

File No. 160526

Committee Item No. 4

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance

Date June 16, 2016

Board of Supervisors Meeting

Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input type="checkbox"/> | <input type="checkbox"/> | Resolution |
| <input type="checkbox"/> | <input type="checkbox"/> | Ordinance |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input type="checkbox"/> | <input type="checkbox"/> | Budget and Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Youth Commission Report |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
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| <input type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Form 126 – Ethics Commission |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
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Completed by: Victor Young Date June 10, 2016

Completed by: _____ Date _____

File #160526
Received in Committee
5/18/16
fw.

Controller's Office

Nine-Month Budget Status Report

Board of Supervisors

Budget & Finance Committee

May 18, 2016



General Fund Overview

- Projected ending balance of \$397.8M at close of current year is an improvement of \$72.9 million versus the assumptions contained in the March 2016 Joint Report.
- Improvement versus budget driven largely by property tax revenue improvement and savings in health and human services departments.
- There is no projected deposit to the Rainy Day Reserve. Economic reserves are projected to total \$256.6 million at year end, or 5.9% of General Fund revenues (vs 10% target).



General Fund Citywide Revenue Projections

\$ Millions

Controller's Office

| | Revised Budget | 6-Month Projection | 9-Month Projection | Surplus (Shortfall) |
|--|-------------------|-----------------------|-----------------------|------------------------|
| Property Taxes | 1,291.0 | 1,360.0 | 1,374.0 | 83.0 |
| Business Taxes | 634.5 | 631.1 | 654.7 | 20.2 |
| Sales Tax - Local 1% and Public Safety | 270.9 | 254.3 | 264.6 | (6.3) |
| Hotel Room Tax | 384.1 | 389.2 | 387.1 | 3.0 |
| Utility User & Access Line Taxes | 139.1 | 136.2 | 138.3 | (0.8) |
| Parking Tax | 89.7 | 90.7 | 90.7 | 1.0 |
| Real Property Transfer Tax | 275.3 | 275.3 | 256.0 | (19.3) |
| Interest Income | 10.7 | 12.0 | 12.7 | 2.0 |
| 1991 and Public Safety Realignment | 205.8 | 211.3 | 212.2 | 6.4 |
| Motor Vehicle In-Lieu | - | 0.6 | 0.6 | 0.6 |
| Franchise Taxes | 16.8 | 16.7 | 16.7 | (0.1) |
| Fines, Settlements, & Other Revenue | 28.2 | 30.6 | 38.8 | 10.6 |
| State - Other | - | 0.6 | 4.7 | 4.7 |
| Airport Transfer-In | 40.8 | 41.7 | 41.9 | 1.1 |
| Total Citywide Revenues | 3,386.9 | 3,450.3 | 3,493.1 | 106.2 |



Baseline Transfers

\$ Millions

| | Revised Budget | 6-Month Projection | 9-Month Projection | Variance |
|--|-------------------|-----------------------|-----------------------|-------------|
| Aggregate Discretionary Revenues (ADR) | 2,958.4 | 3,012.4 | 3,051.0 | 92.7 |
| MTA Baseline 9.2% ADR | 272.0 | 277.1 | 280.5 | 8.5 |
| MTA Population Change Baseline | 25.9 | 27.7 | 27.7 | 1.8 |
| Library Baseline 2.3% ADR | 67.6 | 68.9 | 68.2 | 0.6 |
| Public Education Fund Baseline 0.3% ADR | 4.3 | 4.4 | 4.4 | 0.1 |
| Total Baseline Transfers | 369.8 | 378.1 | 380.8 | 11.1 |
| 80% Parking Tax in Lieu Transfer to MTA | 74.2 | 75.6 | 76.5 | 2.3 |
| Total Baselines and In-Lieu Transfers | 443.9 | 453.7 | 457.3 | 13.4 |



Departmental Projections

\$ Millions

| | Revenue Surplus / (Shortfall) | Uses Savings / (Deficit) | Net Surplus / (Shortfall) |
|---|-------------------------------------|--------------------------------|------------------------------|
| Net Shortfall Departments | | | |
| City Attorney | (0.5) | 0.1 | (0.4) |
| Police | (0.4) | - | (0.4) |
| Subtotal Departments with Net Deficits | \$ (0.9) | \$ 0.1 | \$ (0.7) |
| Net Surplus Departments | | | |
| Public Health | (30.3) | 85.7 | 55.4 |
| Human Services | (1.3) | 20.3 | 19.0 |
| General City Responsibility | - | 13.5 | 13.5 |
| Public Works | 5.2 | - | 5.2 |
| City Administrator | 0.4 | 3.5 | 3.8 |
| City Planning | 2.5 | - | 2.5 |
| Recreation and Parks | 1.3 | | 1.3 |
| Emergency Management | - | 1.1 | 1.1 |
| Adult Probation | 0.2 | 0.7 | 0.9 |
| Other Net Surplus | (1.6) | 6.2 | 4.5 |
| Subtotal Departments with Net Surplus | \$ (23.7) | \$ 130.9 | \$ 107.2 |
| Total | \$ (24.6) | \$ 131.1 | \$ 106.4 |



Supplemental Appropriations

- Three General Fund supplemental appropriations have been approved year to date: \$0.1 million for the Super Bowl 50 Impact Fund, \$0.3 million for Legacy Business Implementation, and \$2.5 million for improvements to the Geneva Car Barn.
- The Board has approved a re-appropriation of permanent salaries for overtime spending at Emergency Management, Public Health, Police, Fire, Sheriff and PUC.



Major Reserve Status

\$ Millions

Controller's Office

| | FY 2015-16 | | | | | FY 2016-17 | | |
|--|---------------------------------|---------------------|-----------------------|--------------------------|--------------------------------|----------------------|-------------------------|--------------------------------|
| | FY 2014-15 Ending Balance | Starting Balance | Projected Deposits | Projected Withdrawals | Projected Ending Balance | Budgeted Deposits | Budgeted Withdrawals | Projected Ending Balance |
| General Reserve | \$ 55.6 | \$ 73.4 | \$ - | \$ (9.7) | \$ 63.7 | \$ 12.0 | \$ - | \$ 75.7 |
| Budget Savings Incentive Fund | - | 33.9 | 20.8 | - | 54.8 | - | - | 54.8 |
| Recreation & Parks Savings Incentive Reserve | - | 10.6 | 1.3 | (3.1) | 8.8 | - | (3.1) | 5.7 |
| Rainy Day Economic Stabilization City Reserve | 71.9 | 71.9 | - | - | 71.9 | - | - | 71.9 |
| Rainy Day Economic Stabilization School Reserve | 42.1 | 42.1 | - | - | 42.1 | - | - | 42.1 |
| Rainy Day One-Time Reserve | 43.1 | 43.1 | - | - | 43.1 | - | - | 43.1 |
| Budget Stabilization Reserve | 132.3 | 132.3 | 9.4 | - | 141.6 | - | - | 141.6 |
| Salary and Benefits Reserve | 20.2 | 34.0 | - | (24.1) | 9.9 | 14.0 | (14.0) | - |
| Total | 365.1 | 441.3 | 31.5 | (36.9) | 435.9 | 26.0 | (17.1) | 434.9 |
| Economic reserves | | | | | 256.6 | | | |
| Economic reserves as a % of General Fund revenues | | | | | 5.9% | | | |



Projection Uncertainty

- Continued pace of economic growth and activity, particularly the effect on transfer and business taxes.
- Federal revenue uncertainty, particularly ACA revenues at DPH.



