

File No. 150634

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date June 15, 2015

Board of Supervisors Meeting

Date _____

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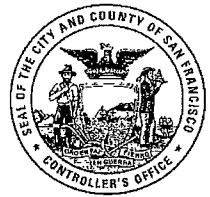
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City and County of San Francisco

Office of the Controller

**FY 2015-16 and FY 2016-17
Revenue Letter:**

**Controller's Discussion of the
Mayor's FY 2015-16 and
FY 2016-17 Proposed Budget**



June 9, 2015



City and County of San Francisco

Office of the Controller

Controller's Discussion of the Mayor's FY 2015-16 and 2016-17 Proposed Budget

June 9, 2015

Charter Section 9.102 requires that the Controller provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget and the reasonableness of such estimates. On June 1, 2015, Mayor Edwin Lee submitted his FY 2015-16 and FY 2016-17 proposed budget to the Board of Supervisors. An overview of revenues is provided in Table 1.

Overall, the proposed two-year budget appears to be reasonable given information currently available. The proposed budget assumes continued economic expansion during FY 2015-16 and FY 2016-17, albeit at more moderate rates than experienced during the past two fiscal years. The budget also includes increases to the use of one-time revenues for non-recurring expenditures, particularly capital expenditures, and preserves and builds key reserves, consistent with adopted financial policies. The proposed drawdown of a sizable ending balance from the current fiscal year, while consistent with the City's budget planning practices for many years, will likely create financial stress in FY 2017-18 unless economic growth exceeds our projections.

Overview

As shown in Table 1, the Mayor's proposed budget for FY 2015-16 includes \$4.6 billion in General Fund sources and \$8.9 billion in all funds sources representing increases of 7.3 percent and 3.9 percent, respectively, from the FY 2014-15 original budget. The Mayor's proposed budget for FY 2016-17 includes \$4.7 billion in General Fund sources and \$9.0 billion in all funds sources representing increases from the FY 2015-16 proposed budget of 2.1 percent and 0.5 percent.

Table 1. Overview of Budget Sources (\$ millions)

General Fund

	FY 2014-15 Budget	FY 2015-16 Proposed	FY 2016-17 Proposed
Fund Balance - Prior Year Operating Surplus	\$ 136	\$ 176	\$ 197
Use of Reserves	\$ 58	\$ 3	\$ 4
Regular Revenues	\$ 3,898	\$ 4,195	\$ 4,270
Transfers In to the General Fund	\$ 179	\$ 207	\$ 208
Total GF Sources	\$ 4,271	\$ 4,581	\$ 4,678
Change from Prior Year		\$ 310	\$ 97
Percentage Change		7.3%	2.1%

All Funds

	FY 2014-15 Budget	FY 2015-16 Proposed	FY 2016-17 Proposed
Fund Balance	\$ 383	\$ 345	\$ 282
Use of Reserves	\$ 58	\$ 9	\$ 15
Regular Revenues	\$ 8,141	\$ 8,565	\$ 8,663
Total All-Funds Sources	\$ 8,582	\$ 8,919	\$ 8,960
Change from Prior Year		\$ 337	\$ 41
Percentage Change		3.9%	0.5%

Highlights include:

- Local tax revenue estimates are reasonable given current economic assumptions.** The proposed budget assumes continued local economic expansion, consistent with the Five Year Financial Plan adopted by the Board in March and updated for new data. General Fund FY 2015-16 regular revenues are increasing by \$297 million from the FY 2014-15 budget and \$138 million above the revised revenue outlook in the FY 2014-15 Nine-Month Budget Status Report (Nine Month Report) inclusive of adjustments subsequent to the Nine Month Report to Hotel Tax and State reimbursement payments and described in the fund balance description in Appendix 1. In FY 2016-17 General Fund revenues are expected to increase by \$75 million from FY 2015-16. Local tax revenues are influenced by national and international economic developments that could cause changes to the currently favorable trends in job growth, property values and tourism, and also by state and federal fiscal policies. Any significant economic slow-down would require the Mayor's Office and the Board to adjust the budget to reflect reduced revenues. The Controller's Office will monitor revenues and provide revenue projection updates throughout the budget years.
- The proposed General Fund budget increases use of prior year fund balance:** As discussed in Appendix 1, use of fund balance and reserves in the General Fund comprises \$176.3 million in the FY 2015-16 proposed budget, an increase of \$40.3 million from the FY 2014-15 budget. The proposed FY 2016-17 General Fund budget includes \$197.0 million in fund balance, an increase of \$20.7 million from the FY 2015-16 proposed budget.

- **The proposed General Fund budget reduces reliance on prior year reserves and complies with financial policies for depositing to reserves:** The proposed budget reduces use of prior year reserves from \$57.6 million in the FY 2014-15 budget to \$3.1 million and \$3.6 million in FY 2015-16 and FY 2016-17, respectively. This reduction is a result of eliminating withdrawals from three reserves: the Budget Savings Incentive Fund, Rainy Day One-Time Expenditures Reserve, and the San Francisco Unified School District (SFUSD) Rainy Day Economic Stabilization Reserve. The proposed budget assumes stable commercial real estate market conditions will lead to a \$19.4 million deposit to the Budget Stabilization Reserve in FY 2015-16, and no deposit in FY 2016-17 as transactions begin to slow slightly. In addition, the budget complies with the General Reserve policy, which calls for increasing the General Fund Reserve to 1.75 percent of budgeted General Fund revenues, or \$73.4 million, in FY 2015-16, and 2.00 percent of budgeted General Fund revenues, or \$85.4 million, in FY 2016-17. The General Reserve is available to be appropriated by the Board for any purpose to accommodate shortfalls or new requirements during the course of the budget year.

Table 2. Select Reserve Balances (\$ millions)

	FY 2014-15 Projected	FY 2015-16 Proposed	FY 2016-17 Proposed
General Reserve	\$ 55.6	\$ 73.4	\$ 85.4
Rainy Day Economic Stabilization City Reserve	60.3	60.3	60.3
Rainy Day One-Time Reserve	34.5	34.5	34.5
Budget Savings Incentive Fund	19.5	19.5	19.5
Budget Stabilization Reserve	132.3	151.7	151.7
	\$ 302.1	\$ 339.3	\$ 351.3

- **Potential for State funding cuts related to implementation of the Affordable Care Act (ACA).** The State has determined that some costs will shift from counties to the State as individuals enroll in Medi-Cal and local costs for treating the uninsured decline. These savings will be redirected to counties for CalWORKs. At the time of the Governor's May Revised FY 2015-16 Budget, the state estimated county indigent care savings of \$724.9 million in FY 2014-15 and \$698.2 million in FY 2015-16, which the state will realize by reducing realignment funding to county health departments. The Mayor's proposed budget assumes that the state will redirect \$16.7 million of realignment revenue annually. The timing and size of any local savings is unknown, however, and future budget adjustments are likely to be necessary should the State determine that the savings amount is different.
- **Budgetary baselines and set-asides are funded at voter-approved levels, with limited exceptions.** Appendix 4 provides details on voter-approved mandates that determine some minimum levels of revenues, expenditures or service for various programs, including:
 - **Children's Baseline requirements are exceeded in both FY 2015-16 and FY 2016-17.** The Children's baseline funding in the proposed budget is \$145.9 million in FY 2015-16 and \$147.6 million in FY 2016-17, which is above the required level by \$3.2 million and \$1.5 million, respectively.
 - **Disconnected Transitional-Aged Youth (TAY) requirements are exceeded in both FY 2015-16 and FY 2016-17.** TAY baseline funding in the proposed budget is \$18.7 million in FY 2015-16 and \$18.8 million in FY 2016-17, which is above the required level by \$1.6 million and \$1.2 million, respectively.

- **Police Staffing:** Police baseline staffing requires 1,971 full-duty officers net of any positions certified as civilianized pursuant to Charter section 16.123, which the Controller's Office estimates to be 77. Based on the Mayor's proposed budget, it appears that this staffing requirement will not be met in FY 2015-16 and will be exceeded by 108 officers in FY 2016-17.
- **MTA Population Baseline:** Proposition B, passed by the voters in November 2014, requires the City to increase baseline payments to the Municipal Transportation Agency (MTA) in FY 2015-16 to reflect the previous ten years of population growth, and annually thereafter. The Mayor's proposed budget increases baseline amounts to MTA by \$25.9 million in FY 2015-16 and to \$28.7 million in FY 2016-17. Pursuant to spending requirements established in Proposition B, these baseline amounts support MTA capital improvement expenses.

