



MEMORANDUM

DATE: December 1, 2009
TO: President Scott Heldfond and Honorable Members of the Health Service Board
THRU: Catherine Dodd, PhD Interim Director, Health Service System
FROM: Robin Courtney Chief Financial Officer
RE: Budget Targets – 2009 and 2010

Attached is the Controller's First Quarter General Fund Budget Status Report issued on November 16, which details the components of the budget deficit for the current year. The report projects a current year deficit of \$53.1 million, which includes \$8 million in supplemental appropriations submitted by Supervisors Daly and Avalos to restore positions. Departments have been asked to make mid-year reductions of \$45 million, which excludes the \$8 million item.

On November 19th, the Mayor's Budget Office presented the details on the \$522.1 million General Fund deficit projected for the 2010-11 budget year. A summary of the presentation is attached.

In response to the current year and budget year projected deficits, General Fund departments have been given mid-year and budget year General Fund reduction targets. The targets given to the Health Service System are as follows:

- A. 2009-10 Mid-year General Fund Reduction Target \$77,720
• Reductions should be ongoing in nature.
• The annualized value of ongoing savings will apply to the 2010-11 targets.
• Departments are asked to submit their reduction plan by Friday, December 4th.

To meet our mid-year general fund reduction target of \$77,720, we have identified savings from 2008-09 surplus revenues due to claims forfeitures. The Mayor's Office has agreed to accept these in satisfaction of our mid-year requirement.

- B. 2010-11 General Fund Reduction Targets: \$601,434
Base Budget reduction (20%) \$400,956 (15% must be ongoing)
Contingency reductions (10%) \$200,478 (one-time or ongoing)
\$601,434

Departments are asked to prioritize administrative efficiencies, consolidate programs and functions, restructure service delivery and find revenue solutions where possible.

We are in the early stages of identifying sources of funds to meet the 2010-11 general fund reduction target of \$601,434, including working with the Controller's Office to revise the amount of Health Service System expenditures recovered through departmental transfers.

City and County of San Francisco

Controller, Mayor, Board of Supervisors' Budget Analyst

FY 2009-10 First Quarter General Fund Budget Status Report



November 16, 2009



City and County of San Francisco

FY 2009-10 First Quarter General Fund Budget Status Report

November 16, 2009

This report informs the Mayor and Board of Supervisors that the Controller's Office is revising its General Fund revenue and expenditure forecasts based on new information available since the FY 2009-10 budget was passed. As shown in Table 1, our updated forecasts show a current year General Fund shortfall of \$53 million if current revenue trends continue and if spending is maintained at current and proposed service levels. This projected shortfall exceeds the uncommitted balance of \$25 million in General Reserve and prior year fund balance by \$28 million. Until this shortfall has been addressed, the Controller's office will not be able to certify funds from the General Fund Reserve for other appropriations.

The components of the projected shortfall are as follows:

A. Pending Supplemental Appropriations using \$8.0 Million of General Fund Reserve: The total approved and pending supplemental appropriations request the use of \$8.0 million from the General Fund Reserve. This includes one approved supplemental appropriation using \$0.2 million from the General Fund Reserve for emergency aid relief. The supplemental appropriations currently pending at the Board of Supervisors include shifting \$0.2 million of savings from the State Budget reserve to increase the General Fund Reserve, the use of \$7.1 million from the General Fund Reserve to restore positions expected to be laid off or rehired at lower paying job classes on November 15, 2009, and the use of \$0.9 million from the General Fund Reserve to restore positions laid off or rehired at lower paying job classes in FY 2008-09.

**Table 1. Potential FY 2009-10 General Fund Revenue and Expenditure
Variance to Budget, \$ Millions**

Based on data available through November 13, 2009, assuming spending continues at budgeted or requested service levels