Other Special Funds

A host of other special funds are reviewed in the report.

- **Improving:**
Building Inspection, Convention Facilities, Airport, MTA, Port
- **Worsening:**
Courthouse Construction, Water, Wastewater

Closing

- Current year benefit from additional transfer tax revenues limited by required Budget Stabilization Reserve deposits (75% of any increase).
- Revised updates for future year revenues will be provided to the Mayor's Office for inclusion in the Mayor's Proposed Budget in June.



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

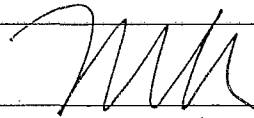
Subject:

Update on the City's Financial Position

The text is listed below or attached:

Hearing to receive updates from the Mayor's Budget Director, the Board's Budget and Legislative Analyst and the Controller on recent updates regarding the City's financial position.

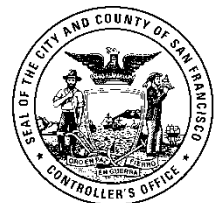
Signature of Sponsoring Supervisor: _____



For Clerk's Use Only:

FY 2016-17 and FY 2017-18 Revenue Letter:

Controller's Discussion of the Mayor's FY 2016-17 and FY 2017-18 Proposed Budget



June 14, 2016



City and County of San Francisco

Office of the Controller

Controller's Discussion of the Mayor's FY 2016-17 and 2017-18 Proposed Budget

June 14, 2016

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 May 31, 2016, Mayor Edwin Lee submitted his FY 2016-17 and FY 2017-18 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 2016-17 and FY 2017-18, albeit at more moderate rates than experienced during the past two fiscal years.
- The budget also includes use of one-time revenues for non-recurring expenditures, particularly capital expenditures, and preserves and builds key reserves, consistent with adopted financial policies. The budget preserves \$60 million of projected current year fund balance, to manage significant labor and non-labor expenditure uncertainty in FY 2017-18.
- The budget assumes voter approval of a 0.75% sales tax increase in November 2016. Our office has placed reserves on expenditures pending approval of the tax, as well as others where a revenue assumed in the budget requires subsequent action to realize.
- While consistent with the City's budget planning practices for many years, significant drawdowns of prior year fund balance will likely create financial stress in FY 2018-19 unless economic growth exceeds our projections.

Overview

As shown in Table 1, the Mayor's proposed budget for FY 2016-17 includes \$4.9 billion in General Fund sources and \$9.6 billion in all funds sources representing increases of 6.0 percent and 7.2 percent, respectively, from the FY 2015-16 original budget. The Mayor's proposed budget for FY 2017-18 includes \$5.1 billion in General Fund sources and \$9.7 billion in all funds sources representing increases from the FY 2016-17 proposed budget of 4.4 percent and 1.3 percent, respectively.

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

General Fund

| | FY 2015-16 | | FY 2016-17 | | FY 2017-18 |
|---|-------------------|-----------|-------------------|-----------|-------------------|
| | Budget | | Proposed | | Proposed |
| Fund Balance - Prior Year Operating Surplus | \$ 180 | \$ | 173 | \$ | 182 |
| Use of Reserves | 3 | | 6 | | 4 |
| Regular Revenues | 4,198 | | 4,522 | | 4,734 |
| Transfers In to the General Fund | 207 | | 160 | | 156 |
| Total GF Sources | \$ 4,588 | \$ | 4,861 | \$ | 5,077 |
| Change from Prior Year | | \$ | 273 | \$ | 216 |
| Percentage Change | | | 6.0% | | 4.4% |

All Funds

| | FY 2015-16 | | FY 2016-17 | | FY 2017-18 |
|--------------------------------|-------------------|-----------|-------------------|-----------|-------------------|
| | Budget | | Proposed | | Proposed |
| Fund Balance | \$ 345 | \$ | 485 | \$ | 357 |
| Use of Reserves | 21 | | 9 | | 10 |
| Regular Revenues | 8,573 | | 9,089 | | 9,339 |
| Total All-Funds Sources | \$ 8,939 | \$ | 9,583 | \$ | 9,706 |
| Change from Prior Year | | \$ | 644 | \$ | 123 |
| Percentage Change | | | 7.2% | | 1.3% |

Highlights include:

- Local tax revenue estimates are reasonable given current economic assumptions.** The proposed budget assumes continued local economic expansion, consistent with the Joint Report Update published in March and updated for new data. General Fund FY 2016-17 regular revenues are increasing by \$324 million or 7.7 percent from the FY 2015-16 budget. In FY 2017-18 General Fund revenues are expected to increase further by \$212 million or 4.7 percent from the FY 2016-17 proposed budget. 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 budget assumes Board and voter approval of a proposed 0.75% transactions and use tax in November 2016,** which is projected to increase revenue by \$35.7 million and \$147.7 million in FY 2016-17 and FY 2017-18, respectively. These expenditures have been placed on reserve pending approval of the measure. After adjusting for the expiration of the State's 0.25 percent temporary sales tax increase and the Triple Flip (the scheme used to secure the State's voter-approved deficit bonds from 2004), this proposed increase would result in a 9.25% sales tax rate in April 2017.

- **The proposed General Fund budget slightly reduces use of prior year fund balance.** As discussed in Appendix 1, use of fund balance in the General Fund comprises \$172.9 million in the FY 2016-17 proposed budget, a decrease of \$7.3 million from the FY 2015-16 budget. The proposed FY 2017-18 General Fund budget includes \$182.1 million in fund balance, an increase of \$9.2 million from the FY 2016-17 proposed budget. The proposed use of fund balance is net of \$60.0 million in assigned but unbudgeted contingency reserves consistent with administrative provisions in the budget.
- **The proposed General Fund budget slightly increases use of prior year reserves and complies with financial policies for depositing to reserves:** The proposed budget increases use of prior year reserves from \$3.1 million in the FY 2015-16 budget to \$5.7 million and \$4.0 million in FY 2016-17 and FY 2017-18, respectively. As in FY 2015-16, the only proposed use of General Fund reserves is from the Recreation and Park Department's budget savings incentive fund. The proposed budget assumes commercial real estate market conditions will continue slowing from their peak in FY 2014-15, leading to no projected deposits to the Budget Stabilization Reserve in FY 2016-17 or FY 2017-18. In addition, the budget complies with the General Reserve policy, which calls for increasing the General Fund Reserve to 2.00 percent of budgeted General Fund revenues, or \$90.4 million, in FY 2016-17, and 2.25 percent of budgeted General Fund revenues, or \$106.5 million, in FY 2017-18. 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 2015-16 Projected | FY 2016-17 Budgeted | FY 2017-18 Budgeted |
|---|---------------------------------|--------------------------------|--------------------------------|
| General Reserve | \$ 69.5 | \$ 90.4 | \$ 106.5 |
| Rainy Day Economic Stabilization City Reserve | 60.3 | 60.3 | 60.3 |
| Rainy Day One-Time Reserve | 40.5 | 40.5 | 40.5 |
| Budget Savings Incentive Fund | 54.8 | 54.8 | 54.8 |
| Budget Stabilization Reserve | 141.6 | 141.6 | 141.6 |
| | \$ 366.7 | \$ 387.6 | \$ 403.7 |

- **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. The timing and size of these changes is unknown, however, and future budget adjustments are likely to be necessary.
- **Budgetary baselines and set-asides are funded at voter-approved levels, with limited exceptions.** 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 2016-17 and FY 2017-18.** Children’s baseline funding in the proposed budget is \$157.5 million in FY 2016-17 and \$158.8 million in FY 2017-18, which is above the required level by \$4.1 million and \$1.2 million, respectively.
- **Disconnected Transitional-Aged Youth (TAY) requirements are exceeded in both FY 2016-17 and FY 2017-18.** TAY baseline funding in the proposed budget is \$23.2 million in FY 2016-17 and \$21.4 million in FY 2017-18, which is above the required level by \$4.7 million and \$2.4 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 exceeded by 63 officers in both FY 2016-17 and FY 2017-18.
- **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 amounts for FY 2016-17 and FY 2017-18 are exceeded by \$0.2 million in each year.

