324
Total	\$541,338,486	\$498,929,856	\$42,408,630

There are no Additional Issuances Beyond the \$411,480,000 Issuance Anticipated at This Time

If the proposed resolution is approved and the anticipated initial series \$411,480,000 in GO Refunding Bonds are issued, refunding of the remaining \$944,511,219 (\$1,355,991,219 authorization less \$411,480,000 initial series refunding in November 2011) would not be subject to separate Board of Supervisors approval. However, the Budget and Legislative Analyst notes that, according to Mr. Ababon, there are no additional GO Refunding Bond issuances anticipated as of September 12, 2011, other than the above-noted initial series \$411,480,000 in GO Refunding Bonds to be issued on or around November of 2011.

POLICY CONSIDERATIONS

The Budget and Legislative Analyst notes that the proposed resolution authorizing up to \$1,355,991,219 in GO Refunding Bonds from time to time at the discretion of the Controller's Office of Public Finance does not include a time limit. A May 11, 2004 resolution, previously approved by the Board of Supervisors, which authorized up to \$800,000,000 in GO Refunding Bonds at the discretion of the Controller's Office of Public Finance, provided such refunding

authorization for a five-year specified time period, in contrast to authorization requested under the proposed resolution wherein there would be no time limit. It is the Budget and Legislative Analyst's professional judgment that the proposed resolution should not provide open-ended authority for the Office of Public Finance to issue GO Bonds, without any further review by the Board of Supervisors, given the expectation that market conditions and the City's financial circumstances may change significantly over time. Ms. Sesay advises that, if a five-year time limit is included, that the Office of Public Finance will likely not be able to refund all \$1,355,991,219 in GO Bonds within that period of time. The Budget and Legislative Analyst notes that the proposed resolution contains a not-to-exceed amount only and does not mandate that the entire \$1,355,991,219 in GO Bonds be refunded.

In the professional judgment of the Budget and Legislative Analyst, five years is a reasonable timeframe to allow the Controller's Office of Public Finance sufficient flexibility and time to issue a significant portion of the \$1,355,991,219 in proposed GO Refunding Bonds, dependent on market conditions while retaining the Board of Supervisors long-term oversight authority over debt issuances into the future as circumstances change. If it is favorable to the City for subsequent GO Refunding Bonds to be issued after that five-year time period, the Office of Public Finance should request Board of Supervisors approval for the proposed issuance at that time.

The Budget and Finance Committee, at its meeting of October 5, 2011, amended the proposed resolution to incorporate a 5-year time limit.

RECOMMENDATION

Approve the proposed resolution.

Item 2 File 11-1090	Departments: Recreation and Park Department (RPD)
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EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would amend the existing lease between the City, as lessor, and the St. Francis Yacht Club, as lessee, authorizing the Recreation and Park Department (RPD) to grant rent credits to the St. Francis Yacht Club for any work performed by the City or the City’s contractors, to repair, maintain, or improve the Marina. Under the proposed lease amendment, the RPD’s General Manager must approve any rent credits to the St. Francis Yacht Club up to \$50,000, and the Recreation and Park Commission must approve rent credits that exceed \$50,000.

Key Points

- Ms. Katharine Petrucione of the Recreation and Park Department (RPD) requests that the proposed resolution be continued to the Call of the Chair.

Recommendation

- Based on the request by the Recreation and Park Department, continue the proposed resolution to the Call of the Chair.

Item 4
File 11-1084

Department:
Department of Children, Youth and Their Families (DCYF)

EXECUTIVE SUMMARY

Legislative Objective

- Ordinance appropriating \$1,900,000 from the Children's Fund Designated Contingency for the Department of Children, Youth, and Their Families (DCYF), to fund 196 slots in childcare programs provided by 15 non-profit Community Based Organizations (CBOs) to offset State funding reductions in FY 2011-12.

Key Points

- The State of California provides grant funds to non-profit CBOs that provide childcare services to low-income families under Title 5 of the California Education Code. In FY 2010-11, the State provided \$16,331,246 in Title 5 grants to 15 San Francisco non-profit CBOs to fund 1,834 slots in childcare programs, based on an estimated cost of \$8,900 for each childcare slot. These child care programs generally provide care and education for children from birth to five years of age. In FY 2011-12, the State reduced funding to the 15 San Francisco CBOs by \$2,316,625, from \$16,331,246 to \$14,014,621, equivalent to 1,575 slots in childcare programs, based on an estimated cost of approximately \$8,900 for each slot in the childcare program. The reduction in State funding in FY 2011-12 compared to FY 2010-11 resulted in approximately 259 fewer slots in childcare programs.
- The FY 2011-12 DCYF budget, as previously approved by the Board of Supervisors, contained a Children's Fund Designated Contingency of \$2,600,000 to offset estimated reductions in State funding for youth and children's programs, including childcare programs. DCYF is now requesting the appropriation of \$1,843,125 in Children's Fund Designated Contingency funds, which would fund a work order between DCYF and the Human Services Agency (HSA). HSA would use such monies to pay for 196 slots in childcare programs provided by the 15 CBOs based on an estimated cost of approximately \$9,258 per childcare slot (excluding program administrative costs) and to pay for program administrative costs.

Fiscal Impacts

- The Budget and Legislative Analyst recommends reducing the proposed appropriation request by \$56,875, from \$1,900,000 to \$1,843,125 to reflect the requested costs of funding the 196 slots in the Title 5 childcare programs.
- According to Ms. Tara Madison, DCYF Operations and Budget Director, DCYF has no immediate plans at this time to request appropriation of the balance of Children's Fund Designated Contingency amount of \$756,875 (\$2,600,000 less \$1,843,125). However, due to the possibility of additional State reductions for other youth and children's programs, including childcare programs, DCYF may submit another request to the Board of Supervisors if additional monies are needed.

Recommendation

- Amend the proposed ordinance to reduce the appropriation by \$56,875, from \$1,900,000 to \$1,843,125.
- Approve the proposed ordinance, as amended.

MANDATE STATEMENT

Mandate Statement

Charter Section 9.105 requires that amendments to the Annual Appropriation Ordinance be approved by ordinance of the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The Department of Children, Youth, and Their Families' (DCYF) FY 2011-12 budget, as previously appropriated by the Board of Supervisors, included a Children's Fund Designated Contingency of \$2,600,000 to offset estimated reductions in State funding for youth and children's programs, including childcare programs. The proposed ordinance would appropriate \$1,900,000 in Children's Fund Designated Contingency monies to pay for an estimated 196 slots in childcare programs, previously funded by the State of California. Child care programs generally provide care and education for children from birth to five years of age.

The State provides grant funds directly to non-profit Community Based Organizations (CBOs) that provide childcare services, including slots in childcare programs, to low-income families under Title 5 of the California Education Code.¹ In FY 2010-11, the State provided 15 San Francisco CBOs \$16,331,246 in Title 5 grants to fund 1,834 slots in childcare programs, based on an estimated cost of approximately \$8,900 for each slot in the childcare program.