	Revenue Surplus (Shortfall)	Expenditure Savings (Deficit)	Net GF Savings (Shortfall)
A. Supplementals requesting General Fund Reserve			
<i>Approved</i>			
Emergency Aid Relief Supplemental - Use \$150K of GF Reserve		(0.2)	(0.2)
<i>Pending at the Board of Supervisors</i>			
State Budget Impact - shift \$150K savings to GF Reserve		.0.2	0.2
DPH - Position Restoration Supplemental (Daly)		(7.1)	(7.1)
DPH - Position Restoration Supplemental (Avalos)		(0.9)	(0.9)
Subtotal Supplementals		(8.0)	(8.0)
B. General Revenues Variance to Budget			
Property Tax	(35.0)	-	(35.0)
Payroll Tax	(24.8)	-	(24.8)
Sales Tax-Related	(8.6)	-	(8.6)
Hotel Room Tax	28.0	-	28.0
Property Transfer Tax	6.1	-	6.1
Other General Revenues	(4.8)	-	(4.8)
Pre-Audit Surplus Prior Year Fund Balance	1.0	-	1.0
Reduced General Fund baseline transfer to MTA	-	2.1	2.1
Reduced General Fund baseline transfer to Library	-	0.5	0.5
Subtotal General Revenues	(38.1)	2.6	(35.5)
C. Departmental revenue and expenditure variance to budget			
Assessor		(0.9)	(0.9)
City Planning	(1.7)	-	(1.7)
Fire Department	(5.1)	-	(5.1)
Human Services	(2.0)	9.1	7.1
Juvenile Probation	(1.0)	-	(1.0)
Public Defender	-	(1.7)	(1.7)
Public Health	18.3	(17.4)	1.0
Sheriff	9.3	(13.3)	(4.0)
Superior Court		(3.2)	(3.2)
Subtotal Departmental Variance to Budget	17.8	(27.4)	(9.6)
Total Estimated General Fund Impacts	(20.3)	(32.8)	(53.1)
FY 2009-10 Budgeted General Fund Reserve			25.0
Shortfall in Excess of General Fund Reserve			(28.1)

B. General Revenues Net \$35.5 Million Shortfall— General revenues include the following:

- **Pre-Audit Surplus General Fund Balance:** The FY 2009-10 budget assumed \$94.5 million of prior year fund balance. Our pre-audit results indicate that we will close the prior year with approximately a \$1 million surplus above the \$94.5 million assumed in the budget.
- **Property Tax:** The \$35.0 million shortfall is primarily due to increased set-asides required from current year revenues in response to the over 4,000 appeals covering more than \$29 billion in assessed valuation filed before the September 15, 2009 deadline. This estimate will be updated as appeals are heard and we gather more data as to the magnitude of actual refunds awarded.
- **Payroll Tax:** A \$24.8 million shortfall is forecast. Our FY 2009-10 revenues for payroll tax are primarily from taxes due in calendar year 2009. After the budget was finalized, we received data for the period of January–March 2009 showing a 9.5% drop in seasonally-adjusted payrolls, with declines forecast for the remainder of 2009 as businesses adjusted to the economic downturn.
- **Sales Tax-Related:** The \$8.6 million shortfall projection builds upon recent data showing a steeper than expected decline in sales tax receipts.
- **Hotel Tax:** The \$28.0 million projected surplus takes into account July–September receipts that showed a smaller decline than assumed in the budget, and assumes that receipts through the rest of the year will be modestly higher than last year.
- **Property Transfer Tax:** The \$6.1 million projected surplus is based on a 5% year-over-year increase in receipts from July–October 2009, with similar increase levels projected through year-end.
- **Other General Revenues:** The \$4.8 million shortfall in other general revenues compared to budget includes a \$2.8 million shortfall in projected interest revenue due to continuing low interest rates and reduced cash balances, along with minor projected surpluses and shortfalls in other revenue categories.
- **Reduced Baseline Transfers to Municipal Transportation Agency and Public Library:** The San Francisco Charter establishes baseline funding levels for the Municipal Transportation Agency (MTA) and the Public Library. These baselines are indexed to overall growth or reduction in aggregate General Fund discretionary revenues. The revenue shortfalls discussed result in reduced transfers to the MTA and the Public Library of \$2.6 million.