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.

Appendices

| | |
|--|-------|
| 1. General Fund Sources | p. 5 |
| 2. General Fund Reserve Uses and Deposits | p. 16 |
| 3. One-time Sources and Nonrecurring Revenue Policy Compliance | p. 18 |
| 4. Baselines & Mandated Funding Requirements | p. 19 |

Appendix 1. General Fund Sources

Table 1-1 provides a summary of the General Fund sources in the Mayor's FY 2016-17 and FY 2017-18 proposed budget.

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

| Sources of Funds | FY 2015-16 Budget | FY 2016-17 Proposed Budget | FY 2017-18 Proposed Budget | Notes |
|---|----------------------|-------------------------------|-------------------------------|-------|
| Prior Year Fund Balance - Operating Surplus | \$ 180.2 | \$ 172.9 | \$ 182.1 | 1 |
| Use of Reserves | 3.1 | 5.7 | 4.0 | 2 |
| Subtotal Fund Balance and Reserves | 183.2 | 178.6 | 186.1 | |
| Regular Revenues | | | | |
| Property Taxes | 1,291.0 | 1,412.0 | 1,468.0 | 3 |
| Business Taxes | 634.5 | 669.5 | 697.9 | 4 |
| Sales Tax (Bradley Burns 1%) | 172.9 | 200.1 | 207.1 | 5 |
| Sales Tax (+0.75% November 2016 Ballot) | | 35.7 | 147.7 | 5 |
| Hotel Room Tax | 384.1 | 412.0 | 439.4 | 6 |
| Utility Users Tax | 93.6 | 94.3 | 95.5 | 7 |
| Parking Tax | 89.7 | 92.8 | 95.2 | 8 |
| Real Property Transfer Tax | 275.3 | 235.0 | 225.0 | 9 |
| Stadium Admissions Tax | 1.4 | 1.4 | 1.4 | |
| Access Line Tax | 45.6 | 47.0 | 48.3 | 10 |
| Licenses, Permits & Franchises | 27.2 | 28.9 | 29.2 | |
| Fines and Forfeitures | 4.6 | 4.6 | 4.6 | |
| Interest & Investment Income | 10.7 | 14.0 | 14.4 | 11 |
| Rents & Concessions | 15.4 | 16.1 | 15.8 | |
| Intergovernmental - Federal | 242.9 | 255.7 | 263.6 | 12 |
| State - Public Safety Sales Tax | 98.0 | 102.0 | 106.1 | 13 |
| State - 1991 Health & Welfare Realignment | 169.4 | 179.6 | 176.3 | 14 |
| State - Public Safety Realignment | 36.4 | 40.5 | 42.7 | 15 |
| State - Other | 353.9 | 379.7 | 387.4 | 16 |
| Intergovernmental Revenues - Other | 3.7 | 5.5 | 3.3 | |
| Charges for Services | 205.8 | 225.2 | 225.9 | 17 |
| Recovery of General Government Costs | 9.7 | 10.9 | 10.9 | |
| Other Revenues | 32.0 | 59.7 | 28.7 | 18 |
| Subtotal Regular Revenues | 4,197.5 | 4,521.9 | 4,734.2 | |
| Transfers In to the General Fund | 206.8 | 160.1 | 156.4 | 19 |
| Total Sources | 4,587.6 | 4,860.7 | 5,076.7 | |

1. Prior Year Fund Balance. The proposed budget anticipates \$341.2 million in unassigned General Fund surplus will be available at the end of FY 2015-16, or \$56.4 million less than the \$397.8 million ending fund balance projected in the Nine Month Report. The decrease since the Nine Month Report is comprised of \$60.0 million in fund balance being assigned as a contingency reserve for managing expenditure and revenue uncertainty in FY 2017-18, \$8.7 million in reduced net savings from Zuckerberg General and Laguna Honda Hospitals needed to fund multi-year projects offset by \$12.3M in additional project savings identified since the Nine Month Report.

2. Use of Reserves. As shown in Table 1-2, the Mayor's proposed budget includes use of \$5.7 million from reserves established in prior years during FY 2016-17 and \$3.6 million during FY 2016-17. See Appendix 2 for projected year-end balances in FY 2015-16 through FY 2017-18.

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

| | FY 2016-17 | | FY 2017-18 | |
|--|---------------|---------------|---------------|---------------|
| | FY 2015-16 | Proposed | Proposed | Proposed |
| General Fund - Use of Prior Year Reserves | Budget | Budget | Budget | Budget |
| Recreation & Parks Savings Incentive Reserve | 3.1 | 5.1 | | 3.5 |
| Recreation & Parks Union Square Garage Revenue | - | 0.5 | | 0.5 |
| Total Use of Prior Year Reserves | \$ 3.1 | \$ 5.7 | \$ | 4.0 |

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 \$5.1 million in FY 2016-17 and \$3.5 million FY 2017-18, leaving an estimated balance of \$0.2 million at the end of FY 2017-18.

b. Recreation & Park Union Square Revenue Stabilization: The FY 2016-17 and FY 2017-18 proposed budget includes a \$0.5 million use of Union Square Garage Revenue Stabilization Fund in each year, 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.

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 2016-17 Growth from FY 2015-16 Budget | FY 2017-18 Growth from FY 2016-17 Proposed Budget | Notes |
|---|---|--|--------------|
| Property Taxes | 9.4% (11.8% w/o Triple Flip) | 4.0% | 3 |
| Business Taxes | 5.5% | 4.2% | 4 |
| Sales Tax (Bradley Burns 1%) | 15.8% (2.5% w/o Triple Flip) | 3.5% | 5 |
| Sales Tax (+0.75% November 2016 Ballot) | N/A | N/A | 5 |
| Hotel Room Tax | 7.3% | 6.7% | 6 |
| Utility Users Tax | 0.8% | 1.3% | 7 |
| Parking Tax | 3.4% | 2.6% | 8 |
| Real Property Transfer Tax | -14.6% | -4.3% | 9 |
| Stadium Admissions Tax | 0.2% | 0.0% | |
| Access Line Tax | 3.0% | 2.7% | 10 |
| Total Local Tax Revenue Change | 7.1% | 7.1% | |

3. Property Tax. The FY 2016-17 General Fund share of property tax revenue is estimated at \$1,412 million, which is \$121 million (9.4 percent) more than the FY 2015-16 budget and \$38 million (2.8 percent) more than the Nine Month Report. The FY 2017-18 General Fund share of property tax revenue is estimated at \$1,468 million, which is \$56 million (4.0 percent) more than the proposed FY 2016-17 budget. Major changes include:

- **Roll growth:** The proposed FY 2016-17 budget reflects secured property roll growth of 8.3 percent compared to the start of FY 2015-16. Increases in assessed values due to changes in ownership and new construction of real property are expected to account for about eighty percent of the increase. The remainder of the increase is due to the 1.525 percent inflation factor allowed under Proposition 13 for FY 2016-17. The roll growth is also estimated to increase state Vehicle License Fee (VLF) backfill revenue by \$17.4 million.

