City and County of San Francisco

Office of the Controller

FY 2017-18 and FY 2018-19 Revenue Letter:

Controller's Discussion of the Mayor's FY 2017-18 and FY 2018-19 Proposed Budget

June 9, 2017

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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, 2017, Mayor Edwin Lee submitted his FY 2017-18 and FY 2018-19 proposed budget to the Board of Supervisors.

Key findings from our review of the proposed two-year budget:

- **The revenue assumptions in the adopted budget are reasonable.** The proposed budget assumes continued but moderate economic expansion during FY 2017-18 and FY 2018-19. Significant growth in property tax revenue is partially offset by continued weakness in certain economically sensitive sources including hotel, sales, and parking taxes. The duration and pace of the current economic expansion will warrant close monitoring during the upcoming budget cycle.

- **Voter-required baseline and set-aside requirements are met or exceeded**. The majority of voter-adopted requirements are funded at required levels, while those for parks and children and transitional age youth are exceeded in the proposed budget.

- **Code-mandated reserves are funded and maintained at required levels.** General Reserve funding levels in the budget are at code-mandated levels. No required deposits or withdrawals from economic stabilization reserves are triggered given budgeted revenue assumptions.

- **While increased use of prior year fund balance is matched with one-time expenditures, it will create budget challenges in FY 2019-20 and beyond.** The two-year budget uses $462 million of prior year fund balance, an increase of approximately $99 million from the prior adopted budget. This fund balance draw down, matching one-time sources in the proposed budget, will create challenges in the FY 2019-20 budget, absent revenue increases or expenditure savings beyond those assumed in the budget.

- **While final impacts of State and Federal budgets are uncertain, they are likely to exceed the losses assumed in the proposed budget.** While the proposed budget assumes losses resulting from the pending State budget, final impacts from the State's shift of In Home Supportive Service (IHSS) program costs to San Francisco will likely exceed budgeted levels. Future federal budget impacts are unknown but may be significant. The budget proposes the creation of $60 million in new reserves to guard against these risks.

Overview

As shown in Table 1, the Mayor's proposed budget for FY 2017-18 includes $5.1 billion in General Fund sources and $10.1 billion in all funds sources representing increases of 5.7 percent and 5.4 percent, respectively, from the FY 2016-17 original budget. The Mayor's proposed budget for FY 2018-19 includes $5.3 billion in General Fund sources and $10.0 billion in all funds sources representing increases from the FY 2017-18 proposed budget of 3.4 percent and -1.0 percent, respectively.

Table 1. Overview of Budget Sources ($ millions)

General Fund

	FY 2016-17 Budget	FY 2017-18 Proposed	FY 2018-19 Proposed
Fund Balance	$ 172.1	$ 174.2	$ 287.9
Use of Reserves	6.0	3.9	1.1
Regular Revenues	4,519.7	4,789.6	4,855.3
Transfers In to the General Fund	162.0	171.1	168.3
Total GF Sources	**$ 4,859.8**	**$ 5,138.8**	**$ 5,312.5**
Change from Prior Year		***$ 279.0***	***$ 173.7***
Percentage Change		***5.7%***	***3.4%***

All Funds

	FY 2016-17 Budget	FY 2017-18 Proposed	FY 2018-19 Proposed
Fund Balance	$ 477.1	$ 362.2	$ 382.4
Use of Reserves	9.0	20.1	3.9
Regular Revenues	9,101.4	9,724.7	9,614.8
Total All-Funds Sources	**$ 9,587.5**	**$ 10,107.0**	**$ 10,001.1**
Change from Prior Year		***$ 519.5***	***$ (105.9)***
Percentage Change		***5.4%***	***-1.0%***

Note: totals may appear to differ from sum of line items due to rounding

Highlights include:

- **Local tax revenue estimates are reasonable given current economic assumptions.** The proposed budget assumes continued, moderate local economic expansion, consistent with the Joint Report Update published in March and updated for new data. General Fund FY 2017-18 regular revenues are increasing by $269.9 million or 6.0 percent from the FY 2016-17 budget. In FY 2018-19 General Fund revenues are expected to increase further by $65.7 million or 1.4 percent from the FY 2017-18 proposed budget. Local tax revenues are influenced by national and international economic developments that could cause changes to the currently favorable but moderating trends in job growth, property values and tourism. Additionally, there is great uncertainty about state and federal policies, which could significantly impact the city's finances. Any significant economic slowdown would require the Mayor and Board of Supervisors 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 the use of prior year fund balance.** The two-year FY 2017-19 budget uses $462.1 million of prior year fund balance compared to $363.3 million in the FY 2016-18 budget. Similar to the prior two-year budget, the FY 2017-19 proposed use of fund balance is net of $60.0 million in assigned but unbudgeted contingency reserves, of which $10.0 million is for uncertainty at the state and federal levels and $50.0 million is to help address possible changes to the Affordable Care Act.

- **The proposed General Fund budget decreases use of prior year reserves and complies with financial policies for depositing to reserves:** The proposed budget decreases use of prior year reserves from $6.0 million in FY 2016-17 to $3.9 million in FY 2017-18 and $1.1 million in FY 2018-19. The proposed budget assumes commercial real estate market conditions will slow from their peak in FY 2016-17, leading to no projected deposits to the Budget Stabilization Reserve in FY 2017-18 or FY 2018-19. In addition, the budget complies with the General Reserve policy, which calls for increasing the General Reserve to 2.25 percent of budgeted General Fund revenues, or $107.8 million, in FY 2017-18, and 2.50 percent of budgeted General Fund revenues, or $121.8 million, in FY 2018-19. The General Reserve is available to be appropriated by the Board for any purpose to accommodate shortfalls or new requirements during the year.

Table 2. Select Reserve Balances ($ millions)

	FY 2016-17 Projected	FY 2017-18 Budgeted	FY 2018-19 Budgeted
General Reserve	$ 89.1	$ 107.8	$ 121.8
Rainy Day Economic Stabilization City Reserve	77.8	77.8	77.8
Rainy Day One-Time Reserve	47.0	47.0	47.0
Budget Savings Incentive Fund	62.9	62.9	62.9
Budget Stabilization Reserve	273.1	273.1	273.1
	$ 550.0	**$ 568.7**	**$ 582.7**

- **Department of Public Health Revenue Changes:** Public Health revenues continue to change significantly because of state and federal reimbursement policy changes under the Affordable Care Act (ACA) and Medi-Cal 2020 Waiver. The budget assumes that funding for county providers as a result of the waiver will decrease over time. This reduction is driven in part by the fact that as more individuals are covered by insurance, federal funding to compensate for services provided to the uninsured from sources such as the Disproportionate Share Hospital and Safety Net Care Pool funds are expected to be reduced. These reductions are offset by increases in fee-for-service revenue at Zuckerberg San Francisco General Hospital (ZSFG) in the budget.

  However, there is great uncertainty at the State and Federal levels regarding the Affordable Care Act. Any major change will significantly impact the Department of Public Health. Because the timing and size of changes is unknown, no assumptions about state or federal policy are made in this budget. The budget leaves $50.0 million in unappropriated fund balance at Zuckerberg San Francisco General Hospital to help manage possible changes

- **Budgetary baselines and set-asides are funded at voter-approved levels.** Appendix 4 provides details on voter-approved mandates that determine minimum levels of revenues, expenditures or service for various programs, including:

  - **Children's Baseline requirements are exceeded in both FY 2017-18 and FY 2018-19.** Children's baseline funding in the proposed budget is $166.9 million in FY 2017-18 and $172.7 million in FY 2018-19, which is above the required level by $2.1 million and $5.0 million, respectively.