In FY 2011-12, the State reduced funding to the 15 San Francisco CBOs by \$2,316,625, from \$16,331,246 to \$14,014,621, to fund 1,575 slots in childcare programs, with an estimated cost of approximately \$8,900 for each slot in the childcare program. This represented a reduction of 259 slots in childcare programs in FY 2011-12 compared to FY 2010-11.

In accordance with the budget submitted by DCYF, the estimated cost to fund 196 slots in childcare programs is \$1,814,722 (see Attachment I), which is an average cost of approximately \$9,258 for each slot in a childcare program². Additionally, DCYF is requesting \$28,403 (see Attachment II) for the administrative costs related to this program, for a total request of \$1,843,125.

FISCAL IMPACTS

Although the proposed ordinance appropriates \$1,900,000 in Children's Fund Designated Contingency funds, DCYF has provided a budget for \$1,843,125 as follows:

¹ Title 5 of the California Education Code provides definitions of facilities designated for childcare and the process by which Community Based Organizations can apply for State funding through grants. This is separate from the CalWORKS voucher funding for childcare that the State also provides.

² The estimated cost per slot in a childcare program is based on the CBO's operating and administrative costs for providing the program, including salaries, materials, facility costs, and other operating and administrative costs.

<u>Sources of Funds</u>	
Children's Funds Designated Contingency	\$1,900,000
<u>Uses of Funds</u>	
Childcare Services Provided by CBOs	1,814,722
Program Administrative Costs	<u>28,403</u>
	1,843,125
Unallocated Amount	\$56,875

According to Ms. Taras W. Madison, Budget and Operations Director for DCYF, under the proposed ordinance, \$1,843,125 in Children's Fund Designated Contingency funds would be work ordered to HSA. HSA would enter into new grant agreements with the 15 CBOs, for the expenditure of \$1,814,722 in Children's Fund monies to pay for the childcare slots. The balance of \$28,403 would pay for the program's administrative costs.

Attachment I, provided by Ms. Madison, provides details of the allocation for each of the 15 CBOs, totaling \$1,814,722, under this requested appropriation. As shown in Attachment I, the requested amount of \$1,814,722 from the Children's Fund Designated Contingency would pay for an estimated 196 slots in childcare programs, or an estimated amount of \$9,258 for each slot in the childcare program.

Attachment II, provided by Ms. Madison, provides details of the \$28,403 requested for the program's administrative costs.

The Budget and Legislative Analyst recommends amending the proposed ordinance to reduce the appropriation by \$56,875, from \$1,900,000 to \$1,843,125 to reflect the requested costs of financing the 196 slots in childcare programs and the related HSA administrative costs.

Although the reduction of State funding in FY 2011-12, as compared to FY 2010-11, resulted in 259 fewer slots in childcare programs, DCYF is requesting appropriation of Children's Fund Designated Contingency funds sufficient to fund 196 slots in childcare programs (63 less than in FY 2010-11). According to Ms. Madison, the \$1,814,722 in requested Children's Fund monies to pay for 196 slots in childcare programs is based on the 15 CBOs' response to DCYF's Notice of Funding Availability (NOFA). Ms. Madison states that the 63 unfunded childcare slots will be addressed by other identified funding, such as filling slots in childcare programs with private payers or using other funds to supplement the costs of subsidized slots in childcare programs, and will result in the same level of service in FY 2011-12 as in FY 2010-11.

The requested appropriation amount of \$1,843,125 in Children's Fund Designation Contingency would leave an unappropriated balance of \$756,875 (\$2,600,000 less \$1,843,125). According to Ms. Madison, DCYF has no immediate plans, at this time, to request appropriation of the balance of the Children's Fund Designated Contingency amount. However, due to the possibility of additional State reductions, DCYF may submit another request to the Board of Supervisors if additional monies are needed.

RECOMMENDATIONS

1. Amend the proposed ordinance to reduce the appropriation by \$56,875, from \$1,900,000 to \$1,843,125.
2. Approve the proposed ordinance, as amended.

Community Based Organization	FY10-11 Total State Contract Amount	Approximate Childcare Slots for FY10-11	FY11-12 Total State Contract Amount	Approximate Childcare Slots for FY11-12	State Reduction from FY 2010-11 to FY 2011-12	Amount Requested from City	Approximate Slots From Requested City Amount	Approximate Total Number of Slots Under Proposed Ordinance
Catholic Charities	\$418,418	47	\$360,043	40	\$58,375	\$58,375	6	46
Chinatown Community	424,245	47	365,057	41	59,188	50,000	5	46
Compass Children's Center	639,121	72	549,955	62	89,166	89,166	10	72
Economic Opportunity Council	2,886,491	325	2,483,344	280	403,147	261,097	29	309
Florence Crittenton/WY	2,639,337	297	2,270,981	256	368,356	281,392	31	287
Frandeja	424,494	47	365,270	41	59,224	59,224	6	47
Family Services Agency	1,279,293	144	1,100,815	124	178,478	140,000	15	139
Good Samaritan FRC	282,265	31	242,604	27	39,661	39,661	4	31
Janet Pomeroy Center	723,883	81	617,388	69	106,495	104,965	11	80
Mission CC Consortium	2,047,471	230	1,761,822	198	285,649	285,649	32	230
Mission Neighborhood Centers	1,419,533	160	1,190,403	134	229,130	35,120	3	137
South of Market Child Care	607,194	68	522,482	58	84,712	67,000	7	65
Telegraph Hill	143,300	16	123,207	13	20,093	20,093	2	15
True Sunshine	313,163	35	269,473	30	43,690	31,719	3	33
Wu Yee Children's Services	2,083,038	234	1,791,777	202	291,261	291,261	32	234
TOTAL	\$16,331,246	1,834	\$14,014,621	1,575	\$2,316,625	\$1,814,722	196	1,771

Children's Council of San Francisco

H.S.A

Attachment II

SF Title 5 (SFT5)

Draft 5 - Budget

July 1, 2011 to June 30, 2012

PERSONNEL

Salaries	Annual Rate	FTE Prct	Mod.	Budget
Fiscal Department Manager	\$ 85,014	4.00%	1.00	\$ 3,401.00
Staff Accountant-Ordaz Cabrera, J- L-6	45,767	17.00%	1.00	7,780.00
Systems Admin. Manager	78,517	1.20%	1.00	942.00
Total Salaries		22.20%		12,123.00
		Operating FTE		
FRINGE BENEFITS				
FICA		7.65%		927.00
SUI		1.05%		127.00
Workers' Compensation		2.05%		249.00
Retirement		3.00%		364.00
Medical Benefits		15.39%		1,866.00
Total Fringes		29.14%		3,533.00
Total Personnel				15,656.00
Start-up Costs				
Systems Admin. Manager	78,517	2.00%		1,570.00
Fringes	Rate	29.14%		457.00
Total Start-up Costs				2,027.00
Other Administrative Costs				
Office Supplies				697.00
Printing and Photocopying				356.00
Software and License Fees				400.00
Postage				455.00
Telephone				515.00
Repair and Maintenance				529.00
Rent and Utilities				3,937.00
Total Non Personnel Expenses		24%		6,889.00
Administrative Cost		11%		3,256.00
Direct Program Expenses				
Bank Fees				500.00
Translations				-
Local Travel				75.00
Training/Conference				
Total Direct Program Expenses				575.00
Total Administrative Costs				\$ 28,403.00
Pass-through				
Provider Payments	Avg. per month	151,226.83		1,814,722
				1,814,722
Total Costs				\$ 1,843,125