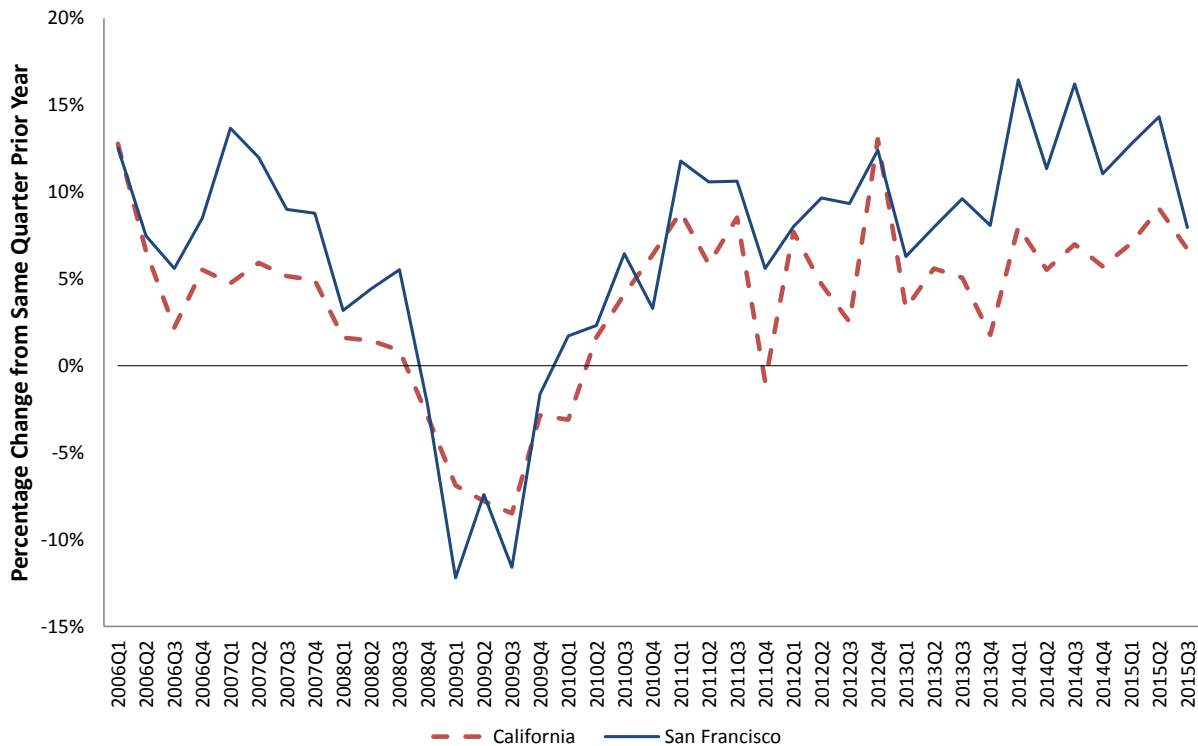
The proposed FY 2017-18 budget reflects secured roll growth of 5.4 percent compared to the proposed FY 2016-17 budget. The growth assumes 3.4 percent of increased taxable value due to changes in ownership and new construction along with the maximum 2 percent inflation factor allowed under Proposition 13. The improved secured roll value is also expected to increase VLF backfill revenue by \$11.9 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 were paid off in July 2015, and the triple flip process ceases at the end of FY 2015-16. The unwind of the Triple Flip reduces General Fund property tax revenue by \$37.5 million in FY 2016-17 compared to FY 2015-16. 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.
- **Changes in San Francisco Children's Fund allocation factor:** The proposed FY 2016-17 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 \$0.0325 to \$0.035) on each \$100 valuation of taxable property in FY 2016-17 and another \$0.0025 (from \$0.0350 to \$0.0375) in FY 2017-18, reducing the General Fund allocation by the same factor each fiscal year.

4. Business Tax. Business tax revenue is budgeted at \$669.5 million in FY 2016-17, which is \$14.8 million (2.3 percent) more than FY 2015-16 as projected in the Nine Month Report and \$35.0 million (5.5 percent) more than budgeted in FY 2015-16. Business tax revenue is budgeted at \$697.9 million in FY 2017-18, which is \$28.4 million (4.2 percent) more than the FY 2016-17 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 2015-16, 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 3.1 percent as of April 2016. 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 2015), total private sector wages grew 8.0 percent. In 2014, the Information Sector, which is comprised mostly of technology companies, wages grew by 42.9 percent over the previous year, compared to all private industries in San Francisco where wages grew by 13.8 percent year-over-year.

Chart 1-1. Change in Private Sector Wages for San Francisco and California, Calendar Years 2005 to 2015