C. Departmental Revenue and Expenditure Variances to Budget \$9.6 Million Shortfall

- **Assessor's Office:** The \$0.9 million projected excess expenditure requirement is based on the Department's analysis of additional City Attorney hours needed to represent the City in large commercial property tax appeals. The expected number of such appeals has increased sharply this fiscal year compared to the prior year.
- **City Planning:** The \$1.7 million projected revenue shortfall is due to lower than anticipated volumes of building permit fees, environmental review fees, conditional use fees, and other fees.
- **Fire Department:** The \$5.1 million projected revenue shortfall consists of:
 - \$2.0 million fire prevention fee revenue shortfall related to the continued slowdown in construction,
 - \$0.5 million ambulance billing shortfall as more private ambulances enter the market, and
 - \$2.6 million potential shortfall in budgeted recoveries from external agencies receiving fire suppression and emergency medical services.
- **Human Services:** The \$2.0 million revenue shortfall estimate is from the Department's updated projections regarding federal and state reimbursements for prior year claims. The \$9.1 million estimated expenditure savings represents:
 - \$6.7 million savings representing six months of reduced In-Home Support Services (IHSS) worker county share of wages due to litigation staying the State from their budgeted reduction in State support for those wages. This litigation is further discussed in Section D below,
 - \$5.0 million savings from closing out excess balances of encumbrances remaining from the prior year, and
 - \$2.6 million projected spending requirements above budget anticipated in County Adult Assistance Programs (CAAP) aid based on rising caseload trends.
- **Juvenile Probation:** The \$1.0 million revenue shortfall estimate is based on the new State revenue sharing allocation from Vehicle License Fees coming in below budgeted levels.
- **Public Defender:** The \$1.7 million excess expenditure projection represents \$1.3 million above budgeted levels required to maintain current staffing and a further \$0.4 million requested by the Public Defender to hire into vacant unfunded positions.
- **Public Health:** The projected \$1.0 million surplus for all funds consists of the following:
 - **General Fund Programs:** The projected \$0.8 million revenue shortfall in primary care is related to Health Care Coverage Initiative revenues and net patient revenues. The projected \$2.5 million expenditure deficit is primarily is due to expected overspending in salaries and fringe benefits.
 - **Laguna Honda Hospital:** The projected \$5.6 million expenditure deficit is in salaries and fringe benefits.
 - **San Francisco General Hospital:** The projected \$19.1 million revenue surplus is due to a \$15.4 million surplus in net patient revenue and a \$7.7 million surplus in Safety Net Care Pool revenue due to updated forecasts of Medicaid Waiver payments by the California Association of Public Hospitals and actual revenues

received to date. This is offset by a \$4.0 million shortfall in projected revenue from the Health Care Coverage Initiative that provides funding for the Healthy San Francisco program. The projected \$9.3 million expenditure deficit is in salaries and fringe benefits.

- **Sheriff:** \$10.6 million of expected revenue surplus and expenditure requirement relates to an anticipated contractor settlement related to the County Jail #3 replacement project later this fiscal year. The Sheriff anticipates requesting appropriation of these funds to complete work deferred from that project, including demolition of the old jail on the site. The revenue surplus is offset by a \$1.3 million anticipated shortfall in funds available from the Superior Court to reimburse for court security. A further \$2.7 million projected expenditure deficit in salaries and fringe is due to the increase in jail population requiring more security.
- **Superior Court:** The projected expenditure deficit of \$3.2 million in the indigent defense program is due to a continuing trend of increased referrals from the Public Defender.
- **Assumes release of \$45 million reserve:** This projection assumes that the Budget and Finance Committee releases the \$45 million on reserve pending the Controller's estimate of State and local revenue impact on the City and County's budget.

D. Major Factors That Could Change These Estimates

- **Commercial Property Tax Appeal Awards:** A key assumption underlying our forecast relates to the amount of property tax revenue that will need to be set aside for settlement of appeals. The greatest uncertainty relates to the fair assessment value of commercial properties as of the January 2009 reference period for the FY 2009-10 property tax assessment. At that time there were almost no major commercial transactions taking place due to unavailability of credit and investor uncertainty about the state of the economy. We will update our estimates as we learn more about appeal settlements and decisions.
- **Potential new MediCal Revenue for San Francisco General Hospital:** Recently passed State legislation proposes a change in the State's MediCal plan that would impose new fees on private hospitals, increase federal reimbursements and direct additional funds to both public and private hospitals. This proposal requires federal approval and is likely to be effective retroactively. However, when the approval would be granted or how much San Francisco General Hospital would receive is unknown at this time. The Controller will inform the Mayor and Board when new revenue can be certified from this source.
- **In-Home Supportive Services (IHSS) Litigation:** In response to legal challenges, a federal court has stayed the State's planned reduction in the level of support provided to counties for IHSS worker wages. As long as the stay remains in effect, or if the State loses its case, the effect will save the Human Services Agency approximately \$1 million per month. This projection assumes 6 months of savings. If the stay remains in effect beyond December 2009 or if the State loses its case, there could be up to \$6 million further savings to the City. If the State were to win a ruling allowing the retroactive

imposition of their wage support reduction back to July 1, 2009, that would result in an additional cost to the City of \$6 million. Separate litigation related to eligibility changes imposed by the State on IHSS clients could also have a substantial impact on the City's expenditure levels in this program, but the Human Services Agency does not currently have an estimate as to the magnitude of the potential savings or additional costs of alternative outcomes of this litigation.