**Items 5, 6, and 7
Files 11-0986, 11-0987, 11-0988**

**Department:
San Francisco International Airport (Airport)**

EXECUTIVE SUMMARY

Legislative Objectives

- **11-0986** - Resolution approving the First Amendment to the lease between the Airport and Pacific Gateway Concessions, LLC to retroactively extend the existing lease on a month to month basis for the newsstand in Terminal 3, Boarding Area E, for one year from March 14, 2011 through March 13, 2012.
- **11-0987** - Resolution approving the Fourth Amendment to the lease between the Airport and Pacific Gateway Concessions, LLC to renew the existing lease for four retail concessions in Terminal 1, Boarding Areas B and C, for two years from June 18, 2012 through June 17, 2014, with two additional one year options to extend, or through June 17, 2016.
- **11-0988** - Resolution approving the Third Amendment to the lease between the Airport and Books, Inc. to extend the North Terminal Bookstore Lease in Terminal 3, adjacent to Security Checkpoint F, for 18 months from March 15, 2012 through September 14, 2013.

Key Points

- The Airport is requesting short term extension of two leases and renewal of one lease due to the planned remodel of terminal boarding areas and a security checkpoint adjacent to the lease locations. The short term extensions and lease renewal would give the Airport flexibility to terminate the leases at the beginning of needed construction in each of the terminal boarding areas and the security checkpoint.
- The Airport intends to begin seismic remodeling in Terminal 3, Boarding Area E, adjacent to the existing newsstand space leased by Pacific Gateway Concessions, LLC in the Spring of 2012. The proposed one-year extension of the existing lease between the Airport and Pacific Gateway Concessions, LLC, would be retroactive from March 14, 2011 through March 13, 2012 and would terminate at the time that the seismic remodeling is scheduled to begin. Mr. John Reeb, Airport Senior Property Manager, states that the proposed lease extension, which was approved by the Airport Commission on June 30, 2011, is retroactive due to the time required to complete the lease extension negotiations (File 11-0986).
- The Airport intends to begin seismic remodeling in Terminal 1, Boarding Area B, adjacent to four retail concession spaces leased by Pacific Gateway Concessions, LLC, in approximately 2016. The proposed two-year lease renewal, with two one-year options to extend, between the Airport and Pacific Gateway Concessions, LLC, would terminate in approximately June 2016, if the options to extend are exercised, which is the estimated date that the seismic remodeling would begin (File 11-0987).
- The Airport intends to remove Security Checkpoint F in Terminal 3, adjacent to the North Terminal Bookstore, in approximately FY 2013-14. The proposed 18-month lease extension between the Airport and Books, Inc., from March 15, 2012 to September 14, 2013, would terminate at approximately the estimated start date of the construction to remove Security Checkpoint F in 2013 (File 11-0988).

Fiscal Impacts

- The rental rates in the three leases are based on the higher of percentage rents or the Minimum Annual Guarantee (MAG). Under the proposed resolutions, the rental rates in the two proposed lease extensions and the one proposed lease renewal are the same rental rates as are paid under the existing leases. According to Mr. Reeb, the Airport is not proposing increases in rental rates because the percentage rents are comparable to other Airport concession leases. Mr. Reeb notes that the MAGs are subject to annual Consumer Price Index (CPI) adjustments.

- Mr. Reeb estimates total lease revenues for the three subject leases during the extended lease terms would be \$6,490,985.

Recommendations

- Amend File 11-0986 to specify that the proposed lease extension is retroactive to March 14, 2011.
- Approve File 11-0986, as amended.
- Approve Files 11-0987 and 11-0988.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with City Charter Section 9.118(c), any lease exceeding ten years and/or having anticipated revenue of \$1,000,000 or greater is subject to the Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

The Airport is planning to seismically remodel Terminal 3, Boarding Area E, and Terminal 1, Boarding Area B, and to remove the existing Security Checkpoint F in Terminal 3. The Airport has three existing leases for concessions located adjacent to these locations. The Airport is proposing short term extensions of two leases and renewal of one lease, which were previously awarded through a competitive process, to allow the Airport to reduce or terminate the leases prior to the planned needed seismic remodels and removal of the security checkpoint. According to Mr. John Reeb, Senior Property Manager at the Airport, the Airport typically enters into leases of 5 to 10 years. The Airport is proposing extension or renewal of the three existing concession leases for shorter terms as follows:

File 11-0986. The existing lease between the Airport and Pacific Gateway Concessions LLC, is for two newsstand locations in Terminal 3: Space A in Boarding Area F and Space B in Boarding Area E. Due to the Airport's anticipated closure of Boarding Area E for seismic remodeling, currently scheduled to begin in the Spring of 2012, the Airport and Pacific Gateway Concessions, LLC entered into a 12 month hold-over extension of the existing lease from March 14, 2010 through March 13, 2011. In April 2011, the Airport revised the lease agreement to remove the newsstand located in Space B in Boarding Area E. Because seismic remodeling of Boarding Area E will impact the remaining newsstand located in Space A in Boarding Area F, the Airport proposes extending the existing lease for one year on a month-to-month basis with the expected termination of the lease in March 2012, which is the approximate date that the seismic remodeling is scheduled to begin. The proposed resolution would approve the First Amendment to the existing lease on a month-to-month basis for one year retroactive to March 14, 2011, through March 13, 2012. Mr. Reeb states that the proposed lease extension, which was approved by the Airport Commission on June 30, 2011, is retroactive due to the time required to complete the lease extension negotiations.

File 11-0987. The existing lease between the Airport and Pacific Gateway Concessions, LLC is for four locations in Terminal 1, Boarding Areas B and C, which provide magazines, specialty books, gifts, candy, souvenirs, and other concessions. The future seismic remodel of Terminal 1,

Boarding Area B, tentatively scheduled to begin in 2015 or 2016, will impact the four locations in Boarding Areas B and C. The proposed resolution would approve renewal of a two-year lease from June 18, 2012 through June 17, 2014, with two one-year extensions through June 17, 2016, in order to give the Airport maximum flexibility to adjust the construction schedule for the seismic remodel and terminate the leases prior to the beginning of the needed construction.

File 11-0988. The existing lease between the Airport and Books, Inc. is for the North Terminal Bookstore adjacent to Security Checkpoint F in Terminal 3. The existing lease is currently on a month-to-month holdover through March 15, 2012. The proposed resolution would approve an extension to existing lease for an additional 18 months on a month-to-month basis, from March 15, 2012 through September 14, 2013 due to the future removal of the current Security Checkpoint F, tentatively scheduled to begin in FY 2013-14.

According to Mr. Reeb, the Airport will conduct a new competitive process for the concession locations, currently covered by the three subject leases, once construction is completed at these locations.