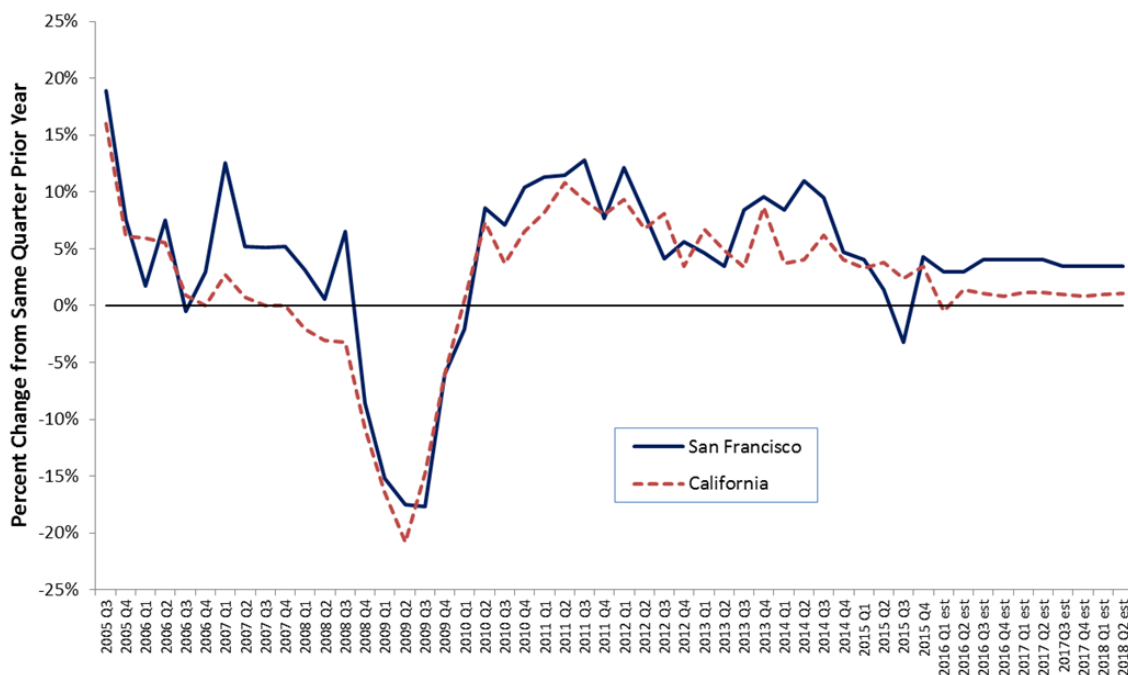


At this time, business tax projections are based on projected growth in private sector wages and employment. Data available from the implementation of gross receipts taxes will be incorporated into projections as they become available. Continued private employment growth averaging 3.0 percent is expected for calendar years 2015 through 2017. Wages are projected to increase slightly faster than projected rates of inflation, with average growth expected of 6.6 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 \$200.1 million in FY 2016-17, which represents growth of \$27.1 million, or 15.7 percent, from the FY 2015-16 budget and \$33.6 million, or 20.2 percent, from the Nine Month Report projection. FY 2017-18 local sales tax is budgeted at \$207.1 million, which is \$7 million, or 3.5 percent, growth from the FY 2016-17 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 million in FY 2016-17 as the sales tax allocation has been fully transitioned from 0.75 percent to 1.0 percent due to the end of the Triple Flip in January 2016. These increases are entirely 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, underlying sales tax growth assumed in FY 2016-17 is 4 percent from the underlying sales tax growth for FY 2015-16 as projected in the Nine Month Report, which is 1.8 percent growth from actual FY 2014-15 sales tax collections. The budget assumes no changes to state and federal law or order fulfillment strategies for online retailers.

The proposed budget includes \$35.7 million and \$147.7 million in additional sales and use tax revenue in FY 2016-17 and FY 2017-18, respectively. This revenue assumes approval of a 0.75% transactions and use tax in November 2016, which would go into effect in April 1, 2017. The current total sales and use tax rate of 8.75% will decline to 8.5% on January 1, 2017, after the expiration of a temporary 0.25% state tax (for the Education Protection Account authorized in Prop 30) on December 31, 2016. If approved, the proposed 0.75% add-on would result in a total tax rate of 9.25% as of April 1, 2017. Expenditures equal to the amount of projected revenue have been placed on reserve pending approval of the tax.

Chart 1-2 Actual and Projected Change in Sales Tax Revenues for San Francisco and California, 2005-2018



6. Hotel Tax. FY 2016-17 hotel tax revenue is budgeted at \$412.0 million, which is \$27.9 million (7.3 percent) more than budgeted in FY 2015-16 and \$24.8 million (6.4 percent) more than FY 2015-16 as projected in the Nine Month Report. The FY 2017-18 General Fund share of hotel tax revenue is budgeted at \$439.4 million, which is \$27.4 million (6.7 percent) more than budgeted in FY 2016-17.

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 2015-16 average RevPAR increased by 7.0 percent over the same period prior year. This reflects an all-time high of approximately \$243 per night. RevPAR growth has been above 10% in each of the last five years: 11.1 percent in FY 2014-15, 14.2 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. In FY 2014-15 and FY 2015-16, RevPAR growth has slowed, and this trend is expected to continue through FY 2016-17 and FY 2017-18. Table 1-6 provides a recent history of RevPAR levels.

Table 1-6. Revenue Per Available Room (RevPAR): FY 2010-11 to FY 2015-16

| | | | | | | | Change - | |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|
| | FY 2010-11 | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | \$ | % |
| July | \$ 141 | \$ 171 | \$ 188 | \$ 208 | \$ 233 | \$ 248 | \$ 14.72 | 6% |
| August | \$ 154 | \$ 173 | \$ 196 | \$ 230 | \$ 261 | \$ 260 | \$ (0.86) | 0% |
| September | \$ 166 | \$ 189 | \$ 212 | \$ 242 | \$ 269 | \$ 280 | \$ 11.03 | 4% |
| October | \$ 174 | \$ 205 | \$ 229 | \$ 251 | \$ 274 | \$ 287 | \$ 13.11 | 5% |
| November | \$ 112 | \$ 152 | \$ 152 | \$ 195 | \$ 190 | \$ 208 | \$ 18.19 | 10% |
| December | \$ 106 | \$ 109 | \$ 128 | \$ 145 | \$ 190 | \$ 160 | \$ (30.75) | -16% |
| January | \$ 124 | \$ 135 | \$ 148 | \$ 176 | \$ 209 | \$ 239 | \$ 29.90 | 14% |
| February | \$ 136 | \$ 156 | \$ 153 | \$ 187 | \$ 186 | \$ 263 | \$ 76.54 | 41% |
| March | \$ 136 | \$ 148 | \$ 166 | \$ 183 | \$ 230 | \$ 241 | \$ 10.25 | 4% |
| April | \$ 131 | \$ 147 | \$ 198 | \$ 206 | \$ 227 | | | |
| May | \$ 165 | \$ 170 | \$ 190 | \$ 216 | \$ 231 | | | |
| June | \$ 157 | \$ 195 | \$ 210 | \$ 238 | \$ 251 | | | |
| Average YTD | \$141.71 | \$162.47 | \$180.73 | \$206.44 | \$229.35 | \$242.78 | \$ 15.79 | 7.6% |
| \$ Change from PY | \$ 18.55 | \$ 20.76 | \$ 18.26 | \$ 25.71 | \$ 22.91 | \$ 13.43 | | |
| % Change from PY | 15.1% | 14.6% | 11.2% | 14.2% | 11.1% | 5.9% | | |

Source: PKF Consulting

Growth has been fueled by 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 2016-17 and FY 2017-18 will depend on developments with these lawsuits.

7. Utility Users Tax. FY 2016-17 utility users tax revenue is budgeted at \$94.3 million, which is 1.7 million (1.8 percent) more than FY 2015-16 as projected in the Nine Month Report and \$0.8 million (0.8 percent) more than budgeted in FY 2015-16. FY 2016-17 revenue is budgeted at \$95.5 million, which is \$1.2 million (1.3 percent) more than budgeted in FY 2016-17. The budget assumes low natural gas prices will continue, leading to tepid growth in gas, electric, and steam user tax revenue.

8. Parking Tax. Parking tax revenue is budgeted at \$92.8 million in FY 2016-17, an increase of \$3.1 million (3.4 percent) over the FY 2015-16 budget, and \$2.1 million (2.3 percent) more than the FY 2015-16 Nine Month Report projection. In FY 2017-18, parking tax revenue is budgeted at \$95.2 million, \$2.4 million (2.6 percent) more than the FY 2016-17 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 \$235.0 million in FY 2016-17, a reduction of \$40.3 million (14.6 percent) from the FY 2015-16 budget and a reduction of \$21.0 million (8.2 percent) from the FY 2015-16 Nine Month report projection. The budget is based on the assumption that 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 real property transfers will decline. In FY 2017-18, RPTT revenue is budgeted at \$225.0 million, \$10.0 million (4.3 percent) less than the FY 2016-17 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.