Conclusions

The Mayor's proposed budget appears to be reasonable given information currently available, with cautionary notes regarding its reliance on continued revenue growth. The Controller's Office will continue to work closely with the Mayor and the Board to share information as necessary to ensure that the City's budget remains balanced.

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Appendix 1. General Fund Sources

Table 1-1 provides a summary of the General Fund sources in the Mayor's FY 2015-16 and FY 2016-17 proposed budget.

Table 1-1. General Fund Sources (\$ millions)

Sources of Funds	FY 2014-15	FY 2015-16	FY 2016-17	Notes
	Budget	Proposed Budget	Proposed Budget	
Prior Year Fund Balance - Operating Surplus	\$ 135.9	\$ 176.3	\$ 197.0	1
Use of Reserves	57.6	3.1	3.6	2
Subtotal Fund Balance and Reserves	193.6	179.3	200.6	
Regular Revenues				
Property Taxes	1,232.9	1,288.0	1,308.0	3
Business Taxes	572.4	634.5	664.3	4
Sales Tax	136.1	172.9	205.7	5
Hotel Room Tax	318.4	384.1	403.1	6
Utility Users Tax	91.7	93.6	93.8	7
Parking Tax	84.9	89.7	92.2	8
Real Property Transfer Tax	235.0	275.3	240.0	9
Stadium Admissions Tax	1.3	1.4	1.4	10
Access Line Tax	43.1	45.6	46.5	11
Licenses, Permits & Franchises	27.1	27.2	27.3	
Fines and Forfeitures	4.2	4.6	4.6	
Interest & Investment Income	6.9	10.7	11.7	12
Rents & Concessions	22.7	15.4	14.3	
Intergovernmental - Federal	234.9	245.6	251.9	13
State - Public Safety Sales Tax	91.4	98.0	102.8	14
State - 1991 Health & Welfare Realignment	162.9	169.4	174.3	15
State - Public Safety Realignment	31.8	36.4	38.7	15
State - Other	338.3	351.7	361.0	16
Intergovernmental Revenues - Other	2.6	3.7	3.7	
Charges for Services	200.8	205.7	206.9	17
Recovery of General Government Costs	9.1	9.7	9.9	
Other Revenues	49.7	32.0	7.8	18
Subtotal Regular Revenues	3,898.1	4,194.9	4,269.8	
Transfers In to the General Fund	179.3	206.7	207.7	
Total Sources	4,271.0	4,581.0	4,678.0	

1. Prior Year Fund Balance. The proposed budget anticipates \$373.2 million in General Fund surplus will be available at the end of FY 2014-15, or \$36.1 million more than the \$337.1 million ending fund balance projected in the Nine Month Report. The increase since the Nine Month Report is comprised of \$40.7 million in additional revenues and \$7.9 million in expenditure savings primarily from reduced citywide contract expenditures, offset by \$12.7 million in increased reserve deposits and baseline transfers. The revenue surplus is composed of \$14.7 million in additional hotel tax and \$26.0 million in state mandate reimbursements, which shifted from the budget year into the current fiscal year due to State administrative decisions, and increased by \$9 million due to the State repayment formula.

2. Use of Reserves. As shown in Table 1-2, the Mayor's proposed budget includes use of \$3.1 million from reserves established in prior years during FY 2015-16 and \$3.6 million during FY 2016-17. See Appendix 2 for projected year-end balances in FY 2014-15 through FY 2016-17.

Table 1-2. General Fund Use of Reserves (\$ millions)

General Fund - Use of Prior Year Reserves	FY 2014-15	FY 2015-16	FY 2016-17
	Budget	Proposed Budget	Proposed Budget
Rainy Day Reserve One-Time Expenditures	12.2	-	-
Recreation & Parks Savings Incentive Reserve	5.9	3.1	3.1
Recreation & Parks Union Square Revenue Stabilization	-	-	0.5
Budget Savings Incentive Fund	28.4	-	-
Total Use of Prior Year Reserves	\$ 46.6	\$ 3.1	\$ 3.6

a. Rainy Day Reserve. Charter Section 9.113.5 establishes the Rainy Day Reserve Economic Stabilization Fund, which is funded by excess revenue growth in good years that can be used to support the General Fund and San Francisco Unified School District (SFUSD) operating budgets in years when revenues decline. Proposition C, passed by the voters in November 2014, divided the existing Rainy Day Economic Stabilization Reserve into a City Rainy Day Reserve (City Reserve) and a School Rainy Day Reserve (School Reserve) with each reserve account receiving 50 percent of the existing balance. Beginning in FY 2014-15, 25 percent of Rainy Day Reserve Economic Stabilization deposits will go to the School Reserve and 75 percent will go to the City Reserve. The Mayor's proposed budget assumes no deposits to or uses of either reserve in FY 2015-16 or FY 2016-17.

b. Rainy Day Reserve One-Time Expenditures. Charter Section 9.113.5 establishes a Rainy Day One-Time Reserve funded by 25 percent of excess revenue growth, which can be used towards capital and other one-time expenses. The Mayor's proposed budget includes no deposits to or uses of this reserve in FY 2015-16 or FY 2016-17.

c. Recreation & Park Savings Incentive Reserve. The Recreation and Park Savings Incentive Reserve, established by Charter Section 16.107(c), is funded by the retention of year-end net expenditure savings and revenue surplus by the Recreation and Park Department, and must be dedicated to one-time expenditures. The Mayor's proposed

budget assumes the use of \$3.1 million from the Reserve in FY 2015-16 and FY 2016-17, leaving an estimated balance of \$2.6 million at the end of FY 2016-17.

d. Recreation & Park Union Square Revenue Stabilization: The FY 2016-17 proposed budget includes a \$0.5 million use of Union Square Garage Revenue Stabilization Fund, which was established to replace net garage Recreation and Parks revenues lost due to the construction of the Union Square Market Street Central Subway Station.

e. Budget Savings Incentive Fund. The Citywide Budget Savings Incentive Fund is authorized by Administrative Code Section 10.20. The Fund receives 25 percent of net year-end departmental expenditure savings to support one-time expenditures. The FY 2014-15 Nine Month Report projected a year-end balance of \$19.5 million in the Fund. The Mayor's proposed budget includes no appropriations from this reserve in FY 2015-16 and FY 2016-17.

Table 1-3 provides projected growth rates for major local tax revenues. Notes are provided below.

Table 1-3. General Fund Major Local Tax Revenues: Projected Growth Rates

Local Tax Revenues	FY 2015-16 Growth from FY 2014-15 Projection	FY 2016-17 Growth from FY 2015-16 Proposed Budget	Notes
Property Taxes	2.9%	1.6%	3
Business Taxes	3.6%	4.7%	4
Sales Tax	21.2% (5% w/o Triple Flip)	19% (6.5% w/o Triple Flip)	5
Hotel Room Tax	7.8%	4.9%	6
Utility Users Tax	-2.2%	0.2%	7
Parking Tax	3.7%	2.7%	8
Real Property Transfer Tax	-9.4%	-12.8%	9
Stadium Admissions Tax	2.0%	0.0%	10
Access Line Tax	2.0%	2.0%	11
Total Local Tax Revenue Change	3.1%	2.3%	

3. Property Tax. The FY 2015-16 General Fund share of property tax revenue is estimated at \$1,288 million, which is \$55.1 million (4.5 percent) more than the FY 2014-15 budget and \$36 million (2.9 percent) more than the Nine Month Report. The FY 2016-17 General Fund share of property tax revenue is estimated at \$1,308 million, which is \$20 million (1.6 percent) more than the proposed FY 2015-16 budget. Major changes include:

- **Roll growth:** The proposed FY 2015-16 budget reflects secured property roll growth of 4.2 percent compared to the start of FY 2014-15. Increases in assessed values due to changes in ownership and new construction of real property are expected to account for about half of the increase. The other half of the increase is due to the 1.998 percent inflation factor allowed under Proposition 13 for FY 2015-16. The roll growth is also estimated to increase state Vehicle License Fee (VLF) backfill revenue by \$9.9 million.