FISCAL IMPACTS

The rental rates in the three leases are based on the higher of percentage rents or the Minimum Annual Guarantee (MAG). Under the proposed resolutions, the rental rates in the two proposed lease extensions and the one proposed lease renewal are the same rental rates as are paid under the existing leases. According to Mr. Reeb, the Airport is not proposing increases in rental rates because the percentage rents are comparable to other Airport concession leases. Mr. Reeb notes that the MAGs are subject to annual Consumer Price Index (CPI) adjustments. Mr. Reeb estimates total lease revenues for the three subject leases during the extended lease terms would be \$6,490,985, as follows:

File	Vendor	Percentage Rent	MAG	Term	Expected Total Rental Revenue to be Paid to the Airport
11-0986	Pacific Gateway Concessions	12% of gross revenue up to \$500,000 14% of gross revenue \$500,000 to \$1,000,000 16% of gross revenue greater than \$1,000,000	None	12 months	\$90,985
11-0987	Pacific Gateway Concessions	12% of gross revenue up to \$500,000 14% of gross revenue \$500,000 to \$1,000,000 16% of gross revenue greater than \$1,000,000	\$1,450,000	48 months	\$5,800,000
11-0988	Books, Inc.	8% of gross revenues up to \$2,000,000 10% of gross revenues greater than \$2,000,000	\$400,000	18 months	\$600,000
				Total	\$6,490,985

RECOMMENDATIONS

1. Amend File 11-0986 to specify that the proposed lease extension is retroactive to March 14, 2011.
2. Approve File 11-0986, as amended.
3. Approve Files 11-0987 and 11-0988.

Items 9, 10, 11, 12 Files 11-1000, 11-1099, 11-1001, 11-1009	Departments: Controller, Office of Public Finance
EXECUTIVE SUMMARY	
Legislative Objectives	
<ul style="list-style-type: none"> • <u>File 11-0999</u>: The proposed ordinance would amend Section 10.60 and add Section 10.61 to the City's Administrative Code to adopt a binding financial policy that Selected Nonrecurring Revenues may only be expended on Nonrecurring Expenditures. • <u>File 11-1000</u>: The proposed ordinance would add Section 10.62 to the Administrative Code to adopt a binding financial policy regarding the City's use of Certificates of Participation and Commercial Paper. • <u>File 11-1001</u>: The proposed ordinance would amend Sections 3.3, 3.4, 3.5, 3.6, 3.20, 22A.6, and 88.4 and repeal Sections 88.8 and 88.10 of the Administrative Code to: (1) update budget procedures to accommodate two-year budget cycles and five year financial planning requirements; and (2) eliminate outdated and duplicative reporting requirements. • <u>File 11-1009</u>: The proposed resolution would adopt a fixed two-year budget cycle for the Airport, Port, and Public Utilities Commission, defining terms, and setting deadlines. 	
Key Points	
<ul style="list-style-type: none"> • On November 3, 2009, Proposition A was approved by San Francisco's voters, amending the City's Charter regarding budget and financial policies. Under Proposition A, the Controller may recommend additional financial policies or amendments no later than October 1 of each year. • Under Charter Section 9.120, Files 11-0999 and 11-1000 are considered binding financial policies which cannot be amended by the Board of Supervisors and which would each require approval by two-thirds' vote of the Board of Supervisors. • File 11-0999 would restrict Selected Nonrecurring Revenues to be exclusively expended on Nonrecurring Expenditures, in both the Mayor's proposed budget and in the Board of Supervisors reappropriation or "addback" process. While this proposed ordinance provides limited, precise definitions of Selected Nonrecurring Revenues, it provides an open-ended definition of Nonrecurring Expenditures, granting the Controller's Office sole interpretation of whether proposed future expenditures would qualify as Nonrecurring Expenditures. The Board of Supervisors could only override a classification of Nonrecurring Expenditure by a two-thirds vote. • File 11-1000 adds a Certificate of Participation (COPs) Policy and Commercial Paper Policy to the Administrative Code. These two policies would restrict the types of expenditures on which the City could expend revenue from COPs payable or secured by the City's General Fund (General Fund COPs) and Commercial Paper, and would cap the debt service payable on General Fund COPs and Lease Revenue Bonds to 3.25 percent of General Fund discretionary revenue. The 3.25 percent cap is consistent with the City's Ten Year Capital Plan, previously adopted by the Board of Supervisors. • File 11-1001 would amend the Administrative Code to (1) coordinate and streamline the City's long-term financial planning procedures; (2) eliminate the required Three Year Budget Financial Plan (Joint Report) and instead incorporate the Joint Report in the new Five Year Financial Plan; (3) remove several redundant departmental reporting requirements; and (4) eliminate outdated Administrative Code language. 	

- File 11-1009 would switch the budget cycles of the Airport, Port, and Public Utilities Commission from rolling two-year budgets, with annual review, to fixed two-year budgets, with review every two years by the Board of Supervisors, unless there was a change in revenues or expenses greater than five percent in the second year, which would trigger automatic but limited review.
- Under the two proposed Binding Financial Policy ordinances (Files 11-0999 and 11-1000), the Board of Supervisors could not adopt a budget that the Controller determined to be inconsistent with any of the provisions of these proposed ordinances.
- This report is based on Amendments of the Whole submitted by the Controller to the Budget and Legislative Analyst.

Fiscal Impacts

- File 11-0999 would require that Select Nonrecurring Revenues could only be expended on Nonrecurring Expenditures. In the FY 2011-12 budget, as finally approved by the Board of Supervisors, the proposed ordinance would have resulted in \$43 million in General Fund revenues being designated as Select Nonrecurring Revenues that could only have been expended on Nonrecurring Expenditures.
- File 11-1000 would restrict the annual debt service on General Fund COPs and Lease Revenue Bonds to 3.25 percent of General Fund discretionary revenues, and would effectively restrict the issuance of any General Fund COPs in Fiscal Years 2012-13, 2013-14, and 2014-15.
- The Controller estimates that Files 11-1001 and 11-1009 could result in various staffing efficiencies but are not anticipated to result in any direct cost savings.

Recommendations

- As is noted above, the Controller's definition of Nonrecurring Expenses is open-ended. Therefore, request the Controller to amend File 11-0999 to define Nonrecurring Expenses as the six expenses listed in the proposed ordinance as (1) discretionary funding of reserves; (2) acquisition of capital equipment; (3) capital projects included in the City's capital plans; (4) development of affordable housing; (5) discretionary prepayment of pension, debt, or other long term obligations; or (6) substitution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve by striking "expenditures or other uses that do not create liability for or expectation of substantial ongoing costs, including, but not limited to" from Page 7, Lines 8 and 9 of the proposed ordinance. Mr. Rosenfield advises that the Controller disagrees with this recommendation, because it is possible that the Controller will identify additional Nonrecurring Expenditures besides the six included in the proposed ordinance.
- File 11-1009, which proposes changing from the existing rolling two-year budgets for the Port, Airport and PUC, under which the Board of Supervisors reviews such budgets every year, to a fixed two-year budget with reviews by the Board of Supervisors every two years is a policy decision for the Board of Supervisors.
- The trigger threshold for reviewing the second year of a fixed two-year budget (File 11-1009) has been proposed if budget costs or revenues are projected to change more than five percent in the second year. Approval of that five percent trigger threshold amount is a policy matter for the Board of Supervisors.
- Approval of the three proposed ordinances (Files 11-0999, as amended, and Files 11-1000 and 11-1001) and one proposed resolution (File 11-1009, as amended), are policy matters for the Board of Supervisors.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

Based on San Francisco voters approval of Proposition A on November 3, 2009, City Charter Section 9.120(a) provides that the Controller shall propose, and the City shall adopt, long-range financial policies that are consistent with generally recognized principles of public finance, including at a minimum: (1) creation and maintenance of adequate reserves; (2) use of volatile revenues; (3) issuance of debt; and (4) institution of extraordinary financial and budgetary measures to facilitate the City's recovery from earthquakes or other physical calamities. City Charter Section 9.120(a) also provides that the City may not adopt a budget that the Controller determines is inconsistent with one or more of these financial policies.