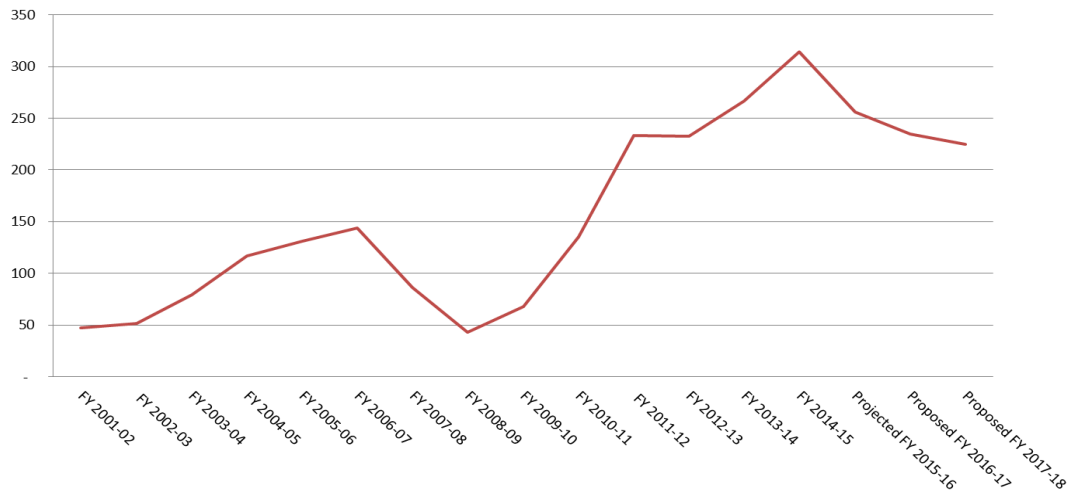
Table 1-7 summarizes recent revenue history by transaction size, and illustrates the strong correlation between total RPTT revenue and sales of high-value (largely commercial) properties. RPTT revenue from sales of properties worth more than \$10 million has increased dramatically, from \$31.2 million in FY 2011-12 to a peak of \$197.3 million in FY 2014-15, an increase of \$166.1 million (533 percent). Total RPTT revenue during the period from FY 2007-08 to FY 2014-15 increased by \$228.16 million (265 percent) has been heavily influenced by the compounding effect of rate changes introduced by rate increases passed in 2008 and 2010. Sales of properties worth more than \$10 million began slowing in FY 2015-16 and are projected to slow further in FY 2016-17 and FY 2017-18.

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 |
|----------------------|-------------------|-------------------|------------------|------------------|-------------------|----------------|
| | <\$250K | >\$250K | >\$1 M | >\$5 M | >\$10 M | Revenue |
| 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 | 163.5 | 261.9 |
| FY 2014-15 | 0.7 | 16.8 | 57.4 | 42.1 | 197.3 | 314.3 |
| FY 2015-16 Projected | 0.5 | 14.2 | 61.8 | 28.3 | 151.2 | 256.0 |
| FY 2016-17 Budgeted | 0.5 | 13.0 | 56.8 | 26.0 | 138.8 | 235.0 |
| FY 2017-18 Budgeted | 0.4 | 12.5 | 54.4 | 24.9 | 132.9 | 225.0 |

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. There is no deposit expected during FY 2016-17 and FY 2017-18 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. Access Line Tax. FY 2016-17 access line tax revenue is budgeted at \$47.0 million, \$1.3 million (2.8 percent) more than FY 2015-16 as projected in the Nine Month Report and \$1.4 million (3.0 percent) more than budgeted in FY 2015-16. FY 2017-18 revenue is budgeted at \$48.3 million, \$1.3 million (2.7 percent) more than budgeted in FY 2016-17. Increases are due to projected population and business growth and include rate increases effective in October of each year and equal to CPI.

11. Interest & Investment Income. Interest and investment income for FY 2016-17 is budgeted at \$14.0 million, an increase of \$3.3 million (30.8 percent) from the FY 2015-16 budget and \$1.3 million (10.0 percent) from the Nine Month Report projection. This increase is a result of higher than expected interest rates during FY 2015-16. FY 2017-18 revenue is expected to increase \$0.4 million (2.7 percent) to \$14.4 over FY 2016-17 due to sustained interest rate increases.

12. Intergovernmental – Federal. Federal support in the General Fund is budgeted at \$255.7 million for FY 2016-17, which represents growth of \$12.8 million (5.3 percent) from the FY 2015-16 budget and \$13.6 million (5.6 percent) from the FY 2014-15 Nine Month Report projection. FY 2016-17 growth includes a \$4.3 million funding increase in the Child Welfare Service (CWS), a \$3.1 million funding increase for food stamp program, a \$2.9 million funding increase from CalWorks Single Allocation, which directly offsets increased expenditure matching requirements, a \$2.7 million funding increase in Adult Protective Services (APS), and a \$2.0 million funding increase in In-Home Supportive Services (IHSS). This growth is partially offset by a \$2.5 million funding reduction in Foster Care Aid. Revenue is expected to plateau in FY 2017-18, with budgeted revenue of \$263.6 million, a \$7.9 million (3.1 percent) increase from FY 2016-17.

13. State – Public Safety Sales Tax. Public safety sales tax revenue is budgeted at \$102.0 million in FY 2016-17, representing annual growth of \$4.1 million (4.1 percent) from FY 2015-16 budget and \$3.9 million (4.0 percent) from FY 2015-16 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 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 2014-15 is 2.96 percent and is expected to remain at that level in FY 2016-17 and FY 2017-18. Public Safety

sales tax revenue is budgeted at \$106.1 million, which represents a \$4.1 million (4.0 percent) increase from FY 2016-17.

14. 1991 Health & Welfare Realignment. In FY 2016-17, the General Fund share of 1991 realignment revenue is budgeted at \$179.6 million, or \$10.1 million (6.0 percent) more than the FY 2015-16 budget and \$6.8 million (3.9 percent) from the Nine Month Report projection. This growth is primarily attributed to a \$6.0 million increase in the General Fund portion of sales tax distribution as a result of a \$16.7 million repayment of FY 2013-14 realignment revenue previously withheld by the state as estimated savings from implementation of the Affordable Care Act (ACA). The FY 2017-18 General Fund share of revenue is budgeted at \$176.3 million, a net annual reduction of \$3.3 million (1.8 percent) in sales tax and VLF distributions due to the one time revenue increase in FY 2016-17 from an AB85 true up payment.

The budgets in both years are net of state allocation reductions due to implementation of 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 2016-17 and FY 2017-18 as a result of ACA implementation, and redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for the by the State's General Fund. Reductions to the City's allocation are assumed equal to \$12.0 million in both years, which is \$4.7 million less than the reduction assumed in the FY 2015-16 budget. Future budget adjustments could be necessary depending on final state determinations of ACA savings, which are expected in January 2017 and January 2018 for FY 2014-15 and FY 2015-16, respectively.

15. 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 \$40.5 million in FY 2016-17, a \$4.1 million (11.3 percent) increase from the FY 2015-16 budget and \$1.1 million (3.0 percent) more than FY 2015-16 as projected in the Nine Month Report. The FY 2017-18 proposed budget assumes a \$2.2 million (5.4 percent) increase from FY 2016-17. This reflects increased State funding to support implementation of AB109 as the Sales Tax and Motor Vehicle License Fee revenues are projected to grow over the next two years.

16. State – Other. Other State funding is budgeted at \$380.0 million in FY 2016-17, an increase of \$25.8 million (7.3 percent) from the FY 2015-16 budget. This increase is primarily attributable to projected growth of \$14.6 million in Short-Doyle Medi-Cal reimbursements related to the Affordable Care Act, a \$3.5 million increase in community mental health service funding at the Department of Public Health (DPH), and a \$9.3 million increase in various social service subvention revenue received by Human Services Agency, including a \$4.3 million projected increase for food stamp programs, a \$4.0 million increase in In Home Supportive Service (IHSS) funding, and a net increase of \$0.9 million in other social service funding. This growth is partially offset by a \$2.8 million projected reduction in CalWorks MOE payments. The budget for State – Other revenue is expected to plateau in FY 2017-18, and is budgeted at \$387.4 million, an increase of \$7.7 million (2.0 percent) from FY 2016-17.