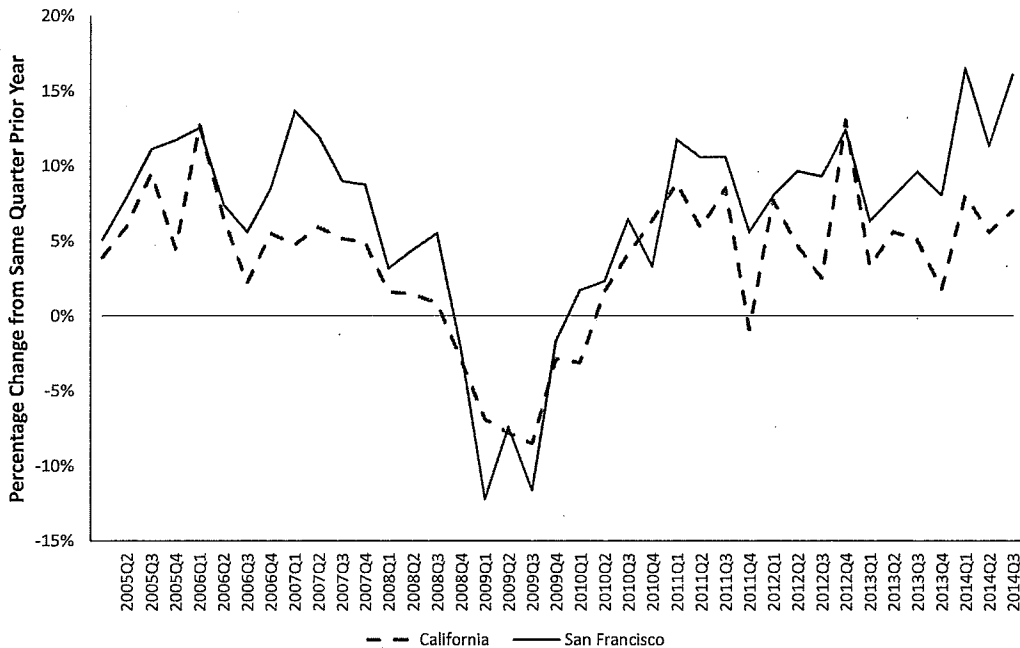
The proposed FY 2016-17 budget reflects secured roll growth of 5.1 percent compared to the proposed FY 2015-16 budget. The growth assumes 3.1 percent of increased taxable value due to changes in ownership and new construction along with the maximum 2 percent inflation factor allowed under Proposition 13. The improved secured roll value is also expected to increase VLF backfill revenue by \$10.2 million.

- **Triple Flip Unwind:** Since July 2004, 0.25 percent of the local share of sales tax revenues have been diverted by the State to help pay for the State of California's \$15 billion in Economic Recovery Bonds, approved by California voters in March 2004 (Proposition 57). To backfill the loss of 0.25 percent of local sales tax revenues, the State established a process referred to as the "Triple Flip" where local governments received additional property tax revenue funds from the Educational Revenue Augmentation Fund (ERAF). The property tax revenues distributed to the ERAF are primarily intended to benefit public education entities. The Economic Recovery Bonds are expected to be paid off in July 2015, and the triple flip process is expected to cease in the second half of FY 2015-16. The unwind of the Triple Flip is expected to reduce General Fund property tax revenue by \$19.0 million in FY 2015-16 (leaving a contribution to General Fund property tax revenues of \$23.0 million plus a \$5.0 million anticipated true-up) and to zero out sales tax backfill from General Fund property tax revenues in FY 2016-17. This decrease in property tax revenues will be offset by the return of the 0.25 percent of the local share of sales tax revenues beginning in the second half of FY 2015-16.
- **Changes in San Francisco Children's Fund allocation factor:** The proposed FY 2015-16 budget includes the change to the San Francisco Children's Fund allocation factor approved by San Francisco voters in November 2014 (Proposition C). The allocation factor will increase by \$0.0025 (from \$0.03 to \$0.0325) on each \$100 valuation of taxable property in FY 2015-16 and another \$0.0025 (from \$0.0325 to \$0.035) in FY 2016-17, reducing the General Fund allocation by the same factor each fiscal year.

4. Business Tax. The FY 2015-16 General Fund share of business tax revenue is budgeted at \$634.5 million, which is \$22.1 million (3.6 percent) more than FY 2014-15 as projected in the Nine Month Report and \$62.1 million (10.8 percent) more than budgeted in FY 2014-15. The FY 2016-17 General Fund share of business tax revenue is budgeted at \$664.3 million, which is \$29.8 million (4.7 percent) more than budgeted in FY 2015-16. The proposed budget reflects continued economic growth in private sector employment and business activity. Revenues from business taxes and registration fees follow economic conditions in the City and grew strongly from FY 2010-11 to FY 2014-15, reflecting underlying gains in City employment and wages during the period. The proposed budget incorporates the new business tax structure introduced by Proposition E, passed by the voters in November 2012.

The two main factors that determine the level of revenue generated by business taxes are employment and wages. Data from the Bureau of Labor Statistics show the unemployment rate for San Francisco peaked in 2010 and declined consistently in each subsequent year to a low of 3.4 percent as of April 2015. Additionally, beginning in 2011, San Francisco business tax revenue has benefitted from a rapid expansion of private sector wages, particularly in the technology sector. As can be seen in Chart 1-1, private wages in all industries in San Francisco have seen strong growth since 2010. In the most recent quarter for which data are available (the third quarter of 2014), total private sector wages grew 16.0 percent, while in the Information Sector, comprised mostly of technology companies, wages grew 94.2 percent.

Chart 1-1. Change in Private Sector Wages for San Francisco and California, Calendar Years 2005 to 2014



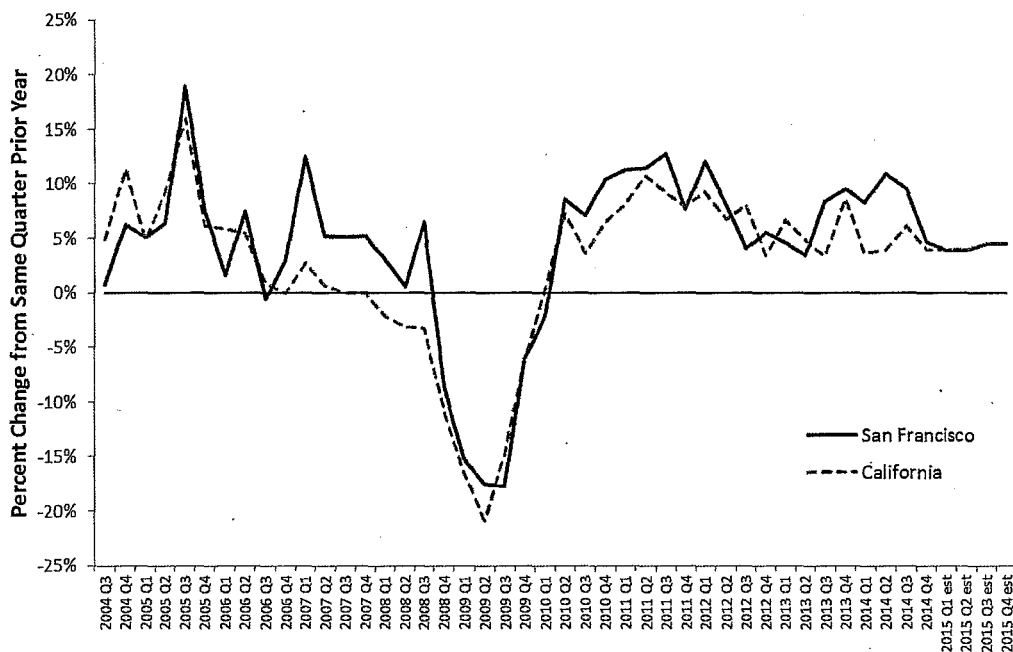
At this time, business tax projections are based on projected growth in private sector wages and employment. Data available from the implementation of gross receipts taxes will be incorporated into projections as they become available. Continued private employment growth averaging 2.7 percent is expected for calendar years 2014 through 2016. Wages are projected to increase slightly faster than projected rates of inflation, with average growth expected of 2.8 percent for the same period. Projections are sensitive to the timing of national economic downturns, continued growth in the local technology sector, and implementation effects of the five year phase-out of payroll taxes in favor of a tax on gross receipts.

5. Sales Tax. Local sales tax is budgeted at \$172.9 million in FY 2015-16, which represents growth of \$36.9 million (27.1 percent) from the FY 2014-15 budget and \$30.2 million (21.2 percent) from the Nine Month Report projection. FY 2016-17 local sales tax is budgeted at \$205.7 million, which is \$32.8 million (19.0 percent) growth from the FY 2015-16 budget. Local sales tax in both

years is projected to continue to grow at a rate slightly above inflation, with the exception of increases of \$23.0 million in FY 2015-16 and an additional \$23.0 million in FY 2016-17 due to the ending of the state's redirection of sales tax collections known as the Triple Flip in January 2016. These increases are wholly offset by related reductions to General Fund property tax, as described above. Without the one-time increase in sales tax revenue from the Triple Flip, sales tax growth in FY 2015-16 would be \$7.2 million (5.0 percent) from FY 2014-15 as projected in the Nine Month Report and \$9.8 million (6.5 percent) in FY 2016-17 from FY 2015-16. The budget assumes no changes to state and federal law or order fulfillment strategies for online retailers.