In accordance with City Charter Section 9.120(b), the Controller is required to recommend an initial set of financial policies to the Mayor no later than March 1, 2010, and may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year. Within 60 days of such recommendations, the Mayor and the Board of Supervisors shall consider the Controller's recommended policies. Approval of individual financial policies requires approval of both the Mayor and two-thirds approval of the Board of Supervisors, as ordinances to be codified in the City's Administrative Code. Charter Section 9.120(c) also provides that by a two-thirds' vote, the Board of Supervisors, by resolution, may suspend, for any reason, in whole or in part, any ordinance containing these financial policies for a succeeding fiscal year.

Background

On March 1, 2010, the Controller recommended the creation of a General Reserve and a Budget Stabilization Reserve, in accordance with Section 9.120 of the City Charter. On April 20, 2010 the Board of Supervisors approved an ordinance amending the City's Administrative Code to create a General Reserve and a Budget Stabilization Reserve and providing rules for deposits to and withdrawals from those Reserves (File 10-0248).

On September 13, 2011, the Controller submitted to the Mayor and the Board of Supervisors two proposed binding financial policy ordinances (Files 11-0999 and 11-1000), an additional proposed ordinance amending the City's Administrative Code (File 11-1001), and a proposed resolution amending the City's two-year budgeting process (File 11-1009). As stated in a September 13, 2011 memorandum from the Controller to the Mayor and the Board of Supervisors, the three proposed ordinances and one proposed resolution are parts of the Controller's "continuing work to implement the budget improvement measures approved by voters in November 2009" (Proposition A Budget Process). The Controller added that the subject three proposed ordinances and one proposed resolution "are intended to improve the City's ability to continue to balance budgets and provide for the long term financial stability of our City." This report is based on Amendments of the Whole submitted by the Controller to the Budget and Legislative Analyst.

DETAILS OF PROPOSED LEGISLATION

Approval of the three proposed ordinances, Files 11-0999, 11-1000, and 11-1001, require a two-thirds vote of the Board of Supervisors. The one proposed resolution, File 11-1009, requires a simple majority vote of the Board of Supervisors.

Under Charter Section 9.120, Files 11-0999 and 11-1000 can be either approved or disapproved by the Board of Supervisors, but these two proposed ordinances are not subject to amendment by the Board of Supervisors. However, according to Mr. Ben Rosenfield, City Controller, the Controller's Office is open to suggested changes from the Board of Supervisors, which the Controller's Office would consider.

In accordance with the Proposition A Budget Process, approved by the Voters in November of 2009, the proposed legislation described below includes various budget improvement measures, including a Nonrecurring Revenue Policy (File 11-0999), a new debt policy (File 11-1000), and updates to the Administrative Code to create biennial schedules for select Citywide planning documents and departmental budget reviews (Files 11-1001 and 11-1009), as further explained on pages 4 through 9 of this report.

File 11-0999

Neither the City's Charter nor Administrative Code currently restricts the uses of nonrecurring revenues and therefore nonrecurring revenues can be expended for recurring expenditures as well as nonrecurring expenditures. The proposed ordinance would amend Section 10.60 and add Section 10.61 of the City's Administrative Code, to adopt a Binding Financial Policy in accordance with Charter Section 9.120, to require that Selected Nonrecurring Revenues may only be expended on Nonrecurring Expenditures. The proposed ordinance defines **Selected Nonrecurring Revenue** as:

1. A prior year-end unassigned General Fund balance in excess of the average of the preceding five years;
2. The General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-asides, or deposits to reserves;
3. Otherwise unrestricted revenues from legal judgments and settlements; or
4. Otherwise unrestricted revenues from the sale of land or other fixed assets.

The proposed ordinance defines **Nonrecurring Expenses** as expenditures or other uses that do not create a fiscal liability or an expectation of substantial ongoing costs, which would include, but not be limited to:

1. Discretionary funding of reserves;
2. Acquisition of capital equipment;
3. Capital projects included in the City's capital plans;
4. Development of affordable housing;
5. Discretionary prepayment of pension, debt, or other long term obligations; or
6. Substitution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve.¹

In accordance with the proposed ordinance, additional types of expenses could be classified as Nonrecurring Expenses by the Controller, and such classifications would not be subject to further Board of Supervisors approval.

Under the proposed ordinance (File 11-0999), as part of the Controller's Opinion on Revenue Estimates required under Charter Section 9.102, the Controller would (a) identify all Selected Nonrecurring Revenues that are included in the Mayor's annual June 1 General Fund budget submission to the Board of Supervisors and (b) certify whether the Selected Nonrecurring Revenues are proposed to pay for Nonrecurring Expenditures. According to the Controller, this certification would be provided to the Board of Supervisors in early June of each year.

The proposed ordinance would not impact recurring revenues, which could continue to be expended on both nonrecurring expenditures and recurring expenditures, subject to Board of Supervisors appropriation approval. Furthermore, in accordance with the proposed ordinance, the proposed restrictions, as requested by the Controller on uses of Selected Nonrecurring Revenues, can be temporarily suspended, for any reason, by a two-thirds vote of the Board of Supervisors.

File 11-1000

The proposed ordinance would add Section 10.62 to the City's Administrative Code to adopt a Binding Financial Policy in accordance with Charter Section 9.120, regarding the City's use of Certificates of Participation (COPs) and Commercial Paper.

¹ According to Mr. Leo Levenson, Director of Budget, Analysis, and Reconciliation for the Controller's Office, if the City budgets Rainy Day Reserve or Budget Stabilization Reserve revenues, but is unable to access those Reserves due to unforeseen receipt of Nonrecurring Revenues, expenditure of the unforeseen Nonrecurring Revenue on those uses for which the Rainy Day Reserve or Budget Stabilization Reserve had been intended would be considered a Nonrecurring Expense under the proposed ordinance (File 11-0999).