  - **Disconnected Transitional-Aged Youth (TAY) requirements are exceeded in both FY 2017-18 and FY 2018-19**. TAY baseline funding in the proposed budget is $24.6 million in FY 2017-18 and $25.4 million in FY 2018-19, which is above the required level by $4.9 million and $5.2 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, this staffing requirement will be met in FY 2017-18 and FY 2018-19.

  - **Recreation and Parks Baseline:** Proposition B, passed by the voters on June 7, 2016, requires General Fund support to the department to grow by $3.0 million annually from FY 2016-17 through FY 2025-26 and by aggregate discretionary revenue thereafter. The required baselines for FY 2017-18 and FY 2018-19 are $70.2 million and $73.2 million, respectively. The Mayor's proposed budget includes General Fund appropriations of $73.0 million and $74.6 million, representing surplus funding of $2.8 million in FY 2017-18 and $1.4 million in FY 2018-19.

  - **Dignity Fund:** Proposition I, passed by voters on November 8, 2016, requires funding for seniors and adults with disabilities to grow from $38 million in FY 2016-17 to $44.0 million in FY 2017-18 and $47.0 million in FY 2018-19, which the Mayor's proposed budget meets.

  - **Street Tree Maintenance Fund:** Proposition E, passed by voters on November 8, 2016, requires funding for street tree maintenance of $19 million in FY 2017-18, then changing by aggregate discretionary revenue thereafter. In FY 2018-19, the fund grows to $19.3 million.

Conclusions

The Mayor's proposed budget appears to be reasonable given information currently available, with cautionary notes regarding its reliance on continued revenue growth and use of prior year fund balance in the second year of the budget. 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.

Appendices

Appendix 1. General Fund Sources

Table 1-1 provides a summary of the General Fund sources in the Mayor's FY 2017-18 and FY 2018-19 proposed budget.

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

Sources of Funds	FY 2016-17 Budget	FY 2017-18 Proposed Budget	FY 2018-19 Proposed Budget	Notes
Prior Year Fund Balance - Operating Surplus	$ 172.1	$ 174.2	$ 287.9	1
Use of Reserves	6.0	3.9	1.1	2
Subtotal Fund Balance and Reserves	**178.1**	**178.1**	**289.0**	
Regular Revenues				
Property Taxes	1,412.0	1,557.0	1,620.0	3
Business Taxes	669.5	750.8	762.5	4
Sales Tax (Bradley Burns 1%)	237.5	199.9	204.9	5
Hotel Room Tax	409.3	372.3	396.9	6
Utility Users Tax	94.3	99.7	100.8	7
Parking Tax	92.8	82.2	83.0	8
Real Property Transfer Tax	235.0	300.0	245.0	9
Stadium Admissions Tax	1.4	1.4	1.4	
Sugar Sweetened Beverage Tax	-	7.5	15.0	10
Access Line Tax	47.0	49.6	51.1	11
Licenses, Permits & Franchises	28.9	30.0	30.4	
Fines and Forfeitures	4.6	4.6	4.6	
Interest & Investment Income	14.0	18.2	18.4	12
Rents & Concessions	16.1	14.1	15.0	
Intergovernmental - Federal	253.3	264.5	270.5	13
State - Public Safety Sales Tax	102.0	101.6	104.1	14
State - 1991 Health & Welfare Realignment	179.6	188.6	192.2	15
State - Public Safety Realignment	40.5	41.3	42.4	16
State - Other	378.2	420.1	411.5	17
Intergovernmental Revenues - Other	5.5	3.3	3.4	
Charges for Services	225.2	232.9	232.1	18
Recovery of General Government Costs	10.9	9.9	9.4	
Other Revenues	62.2	40.1	40.7	19
Subtotal Regular Revenues	***4,519.7***	***4,789.6***	***4,855.3***	
Transfers In to the General Fund	162.0	171.1	168.3	20
Total Sources	**4,859.8**	**5,138.8**	**5,312.5**	

Notes to Table 1-1.

1. Prior Year Fund Balance. The proposed budget anticipates $462.0 million in unassigned General Fund surplus will be available at the end of FY 2016-17, or $65.5 million more than the $396.5 million ending fund balance projected in the Nine Month Report. The increase since the Nine Month Report includes $60.0 million of previously unappropriated fund balance assigned to a contingency reserve to manage cost and revenue uncertainty, $5.1 million in reimbursements for G.O. bond planning activities from the Department of Public Health, and $9.0 million of expected savings related to a change in the intended use of property at the Department of Homelessness and Supportive Housing.

2. Use of Reserves. As shown in Table 1-2, the Mayor's proposed budget includes use of $3.9 million from reserves established in prior years during FY 2017-18 and $1.1 million during FY 2018-19. See Appendix 2 for projected year-end balances in FY 2016-17 through FY 2018-19.

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

General Fund - Use of Prior Year Reserves	FY 2017-18 Proposed Budget	FY 2018-19 Proposed Budget
Recreation & Parks Savings Incentive Reserve	3.5	-
Recreation & Parks Union Square Garage Revenue	0.4	1.1
Total Use of Prior Year Reserves	**$ 3.9**	**$ 1.1**

a. Recreation & Park Savings Incentive Reserve. The Recreation and Park Savings Incentive Reserve is established by Charter Section 16.107(c) and prior to Proposition B, passed by the voters on June 7, 2016, was funded by the retention of year-end net expenditure savings and revenue surplus from the Recreation and Park Department. Proposition B eliminated the ability to retain expenditure savings while preserving deposits from surplus revenue. Any withdrawals from the reserve must go towards one-time departmental expenditures. The Mayor's proposed budget assumes the use of $3.5 million in FY 2017-18, leaving an estimated balance of $0.1 million at the end of FY 2017-18.

b. Recreation & Park Union Square Revenue Stabilization: The proposed budget includes a $0.4 million use of Union Square Garage Revenue Stabilization Fund in FY 2017-18 and $1.1 million in FY 2018-19. The reserve was established to replace ongoing Recreation and Parks garage revenues lost due to the construction of the Union Square Market Street Central Subway Station.

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 2017-18 Growth from FY 2016-17 Budget	FY 2018-19 Growth from FY 2017-18 Proposed Budget	Notes
Property Taxes	10.3%	4.0%	3
Business Taxes	12.2%	1.6%	4
Sales Tax (Bradley Burns 1%)	(15.8%)	2.5%	5
Hotel Room Tax	(9.0%)	6.6%	6
Utility Users Tax	5.7%	1.1%	7
Parking Tax	(11.5%)	1.0%	8
Real Property Transfer Tax	27.7%	(18.3%)	9
Stadium Admissions Tax	0.0%	0.0%	
Sugar Sweetened Beverage Tax	N/A	100.0%	10
Access Line Tax	5.5%	3.1%	11
Total Local Tax Revenue Change	**6.9%**	**1.8%**	

3. Property Tax. The FY 2017-18 General Fund share of property tax revenue is estimated at $1,557 million, which is $145 million (10.3 percent) more than the FY 2016-17 budget and $85 million (5.8 percent) more than the Nine Month Report. The FY 2018-19 General Fund share of property tax revenue is estimated at $1,620 million, which is $63 million (4.0 percent) more than the proposed FY 2017-18 budget. Major changes include:

- **Roll growth:** The proposed FY 2017-18 budget reflects projected secured property roll growth of 10.7 percent compared to the start of FY 2016-17. Increases in assessed values due to changes in ownership and new construction of real property are expected to account for about 81 percent of the increase. The remainder of the increase is due to the two percent inflation factor allowed under Proposition 13 for FY 2017-18. Roll growth is also estimated to increase state Vehicle License Fee (VLF) backfill revenue by $24.7 million.