Chart 1-2 shows historical changes in quarterly sales tax revenues for both the City and the State.

**Chart 1-2. Historical Changes in Local and State Sales Tax Revenues
2004 Q3 through 2015 Q4**



6. Hotel Tax. FY 2015-16 hotel tax revenue is budgeted at \$384.1 million, which is \$65.7 million (20.7 percent) more than budgeted in FY 2014-15 and \$27.8 million (7.8 percent) more than FY 2014-15 as projected subsequent to the Nine Month Report. The FY 2016-17 General Fund share of hotel tax revenue is budgeted at \$403.1 million, which is \$19.0 million (4.9 percent) more than budgeted in FY 2015-16.

Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (ADR) and room supply, measured in the aggregate as Revenue per Available Room (RevPAR). During the first nine months of FY 2014-15 average RevPAR increased by 9.3 percent from FY 2013-14 average RevPAR and 11.5 percent over the same period in FY 2013-14. This reflects an all-

time high of approximately \$226 per night. The majority of FY 2015-16 budgeted growth from FY 2014-15 original budget is attributable to this current year surge. RevPar growth is expected to slow in FY 2015-16 and FY 2016-17 to 6.5 percent and 4.6 percent, respectively. Current period RevPAR growth is cumulative with large increases over the last four years: 12.0 percent in FY 2013-14, 11.2 percent in FY 2012-13, 14.6 percent in FY 2011-12 and 15.1 percent in FY 2010-11. Table 1-6 provides a recent history of RevPAR levels.

Table 1-6. Revenue Per Available Room (RevPAR): FY 2009-10 to FY 2014-15

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
July	\$ 131	\$ 141	\$ 171	\$ 188	\$ 208	\$ 233
August	\$ 134	\$ 154	\$ 173	\$ 196	\$ 230	\$ 261
September	\$ 152	\$ 166	\$ 189	\$ 212	\$ 242	\$ 269
October	\$ 174	\$ 174	\$ 205	\$ 229	\$ 251	\$ 273
November	\$ 107	\$ 112	\$ 152	\$ 152	\$ 195	\$ 190
December	\$ 85	\$ 106	\$ 109	\$ 128	\$ 145	\$ 190
January	\$ 96	\$ 124	\$ 135	\$ 148	\$ 176	\$ 209
February	\$ 102	\$ 136	\$ 156	\$ 153	\$ 187	\$ 186
March	\$ 117	\$ 136	\$ 148	\$ 166	\$ 188	\$ 221
April	\$ 118	\$ 131	\$ 147	\$ 198	\$ 207	-
May	\$ 133	\$ 165	\$ 170	\$ 190	\$ 216	-
June	\$ 129	\$ 157	\$ 195	\$ 210	\$ 234	-
Average YTD	\$123.16	\$141.71	\$162.47	\$180.73	\$202.40	\$225.77
\$ Change from PY	\$ (7.75)	\$ 18.55	\$ 20.76	\$ 18.26	\$ 21.68	\$ 23.36
% Change from PY	-5.9%	15.1%	14.6%	11.2%	12.0%	11.5%

Source: PKF Consulting

Growth has been fueled broadly by generally strong demand from all segments of the market (tourist, convention, and business) as a result of San Francisco's strong local economy, and more specifically by the completion of the Moscone Convention Center renovations in July 2012, which boosted growth from convention-related business. Constrained hotel room supply has contributed to large increases in the average daily room rate.

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. Actual revenue in FY 2015-16 and FY 2016-17 will depend on developments with these lawsuits.

7. Utility Users Tax. FY 2015-16 utility users tax revenue is budgeted at \$93.6 million, which is \$2.1 million (2.2 percent) less than FY 2014-15 as projected in the Nine Month Report and \$1.8 million (2.0 percent) more than budgeted in FY 2014-15. FY 2015-16 revenue is budgeted at \$93.8 million, which is \$0.2 million (0.2 percent) more than budgeted in FY 2015-16. The budget assumes low natural gas prices will continue, leading to further declines in gas, electric, and steam user tax revenue.

8. Parking Tax. Parking tax revenue is budgeted at \$89.7 million in FY 2015-16, an increase of \$4.8 million (5.7 percent) over the FY 2014-15 budget, and \$3.2 million (3.7 percent) more than the

FY 2014-15 Nine Month Report projection. In FY 2016-17, parking tax revenue is budgeted at \$92.2 million, \$2.5 million (2.7 percent) more than the FY 2015-16 budgeted amount. Parking tax revenue is positively correlated with business activity and employment, both of which are projected to increase over the next two years as reflected in increases in business and sales tax revenue projections. Parking tax growth estimates are commensurate with expected changes to the consumer price index (CPI) over the same period. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80 percent is transferred to the San Francisco Municipal Transportation Agency for public transit as mandated by Charter Section 16.110.

9. Real Property Transfer Tax. Real property transfer tax (RPTT) revenue is budgeted at \$275.3 million in FY 2015-16, an increase of \$40.3 million (17.1 percent) from the FY 2014-15 budget and a reduction of \$28.7 million (9.4 percent) from the FY 2014-15 Nine Month report projection. This decline is primarily due to the assumption that FY 2014-15 represents the peak in high value property transactions during the current economic cycle. In FY 2016-17, RPTT revenue is budgeted at \$240 million, \$35.3 million (12.8 percent) less than the FY 2015-16 budgeted amount as the pace of transactions trends toward the long term average. This is consistent with expectations for the return to normal growth in wages and employment reflected in business tax projections. As business growth slows, demand for commercial space is expected to reduce from peak levels in FY 2014-15.

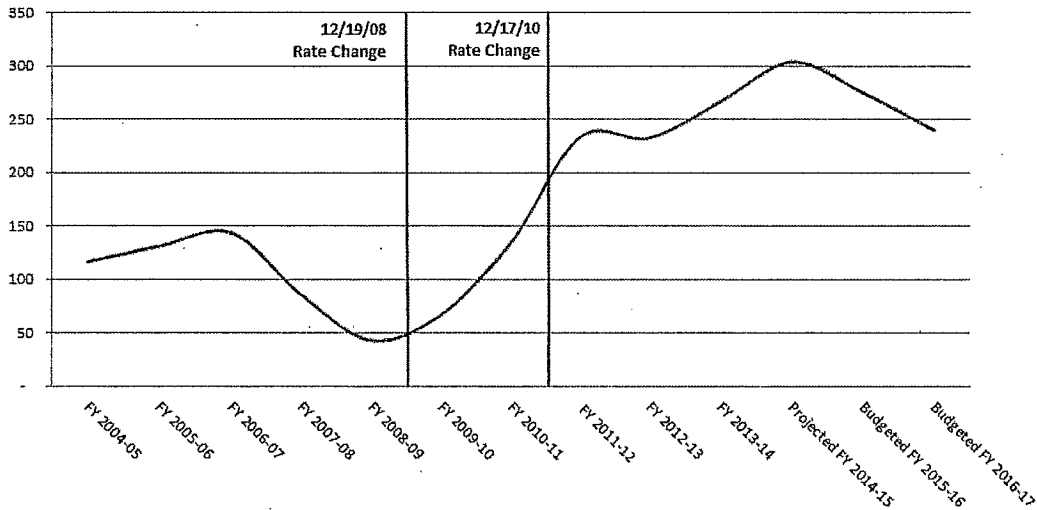
Table 1-7 summarizes recent revenue history by transaction size, and illustrates the strong correlation between total RPTT revenue and sales of high-value (largely commercial) properties. RPTT revenue from sales of properties worth more than \$10 million has increased dramatically, from \$31.2 million in FY 2010-11 to a projected \$191.9 million in FY 2014-15, an increase of \$160.7 million (515 percent). Total RPTT revenue during the period from FY 2005-06 to FY 2014-15 increased by \$173.8 million (133 percent) has been heavily influenced by the compounding effect of rate changes introduced by rate increases passed in 2008 and 2010.