17. Charges for Services. The proposed budget assumes charges for services revenue (including Recovery of General Government Costs) of \$225.2 million in FY 2016-17, which represents growth from the FY 2015-16 original budget of \$19.5 million (9.5 percent), and a \$9.7 million (4.5 percent) increase from the FY 2015-16 Nine Month Report projection. The proposed budget assumes charges for services revenue of \$225.9 million in FY 2017-18, which

represents growth from FY 2016-17 of \$0.7 million (0.3%). Growth in FY 2016-17 is primarily composed of increases in plan and permit fee revenue at City Planning and the Fire Department as well as new revenue from credit and debit card processing fees at the Treasurer-Tax Collector.

18. Other Revenues. The proposed budget assumes revenues from other sources of \$59.7 million in FY 2016-17, an increase of \$27.7 million (86.6 percent) from the FY 2015-16 budget, reflecting \$22.6 million in one-time revenue from the sale of a portion of Jessie Street and Elim Alley in connection with the Oceanwide Center Project at 50 First Street, \$20.0 million in ongoing loan repayments to the City from multi-unit housing development projects going to the Housing Trust Fund, and \$8.5 million in one-time revenue from the sale of land at Hunters View. These increases are offset by the loss of \$23.6 million in one-time revenue in FY 2015-16 from the sale of Jessie Square Garage. FY 2017-18 revenue from other sources is budgeted at \$28.7 million, a reduction of \$31.0 million (51.9 percent), primarily the result of non-recurring property and land sales in FY 2016-17.

Appendix 2. General Fund Reserve Uses and Deposits

As discussed in Appendix 1, the Mayor's proposed budget includes the use of \$5.7 million from reserves established in prior years during FY 2016-17 and \$4.0 million during FY 2017-18. As shown in Table 2-1 below, the Mayor's proposed budget also includes \$53.8 million and \$35.5 million in deposits to General Fund reserves during FY 2016-17 and FY 2017-18, 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 2015-16 | FY 2016-17 | | | FY 2017-18 | | |
|---|--------------------------------|----------------------|-------------------------|--------------------------------|----------------------|-------------------------|--------------------------------|
| | Projected Ending Balance | Budgeted Deposits | Budgeted Withdrawals | Projected Ending Balance | Budgeted Deposits | Budgeted Withdrawals | Projected Ending Balance |
| General Reserve | \$ 69.5 | \$ 20.9 | \$ - | \$ 90.4 | \$ 16.1 | \$ - | \$ 106.5 |
| Rainy Day Economic Stabilization City Reserve | 60.3 | - | - | 60.3 | - | - | 60.3 |
| Rainy Day One-Time Reserve | 40.5 | - | - | 40.5 | - | - | 40.5 |
| Budget Stabilization Reserve | 141.6 | - | - | 141.6 | - | - | 141.6 |
| Subtotal Economic Stabilization Reserves | \$ 242.4 | \$ - | \$ - | \$ 242.4 | \$ - | \$ - | \$ 242.4 |
| Percent of General Fund Revenues | 5.8% | | | 5.7% | | | 6.4% |
| Budget Savings Incentive Fund | 54.8 | - | - | 54.8 | - | - | 54.8 |
| Litigation Reserve | - | 11.0 | (11.0) | - | - | - | - |
| Rainy Day Economic Stabilization SFUSD Reserve | 36.5 | - | - | 36.5 | - | - | 36.5 |
| Recreation & Parks Savings Incentive Reserve | 8.8 | - | (5.1) | 3.6 | - | (3.5) | 0.2 |
| Recreation & Parks Union Square Revenue Stabilization | 7.0 | - | (0.5) | 6.5 | - | (0.5) | 6.0 |
| Reserve for Technical Adjustments | - | 2.5 | (2.5) | - | - | - | - |
| Salary and Benefits Reserve | - | 19.4 | (19.4) | - | 19.4 | (19.4) | - |
| Total, All Reserves | \$ 419.0 | \$ 53.8 | \$ (38.6) | \$ 434.2 | \$ 35.5 | \$ (23.4) | \$ 446.3 |

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 2.0 percent of budgeted General Fund regular revenues in FY 2016-17 and 2.25 percent in FY 2017-18. 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 2016-17, the Mayor's proposed budget anticipates \$20.9 million in deposits and projects an ending General Reserve balance of \$90.4 million. In FY 2017-18, the proposed budget anticipates \$16.1 million in deposits with an ending balance of \$106.5 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 2016-17 or FY 2017-18. 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. Transfer tax revenues in FY 2016-17 and FY 2017-18 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 2016-17 or FY 2017-18. 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 \$11.0 million for the litigation reserve in both FY 2016-17 and FY 2017-18. 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 Update to the City's Five Year Financial Plan for FY 2016-17 through FY 2019-20 published on March 22, 2016.

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 2016-17 and FY 2017-18 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 \$30.0 million in FY 2016-17 and \$35.2 million in FY 2017-18 to cover costs related to adopted MOUs with labor organizations and those which will come before the Board in June. The proposed budget assumes no COLA for nurses. Negotiations with staff and supervising nurses will be brought to the Board of Supervisors for approval in the coming weeks, at which time the Mayor will bring a technical adjustment transferring part of the reserve balance to the Department of Public Health to cover related costs.

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 \$172.9 million for FY 2016-17 and \$182.1 million for FY 2017-18. These amounts fall substantially below the prior five-year average of year-ending CAFR fund balances, estimated through FY 2014-15 to be \$308.5 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. General Fund Nonrecurring Sources & Uses (Operating funds only, \$ millions)

| ONE-TIME SOURCES | FY 2016-17 Proposed | FY 2017-18 Proposed |
|---|--------------------------------|--------------------------------|
| General Fund Prior Year Fund Balance (1) | \$ 159.1 | \$ 182.1 |
| DPH Sale of Buildings/Land Onondaga St. | - | - |
| Vacation and Sale of 50 First Street | 22.6 | - |
| Repayment of Jessie Square Garage Obligation | - | - |
| Total Nonrecurring General Fund Revenues | \$ 181.7 | \$ 182.1 |
| ONE-TIME USES | | |
| Capital Planning GF Recommended Funding | \$ 128.3 | \$ 118.5 |
| Additional General Fund Capital | 9.2 | 6.5 |
| Moving and FF&E Costs for Capital Projects | 2.7 | 0.5 |
| COIT Annual Projects | 10.6 | 5.0 |
| COIT Major IT Projects | 16.9 | 18.6 |
| Equipment | 17.3 | 12.0 |
| Seed Capital Planning Fund | 7.2 | - |
| DPH - SFGH - FF&E | - | - |
| DPH - Electronic Health Records | - | 31.4 |
| DPH - General Hospital Transition Costs | - | - |
| Total One-Time Uses | \$ 192.2 | \$ 192.5 |

(1) Does not include \$13.4 million of balance in the Housing Trust Fund.