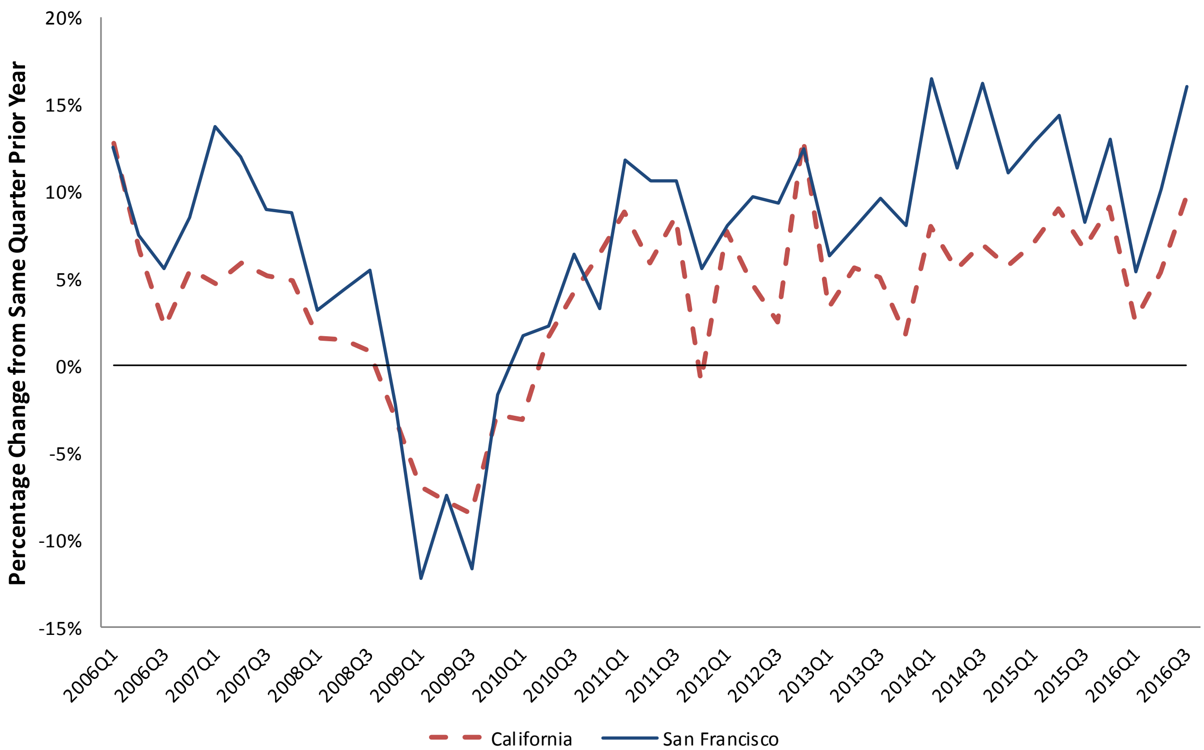
  The proposed FY 2018-19 budget reflects projected secured roll growth of 5.6 percent compared to the proposed FY 2017-18 budget. The growth assumes 3.6 percent of increased taxable value due to changes in ownership and new construction along with the maximum two percent inflation factor allowed under Proposition 13. The improved secured roll value is also expected to increase VLF backfill revenue by $13.7 million.

- **Lower supplemental and escape property tax revenue anticipated**: The proposed FY 2017-18 budget reflects projected supplemental and escape property tax revenues of $85.4 million, which is $61.7 million (41.2 percent) less than the FY 2016-17 Nine Month Report. The decrease assumes there will be less churn of high-value commercial real estate compared to the previous four years and less significant increases between the former owner's Prop 13 purchase base year taxable value and the new owner's Prop 13 purchase base year taxable value. The Assessor's Office has also been reducing the amount of time between the occurrence of an assessable event and a determination of related assessments, meaning that there will likely be only one year's escape issued going forward as opposed to multiple years' escapes per assessable event.
- **Changes in San Francisco Children's Fund allocation factor:** The proposed FY 2017-18 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 $0.0350 to $0.0375) on each $100 valuation of taxable property in FY 2017-18 and another $0.0025 (from $0.0375 to $0.0400) in FY 2018-19, reducing the General Fund allocation by the same factor each fiscal year.

4. Business Tax. Business tax revenue is budgeted at $750.8 million in FY 2017-18, which is $74.2 million (11.0 percent) more than FY 2016-17 as projected in the Nine Month Report and $81.4 million (12.2 percent) more than budgeted in FY 2016-17. Business tax revenue is budgeted at $762.5 million in FY 2018-19, which is $11.7 million (1.6 percent) more than the FY 2017-18 proposed budget. The 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 2016-17, 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 2.7 percent as of April 2017. 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. Total private sector wages grew 16.0 percent between the third quarters of 2015 and 2016, the most recent period for which data are available. The Information Sector, which is comprised mostly of technology companies, saw wages grow by 31.0 percent during this period. In comparison, all other private sector industries excluding the Information Sector saw wages grow by 14.4 percent over the same period.

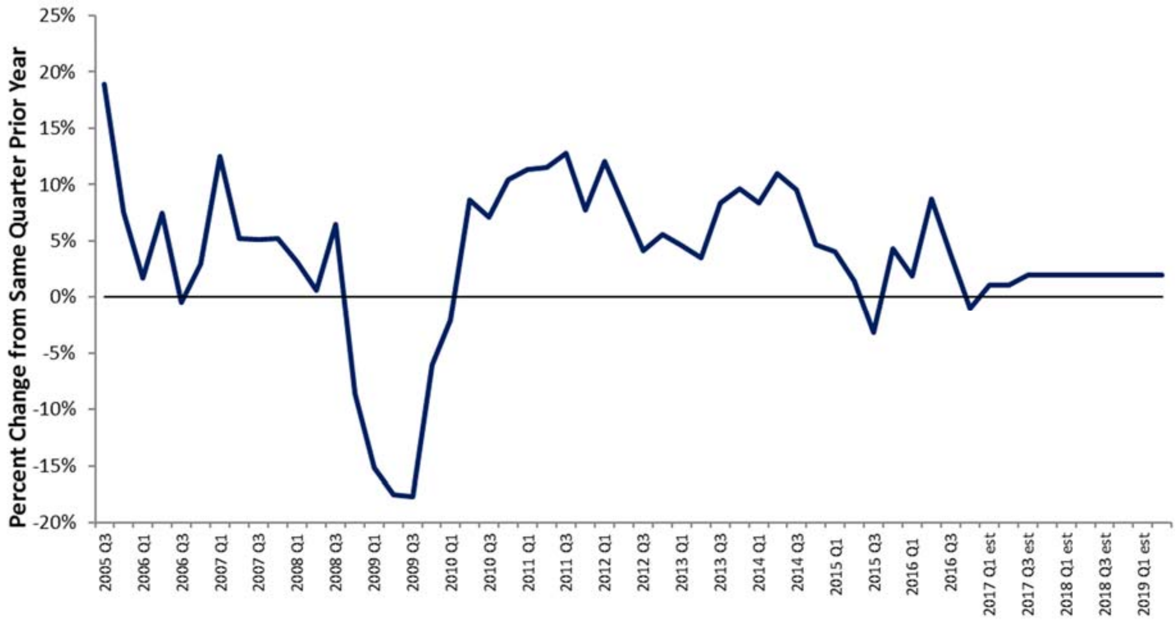
Chart 1-1. Change in Private Sector Wages for San Francisco and California, 2005 to 2016