Table 1-7. Real Property Transfer Tax Revenue by Transaction Size (\$ millions)

Tax Rate	@ 0.50%	@ 0.68%	@ 0.75%	@ 1.5%	@ 2.5%	Total Revenue
	<\$250K	>\$250K	>\$1 M	>\$5 M	>\$10 M	
FY 2005-06	\$ 0.5	\$ 31.4	\$ 98.3	N/A	N/A	\$ 130.2
FY 2006-07	0.4	29.3	114.3	N/A	N/A	144.0
FY 2007-08	0.5	24.8	61.0	N/A	N/A	86.2
FY 2008-09	0.8	19.8	27.1	1.2	N/A	48.9
FY 2009-10	1.8	24.8	26.5	30.7	N/A	83.7
FY 2010-11	1.0	21.2	30.2	51.7	31.2	135.2
FY 2011-12	1.0	24.3	31.8	25.3	151.2	233.6
FY 2012-13	0.9	25.4	41.7	18.9	147.5	234.5
FY 2013-14	0.9	21.9	49.9	25.8	168.5	267.0
FY 2014-15 Projection	1.0	24.9	56.8	29.4	191.9	304.0
FY 2015-16 Budget	0.9	22.5	51.5	26.6	173.8	275.3
FY 2016-17 Budget	0.8	19.6	44.9	23.2	151.5	240.0

Deposits to the Budget Stabilization Reserve are funded with a portion of volatile revenues, including 75 percent of RPTT revenue in excess of the prior five-year average adjusted for any rate increases during the period. RPTT revenue is projected to exceed the prior five-year average in FY 2015-16 by \$25.9 million, triggering a deposit to the Budget Stabilization Reserve of \$19.4 million. There is no deposit expected during FY 2016-17 as RPTT revenue is expected to be below the prior five-year average. See Appendix 2 for more detail on the Budget Stabilization Reserve and Chart 1-3 for historical RPTT revenue.

Chart 1-3. Historical Real Property Transfer Tax Revenue (\$ millions)



10. Stadium Admissions Tax. Stadium admissions tax revenue is budgeted at \$1.4 million in FY 2015-16, an increase of \$0.1 million (8.1 percent) from the FY 2014-15 budget amount and the Nine Month Report Projection. The FY 2014-15 Nine Month Report and FY 2015-16 budgeted revenues are lower than FY 2013-14 actual revenues due to the loss of San Francisco 49ers football games at Candlestick Park starting in FY 2014-15. The FY 2016-17 budget assumes no change from FY 2015-16.

11. Access Line Tax. FY 2015-16 access line tax revenue is budgeted at \$45.6 million, \$0.9 million (2.0 percent) more than FY 2014-15 as projected in the Nine Month Report and \$2.6 million (5.9 percent) more than budgeted in FY 2014-15. FY 2016-17 revenue is budgeted at \$46.5 million, \$0.9 million (2.0 percent) more than budgeted in FY 2015-16. Increases are due to projected population and business growth and include rate increases effective in October of each year and equal to CPI.

12. Interest & Investment Income. Interest and investment income for FY 2015-16 is budgeted at \$10.7 million, an increase of \$3.8 million (55.8 percent) from the FY 2014-15 budget and \$0.6 million (6.4 percent) from the Nine Month Report projection. This increase is a result of higher than expected interest rates during FY 2014-15. FY 2016-17 revenue is expected to increase \$1.1 million (9.9 percent) to \$11.7 over FY 2015-16 due to sustained interest rate increases.

13. Intergovernmental – Federal. Federal support in the General Fund is budgeted at \$245.6 million for FY 2015-16, which represents growth of \$10.7 million (4.5 percent) from the FY 2014-15 budget and \$21.4 million (9.6 percent) from the FY 2014-15 Nine Month Report projection. FY 2015-16 growth includes a \$5.3 million increase in the CalWORKs Single Allocation, a \$3.8 million increase for In-Home Support Services, which directly offsets increased expenditure matching requirements, a \$2.4 million increase in Adult Protective Services (APS) funding, and a \$2.1 million increase in other social service programs. This growth is partially offset by a \$3.0 million one-time loss of revenue from a change in accounting methods at the Department of Public Health (DPH). Revenue is expected to plateau in FY 2016-17, with budgeted revenue of \$251.8 million, a \$6.3 million (2.5 percent) increase from FY 2015-16.

14. State – Public Safety Sales Tax. Public safety sales tax revenue is budgeted at \$98.0 million in FY 2015-16, representing annual growth of \$6.6 million (7.2 percent) from FY 2014-15 budget and \$4.3 million (4.6 percent) from FY 2014-15 as projected in the Nine Month Report. This revenue is allocated to counties by the State separately from the local one-percent sales tax discussed above, and is used to fund police and fire services. Disbursements are made to counties based on the County Ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year. The county ratio for San Francisco in FY2014-15 is 2.9 percent and is expected to remain at that level in FY 2015-16 and FY 2016-17. In FY 2016-17, continued growth in Public Safety sales tax revenue is expected with revenue budgeted at \$102.8 million, which represents a \$4.8 million (4.9 percent) increase from FY 2015-16.

15. State – Realignment. San Francisco receives allocations of State sales tax and Vehicle License Fee (VLF) revenue for 1991 Health and Welfare Realignment and 2011 Public Safety Realignment.

1991 Health & Welfare Realignment. In FY 2015-16, the General Fund share of 1991 realignment revenue is budgeted at \$169.4 million, or \$6.5 million (4.0 percent) more than the FY 2014-15 budget and \$5.6 million (3.4 percent) from the Nine Month Report projection. This growth is attributed to a \$4.7 million (3.5 percent) increase in sales tax distribution and a \$1.8 million (6.1 percent) increase in the VLF distribution due to the base allocation increase and projected FY 2014-15 growth payments. The FY 2016-17 General Fund share of revenue is budgeted at \$174.3 million, a net annual increase of \$4.8 million (2.9 percent) in sales tax and VLF distributions based on the projected growth payments.

Increases in both years are net of state allocation reductions due to implementation of the Affordable Care Act (ACA) equal to assumed savings for counties as a result of treating fewer uninsured patients. The Governor's Revised Budget assumes statewide county savings of \$724.9 million in FY 2014-15 and \$698.2 million in FY 2015-16 as a result of ACA implementation, and redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for by the State's General Fund. Reductions to the City's allocation are assumed equal to \$16.7 million in both years, which is the same level of reduction assumed in the FY 2013-14 and FY 2014-15 budgets. Future budget adjustments could be necessary depending on final state determinations of ACA savings amounts, which are expected in January 2016 and January 2017 for FY 2013-14 and FY 2014-15, respectively.

Public Safety Realignment. Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers.

Based on the Governor's May Revised budget, this revenue is budgeted at \$36.4 million in FY 2015-16, a \$4.5 million (14.3 percent) increase from the FY 2014-15 budget and \$4.3 million (13.3 percent) more than FY 2014-15 as projected in the Nine Month Report. This increase reflects increased State funding to support implementation of AB109. The FY 2016-17 proposed budget assumes a \$2.4 million (6.5 percent) increase from FY 2015-16. Within Public Safety Realignment, distributions to the District Attorney and Public Defender in particular are projected to increase from \$0.3 million in FY 2014-15 to \$0.5 million in FY 2015-16, a 47 percent increase in funding as the State projects an increased workload for public defenders and district attorneys due to continuing transfer of responsibility for prosecuting and defending lower-level offenders and parolees to counties.

16. State – Other. Other State funding is budgeted at \$351.7 million in FY 2015-16, an increase of \$13.4 million (4.0 percent) from the FY 2014-15 budget. This increase is primarily attributable to projected growth for various social service subventions received by the Human Services Agency, including a \$12.3 million projected growth for Medi-Cal support associated with ACA implementation, a \$3.3 million increase in In Home Supportive Service (IHSS) funding, and \$1.2 million growth in other social service category funding. Other growth items include a \$5.3 million increase in Child Welfare funding and a \$3.3 million increase in Short-Doyle payments received by DPH. This growth is partially offset by a \$7.4 million reduction in the Stage 2 Childcare funding, a \$2.1 million reduction in the CalWORKs Single Allocation, a \$1.2 million loss of Child and Family Support funding, and a \$3.4 million loss of one-time State Mandate reimbursements. The budget for State – Other revenue in FY 2016-17 is \$361.0 million, an increase of \$9.5 million (2.7 percent) from FY 2015-16 primarily due to projected growth in Medi-Cal support, IHSS funding, and Short-Doyle payments.