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 2015-16 Original Budget | FY 2016-17 Proposed Budget | FY 2017-18 Proposed Budget |
|---|----------------------------------|----------------------------------|----------------------------------|
| General Fund Aggregate Discretionary Revenue (ADR) | \$ 2,958.4 | \$ 3,176.7 | \$ 3,263.2 |
| Financial Baselines | | | |
| Municipal Transportation Agency (MTA) | | | |
| MTA - Municipal Railway Baseline: 6.686% ADR | 197.8 | 212.4 | 218.2 |
| MTA - Parking & Traffic Baseline: 2.507% ADR | 74.2 | 79.6 | 81.8 |
| MTA - Population Adjustment | 25.9 | 38.0 | 44.8 |
| MTA - 80% Parking Tax In-Lieu | 71.8 | 74.3 | 76.2 |
| Subtotal Municipal Transportation Agency | \$ 369.6 | \$ 404.3 | \$ 421.0 |
| Library Preservation Fund | | | |
| Library - Baseline: 2.286% ADR | 67.6 | 72.6 | 74.6 |
| Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV) | 46.1 | 51.8 | 54.1 |
| Subtotal Library | 113.7 | 124.4 | 128.7 |
| Children's Services | | | |
| <i>Children's Services Baseline - Requirement: 4.830% ADR</i> | <i>142.9</i> | <i>153.4</i> | <i>157.6</i> |
| Children's Services Baseline - Eligible Items Budgeted | 149.4 | 157.5 | 158.8 |
| <i>Transitional Aged Youth Baseline - Requirement: 0.580% ADR</i> | <i>17.2</i> | <i>18.4</i> | <i>18.9</i> |
| Transitional Aged Youth Baseline - Eligible Items Budgeted | 19.9 | 23.2 | 21.4 |
| Public Education Services Baseline: 0.290% ADR | 8.6 | 9.2 | 9.5 |
| Children's Fund Property Tax Set-Aside: \$0.03 per \$100 NAV | 59.9 | 72.6 | 81.1 |
| <i>Public Education Enrichment Fund: 3.057% ADR</i> | <i>90.4</i> | <i>97.1</i> | <i>99.8</i> |
| 1/3 Annual Contribution - Preschool for All | 30.1 | 32.4 | 33.3 |
| 2/3 Annual Contribution to San Francisco Unified School District (SFUSD): | | | |
| Share of SFUSD Contribution Provided as In-Kind Services | - | - | - |
| Balance of SFUSD Contribution Direct Funding | 60.3 | 64.7 | 66.5 |
| Total Public Education Enrichment Fund | 90.4 | 97.1 | 99.8 |
| Subtotal Childrens Services | 328.2 | 359.6 | 370.5 |
| Other Financial Baselines | | | |
| Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV | 46.1 | 51.8 | 54.1 |
| Recreation & Park Maintenance of Effort | n/a | 67.4 | 70.4 |
| Housing Trust Fund | 25.6 | 28.4 | 31.2 |
| Homelessness and Supportive Housing Fund | 15.1 | 16.7 | 16.7 |
| Municipal Symphony Baseline: \$0.00125 per \$100 NAV | 2.4 | 2.6 | 2.8 |
| City Services Auditor: 0.2% of Citywide Budget | 15.3 | 16.3 | 16.2 |
| Subtotal Other Financial Baselines | 104.4 | 183.2 | 191.3 |
| Total Financial Baselines | \$ 916.0 | \$ 1,071.5 | \$ 1,111.5 |

Staffing and Service-Driven Baselines

| | |
|--------------------------------------|---|
| Police Minimum Staffing | Requirement likely met in FY 2016-17 and FY 2017-18 |
| Neighborhood Firehouse Baseline | Requirement met |
| Treatment on Demand Baseline | Requirement met |
| Office of Economic Analysis Staffing | Requirement met |

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). 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 \$366.3 million in FY 2016-17 and \$376.2 million in FY 2017-18.

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 \$38.0 million and \$44.8 million in FY 2016-17 and FY 2017-18 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 \$72.6 million in FY 2016-17 and \$74.6 million in FY 2017-18 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 2016-17 and FY 2017-18 are \$153.4 million and \$157.6 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of \$157.5 million and \$158.8 million, representing surplus funding of \$4.1 million in FY 2016-17 and \$1.2 million in FY 2017-18.

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 2016-17 and FY 2017-18 are \$18.4 million and \$18.9 million, respectively. The Mayor's proposed budget includes TAY eligible baseline appropriations of \$23.2 million and \$21.4 million, representing surplus funding of \$4.7 million in FY 2016-17 and \$2.4 million in FY 2017-18.

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 \$9.2 million in FY 2016-17 and \$9.5 million in FY 2017-18 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 \$97.1 million and \$99.8 million for the Public Education Enrichment Fund Annual Contribution in FY 2016-17 and FY 2017-18, 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 \$0.0325 to \$0.035) on each \$100 valuation of taxable property in FY 2016-17 and another \$0.0025 (from \$0.035 to \$0.0375) in FY 2017-18. The Library Preservation Fund and the Open Space Fund receive allocations of \$0.025 for each \$100 valuation of taxable property in both FY 2016-17 and FY 2017-18. The Mayor's proposed budget includes required funding of \$72.6 million in FY 2016-17 and \$81.1 million in FY 2017-18 for the Children's Services Fund, and \$51.8 million and \$84.1 million in FY 2016-17 and FY 2017-18, respectively, for both the Library Preservation Fund and Open Space Fund.

Recreation and Park Baseline. In June 2016, voters approved Proposition B, a Charter amendment which will create 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 \$2.0 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 contribution amounts for the new Recreation and Park baseline for FY 2016-17 and FY 2017-18 will be \$67.4 million and \$70.4 million, respectively. In addition, the amendment extends the sunset date of the Open Space property tax set-aside by an additional 15 years. The amounts for the Open Space set-aside for FY 2016-17 and FY 2017-18 will be \$51.8 million and \$54.1 million respectively.

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 \$28.4 million and \$31.2 million in FY 2016-17 and FY 2017-18, 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 \$16.7

million in FY 2016-17 and FY 2017-18. The budgeted amounts include \$1.7 million in FY 2016-17 and \$1.8 million in FY 2017-18 of General Fund support above the Care Fund revenues of \$15.6 million in FY 2016-17 and \$14.9 million in FY 2017-18, respectively.

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 \$2.6 million in FY 2016-17 and \$2.8 million in FY 2017-18.

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 \$16.3 million in FY 2016-17 and \$16.2 million in FY 2017-18 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, 2016 it will have 2,308 sworn officer positions filled, supplemented by 215 officers graduating from the academy to full-duty and offset by 80 retirements or other separations during FY 2016-17. The department projects that 487 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 1,957 full-duty sworn officers available for neighborhood policing and patrol, which is 14 officers short of the 1,971 baseline staffing level. The Department expects that 80 additional officers will graduate from the academy during FY 2017-18 offset by an equal number of retirements or other types of separations, leaving staffing levels unchanged relative to the baseline from FY 2016-17 to FY 2017-18. Given these projections and assumptions, we expect the department to meet the baseline staffing level for periods in both FY 2016-17 and FY 2017-18.

Pursuant to Proposition C, the Controller's Office estimates that as of the start of FY 2016-17, 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 for the majority of both FY 2016-17 and FY 2017-18.

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 \$276.0 million in FY 2016-17 and \$281.5 million in FY 2017-18 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, its funding level, as well as the total unduplicated client in FY 2015-16 from FY 2014-15 across multiple modalities, residential and outpatient. As of February 2016, this requirement has been met.

Staff Contacts

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

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

John Lee, Budget Analyst, John.A.Lee@sfgov.org

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

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

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