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. Private employment growth is expected to slow to 1.7% in FY 2017-18 and 1.4% in FY 2018-19, while wages are projected to continue to grow by 7.6% in FY 2017-18 and 7.8% in FY 2018-19. These projections reflect housing, transportation and other constraints to job growth. 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 $199.9 million in FY 2017-18, which is $37.6 million (15.8 percent) less than the FY 2016-17 budget and a $4.4 million (2.3 percent) growth from FY 2016-17 as projected in the Nine Month Report. FY 2018-19 local sales tax is budgeted at $204.9 million, which is $5.0 million (2.5 percent) higher than the proposed FY 2017-18 budget. The FY 2016-17 budget included $37.5 million from additional sales tax revenue related to legislation on the November 8, 2016 ballot which voters did not approve. Without this, sales tax revenue in the proposed FY 2017-18 budget is $0.1 million (0.1 percent) less than FY 2016-17. Local sales tax is projected to grow at a much slower pace than previously anticipated due to continued declines in sales of general consumer goods, low fuel prices, and declines in receipts from the business sector. The budget assumes no changes to state and federal law affecting sales tax reporting for online retailers.

Chart 1-2 Actual and Projected Change in Sales Tax Revenues for San Francisco, 2005-2019



6. Hotel Tax. FY 2017-18 hotel tax revenue is budgeted at $372.3 million, which is $36.9 million (9.0 percent) less than budgeted in FY 2016-17 and $1.1 million (0.3 percent) more than FY 2016-17 as projected in the Nine Month Report. The FY 2018-19 General Fund share of hotel tax revenue is budgeted at $396.9 million, which is $24.6 million (6.6 percent) more than budgeted in FY 2017-18.

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). Table 1-6 shows a recent history of RevPAR levels. During the first eight months of FY 2016-17 average RevPAR fell by 1.3 percent over the same period prior year, as six of the first eight months saw negative year-over-year RevPAR change. Between FY 2010-11 and FY 2014-15, RevPAR saw annual double digit growth. In FY 2015-16 RevPAR began to slow, growing by 5.1%. FY 2016-17 will be the first year since FY 2009-2010 that RevPAR is expected to decline. The projected decline for FY 2016-17 is due to a combination of flattening or falling average daily room rates and the closure of Moscone Center in the latter part of the fiscal year, which is expected to impact demand for hotel rooms.

Table 1-4. Revenue Per Available Room (RevPAR): FY 2010-11 to FY 2016-17

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	Change - $	Change - %
July	$ 141	$ 171	$ 188	$ 208	$ 233	$ 248	$ 241	$ (6.98)	-3%
August	$ 154	$ 173	$ 196	$ 230	$ 261	$ 260	$ 249	$ (11.10)	-4%
September	$ 166	$ 189	$ 212	$ 242	$ 269	$ 280	$ 272	$ (8.14)	-3%
October	$ 174	$ 205	$ 229	$ 251	$ 274	$ 288	$ 283	$ (4.52)	-2%
November	$ 112	$ 152	$ 152	$ 195	$ 190	$ 206	$ 195	$ (10.94)	-5%
December	$ 106	$ 109	$ 128	$ 145	$ 190	$ 160	$ 179	$ 19.28	12%
January	$ 124	$ 135	$ 148	$ 176	$ 209	$ 237	$ 253	$ 16.44	7%
February	$ 136	$ 156	$ 153	$ 187	$ 186	$ 260	$ 241	$ (19.20)	-7%
March	$ 136	$ 148	$ 166	$ 188	$ 230	$ 241			
April	$ 131	$ 147	$ 198	$ 207	$ 227	$ 220			
May	$ 165	$ 170	$ 190	$ 216	$ 231	$ 250			
June	$ 157	$ 195	$ 210	$ 234	$ 251	$ 249			
Average YTD	**$ 141.71**	**$ 162.47**	**$ 180.73**	**$ 206.52**	**$ 226.98**	**$ 241.50**	**$ 239.06**	**$ (3.14)**	**-0.7%**
$ Change from PY	**$ 18.55**	**$ 20.76**	**$ 18.26**	**$ 25.79**	**$ 20.46**	**$ 14.51**	**$ (2.43)**		
% Change from PY	**15.1%**	**14.6%**	**11.2%**	**14.3%**	**9.9%**	**6.4%**	**-1.0%**		

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 2016-17 and FY 2017-18 will depend on developments with these lawsuits.

7. Utility Users Tax. FY 2017-18 utility users tax revenue is budgeted at $99.7 million, which is $1.1 million (1.1 percent) more than FY 2016-17 as projected in the Nine Month Report and $5.4 million (5.7 percent) more than the FY 2016-17 budget. FY 2018-18 revenue is budgeted at $100.8 million, which is $1.1 million (1.1 percent) more than the proposed FY 2017-18 budget. The budget assumes that historically low natural gas prices will continue, leading to tepid growth in gas, electric, and steam user tax revenue. This budget also includes prepaid mobile telephony service surcharge revenue due to the passage of AB 1717.

8. Parking Tax. Parking tax revenue is budgeted at $82.2 million in FY 2017-18, a decrease of $10.6 million (11.5 percent) over the FY 2016-17 budget, and $0.8 million (1.0 percent) more than the FY 2016-17 Nine Month Report projection. In FY 2018-19, parking tax revenue is budgeted at $83.0 million, $0.8 million (1.0 percent) more than the FY 2017-18 budgeted amount. Although parking tax revenue has historically been correlated with business activity and employment, this tax has experienced a decline since FY 2015-16, due to increased ride-sharing and decreased number of parking spaces related to Central Subway and other construction. 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 $300.0 million in FY 2017-18, which is $65.0 million (27.7 percent) more than the FY 2016-17 budget and a reduction of $100.0 million (25 percent) from the FY 2016-17 Nine Month report projection. The variance between the FY 2016-17 budget and the FY 2017-18 budget reflects voter-approved rate increases from Prop W that took effect at the end of December 2016. This rate increase is projected to account for $40.2 million in revenue. The variance from the Nine Month report reflects an assumption of declining demand from institutional investors and owner-users for San Francisco real estate across all property types (office, hotel, retail, and residential) as well as associated declines in real property transfers. In FY 2018-19, RPTT revenue is budgeted at $245.0 million, which is $55.0 million (18.3 percent) less than the FY 2017-18 budgeted amount as the pace of transactions trends toward the long-term, rate-adjusted average of $245.0 million. This is consistent with expectations for the return to normal growth in wages and employment reflected in business tax projections. The Prop W rate increase is projected to account for $32.8 million of the $245 million total in FY 2018-19.

Chart 1-3 shows revenue collections beginning in FY 2000-01. Since FY 2008-09, RPTT has been trending upward. However, as our most volatile revenue source, collections can see large year-over-year changes that have exceeded 70% in some instances. The main factors creating volatility are sales of high-value properties, which track well with economic cycles, as well as voter-approved rate changes, which occurred in 2008, 2010 and 2016.

Chart 1-3. Historical Real Property Transfer Tax Revenue ($ millions), FY 2000-01 through FY 2018-19

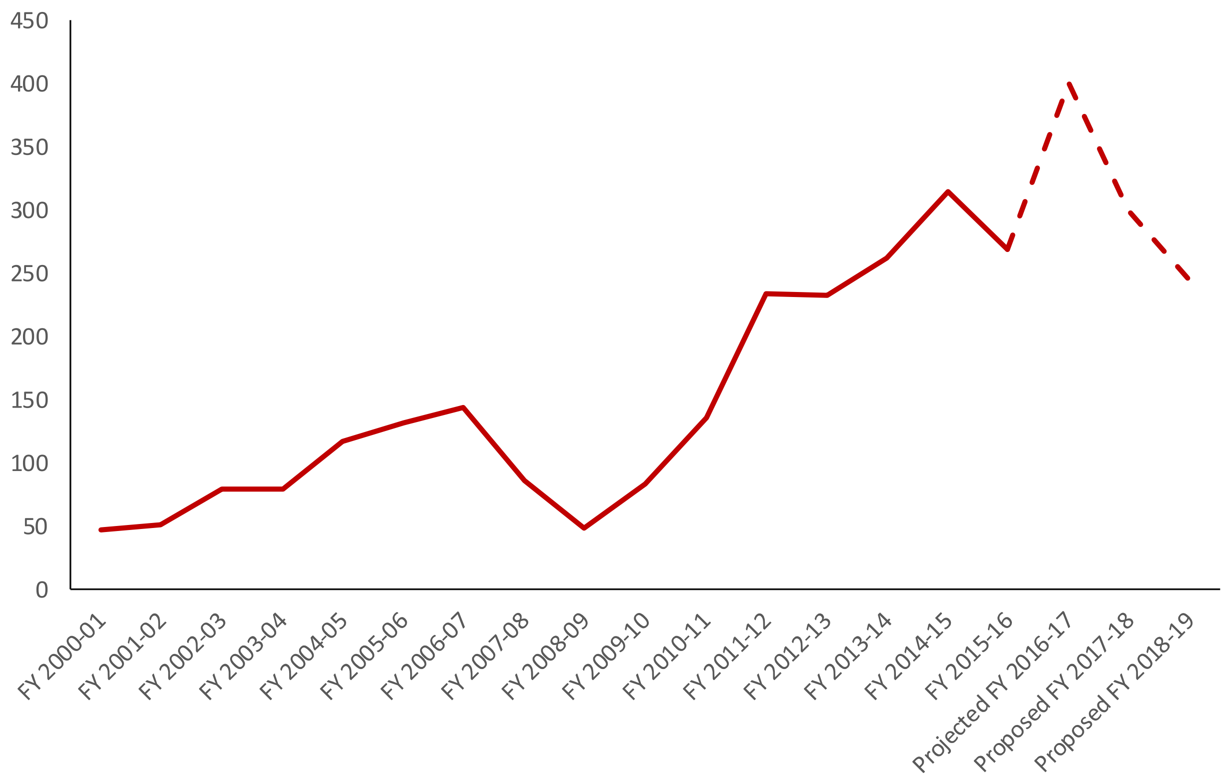
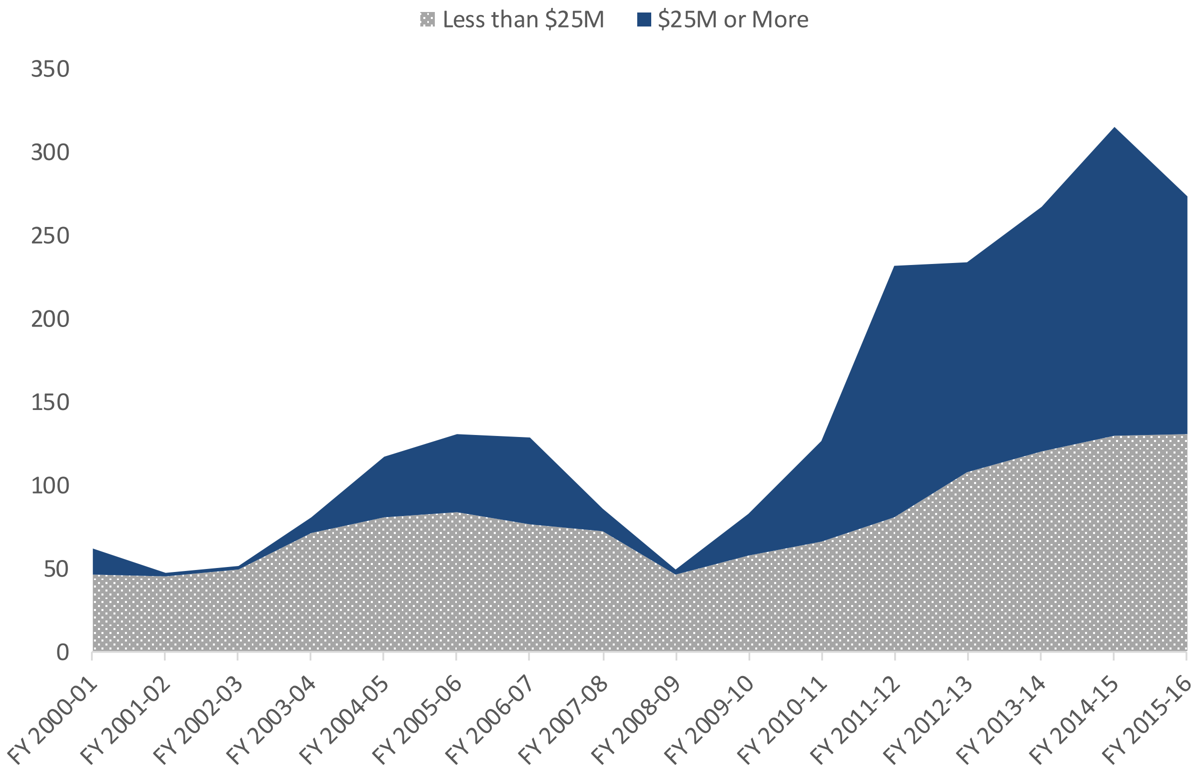


Table 1-7 shows historical RPTT revenue by transaction size after being adjusted to reflect current tax rates. This table demonstrates how the volatility of RPTT as revenue source is due mainly to the sales of high-value (largely commercial) properties. In FY 2008-09, transactions above $25 million would have generated only $2.9 million under the current rates compared to the peak in FY 2014-15. when these transactions would have generated $185.1 million. In FY 2015-16, these large transactions made up 52.2% of total revenue but only 0.6% of the transaction count. This means that revenue is determined by a small handful of transactions.

Chart 1-4. Real Property Transfer Tax Rate-Adjusted Revenue by Transaction Size
FY 2000-01 through FY 2015-16 ($ millions)



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. There is no deposit expected during FY 2017-18 or FY 2018-19 as RPTT revenue is expected to be below the prior five-year average. See Appendix 2 for more detail on the Budget Stabilization Reserve.

10. Sugar Sweetened Beverage Tax. In November 2016, voters adopted Proposition V, an initiative to tax sugar sweetened beverages by one cent per ounce, beginning on January 1, 2018. This new tax is expected to generate approximately $7.5 million in FY 2017-18 (a half year of implementation) and $15.0 million thereafter.

11. Access Line Tax. FY 2017-18 access line tax revenue is budgeted at $49.6 million, $0.1 million (0.2 percent) more than FY 2016-17 as projected in the Nine Month Report and $2.6 million (5.5 percent) more than the FY 2016-17 budget. FY 2018-19 revenue is budgeted at $51.1 million, which is $1.5 million (3.1 percent) more than the proposed FY 2017-18 budget. Budgeted increases reflect a proposed inflationary increase to the Access Line Tax rate of 3.53 percent as required under Business and Tax Regulations Code Section 784 as well as projected population and business growth. This budget also includes the prepaid mobile telephony services 911 surcharge authorized by AB 1717.

12. Interest & Investment Income. Interest and investment income for FY 2017-18 is budgeted at $18.2 million, an increase of $4.2 million (30.1 percent) from the FY 2016-17 budget and $0.2 million (1.0 percent) from the Nine Month Report projection. FY 2018-19 revenue is budgeted at $18.4 million, $0.2 million (1.2 percent) more than budgeted in FY 2017-18. This increase is a result of the City's strong cash position, higher than expected interest rates during FY 2016-17, and continued expected interest rate increases through FY 2017-18 and FY 2018-19.

13. Intergovernmental – Federal. Federal support in the General Fund is budgeted at $264.5 million for FY 2017-18, which represents growth of $11.2 million (4.4 percent) from the FY 2016-17 budget and $26.7 million (11.2 percent) from the FY 2016-17 Nine Month Report projection. FY 2017-18 growth includes a $2.9 million increase in Child Welfare Service (CWS), a $3.0 million increase for children's services, a $4.6 million increase related to prior year federal revenue adjustments, and a $4.2 million increase in federal In-Home Supportive Services funding. This growth is partially offset by a $3.2 million decrease in the CalWORKs program. Revenue is expected to plateau in FY 2018-19, with budgeted revenue of $270.5 million, a $6.0 million (2.3 percent) increase from FY 2017-18.

14. State – Public Safety Sales Tax. Public safety sales tax revenue is budgeted at $101.6 million in FY 2017-18, which is a decline of $0.4 million (0.4 percent) from the FY 2016-17 budget and an increase of $2.5 million (2.5 percent) from FY 2016-17 as projected in the Nine Month Report. FY 2018-19 revenue is budgeted at $104.1 million, which is $2.5 million (2.5 percent) more than the proposed FY 2017-18 budget. This revenue is allocated to counties by the State separately from the local one-percent sales tax discussed above, and is used in San Francisco 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 FY 2016-17 is 2.98 percent and is expected to remain at that level in FY 2017-18 and FY 2018-19.

15. 1991 Health & Welfare Realignment. In FY 2017-18, the General Fund share of 1991 realignment revenue is budgeted at $188.6 million, or $9.1 million (5.1 percent) more than the FY 2016-17 budget and $10.8 million (6.1 percent) more than the Nine Month Report projection. The FY 2018-19 proposed budget assumes a $3.5 million (1.9 percent) increase from FY 2017-18. Based on the Governor's revised budget, this change is attributable to distributions from state sales tax and Vehicle License Fees, which are anticipated to be directed toward social service caseload growth payments.

The budgets 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 continuing savings for counties during FY 2017-18 and FY 2018-19 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 $12.0 million in both years. Future budget adjustments could be necessary depending on final state determinations of ACA savings.

16. 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 revised budget, this revenue is budgeted at $41.3 million in FY 2017-18, a $0.8 million (2.0 percent) increase from the FY 2016-17 budget and $0.4 million (1.0 percent) more than FY 2016-17 as projected in the Nine Month Report. The FY 2018-19 proposed budget assumes a $1.2 million (2.5 percent) increase from FY 2017-18. This reflects increased State funding to support implementation of AB109 as State sales tax revenues are projected to grow moderately over the next two years.

17. State – Other. Other State funding is budgeted at $420.1 million in FY 2017-18, an increase of $41.8 million (11.1 percent) from the FY 2016-17 budget, or $34.5 million (8.9 percent) more from the Nine Month Report projection. This increase is attributable to $33.2 million from the State of California's Whole Person Care pilot program at the Department of Public Health (DPH) and Department of Homelessness and Supportive Housing (HOM), an increase of $4.3 million in Short-Doyle Medi-Cal reimbursements related to the ACA at DPH, a $5.5 million increase in children's services funding at the Human Services Agency (H.S.A.), offset by a reduction of $4.2 million of State CalWORKS funding. In FY 2018-19 Other State funding is budgeted at $411.5 million, a decrease of $8.5 million (2.0 percent) from FY 2017-18.

Due to a proposal in the Governor's May Revise to change the way counties share in the cost of administering the In-Home Supportive Services (IHSS) program, the Mayor's Proposed Budget assumes the City will need $7 million of additional General Fund support in FY 2017-18 and $14 million of additional General Fund support in FY 2018-19. Final adoption of the Governor's Budget is still pending, but the final impact of the State's budget is likely to exceed the amount assumed in the Mayor's budget given implementation details contained in budget trailer legislation.

18. Charges for Services. The proposed budget assumes charges for services revenue of $232.9 million in FY 2017-18, which represents growth from the FY 2016-17 original budget of $7.7 million (3.4 percent), and a $6.6 million (2.9 percent) increase from the FY 2016-17 Nine Month Report projection. The proposed budget assumes charges for services revenue of $232.1 million in FY 2018-19, which represents a decrease from FY 2017-18 of $0.8 million (0.3 percent). Growth in FY 2017-18 is primarily composed of increased ambulance fee revenue at the Fire Department; increased solid waste impound account fee revenue at the Department of Public Works; and increased net patient revenue and inspections activity as a result of the Adult Use of Marijuana Act (Prop 64) at the Department of Public Health. No significant changes are budgeted in FY 2018-19.

19. Other Revenues. The proposed budget assumes revenues from other sources of $40.1 million in FY 2017-18, a decrease of $22.1 million (35.6 percent) from the FY 2016-17 budget. This change reflects the loss of $22.6 million in one-time revenue in FY 2016-17 from the sale of a portion of Jessie Street and Elim Alley in connection with the Oceanwide Center Project at 50 First Street, the loss of $8.5 million in one-time revenue in FY 2016-17 from the sale of land at Hunters View, and gain of $14.7 million from developer exactions. FY 2018-19 revenue from other sources is budgeted at $40.7 million, an increase of $0.6 million (1.6 percent) due to increased developer exactions. In both years, the proposed budget assumes $20.0 million in ongoing loan repayments to the City from multi-unit housing development projects going to the Housing Trust Fund.

20. Operating Transfers In. The proposed budget assumes operating transfers in of $171.1 million in FY 2017-18, an increase of $9.1 million (5.6 percent) from the FY 2016-17 budget. In FY 2018-19 operating transfers in are budgeted at $168.3 million, a decrease of $2.8 million (1.7 percent) from FY 2017-18. The increase in FY 2017-18 is primarily due to increased transfers from the ZSFG to the General Fund to make intergovernmental payments, as well as increased projected concessions revenue at the Airport, of which a share is transferred back to the General Fund.

Appendix 2. General Fund Reserve Uses and Deposits

As discussed in Appendix 1, the Mayor's proposed budget includes the use of $3.9 million from reserves established in prior years during FY 2017-18 and $1.1 million during FY 2018-19. As shown in Table 2-1 below, the Mayor's proposed budget also includes $46.6 million and $58.6 million in deposits to General Fund reserves during FY 2017-18 and FY 2018-19, 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 2016-17	FY 2017-18			FY 2018-19			
	Projected Ending Balance	Budgeted Deposits	Budgeted Withdrawals	Projected Ending Balance	Budgeted Deposits	Budgeted Withdrawals	Projected Ending Balance	Note
General Reserve	**$ 89.1**	**$ 18.6**	**$ -**	**$ 107.8**	**$ 14.1**	**$ -**	**$ 121.8**	1
Rainy Day Economic Stabilization City Reserve	77.8	-	-	77.8	-	-	77.8	2
Rainy Day One-Time Reserve	47.0	-	-	47.0	-	-	47.0	2
Budget Stabilization Reserve	273.1	-	-	273.1	-	-	273.1	3
Subtotal Economic Stabilization Reserves	**$ 398.0**	**$ -**	**$ -**	**$ 398.0**	**$ -**	**$ -**	**$ 398.0**	
Percent of General Fund Revenues	**8.5%**			**8.3%**			**8.2%**	
Budget Savings Incentive Fund	62.9	-	-	62.9	-	-	62.9	4
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	5
Rainy Day Economic Stabilization SFUSD Reserve	44.1	-	-	44.1	-	-	44.1	2
Recreation & Parks Savings Incentive Reserve	3.6	-	(3.5)	0.1	-	-	0.1	6
Recreation & Parks Union Square Revenue Stabilization	6.5	-	(0.3)	6.2	-	(1.0)	5.2	6
Reserve for Technical Adjustments	-	2.5	(2.5)	-	2.5	(2.5)	-	7
Salary and Benefits Reserve	-	14.5	(14.5)	-	31.1	(31.1)	-	8
State and Federal Contingency Reserve	-	-	-	10.0	-	-	10.0	9
Affordable Care Act Contingency Reserve	-	-	-	50.0	-	-	50.0	10
Public Health Revenue Reserve	129.0	-	-	106.4	-	-	106.4	11
Total, All Reserves	**$ 733.2**	**$ 46.6**	**$ (31.8)**	**$ 785.4**	**$ 58.6**	**$ (45.6)**	**$ 798.5**	

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 or to offset significant revenue losses following the adoption of the budget.

The policy requires the General Reserve to increase to 2.25 percent of budgeted General Fund regular revenues in FY 2017-18 and 2.5 percent in FY 2018-19. 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 2017-18, the Mayor's proposed budget anticipates $18.6 million in deposits and projects an ending General Reserve balance of $107.8 million. In FY 2018-19, the proposed budget anticipates $14.1 million in deposits with an ending balance of $121.8 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 2017-18 or FY 2018-19.

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. Transfer tax revenues in FY 2017-18 and FY 2018-19 are not projected to exceed the prior five-year average and therefore no reserve deposit is budgeted. 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 2017-18 or FY 2018-19.

5. Litigation Reserve. The Mayor's proposed budget includes $11.0 million for the litigation reserve in both FY 2017-18 and FY 2018-19. The reserve provides 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 City's Five Year Financial Plan for FY 2017-18 through FY 2021-22 adopted on May 5, 2017.

6. Recreation & Park Reserves. The Recreation and Park Savings Incentive Reserve is established by Charter Section 16.107(c) and prior to Proposition B, passed by the voters on June 7, 2016, was funded by the retention of year-end net expenditure savings and revenue surplus from the Recreation and Park Department. Proposition B eliminated the ability to retain expenditure savings while preserving deposits from surplus revenue. Any withdrawals from the reserve must go towards one-time departmental 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.

7. Reserve for Technical Adjustments. Reserves of $2.5 million in FY 2017-18 and FY 2018-19 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 $14.5 million in FY 2017-18 and $31.1 million in FY 2018-19 to cover costs related to adopted MOUs with labor organizations, costs associated with three additional weekend days for 24/7 operations, and labor negotiations with Police and Fire in FY 2018-19.

9. State and Federal Contingency Reserve. The Mayor's proposed budget assigns $10.0 million of unappropriated fund balance from FY 2016-17 to a contingency reserve for the purpose of managing state and federal revenue uncertainty in FY 2018-19 of the proposed budget.

10. Affordable Care Act Contingency Reserve. The Mayor's proposed budget assigns $50.0 million of unappropriated fund balance from FY 2016-17 to a budget contingency reserve in the

Zuckerberg San Francisco General Hospital Operating Fund for the purpose of managing cost and revenue uncertainty related to federal and state changes to the administration and funding of the Affordable Care Act.

11. Public Health Revenue Reserve. The Public Health Management Reserve is authorized under Section 12.6 of the administrative provisions of the Annual Appropriation Ordinance, authorizing the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future reductions of audit adjustments associated with the Affordable Care Act and funding allocations for indigent health services. This provision was adopted by the Board of Supervisors to smooth volatile state and federal revenues that can lead to large variances between budgeted and actual amounts due to unpredictable timing of payments, major changes in projected allocations, and delays in final audit settlements. The FY 2016-17 ending balance of the reserve is projected to be $106.4 million, a reduction of $22.7 from the Nine Month Report, of which $22.0 million is redirected to build the $50.0 million ACA reserve. Eligible uses include the potential liability of disallowed SB1128 reimbursement, reductions to supplemental payments for Medi-Cal services, and greater budgeted withholding of 1991 health and welfare realignment subventions.

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 $172.7 million for FY 2017-18 and $287.9 million for FY 2018-19. These amounts fall below the prior five-year average of year-ending CAFR fund balances, estimated through FY 2015-16 to be $368.9 million. The other nonrecurring revenues that fall within the policy are listed in Table 3-1. Over the two fiscal years, budgeted nonrecurring expenditures exceed this amount, therefore, the Controller's Office certifies compliance with the policy.

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

ONE-TIME SOURCES	FY 2017-18 Proposed	FY 2018-19 Proposed	Total
General Fund Prior Year Fund Balance (1)	$ 172.7	$ 287.9	$ 460.6
Total Nonrecurring General Fund Revenues	**$ 172.7**	**$ 287.9**	**$ 460.6**
ONE-TIME USES			
Capital Planning GF Recommended Funding	$ 137.8	$ 147.3	$ 285.1
Additional General Fund Capital Funding	10.1	-	10.1
COIT Annual & Major IT Projects	30.9	27.2	58.1
Equipment, FF&E & Moving Costs	25.7	28.5	54.2
DPH - Electronic Health Records (One-Time)	31.4	-	31.4
Other	11.5	11.0	22.5
Total One-Time Uses	**$ 247.4**	**$ 214.0**	**$ 461.4**

(1) Does not include $1.0 million of balance in the Housing Trust Fund and $0.5 million of balance in ECN's City Economic Development Programs in continuing funds.

Appendix 4. Baselines & Mandated Funding Requirements

Voters have approved baseline levels of funding or staffing, summarized below in Table 4-1.

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

	FY 2016-17 Original Budget	FY 2017-18 Proposed Budget	FY 2018-19 Proposed Budget
General Fund Aggregate Discretionary Revenue (ADR)	*$ 3,169.8*	*$ 3,411.3*	*$ 3,471.6*
Financial Baselines			
Municipal Transportation Agency (MTA)			
MTA - Municipal Railway Baseline: 6.686% ADR	212.0	228.1	242.5
MTA - Parking & Traffic Baseline: 2.507% ADR	79.5	85.5	87.0
MTA - Population Adjustment	38.0	39.1	42.9
MTA - 80% Parking Tax In-Lieu	74.3	65.7	66.4
Subtotal Municipal Transportation Agency	**$ 403.8**	**$ 418.4**	**$ 438.9**
Library Preservation Fund			
Library - Baseline: 2.286% ADR	72.5	78.0	79.4
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	51.8	57.6	60.1
Subtotal Library	**124.3**	**135.6**	**139.4**
Children's Services			
Children's Services Baseline - Requirement: 4.830% ADR	*153.1*	*164.8*	*167.7*
Children's Services Baseline - Eligible Items Budgeted	161.1	166.9	172.7
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	*18.4*	*19.8*	*20.1*
Transitional Aged Youth Baseline - Eligible Items Budgeted	24.0	24.6	25.4
Public Education Services Baseline: 0.290% ADR	9.2	9.9	10.1
Children's Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	72.6	86.4	96.1
Public Education Enrichment Fund: 3.057% ADR	*97.0*	*104.3*	*106.1*
1/3 Annual Contribution - Preschool for All	32.3	34.8	35.4
2/3 Annual Contribution to SF Unified School District	64.6	69.5	70.7
Subtotal Childrens Services	**363.8**	**392.1**	**410.4**
Other Financial Baselines			
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	51.8	57.6	60.1
Recreation & Parks Baseline - Requirement	*67.2*	*70.2*	*73.2*
Recreation & Parks Baseline - Eligible Items Budgeted	68.9	73.0	74.6
Housing Trust Fund	28.4	31.2	34.0
Dignity Fund	38.1	44.1	47.1
Street Tree Maintenance Fund	-	19.0	19.3
Homelessness and Supportive Housing Fund	16.7	17.6	17.6
Municipal Symphony Baseline: $0.00125 per $100 NAV	2.6	2.9	3.1
City Services Auditor: 0.2% of Citywide Budget	16.3	17.4	17.3
Subtotal Other Financial Baselines	**222.8**	**262.8**	**273.1**
Total Financial Baselines	**$ 1,114.7**	**$ 1,208.8**	**$ 1,261.8**

Staffing and Service-Driven Baselines	
Police Minimum Staffing	Requirement met
Neighborhood Firehouse Baseline	Requirement met
Treatment on Demand Baseline	Requirement met
Office of Economic Analysis Staffing	Requirement met

Notes to Table 4-1.

Municipal Transportation Agency (MTA) Baselines. Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the 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). This baseline is required to be adjusted for significant service increases. Beginning in FY 2018-19, the MTA baseline will increase due to the opening of the Central Subway. 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 $379.3 million in FY 2017-18 and $396.0 million in FY 2018-19.

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 $39.1 million and $42.9 million in FY 2017-18 and FY 2018-19 respectively, for the Proposition B population baseline. Finally, it reflects the allocation of an amount equivalent to 80 percent of parking tax revenue to the MTA, or $65.7 million in FY 2017-18 and $66.4 million in FY 2018-19.

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 $78.0 million in FY 2017-18 and $79.4 million in FY 2018-19 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 November 2014, 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 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 2017-18 and FY 2018-19 are $164.8 million and $167.7 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of $166.9 million and $172.7 million, representing surplus funding of $2.1 million in FY 2017-18 and $5.0 million in FY 2018-19.

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 like the Children's Baseline is adjusted annually by the percent increase or decrease in ADR. The required baselines for FY 2017-18 and FY 2018-19 are $19.8 million and $20.1 million, respectively. The Mayor's proposed budget includes TAY eligible baseline appropriations of $24.6 million and $25.4 million, representing surplus funding of $4.9 million in FY 2017-18 and $5.2 million in FY 2018-19.

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 $9.9 million in FY 2017-18 and $10.1 million in FY 2018-19 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 $104.3 million and $106.1 million for the Public Education Enrichment Fund Annual Contribution in FY 2017-18 and FY 2018-19, 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 $0.0350 to $0.0375) on each $100 valuation of taxable property in FY 2017-18 and another $0.0025 (from $0.0375 to $0.0400) in FY 2018-19. The Library Preservation Fund and the Open Space Fund receive allocations of $0.025 for each $100 valuation of taxable property in both FY 2017-18 and FY 2018-19. The Mayor's proposed budget includes required funding of $86.4 million in FY 2017-18 and $96.1 million in FY 2018-19 for the Children's Services Fund, and $57.6 million and $60.1 million in FY 2017-18 and FY 2018-19, respectively, for both the Library Preservation Fund and Open Space Fund.

Recreation and Parks Baseline. In June 2016, voters approved Proposition B, a Charter amendment which created a new baseline funding requirement for parks, recreation, and open space. The Charter amendment requires an annual contribution from the General Fund to the Recreation and Parks Department that will increase by $3.0 million per year for the next ten fiscal years, and then be adjusted at the same rate as the percentage increase or decrease in ADR. The amendment allows the City to temporarily suspend growth in baseline funding in years when the City forecasts a budget deficit of $200 million or greater. The required baselines for FY 2017-18 and FY 2018-19 are $70.2 million and $73.2 million, respectively. The Mayor's proposed budget includes General Fund appropriations of $73.0 million and $74.6 million, representing surplus funding of $2.8 million in FY 2017-18 and $1.4 million in FY 2018-19.

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 $31.2 million and $34.0 million in FY 2017-18 and FY 2018-19, respectively.

Homelessness and Supportive Housing Fund, also known as the Housing First Program. 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 housing and services programs. The Mayor's proposed budget includes funding of $17.6 million in both FY 2017-18 and FY 2018-19. The budgeted amounts include $2.5 million in FY 2017-18 and FY 2018-19 of General Fund support above the Care Fund revenues of $15.1 million in both years.

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 $2.9 million in FY 2017-18 and $3.1 million in FY 2018-19.

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 to fund audits of City services. The Mayor's proposed budget includes $17.4 million in FY 2017-18 and $17.3 million in FY 2018-19 for the City Services Auditor baseline.

Police Minimum Staffing Baseline. San Francisco Charter Section 4.127, approved by the voters in 1994 as Proposition D, mandates a minimum police staffing baseline of not less than 1,971 sworn full-duty officers. Pursuant to Proposition C, passed by the voters in March 2004, 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 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, 2017 it will have 2,338 sworn officer positions filled, supplemented by 127 officers graduating from the academy to full-duty and offset by 80 retirements or other separations during FY 2017-18. The department projects that 450 officers will not be available for neighborhood policing and patrol due to leaves of absence, modified duty, academy, or assignment to the Airport. These adjustments result in a projected total of 1,935 full-duty sworn officers available for neighborhood policing and patrol, which is 36 officers below the 1,971 baseline staffing level. Pursuant to Proposition C, the Controller's Office estimates that as of the start of FY 2017-18, 77 positions have been civilianized. Subject to certification by the Chief of Police, this would reduce the minimum staffing level to 1,894. Net of these civilianized positions, the baseline would be met and exceeded by 41 officers in FY 2017-18. In FY 2018-19, the Police Department is projected to have 82 officers graduating from academy, offset by 80 retirements, increasing the number of full-duty sworn officers by 2 officers between FY 2017-18 and FY 2018-19. Full-duty sworn officers available for neighborhood policing and patrol is projected to be 1,937 in FY 2018-19, which exceeds the minimum staffing level of 1,894 by 43 officers.

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 $281.7 million in FY 2018-19 and $282.7 million in FY 2018-19 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 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.” The measure also requires the Department to report to the Board by February 1st of each year with an assessment of the demand for substance abuse treatment, and present a plan to meet this demand. Based on the most recent data available, the Department has increased the number of beds and its funding levels for residential and narcotic replacement therapy, and decreased the number of beds and its funding levels for residential detox and outpatient, day treatment, and case management services in FY 2016-17 from FY 2015-16. Based on Controller’s Office review of this information, the Department has likely met the requirement.

Staff Contacts

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

Edward de Asis, Budget and Revenue Analyst, Edward.deAsis.sfgov.org

Maggie Han, Budget and Revenue Analyst, Maggie.X.Han@sfgov.org

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

Theresa Kao, Citywide Budget Manager, Theresa.Kao@sfgov.org

Jay Liao, Assistant Citywide Revenue Manager, Jay.Liao@sfgov.org

Carol Lu, Citywide Revenue Manager, Carol.Lu@sfgov.org

Michael Mitton, Budget and Revenue Analyst, Michael.Mitton@sfgov.org

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