17. Charges for Services. The proposed budget assumes charges for services revenue (including the Recovery of General Government Costs) of \$215.4 million in FY 2015-16, which represents growth from the FY 2014-15 original budget of \$5.6 million (2.7 percent), and a \$2.4 million (1.0 percent) reduction from the FY 2014-15 Nine Month Report projection. Significant FY 2015-16 changes include:

- \$4.5 million in new Public Health fee revenue, including increases in Performance Improvement Plan funding from the San Francisco Health Plan and increases in primary care capitated revenue.
- \$3.2 million in City Planning revenue due mainly to expected volume increases, larger applications, and CPI-adjusted fees.
- \$0.7 million in increased Cost Allocation Plan revenue as a result of cost increases in central agencies recovered from non-General Fund operations.

These increases are offset by a \$3.2 million reduction in Fire Department ambulance revenue from one-time back payments in ambulance contracts received in FY 2014-15. The proposed budget assumes charges for services revenue of \$216.8 million in FY 2016-17, which represents an increase of \$1.4 million (0.6 percent) from FY 2015-16. No significant changes are expected in FY 2016-17 compared to the FY 2015-16 budget.

18. Other Revenues. The proposed budget assumes revenues from other sources of \$32.0 million in FY 2015-16, a decrease of \$17.7 million (35.6 percent) from FY 2014-15 budget

reflecting the loss of \$28.1 million in one-time bond proceeds and \$11.6 million from one-time bond reimbursement revenue. These reductions are offset by a budgeted loan repayment of \$23.6 million paid to the City from the Office of Community Infrastructure and Investment (OCII) and funded through the anticipated sale of Jessie Square Garage. FY 2016-17 revenue from other sources is budgeted at \$7.8 million, a reduction of \$24.2 million (75.5 percent) reflecting the loss of one-time Jessie Square Garage loan repayment revenue.

Appendix 2. General Fund Reserve Uses and Deposits

As discussed in Appendix 1, the Mayor's proposed budget includes the use of \$3.1 million from reserves established in prior years during FY 2015-16 and \$3.6 million during FY 2016-17. As shown in Table 2-1 below, the Mayor's proposed budget also includes \$69.7 million and \$39.5 million in deposits to General Fund reserves during FY 2015-16 and FY 2016-17, respectively. These appear to be prudent and reflect anticipated Memoranda of Understanding (MOU), litigation, and general contingency reserve requirements.

Table 2-1. Proposed General Fund Reserve Uses and Deposits (\$ millions)

	FY 2014-15		FY 2015-16		FY 2016-17		Note	
	Projected Ending Balance	Budgeted Deposits	Budgeted Withdrawals	Projected Ending Balance	Budgeted Deposits	Budgeted Withdrawals		Projected Ending Balance
General Reserve	\$ 55.6	\$ 17.8	\$ -	\$ 73.4	\$ 12.0	\$ -	\$ 85.4	1
Rainy Day Economic Stabilization City Reserve	60.3	-	-	60.3	-	-	60.3	2
Rainy Day One-Time Reserve	34.5	-	-	34.5	-	-	34.5	2
Budget Stabilization Reserve	132.3	19.4	-	151.7	-	-	151.7	3
Subtotal Economic Stabilization Reserves	\$ 282.6	\$ 37.2	\$ -	\$ 319.9	\$ 12.0	\$ -	\$ 331.9	
Percent of General Fund Revenues	7.0%			7.6%			7.8%	
Budget Savings Incentive Fund	19.5	-	-	19.5	-	-	19.5	4
Litigation Reserve	-	16.0	(16.0)	-	11.0	(11.0)	-	5
Rainy Day Economic Stabilization SFUSD Reserve	36.5	-	-	36.5	-	-	36.5	2
Recreation & Parks Savings Incentive Reserve	9.2	-	(3.1)	6.2	-	(3.1)	3.1	6
Recreation & Parks Union Square Revenue Stabilization	7.0	-	-	7.0	-	(0.5)	6.5	6
Reserve for Technical Adjustments	-	2.5	(2.5)	-	2.5	(2.5)	-	7
Salary and Benefits Reserve	-	14.0	(14.0)	-	14.0	(14.0)	-	8
Total, All Reserves	\$ 354.9	\$ 69.7	\$ (35.6)	\$ 389.0	\$ 39.5	\$ (31.1)	\$ 397.5	

Notes to Table 2-1.

1. General Fund – Deposits to General Reserve. The General Reserve, established in Administrative Code Section 10.60, is intended to address revenue and expenditure issues not anticipated during budget development, and is typically used to fund supplemental appropriations.

The policy requires the General Reserve to increase to 1.75 percent of budgeted General Fund regular revenues in FY 2015-16 and 2.0 percent in FY 2016-17. The General Reserve will continue to increase each year until it reaches 3.0 percent of budgeted General Fund regular revenues in FY 2020-21, with unused General Reserve carried forward from the prior year into the new budget year. In FY 2015-16, the Mayor's proposed budget anticipates \$17.8 million in deposits and projects an ending General Reserve balance of \$73.4 million. In FY 2016-17, the proposed budget anticipates \$12.0 million in deposits with an ending balance of \$85.3 million.

2. Rainy Day Reserves. Rainy Day Reserve balances are comprised of three separate reserves: Rainy Day Economic Stabilization Reserve - City Reserve, Rainy Day Economic Stabilization Reserve - School Reserve, and the Rainy Day One-Time Reserve. No deposits or uses of these reserves are budgeted in FY 2015-16 or FY 2016-17. Additional detail on deposit and withdrawal requirements for these reserves can be found in the Use of Reserves section in Appendix 1.

3. Budget Stabilization Reserve. Established by Administrative Code Section 10.60(c), the Budget Stabilization Reserve augments the Rainy Day Reserve. These two reserves are available to support the City's budget in years when revenues decline. The Budget Stabilization Reserve is funded by the deposit each year of 75 percent of three volatile revenue sources: real property transfer tax revenue above the prior five-year average (adjusted for rate changes), ending unassigned fund balance above what is appropriated as a source in the subsequent year's budget, and certain asset sales. The Mayor's proposed budget assumes transfer tax revenue will be above the prior five-year adjusted average in FY 2015-16, resulting in a deposit to the Budget Stabilization Reserve of \$19.4 million. Transfer tax revenues in FY 2016-17 are not projected to exceed the prior five-year average and therefore no reserve deposit is budgeted in this year. The Controller's Office will determine final deposits in September of each year based on actual receipts during the prior fiscal year.

4. Budget Savings Incentive Fund. The Citywide Budget Savings Incentive Fund is authorized by Administrative Code Section 10.20. No deposits or withdrawals in this fund are budgeted for FY 2015-16 or FY 2016-17. Additional detail on deposit and withdrawal requirements for this reserve can be found in the Use of Reserves section in Appendix 1.

5. Litigation Reserve. The Mayor's proposed budget includes \$16.0 million for the litigation reserve in FY 2015-16, declining to \$11.0 million in FY 2016-17, which is intended to provide funding for potential judgments and claims that will be paid out during the budget period based on historical experience. The City also maintains a separate reserve funded from prior year appropriations for large cases pending against the City. The proposed level of funding is consistent with the level recommended in the Update to the City's Proposed Five Year Financial Plan for FY 2015-16 through FY 2019-20 published on March 12, 2015.

6. Recreation & Park Reserves. The Recreation and Park Savings Incentive Reserve, established by Charter Section 16.107(c), is funded by the retention of year-end net expenditure savings and revenue surplus by the Recreation and Park Department and must be dedicated to one-time expenditures. The Union Square Garage Revenue Stabilization Fund is a reserve of one-time revenue received by the Recreation and Park Department to replace net garage revenues lost due to the construction of the Union Square Market Street Central Subway Station. Additional detail for these reserves can be found in the Use of Reserves section in Appendix 1.

7. Reserve for Technical Adjustments. Reserves of \$2.5 million in FY 2015-16 and FY 2016-17 in the proposed budget allow for technical adjustments during the budget review process. The Mayor's Office will inform the Budget and Finance Committee prior to the final Committee vote on the budget as to the amount required for technical adjustments up to that point and any balance that may be available for other uses.

8. Salaries & Benefits Reserve. The Mayor's proposed budget provides \$14.0 million in both FY 2015-16 and FY 2016-17 to cover costs related to adopted MOUs with labor organizations and those which will come before the Board in June.

Appendix 3. One-time Sources and Nonrecurring Revenue Policy Compliance

The use of one-time or nonrecurring sources to support ongoing operations creates a future budget shortfall, requiring expenditures to be reduced or replacement resources identified. In December 2011, the Board approved a Nonrecurring Revenue Policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for identified nonrecurring expenditures. The Controller is required to certify compliance with this policy. The selected revenues include:

- General Fund prior year-end unassigned fund balance, before reserve deposits, above the prior five-year average;
- 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;
- Otherwise unrestricted revenues from legal judgments and settlements; and
- Otherwise unrestricted revenues from the sale of land or other fixed assets.