- **Pace of Economic Recovery:** This report's revenue projections rely upon the most recent information available as to tax receipts and leading economic indicators. We will update these projections as new information becomes available.

E. Next Steps

Based on this projected negative balance, the Mayor and the Board should take steps to reduce expenditures or increase revenues in the current year in order to bring the budget back into balance. Because the estimated revenue shortfall is greater than the available balance in the General Fund Reserve, the Controller cannot certify the availability of funds from the Reserve until these actions are implemented.

Our office will provide regular updates on the status of our projected revenues and expenditures compared to budget over the course of the fiscal year. Please feel free to contact me at (415) 554-7500 should you wish to discuss this information in more detail.



Mayor's Budget Instructions

November 19, 2009



FY2011 Shortfall

- Revenue Weakness
- Expenditure Increases
- Loss of One-Time Solutions to Balance 09-10 Budget

FY2011 Shortfall

REVENUE

- (97.1) Property Tax
- (14.7) Payroll Tax
- 30.3 Other General Revenues
- (81.4) Total

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FY2011 Shortfall

REVENUE

- (81.4) General Tax, State, Federal, and other revenue weakness
 - (49.2) Loss of Rainy Day Reserve Revenues
 - (62.2) Loss of FMAP federal stimulus funding (includes FY 08-09)
 - (35.4) Loss of Other Starting Fund Balance
 - (40.0) Estimated State Budget Impact
 - (22.5) Other
-
- (290.7) Revenue Total**

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FY2011 Shortfall

EXPENDITURES

- (41.3) Expiration of Labor Give-Backs and existing MOU Wage Increases
 - (63.3) Health, Retirement, and Other Benefit Increases
 - (57.5) Loss of one-time expenditure savings (e.g., Capital, Equipment) FY 09-10
 - (69.4) Other Expenditure Increases
-
- (231.5) Expenditure Total**


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FY2011 Shortfall

SUMMARY

- (290.7) Revenues
 - (231.5) Expenditures
-
- (522.2) Projected General Fund Deficit for FY 10-11**

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FY 2011 Budget

POTENTIAL IMPROVEMENTS

- 56.3 All Mid-Year Cuts are Ongoing
- 12.0 Use of Rainy Day Reserve
- 22.0 FMAP Extension - ?
- 34.0 AB 188 Health Revenues - ?
- 26.7 Federal funding continued for Healthy SF - ?

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FY 2011 Budget

POTENTIAL UNCERTAINTIES

- Additional revenue weakness
- State cuts beyond \$40 million assumed
- Current year overspending or supplemental appropriations

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FY2011 Budget Instructions

- Propose reductions and revenues equal to 20% of adjusted GF support (at least 15% ongoing)
- Provide additional 10% Contingency
- We encourage departments to take current-year actions to meet targets
- Mid-year savings beyond the targets issued Tuesday can apply toward the budget year target.

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FY2011 Budget Instructions

Prioritize core functions

Seek and prioritize solutions such as:

- Administrative efficiencies
- Consolidation of programs and functions
- Restructuring service delivery
- Revenue options

FY2011 Budget Instructions

(522.2) Projected General Fund Deficit for FY 10-11

56.25 All Mid-Year Cuts are Ongoing

230.9 Department 20% Reduction Targets


(235.1) Remaining Deficit

115.5 Department 10% Contingency

(119.6) Remaining Deficit

Calendar: Key Dates and Next Steps

Early Dec	Technical Instructions Issued
Dec 4	Mid-Year Cut Ideas Due
Jan 9	Governor's Budget Released
Mid-Jan	1 st Layoff Notice Date (tentative)
February	Controller's 6-Month Report
Feb 20	Budget Submissions Due
Mid-March	2 nd Layoff Notice date (tentative)
March	Joint Report Issued



Calendar: Key Dates and Next Steps (ctd)

May 1	Proposed Budget for Enterprise Depts introduced at BOS
May	Governor's May Revise released
May	Controller's 9-month Report
June 1	Budget Submitted to BOS
June	Budget Committee Hearings
July	Budget considered at BOS