Certificates of Participation (COPs)

Under the proposed ordinance, use of COPs payable or secured by the City's General Fund would be restricted to:

1. The acquisition or improvement of existing facilities or construction of new facilities that result in immediate or future savings in expenditures currently made or to be made by the City's General Fund;
2. The leveraging of grant and other monies to reduce operating costs of the City;
3. The construction, improvement, or acquisition of facilities to address legal mandates; or
4. The construction, improvement, or acquisition of facilities for critical public health and safety needs.²

The proposed ordinance would require the Director of Public Finance to identify specific revenue sources within the General Fund to be used to repay the debt service costs, including the principal, on COPs payable or secured by the City's General Fund (General Fund COPs). According to Director of Public Finance, Ms. Nadia Sesay, such General Fund revenue sources could include new taxes or fees that could pay for the debt service of the proposed General Fund COPs. For example, if the City was proposing to issue General Fund COPs to help construct a City office building that would have private subtenants, the lease revenues from those subtenants would be a new General Fund revenue source. Under the proposed ordinance, the Director of Public Finance would also be required to ensure that the General Fund COPs repayment schedules were appropriate and otherwise prudent.

The proposed ordinance also restricts the total amount of General Fund COPs that the City can issue. Under the proposed ordinance, the annual debt service cost of any General Fund COPs, plus the annual debt service cost of any General Fund Lease Revenue Bonds, cannot exceed 3.25 percent of General Fund discretionary revenues.³ The 3.25 percent cap is consistent with the City's Ten Year Capital Plan, previously adopted by the Board of Supervisors.

As shown in the Attachment, provided by the Office of Public Finance, General Fund discretionary revenues total \$2,074,070,000 in the FY 2011-12 budget year, 3.25 percent of which would be \$67,407,275. The Attachment also shows that the annual debt service for the City's authorized and issued General Fund COPs and Lease Revenue Bonds is equal to \$60,092,560 or 2.90 percent of General Fund discretionary revenues. The City has authorized, but has not issued, an additional \$4,067,575 in General Fund COPs and Lease Revenue Bonds, or 0.20 percent of General Fund Discretionary Revenues. Combined, the City has authorized

² According to Mr. Rosenfield, whether a project would address the City's "critical public health and safety needs" would be determined by the Board of Supervisors, as is the case under current, non-codified practices.

³ "General Fund discretionary revenues" is defined in the proposed amended ordinance (File 11-1000) according to the definition provided in City Charter Sections 8A.105 and 16.109, meaning "revenues received by the City which are unrestricted and may be used at the option of the Mayor and the Board of Supervisors for any lawful City purpose."

3.10 percent of the General Fund discretionary revenues, or 0.15 percent less than the 3.25 percent cap proposed under File 11-1000.

As is also shown in the Attachment, the City's authorized General Fund COPs and General Fund Lease Revenue Bonds would be equivalent to the proposed cap of 3.25 percent of General Fund discretionary revenues for each of the forthcoming three fiscal years: FY 2012-13, 2013-14, and 2014-15, such that no additional General Fund COPs or Lease Revenue Bonds could be authorized for those three fiscal years

Commercial Paper

Under the proposed ordinance, the Director of Public Finance may, subject to Board of Supervisors approval, issue tax-exempt and taxable Commercial Paper to provide interim funds to finance the acquisition, construction, and rehabilitation of capital improvements and capital equipment. The proposed ordinance requires the Director of Public Finance to provide the Board of Supervisors with a written report 12 months following the initial issuance of Commercial Paper and annually thereafter, until no commercial paper remain outstanding. These written reports would describe (1) any Commercial Paper issued since commencement of the Commercial Paper Program, (2) the status of projects financed with Commercial Paper, and (3) the long term plans to redeem such Commercial Paper to be replaced by General Obligation (GO) bonds, COPs, or other long term obligations.

Exceptions to the General Fund COPs and Commercial Paper Policy

The proposed ordinance permits the Board of Supervisors, by a two-thirds vote, to suspend the proposed new General Fund COPs and Commercial Paper requirements for a current or upcoming budget year, or for an individual transaction. In addition, the proposed ordinance only applies to COPs or Commercial Paper secured with the City's General Fund, and does not apply to other City departments, including the Airport, Mayor's Office of Housing, the Municipal Transportation Authority, the Port Commission, or the Public Utilities Commission.

File 11-1001

The proposed ordinance would amend Sections 3.3, 3.4, 3.5, 3.6, 3.20, 22A.6, and 88.4, and repeal Sections 88.8 and 88.10 of the City's Administrative Code to: (1) update budget procedures to accommodate two-year budget cycles and five year financial planning requirements; and (2) eliminate outdated and duplicative reporting requirements.

According to Mr. Rosenfield, the proposed changes would (1) coordinate and streamline the City's long-term financial planning processes; (2) eliminate the current Three Year Budget Projection (the Controller, Mayor and Budget and Legislative Analyst's Joint Report) and incorporate the Joint Report with the new Five Year Financial Plan; (3) remove several redundant departmental reporting requirements and (4) eliminate outdated Administrative Code language. The changes are summarized in Table 1, below.

Table 1. Summary of Administrative Code Amendments Under File 11-1001

Administrative Code Section	Proposed Amendment
Section 3.3	Delete an outdated sentence from Section 3.3(d) and add new language to Section 3.3(h) to allow departments to enter into the second year of a fixed two-year budgetary cycle.
Section 3.4	Delete outdated budget requirements pertaining to Area Plans designated by the Planning Department.
Section 3.5	Add new language that exempts a department, board, commission or agency (department) from developing a strategic plan if that department cooperated with the preparation of the City's most recent Five Year Financial Plan.
Section 3.6	<p>Replace Three-Year Budget Projection in whole with a new Section 3.6 Five-Year Financial Plan, requiring a new Plan every other year, with Plan updates in alternate years:</p> <ul style="list-style-type: none"> • In odd-numbered years, the Mayor would submit to the Board of Supervisors a new Five-Year Financial Plan, as required under City Charter Section 9.119, including an estimated summary budget or baseline projection for the General Fund jointly prepared by the Mayor, the Budget and Legislative Analyst, and the Controller, subject to review, amendment, and adoption by the Board of Supervisors; and • In even-numbered years, the Mayor, the Budget and Legislative Analyst, and the Controller would submit an updated estimated summary budget for the remaining four years of the five-year financial plan, with any revisions to the five-year financial plan subject to review, amendment, and adoption by the Board of Supervisors.
Section 3.7	Remove section "Replacing Grant-Funded Positions" in whole, as technical improvements to the City's Budgeting System have made these changes transparent and reporting therefore unnecessary.
Section 3.20	Change the schedule of the Ten Year Capital Expenditure Plan from every year to every odd-numbered year, to allow the Mayor and Board of Supervisors to update the plan as necessary to reflect the City's priorities, resources and requirements.
Section 22A.6	Amend to rename the "ICT Capital and Operating Plan" the "Information and Communication Technology Operating Plan," and change the schedule of the Plan from every year to every odd-numbered year, to allow the Mayor and Board of Supervisors to update the plan as necessary and appropriate.
Section 88.9	Remove outdated section "Pilot Projects" in whole, as it was concluded in 2004.
Section 88.10	Remove outdated section "Board of Supervisors' Oversight and Legislation" in whole, as it pertains to the outdated Section 88.10 "Pilot Projects" proposed for removal.