Controller's Certification

General Fund prior year-end unassigned fund balance is budgeted at \$176.3 million for FY 2015-16 and \$197.0 million for FY 2016-17. These amounts fall substantially below the prior five-year average of year-ending CAFR fund balances, estimated through FY 2014-15 to be \$277.7 million. The other nonrecurring revenues that fall within the policy are listed in Table 3-1. Budgeted nonrecurring expenditures exceed this amount, therefore, the Controller's Office certifies compliance with the policy.

Table 3-1 shows all General Fund nonrecurring revenues and uses in operating funds.

Table 3-1. General Fund Nonrecurring Sources & Uses (Operating funds only, \$ millions)

	FY 2014-15	FY 2015-16	FY 2016-17
	Budget	Proposed	Proposed
ONE-TIME SOURCES			
General Fund Prior Year Fund Balance	\$ 135.9	\$ 176.3	\$ 197.0
DPH Sale of Buildings/Land Onondaga St.	1.0	1.0	-
Fire Department Prior Year MediCal Revenue (GEMT)	5.9	-	-
Reimbursement of Prior Year Capital Expenditures	11.6	-	-
Sale of Candlestick Park Assets	1.9	-	-
Repayment of Jessie Square Garage Obligation	-	23.6	-
Total Nonrecurring General Fund Revenues	\$ 156.4	\$ 200.9	\$ 197.0
ONE-TIME USES			
Capital Planning GF Recommended Funding	\$ 114.1	\$ 119.1	\$ 118.1
Moving and FF&E Costs for Capital Projects	2.0	11.0	0.8
COIT Annual Projects	8.8	9.7	4.9
COIT Major IT Projects	5.4	15.3	27.6
Equipment	16.2	16.5	9.0
Seed Capital Planning Fund	-	12.6	-
DPH - SFGH - FF&E	56.0	-	-
DPH - Electronic Health Records	-	37.8	54.2
DPH - General Hospital Transition Costs	7.5	18.5	-
Total One-Time Uses	\$ 210.0	\$ 240.4	\$ 214.6

Appendix 4. Baselines & Mandated Funding Requirements

Voters have approved requirements for baseline levels of funding or staffing for a number of services, which are summarized in Table 4-1 below.

Table 4-1. Baselines & Mandated Funding/Staffing Requirements (\$ millions)

	FY 2014-15 Original Budget	FY 2015-16 Proposed Budget	FY 2016-17 Proposed Budget
General Fund Aggregate Discretionary Revenue (ADR)	\$ 2,707.8	\$ 2,955.4	\$ 3,025.5
Financial Baselines			
Municipal Transportation Agency (MTA)			
MTA - Municipal Railway Baseline: 6.686% ADR	181.0	197.6	202.3
MTA - Parking & Traffic Baseline: 2.507% ADR	67.9	74.1	75.9
MTA - Population Adjustment	-	25.9	28.7
MTA - 80% Parking Tax In-Lieu	67.9	71.8	73.8
Subtotal Municipal Transportation Agency	\$ 316.8	\$ 369.3	\$ 380.6
Library Preservation Fund			
Library - Baseline: 2.286% ADR	61.9	67.6	69.2
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	43.0	46.0	47.9
Subtotal Library	104.9	113.5	117.0
Children's Services			
<i>Children's Services Baseline - Requirement: 4.830% ADR</i>	134.7	142.7	146.1
Children's Services Baseline - Eligible Items Budgeted	151.7	145.9	147.6
<i>Transitional Aged Youth Baseline - Requirement: 0.580% ADR</i>	15.7	17.1	17.5
Transitional Aged Youth Baseline - Eligible Items Budgeted	15.7	18.7	18.8
Public Education Services Baseline: 0.290% ADR	7.9	8.6	8.8
Children's Fund Property Tax Set-Aside: \$0.03 per \$100 NAV	51.6	59.8	67.0
<i>Public Education Enrichment Fund: 3.057% ADR</i>	82.8	90.3	92.5
1/3 Annual Contribution - Preschool for All	27.6	30.1	30.8
2/3 Annual Contribution to San Francisco Unified School District (SFUSD):			
Share of SFUSD Contribution Provided as In-Kind Services	4.3	-	-
Balance of SFUSD Contribution Direct Funding	50.9	60.2	61.7
Total Public Education Enrichment Fund	82.8	90.3	92.5
Subtotal Children's Services	309.6	323.3	334.7
Other Financial Baselines			
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	43.0	46.0	47.9
Housing Trust Fund	22.8	25.6	28.4
Human Services Homeless Care Fund: Amount based on aid savings	14.4	15.1	15.1
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	2.3	2.4	2.5
City Services Auditor: 0.2% of Citywide Budget	14.9	15.3	15.3
Subtotal Other Financial Baselines	97.4	104.3	109.2
Total Financial Baselines	\$ 828.8	\$ 910.5	\$ 941.6
Staffing and Service-Driven Baselines			
Police Minimum Staffing	Requirement likely not met in FY 2015-16 but met in FY 2016-17		
Neighborhood Firehouse Baseline	Requirement met		
Treatment on Demand Baseline	Requirement met		
Office of Economic Analysis Staffing	Requirement met		

Municipal Transportation Agency Baselines. Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for MTA. Consistent with the Charter, in FY 2000-01 a base amount of funding was established. Charter subsection (c) (1) requires the Controller's Office to adjust the base amount from year to year by the percent increase or decrease in General Fund Aggregate Discretionary Revenues (ADR). Beginning in FY 2002-03, this Charter section also established a minimum level of funding (required baseline) for the Parking and Traffic Commission based upon FY 2001-02 appropriations. The Mayor's proposed budget includes funding for the MTA baselines at the required levels of \$271.7 million in FY 2015-16 and \$278.1 million in FY 2016-17.

Proposition B, passed by the voters in November 2014, requires that in addition to adjusting annually for the change in ADR, these baseline amounts be increased for 10 years of population growth in the City in FY 2015-16 and annual population growth thereafter. The Mayor's proposed budget includes \$25.9 million and \$28.7 million in FY 2015-16 and FY 2016-17 respectively, for the Proposition B population baseline.

Library Baseline. Charter Section 16.109 established a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. Based on revenue in the Mayor's proposed budget, the required Library Baseline requirements of \$67.6 million in FY 2015-16 and \$69.2 million in FY 2016-17 are met.

Children's Baseline. Charter Section 16.108 established a Children's Services Fund. Consistent with the Charter, in FY 2000-01 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. Proposition C, approved by voters in the November 2014 general election, amended the Charter to exclude medical health services as an eligible service. As a result, and as part of establishing the Disconnected Transitional-Aged Youth Baseline, the Controller reviewed City appropriations included in the fund and excluded the newly medical health services and other expenditures now mandated by state law. The Controller then recalculated City appropriations as a percentage of ADR to arrive at an adjusted baseline rate. The required baselines for FY 2015-16 and FY 2016-17 are \$142.7 million and \$146.1 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of \$145.9 million and \$147.6 million, representing surplus funding of \$3.2 million in FY 2015-16 and \$1.5 million in FY 2016-17.

Disconnected Transitional-Aged Youth (TAY) Baseline. Proposition C, approved by voters in November 2014, amended Charter Section 16.108 to increase the Children's Baseline to include services for Disconnected Transitional-Aged Youth (TAY), known as the TAY Baseline. The Charter requires that the TAY Baseline be added to the Children's Baseline, however, it is tracked separately for reporting purposes. The TAY Baseline amount was established in FY 2013-14 and similar to the Children's Baseline is adjusted annually by the percent increase or decrease in ADR. The required baselines for FY 2015-16 and FY 2016-17 are \$17.1 million and \$17.5 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of \$18.7 million and \$18.8 million, representing surplus funding of \$1.6 million in FY 2015-16 and \$1.2 million in FY 2016-17.

Public Education Services Baseline. Charter Section 16.123-2 established a Public Education Enrichment Fund. Consistent with the Charter, in FY 2001-02 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. The

Mayor's proposed budget includes the required \$8.6 million in FY 2015-16 and \$8.8 million in FY 2016-17 for this baseline.

Public Education Enrichment Fund Annual Contribution. In addition to the Public Education Services Baseline, Charter Section 16.123-2 requires the City to support education initiatives with annual contributions equal to the City's total contribution in the prior year, adjusted for the change in ADR. The proposed budget includes \$90.3 million and \$92.5 million for the Public Education Enrichment Fund Annual Contribution in FY 2015-16 and FY 2016-17, respectively.