File 11-1009

The proposed resolution would adopt a fixed two-year budgetary cycle for the Airport, the Port, and the Public Utilities Commission (PUC), defining terms, and setting deadlines. Proposition A specified that the normal procedure for two-year budgeting would be a rolling two-year budget that would be adopted by the Board of Supervisors annually. The City implemented such rolling two-year budgets for the Airport, Port, and PUC during the FY 2010-11 budget cycle, such that the Board of Supervisors approved both the FY 2010-11 and the FY 2011-12 budgets for these Enterprise Departments. Similarly, in July of 2011, the Board of Supervisors approved both the FY 2011-12 and the FY 2012-13 budgets for the Airport, Port, and PUC.

City Charter Section 9.101(g) allows the City to switch from a rolling two-year budget cycle to a fixed two-year budget cycle, for some or all departments, subject to a two-thirds approval by the Board of Supervisors.

Under the proposed resolution, in May of 2012 the Mayor would submit two-year budgets for the Airport, Port, and PUC to the Board of Supervisors for fiscal years FY 2012-13 and 2013-14. Following appropriation approval by the Board of Supervisors in May of 2012, the budget would be fixed for two years, and the next two-year budget review for the Airport, Port, and PUC by the Board of Supervisors would occur in May of 2014.

According to the proposed resolution, if revenues or expenses in the second budget year change by more than five percent for the Airport, Port or PUC, the Controller would notify the Mayor and the Board of Supervisors prior to March 1 of the first year of the two-year budget cycle. In such an event, the Board of Supervisors would not conduct a full budget review, but instead would be requested to consider any revisions to that specific department's budget due to the revenue or expense change, similar to a supplemental appropriation request.

FISCAL IMPACTSFile 11-0999

The proposed ordinance would codify and therefore restrict the expenditure of Selected Nonrecurring Revenues only for Nonrecurring Expenditures, resulting in a limitation on the Board of Supervisors options for reappropriating savings achieved by the Board of Supervisors in the Board's annual budget review. According to Mr. Rosenfield, the proposed restriction would have resulted in a restriction on the Board of Supervisors reappropriation of revenues at least two times in the previous ten years: in the FY 2007-08 budget, when \$16 million would have been met the definition of Select Nonrecurring Revenue, and in the FY 2011-12 budget, when \$43 million would have met the definition of Select Nonrecurring Revenue.

In his September 13, 2011 memorandum to the Mayor and the Board of Supervisors, Mr. Rosenfield proposed the Non-Recurring Revenues Policy based on best practices issued by the Government Financial Officers Association in order to prevent "key services from being disrupted if nonrecurring revenues used to fund a program do not recur in subsequent fiscal years."

File 11-1000

The proposed ordinance would codify and therefore restrict the types of uses for which the City could debt finance Certificates of Participation payable or secured by the City's General Fund (General Fund COPs) and Commercial Paper. Furthermore, under the proposed ordinance, the annual debt service cost of any General Fund COPs, plus the annual debt service cost of any General Fund Lease Revenue Bonds, could not exceed 3.25 percent of General Fund discretionary revenues, or the equivalent of \$67,407,275 in FY 2011-12. According to Ms. Sesay, the City's annual debt service costs of COPs plus the annual debt service cost of General Fund Lease Revenue Bonds has not previously exceeded 3.25 percent of General Fund discretionary revenues, although as shown in the Attachment, the City is projected to be at the 3.25 percent limit in Fiscal Years 2012-13, 2013-14, and 2014-15. Therefore, if the proposed ordinance is approved, the City could not authorize any additional General Fund COPs, or any General Fund Lease Revenue Bonds, until FY 2015-16.

File 11-1001

According to Mr. Rosenfield, the proposed ordinance would improve efficiency in the use of City staff in various departments for analysis and reporting of budget projections to the Mayor and Board of Supervisors by consolidating the Three Year Budget Projection into the Five Year Financial Plan, and changing the schedule of the Five Year Financial Plan from every year to every two years on the odd numbered years, with updates provided on the alternate even numbered years. In addition, (a) the Ten Year Capital Plan and the Information and Communication Technology Operating Plan would be updated every other year, instead of every year, and (b) departments that participate in the preparation of the Five Year Financial Plans no longer would be required to prepare strategic plans, resulting in further City staff efficiencies. However, approval of the proposed ordinance is not anticipated to result in any direct cost savings to the City.

File 11-1009

By adopting fixed two-year budgets in even-number years, the proposed resolution would allow for a savings of staff hours in odd-numbered years from the Airport, Port, and PUC, as well as the Mayor, Controller, Board of Supervisors, and Budget and Legislative Analyst that would otherwise be involved in the annual budget review of the Airport, Port, and PUC budgets. However, approval of the proposed resolution is not anticipated to result in any direct cost savings for these City departments.

POLICY CONSIDERATIONS**File 11-0999 Would Restrict the Board of Supervisors Discretion during the Reappropriation or "Add-Back" Process of the Annual Budget Review**

File 11-0999 would restrict the Board of Supervisors reappropriation of savings achieved by the Board during the annual budget review process for "add-backs" and restorations: Under the proposed ordinance, any savings that are identified by the Controller to be Selected Nonrecurring Revenues during the Board's annual budget review process could only be reappropriated to

Nonrecurring Expenditures, such as capital expenditures or one-time purchases of equipment, and could not be reappropriated for Recurring Expenditures.

File 11-0999 Provides the Controller With an Open-Ended Definition of Nonrecurring Expenditures

The proposed ordinance (File 11-0999) provides a limited, precise definition of Selected Nonrecurring Revenues. However, the proposed ordinance provides an open-ended definition of Nonrecurring Expenditures, leaving the Controller room to interpret proposed future expenditures that would qualify as Nonrecurring Expenditures. In addition, the proposed ordinance does not provide the Board of Supervisors with an opportunity to dispute the Controller's interpretation of what is, and what is not, a Nonrecurring Expenditure. The only recourse available to the Board of Supervisors, in the event that the Board of Supervisors wished to object to the Controller's classification of certain Nonrecurring Expenditures, would be to make a one-time suspension of the provisions of File 11-0999 by a two-thirds vote of the Board of Supervisors.

In order to remove the open-ended definition of Nonrecurring Expenditures from the proposed ordinance (File 11-0999), the Budget and Legislative Analyst recommends that the Board of Supervisors request the Controller to amend File 11-0999 to exclusively define Nonrecurring Expenses as the six expenses – (1) discretionary funding of reserves; (2) acquisition of capital equipment; (3) capital projects included in the City's capital plans; (4) development of affordable housing; (5) discretionary prepayment of pension, debt, or other long term obligations; or (6) substitution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve – by striking “expenditures or other uses that do not create liability for or expectation of substantial ongoing costs, including, but not limited to” from Page 7, Lines 8 and 9 of the proposed ordinance.

Changes in Two-Year Budgets and the Five Percent Proposed in File 11-1009 Are Policy Considerations for the Board of Supervisors

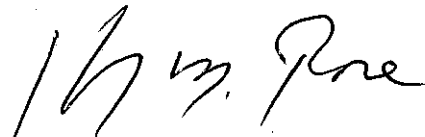
File 11-1009 would switch the budget cycles of the Airport, Port, and Public Utilities Commission from the current rolling two-year budgets, with annual reviews by the Board of Supervisors, to fixed two-year budgets, with review every two years by the Board of Supervisors, unless there was a change in revenues or expenses greater than five percent in the second year, which would trigger automatic but significantly more limited budget reviews by the Board of Supervisors. According to Mr. Rosenfield, this more limited budget review of the second year, were it to be triggered, would take the form of a supplemental appropriation, rather than a full annual budget review. These proposed changes from (a) annual review of the Airport's, Port's, and PUC's two-year budgets to a biennial review of those budgets, and (b) the specified five percent trigger for limited review of the second year of the two-year budget, are policy considerations for the Board of Supervisors.

Under File 11-1001, the Five-Year Financial Plan Would Replace and Include the Three-Year Budget Projection (the Joint Report)

The proposed ordinance (File 11-1001) would replace Administrative Code Section 3.6 Three Year Budget Projection with a new Section 3.6 Five Year Financial Plan. The Controller and Mayor issued the first Five Year Financial Plan in June of 2011. According to Mr. Rosenfield, the proposed Administrative Code changes would incorporate the Three Year Budget Projection, including an estimated summary budget or baseline projection for the General Fund, jointly prepared by the Mayor, the Budget and Legislative Analyst, and the Controller, into the Five Year Financial Plan. As is noted in Table 1 above, in even-numbered years, the Mayor, the Budget and Legislative Analyst, and the Controller would submit an updated estimated summary budget for the remaining four years of the five-year financial plan, with any revisions to the five-year financial plan subject to review, amendment, and adoption by the Board of Supervisors. Therefore, under the proposed ordinance, the Board of Supervisors would continue to receive the fiscal projections provided in the Three Year Budget Projection, within the Five Year Financial Plan submitted to the Board of Supervisors in odd-numbered years and within the Five Year Financial Plan updated estimated summary budget presented to the Board of Supervisors in even-numbered years.

RECOMMENDATIONS

1. As is noted above, the Controller's definition of Nonrecurring Expenses is open-ended. Therefore, request the Controller to amend File 11-0999 to define Nonrecurring Expenses as the six expenses listed in the proposed ordinance as (1) discretionary funding of reserves; (2) acquisition of capital equipment; (3) capital projects included in the City's capital plans; (4) development of affordable housing; (5) discretionary prepayment of pension, debt, or other long term obligations; or (6) substitution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve by striking "expenditures or other uses that do not create liability for or expectation of substantial ongoing costs, including, but not limited to" from Page 7, Lines 8 and 9 of the proposed ordinance. Mr. Rosenfield advises that the Controller disagrees with this recommendation, because it is possible that the Controller will identify additional Nonrecurring Expenditures besides the six included in the proposed ordinance.
2. File 11-1009, which proposes changing from the existing rolling two-year budgets for the Port, Airport and PUC, under which the Board of Supervisors reviews such budgets every year, to a fixed two-year budget with reviews by the Board of Supervisors every two years is a policy decision for the Board of Supervisors.
3. The trigger threshold for reviewing the second year of a fixed two-year budget (File 11-1009) has been proposed if budget costs or revenues are projected to change more than five percent in the second year. Approval of that five percent trigger threshold amount is a policy matter for the Board of Supervisors.
4. Approval of the three proposed ordinances (Files 11-0999, as amended, and Files 11-1000 and 11-1001) and one proposed resolution (File 11-1009, as amended), are policy matters for the Board of Supervisors.



Harvey M. Rose

cc: Supervisor Chu
Supervisor Mirkarimi
Supervisor Kim
President Chiu
Supervisor Avalos
Supervisor Campos
Supervisor Cohen
Supervisor Elsbernd
Supervisor Farrell
Supervisor Mar
Supervisor Wiener
Clerk of the Board
Cheryl Adams
Controller
Rick Wilson

City and County of San Francisco
 General Fund Debt and Other Long-Term Lease Obligations
 Lease Payment Schedule (as of October 2011)

Fiscal Year	Authorized & Issued Lease Payment	% of GF	Authorized & Unissued Lease Payment	% of GF	Total % of GF	Dedicated to Lease Payments	GF Disc Total (5-Yr Plan, 4.5% thereafter)
FY 11-12	60,092,560	2.90%	4,067,575	0.20%	3.09%	3.25%	2,074,070,000
FY 12-13	65,089,428	2.99%	5,517,150	0.25%	3.25%	3.25%	2,174,760,000
FY 13-14	67,824,211	3.01%	5,514,700	0.24%	3.25%	3.25%	2,256,930,000
FY 14-15	62,205,731	2.66%	13,771,488	0.59%	3.25%	3.25%	2,338,330,000
FY 15-16	57,330,520	2.37%	18,991,750	0.78%	3.15%	3.25%	2,423,790,000
FY 16-17	53,509,382	2.11%	18,994,463	0.75%	2.86%	3.25%	2,532,860,550
FY 17-18	50,972,942	1.93%	18,994,888	0.72%	2.64%	3.25%	2,646,839,275
FY 18-19	32,134,294	1.16%	18,996,238	0.69%	1.85%	3.25%	2,765,947,042
FY 19-20	33,901,080	1.17%	18,991,650	0.66%	1.83%	3.25%	2,890,414,659
FY 20-21	34,017,185	1.13%	18,989,175	0.63%	1.75%	3.25%	3,020,483,319
FY 21-22	31,724,168	1.01%	18,996,488	0.60%	1.61%	3.25%	3,156,405,068
FY 22-23	29,226,901	0.89%	18,995,775	0.58%	1.46%	3.25%	3,298,443,296
FY 23-24	29,422,789	0.85%	18,994,875	0.55%	1.40%	3.25%	3,446,873,244
FY 24-25	24,402,461	0.68%	18,996,138	0.53%	1.20%	3.25%	3,601,982,540
FY 25-26	24,468,669	0.65%	18,991,425	0.50%	1.15%	3.25%	3,764,071,755
FY 26-27	24,515,886	0.62%	18,992,925	0.48%	1.11%	3.25%	3,933,454,984
FY 27-28	24,738,278	0.60%	18,997,175	0.46%	1.06%	3.25%	4,110,460,458
FY 28-29	24,749,658	0.58%	18,995,525	0.44%	1.02%	3.25%	4,295,431,179
FY 29-30	24,931,394	0.56%	18,994,163	0.42%	0.98%	3.25%	4,488,725,582
FY 30-31	14,006,610	0.30%	15,094,313	0.32%	0.62%	3.25%	4,690,718,233
FY 31-32	14,008,113	0.29%	13,481,775	0.28%	0.56%	3.25%	4,901,800,553
FY 32-33	14,009,650	0.27%	13,479,613	0.26%	0.54%	3.25%	5,122,381,578
FY 33-34	14,010,600	0.26%	13,480,938	0.25%	0.51%	3.25%	5,352,888,749