Property Tax-Related Set-Asides. Charter Sections 16.108, 16.109, and 16.107 mandate property tax-related set-asides for the Children's Services Fund, the Library Preservation Fund, and the Open Space Fund. As discussed in the Property Tax section in Appendix 1 the allocation factor for the Children's Fund will increase by \$0.0025 (from \$0.03 to \$0.0325) on each \$100 valuation of taxable property in FY 2015-16 and another \$0.0025 (from \$0.0325 to \$0.035) in FY 2016-17. The Library Preservation Fund and the Open Space Fund receive allocations of \$0.025 for each \$100 valuation of taxable property in both FY 2015-16 and FY 2016-17. The Mayor's proposed budget includes required funding of \$59.8 million in FY 2015-16 and \$67.0 million in FY 2016-17 for the Children's Services Fund, and \$46.0 million and \$47.9 million in FY 2015-16 and FY 2016-17, respectively, for both the Library Preservation Fund and Open Space Fund.

Housing Trust Fund. In 2012, voters approved Proposition C, establishing a Housing Trust Fund codified in Charter section 16.110. The Charter requires an annual contribution from the General Fund to the Housing Trust Fund of \$20 million beginning in FY 2013-14 and increasing annually by \$2.8 million. The Mayor's proposed budget includes the required funding of \$25.6 million and \$28.4 million in FY 2015-16 and FY 2016-17, respectively.

Human Services Care Fund. Also known as Care not Cash, the Human Services Care Fund was passed by voters as Proposition N in November 2002. Administrative Code Section 10.100-77 defines a formula for calculating the annual required contribution to the Fund based on the number of homeless people expected to participate in County Adult Assistance Programs during each upcoming fiscal year as compared to a base year. The City is required to credit the Fund with the difference between the average annual maximum cash grant for each program and the average annual special allowance or other residual cash payment provided by the City for each participant to whom the City expects to provide in-kind benefits in lieu of the full cash grant during the year. These funds are to be used on homeless outreach and service programs. The Mayor's proposed budget includes funding of \$15.1 million in FY 2015-16 and FY 2016-17. The budgeted amounts include \$0.7 million in FY 2015-16 and FY 2016-17 of General Fund support above the required funding amount of \$15.1 million.

Municipal Symphony Baseline. Charter Section 16.106(1) mandates that the City provide an appropriation equivalent to 1/8 of \$0.01 of each \$100 of assessed valuation of property tax for the San Francisco Municipal Symphony Orchestra. Based on budgeted assumptions of assessed valuation, the required funding for the Municipal Symphony Baseline is \$2.4 million in FY 2015-16 and \$2.5 million in FY 2016-17.

City Services Auditor Baseline. Charter Section F1.113, approved by voters through Proposition C in November 2003, established the Controller's Audit Fund with a baseline funding amount of 0.2 percent of the City budget be used to fund audits of City services. The

Mayor's proposed budget includes \$15.3 million in FY 2015-16 and \$15.3 million in FY 2016-17 for the City Services Auditor baseline.

Police Minimum Staffing Baseline. San Francisco Charter Section 4.127, approved by the voters in 1994 as Proposition C, mandates a minimum police staffing baseline of not less than 1,971 sworn full-duty officers. The Charter-mandated minimum staffing level may be reduced in cases where civilian hires result in the return of full-duty officers to active police work, pursuant to Charter Section 16.123, which provides that the Mayor and the Board may convert a required position from a sworn officer to a civilian through the budget process. A number of civilian positions have been added since the Charter amendment was passed, however, no formal certification has been approved by the Police Department.

The Police Department projects that as of July 1, 2015 it will have 2,069 sworn officer positions filled, supplemented by 205 officers graduating from the academy to full-duty and offset by 80 retirements during FY 2015-16. The department projects that 388 officers will not be available for neighborhood policing and patrol due to: leaves of absence, modified duty, academy, or field training. These adjustments result in a projected total of 1,806 full-duty sworn officers available for neighborhood policing and patrol, 165 short of the baseline staffing amount. The Controller's Office estimates that by the end of FY 2015-16, 77 positions will have been civilianized, reducing the minimum staffing level to 1,894. Additionally, the Department will receive overtime funding in the FY 2015-16 proposed budget that the Controller's Office calculates as equivalent to 73 full-duty sworn positions, bringing the staffing level to 1,879, or 15 positions short of the adjusted baseline amount, if overtime is counted towards the budget.

As of July 1, 2016 the Police Department projects to have 2,194 sworn officer positions filled, supplemented by 205 officers graduating from the academy to full-duty and offset by 80 retirements during FY 2016-17. The department projects that 388 officers will not be available for neighborhood policing and patrol due to: leaves of absence, modified duty, academy, or field training. These adjustments result in a projected total of 1,931 full-duty sworn officers available for neighborhood policing and patrol, 40 short of the baseline staffing amount. The Controller's Office estimates that by the end of FY 2016-17, 77 positions will have been civilianized, reducing the minimum staffing level to 1,894. Additionally, the Department will receive overtime funding in the FY 2016-17 proposed budget that the Controller's Office calculates as equivalent to 71 full duty sworn positions bringing the staffing level to 2,002 or 108 positions above of the adjusted baseline amount, if overtime is counted towards the budget.

Neighborhood Firehouse Baseline. In November 2005, San Francisco voters passed the Neighborhood Firehouse Protection Act (Proposition F), which established staffing requirements as described in Administrative Code Section 2A.97. The Act requires 24-hour staffing of 42 firehouses and the Arson and Fire Investigation Unit, and no fewer than four ambulances and four Rescue Captains. The Mayor's proposed budget includes \$268.3 million in FY 2015-16 and \$270.1 million in FY 2016-17 to meet the baseline. Since this requirement is not contained in the Charter, the Board may approve a budgeted amount that does not meet the levels described in the Code.

Treatment on Demand Baseline. In November 2008, voter approval of Proposition T created Chapter 19A, Article III of the Administrative Code, which requires the Department of Public Health to maintain an "adequate level of free and low cost medical substance abuse services and residential treatment slots" to meet the overall demand for these services. The measure also requires the Department to report to the Board by February 1 of each year with an assessment of the demand for substance abuse treatment, and a plan to meet this demand. At

the end of December 2014 (the most recent data available), the only treatment modality for which there were more clients waiting than slots available was for Residential, which had thirty-five clients waiting and thirty-one open slots. The Administrative Code stipulates that the City cannot "reduce funding, staffing, or the number of substance abuse treatment slots available for as long as slots are filled or there is any number of individuals seeking such slots." This requirement has been met.

Staff Contacts

Michelle Allersma, Director of Budget & Analysis, Michelle.Allersma@sfgov.org

Nick Delgado, Budget and Revenue Analyst, Nicholas.Delgado@sfgov.org

Yuri Hardin, Budget and Revenue Analyst, Yuri.Hardin@sfgov.org

Theresa Kao, Budget Analyst, Theresa.Kao@sfgov.org

Alex Koskinen, Budget Analyst, Alex.Koskinen@sfgov.org

Jay Liao, Budget and Revenue Analyst, Jay.Liao@sfgov.org

Devin Macaulay, Budget Analyst, Devin.Macaulay@sfgov.org

Drew Murrell, Citywide Revenue Manager, Drew.Murrell@sfgov.org

Risa Sandler, Citywide Budget Manager, Risa.Sandler@sfgov.org

Jamie Whitaker, Property Tax Manager, James.Whitaker@sfgov.org

Print Form

Introduction Form

By a Member of the Board of Supervisors or the Mayor

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion, or Charter Amendment)
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning "Supervisor [] inquires"
- 5. City Attorney request.
- 6. Call File No. [] from Committee.
- 7. Budget Analyst request (attach written motion).
- 8. Substitute Legislation File No. []
- 9. Reactivate File No. []
- 10. Question(s) submitted for Mayoral Appearance before the BOS on []

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission
- Youth Commission
- Ethics Commission
- Planning Commission
- Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a Imperative Form.

Sponsor(s):

Supervisor Mark Farrell

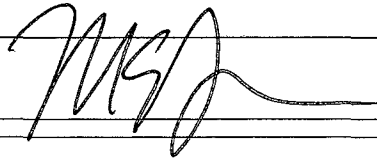
Subject:

Hearing - Controller's Revenue Letter

The text is listed below or attached:

Hearing on the Controller's FY 2015-16 and FY 2016-17 Revenue Letter

Signature of Sponsoring Supervisor: _____



For Clerk's Use Only: