CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Adopted
Five-Year Financial Plan

Fiscal Years 2013-14 through 2017-18

MAY 1, 2013

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FILE NO. 130229 RESOLUTION NO. 101-13

[5-Year Financial Plan - FY2013-2014 through FY2017-2018]

Resolution adopting the City's 5-Year Financial Plan for FY2013-2014 through FY2017-2018 pursuant to Charter Section 9.119.

WHEREAS, Charter Section 9.119 requires the Mayor to propose and the Board of Supervisors to review, amend, and adopt in odd-numbered years a five-year financial plan to be used as a tool to plan for future City budgets; and

WHEREAS, Section 9.119 provides that the City shall adopt the second City-wide five-year plan by May 1, 2013; and

WHEREAS, The Mayor has submitted his proposed five-year plan to the Board of Supervisors for its consideration, which plan is on file with the Clerk of the Board of Supervisors in File No. 130229, and which is hereby declared to be a part of this resolution as if set forth fully herein; and

WHEREAS, The Board of Supervisors has reviewed the plan included the following set of financial strategies designed to restore fiscal stability: (1) restructuring the City's debt and capital programs, (2) controlling employee wage and benefits costs, (3) seeking additional tax, fee, and other revenues, (4) adjusting baselines and revenue allocations, (5) limiting non-salary inflation, (6)aligning the use of one-time and non-recurring savings to support one time expenditures, and (7) establishing planning goals for departmental expenditure reductions as outlined in the plan; now therefore be it

RESOLVED, That the Board of Supervisors adopts the Mayor's proposed plan and the financial strategies outlined therein, with such amendments and revisions as the Board deems appropriate, as the City's five-year financial plan for Fiscal Years 2013-2014 through 2017-18, as provided in Charter Section 9.119.

City and County of San Francisco
Tails
Resolution

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

File Number: 130229 **Date Passed:** April 02, 2013

Resolution adopting the City's 5-Year Financial Plan for FY2013-2014 through FY2017-2018 pursuant to Charter, Section 9.119.

March 27, 2013 Budget and Finance Committee - RECOMMENDED

April 02, 2013 Board of Supervisors - ADOPTED

Ayes: 11 - Avalos, Breed, Campos, Chiu, Cohen, Farrell, Kim, Mar, Tang, Wiener and Yee

File No. 130229

I hereby certify that the foregoing Resolution was ADOPTED on 4/2/2013 by the Board of Supervisors of the City and County of San Francisco.

Angela Calvillo
Clerk of the Board

Mayor

4/10/13
Date Approved

Acknowledgements

Department	Staff
Mayor's Budget Office	Kate Howard, Leo Chyi, Jason Cunningham, Cindy Czerwin, Naomi Drexler, Antonio Guerra, Chanda Ikeda, Jessica Bullen Kinard, Carol Lu, Melissa Whitehouse
Controller's Office	Ben Rosenfield, Monique Zmuda
Controller's Office: Budget and Analysis	Michelle Allersma, Ted Egan, Kurt Fuchs, Theresa Kao, Devin Macaulay, Drew Murrell, Risa Sandler, Chris Trenschel, Caylin Wang
Board of Supervisors' Budget and Legislative Analyst	Severin Campbell, Marisa Flowers, Dan Goncher, Ian Hart
Capital Planning	Brian Strong, Brian Benson, Eliot Chang, Kaitlyn Connors
Committee on Information Technology	Members of COIT and its subcommittees

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Executive Summary

PURPOSE OF THE PLAN

The Five-Year Financial Plan is required under Proposition A, a Charter amendment approved by voters in November 2009. The City Charter requires the plan to forecast expenditures and revenues during the five-year period, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments.

FIVE-YEAR OUTLOOK

Over the next five years, the City will experience a continued growth in tax revenues. Nonetheless, the Five-Year Financial Plan shows that the cost of City services is projected to steadily outpace revenue growth during the five-year period. If the City does not take additional corrective action, the gap between revenues and expenditures will rise from $123.6 million to approximately $487.2 million from Fiscal Year (FY) 2013-14 to FY 2017-18.

Table 1: Base Case – Summary of General Fund-Supported Projected Budgetary Surplus/(Shortfall) FY 2013-18 ($ in millions)

	FY 12-13 Original Budget	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Sources						
Regular Revenues, Transfers and Other	4,232.8	4,470.0	4,575.2	4,696.3	4,791.0	4,910.4
Use of Prior Year General Fund Balance	100.1	86.6	86.6	-	-	-
Subtotal - Sources	**4,332.9**	**4,556.6**	**4,661.8**	**4,696.3**	**4,791.0**	**4,910.4**
Uses						
Salary and Benefit Costs	2,336.8	2,454.5	2,548.4	2,632.2	2,707.1	2,795.7
Other Expenditures, Reserves and Transfers	1,996.1	2,225.7	2,369.5	2,431.9	2,507.1	2,601.9
Subtotal - Uses	**4,332.9**	**4,680.2**	**4,917.9**	**5,064.0**	**5,214.2**	**5,397.6**
Projected Cumulative Surplus/(Shortfall)		**(123.6)**	**(256.1)**	**(367.7)**	**(423.2)**	**(487.2)**

Total expenditures are growing by $1,064.7 million over the next five years, which represents an increase of 25 percent. Employee salary, pension, and fringe benefit cost growth are the largest driver of this increase and the imbalance between revenues and expenditures, growing by $458.9 million (43 percent of the total expenditure growth), during the five years of the Plan. Additionally, departmental costs are growing by $190.3 million over the five years of the Plan, including $133.1 million alone at the Department of Public Health. Citywide operating costs are increasing by $297.8 million, and changes to baselines and reserves are growing by $117.7 million.

In contrast to this expenditure growth, total General Fund revenues are projected to grow $577.5 million over the same period, or an overall growth in revenues of 13 percent.

STRATEGIES TO RESTORE FISCAL STABILITY

Despite these challenges, if the City takes proactive action to address the imbalance between revenues and expenditures, it can restore stability to its finances over the next five years and be better prepared to weather any economic changes. The Plan proposes the following strategies to restore fiscal stability:

Table 2: Strategies to Restore Fiscal Stability ($ in millions)

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Base Case Outlook	(124)	(256)	(368)	(423)	(487)
Proposed Financial Strategies - Savings					
Capital Spending and Debt Restructuring	10	41	36	43	44
Manage Employee Wage and Benefit Costs	17	21	60	83	119
Additional Tax, Fees and Other Revenues	20	25	85	86	87
Adjust Baselines and Revenue Allocations	-	27	30	32	34
Limit Non-Personnel Inflation	-	33	50	67	78
Non-Recurring Revenues and Savings	48	57	30	12	2
On-Going Departmental Revenues and Savings Initatives	28	52	76	101	121
New On-Going Savings Initiatives	*12*	*12*	*12*	*13*	*13*
Cumulative Value of On-Going Savings Initiatives	*-*	*12*	*24*	*36*	*49*
Health Department On-Going Savings Initiatives	*17*	*12*	*12*	*12*	*7*
Cumulative Value of Health Department Savings Initatives	*-*	*17*	*28*	*40*	*52*
Adjusted Outlook	0	0	0	0	0

These strategies represent ambitious but achievable targets, which seek to slow projected growth while the City develops additional revenue, savings, and operational proposals that may require multi-year planning efforts. There remains a significant amount of work and planning by City departments and policy makers to develop more detailed plans to implement these strategies.

CAPITAL PLANNING

The Fiscal Year 2014-23 Ten-Year Capital Plan recommends $25.1 billion in capital projects over the next ten years, including $4.7 billion for General Fund departments, $14.5 billion for enterprise departments, and $5.9 billion for external government agencies within the City and County of San Francisco. This investment will support roughly 223,000 local jobs over the next ten years. The General Fund pay-as-you-go program recommends that the City spend $1.6 billion over the next ten years, including $599.5 million within the five years of this Financial Plan. This is in addition to the Plan's General Fund bond program, which includes $1.5 billion over the next ten years, and its General Fund debt program, recommending $515.0 million over the next ten years. All of these proposed investments will safeguard and improve the City's infrastructure, facilities, and parks.

The City's newest Capital Plan proposes a number of initiatives that have been key objectives since its inception in 2006. These include fully funding the street repaving program at a Pavement Condition Index (PCI) of 70; funding facility renewals at levels that not only meet annual needs, but also reduce the backlog; relocating nearly all of the functions in the Hall of Justice to safer facilities; and continuing construction and planning on critical projects, including the Water System and Sewer System Improvement Programs, the new Acute Care San Francisco General Hospital, the War Memorial Veterans Building, Piers 27, 30-32, 70, Seawall Lot 337, the Central Subway, Transbay Terminal, and Presidio Parkway (formerly Doyle Drive).

TECHNOLOGY PLANNING

The Fiscal Year 2014-18 Five-Year Information & Communication Technology (ICT) Plan builds on the progress made in the first Plan and provides a framework for how the City can proactively plan for, fund, and implement projects that support the strategic goals outlined in the Plan. Over the next five years, there are $548.0 million in Information Technology (IT) project requests that have been identified citywide. Project requests are split with 53.6 percent non-General Fund dollars, representing 55 projects, and 46.4 percent General Fund dollars, representing 77 projects.

The Plan identifies $293.5 million in funded non-General Fund projects and $254.5 million in General Fund projects over the next five years. These General Fund requests far exceed the COIT General Fund allocation, which is expected to be $49.1 million over the same period, leaving a funding gap of $205.4 million. The ICT Plan recommends three options to close this funding gap: 1) improve pre-planning on large, multi-departmental projects and increase collaboration between departments; 2) identify alternative funding sources, including using an allocation methodology for citywide projects as well as identifying grants and other non-General Fund sources; and 3) explore moving existing IT dollars within the City's budget to support new projects as older IT projects are completed, and work to identify large one-time General Fund sources if possible. As the City works to balance all of the needed IT investments, the Committee on Information Technology (COIT) will review all project requests with these financial strategies in mind to bridge the funding gap over the five-year period. This will require making trade-offs through project prioritization, sequencing and deferrals.

Major General Fund IT projects discussed in the ICT Plan include the replacement of the City's financial system, replacement of the public safety radio system, and tax system replacement projects at both the Assessor-Recorder's Office and Treasurer-Tax Collector's Office.

DEPARTMENT PLANNING

The Five-Year Financial Plan includes discussion of departments by major service area and includes detailed department sections for four Enterprise departments: the Airport, the Municipal Transportation Agency, the Public Utilities Commission, and the Port. Significant departmental issues identified in the Plan include:

- **Public Protection:** The continued implementation of Public Safety Realignment; multi-year hiring plans to address retirements at the Police and Fire departments; and the continued planning and construction of large capital projects through the City's G.O. bond and General Fund debt programs, as well as the on-going costs associated with these large one-time investments.

- **Public Works, Transportation & Commerce:** Planning and construction of large-scale development and capital projects; identifying funding sources to meet development needs; and finding a sustainable funding source for street repaving.

- **Human Welfare & Neighborhood Development:** Managing increasing demand for services through Aid programs; the need for reauthorization of voter-mandated set-asides for the San Francisco Unified School District and the Children's Fund; and continuing to monitor and adapt to large fiscal and policy changes enacted at the state and federal levels.

- **Community Health:** Managing the implementation of the Affordable Care Act; controlling rising General Fund costs; and completing the SF General Hospital rebuild project in addition to planning for other capital projects proposed through the City's G.O. bond program.

- **Culture & Recreation:** Managing losses in revenue due to the expected departure of the San Francisco Forty Niners from Candlestick Park; and continuing to implement large scale capital projects, including: the Veterans Building Seismic Retrofit, the Recreation and Park Department G.O. bond program, and the Branch Library Improvement Program.

- **General Administration & Finance:** Continuing to implement major housing initiatives through the City Administrator's Office and the Mayor's Office of Housing; major technology system replacements; and the implementation of the Business Tax reform passed in November 2012.

Five-Year Base Case Projections

PURPOSE OF THE PLAN

The Five-Year Financial Plan is part of a comprehensive effort by the City to improve its long-range financial management and planning. This section, the base case projection, is a joint effort by the Mayor's Office, the Controller's Office, and the Board of Supervisors Budget and Legislative Analyst's Office. To this end, the City is currently implementing the following strategies:

- **The Five-Year Financial Plan:** The City is forecasting and analyzing revenues and expenses for the next five years on a citywide basis, including changes in major service areas, departmental operations, facilities, debt management, capital and technology.

- **Two-Year Budgeting:** The FY 2012-13 and FY 2013-14 budget was the first two-year budget adopted by the Mayor and the Board of Supervisors. While this budget was fixed for the four Enterprise Departments, it is a rolling budget for all other departments. The City will continue to adopt two-year rolling budgets unless the Mayor and the Board adopt a resolution determining that all departments adopt a fixed two-year budget.

- **Citywide Capital and Technology Plans:** These plans, which are also released on March 1, include detailed financial information and project descriptions outlining the City's planned spending on both capital and technology over the five-year period.

- **Formal Financial Policies:** To date, the City has adopted policies to create a budget stabilization reserve, to build its general reserve up to 2.0 percent of general fund revenues, and to restrict the use of one-time revenues. These approaches will strengthen the City's financial position and make certain that San Francisco is more resilient in the event of an economic downturn.

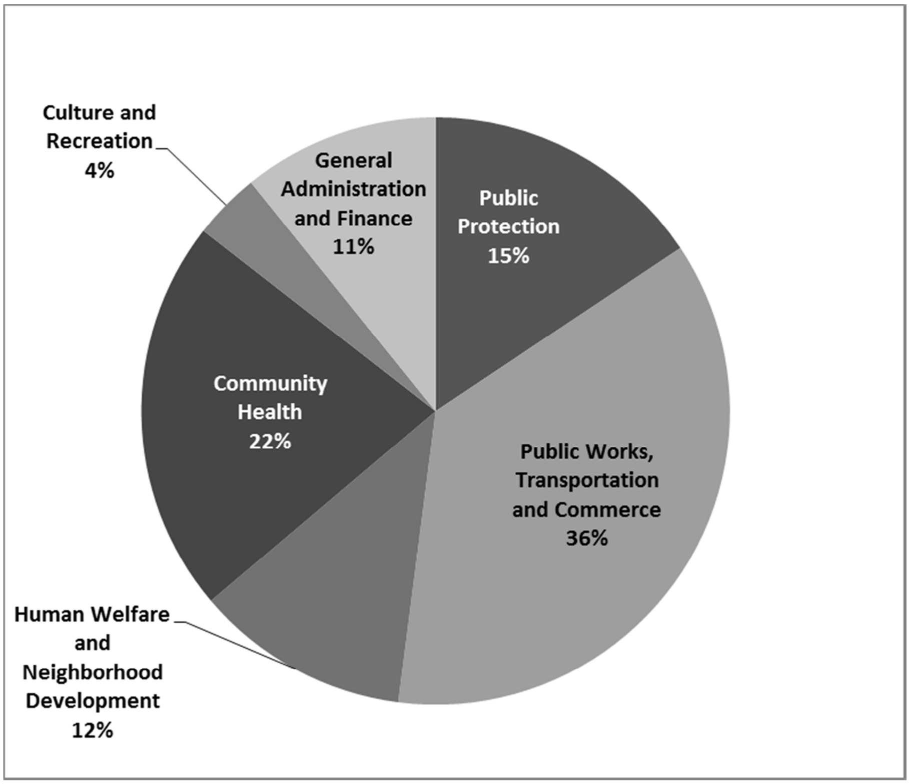
Multi-year budgeting and forecasting are best practices for all governments. The Five-Year Financial Plan is designed to enhance the City's ability to identify the key drivers of its revenues, expenditures, and needed public services. In an era of constantly changing funding from the State and federal government, this planning process will enable San Francisco to thoughtfully plan for revenue swings and adapt its programs accordingly. Overall, the City will minimize volatility by looking beyond the typical budget horizon, putting in place more stable public service delivery that citizens can expect and rely on.

OVERVIEW

The City and County of San Francisco budget is comprised of six major service areas: Public Protection; Public Works, Transportation & Commerce; Human Welfare & Neighborhood Development; Community Health; Culture & Recreation; and General Administration & Finance. The City's FY 2012-13 budget is $7.4 billion, including $3.5 billion in General Fund and $3.9 billion in non-General Fund sources.

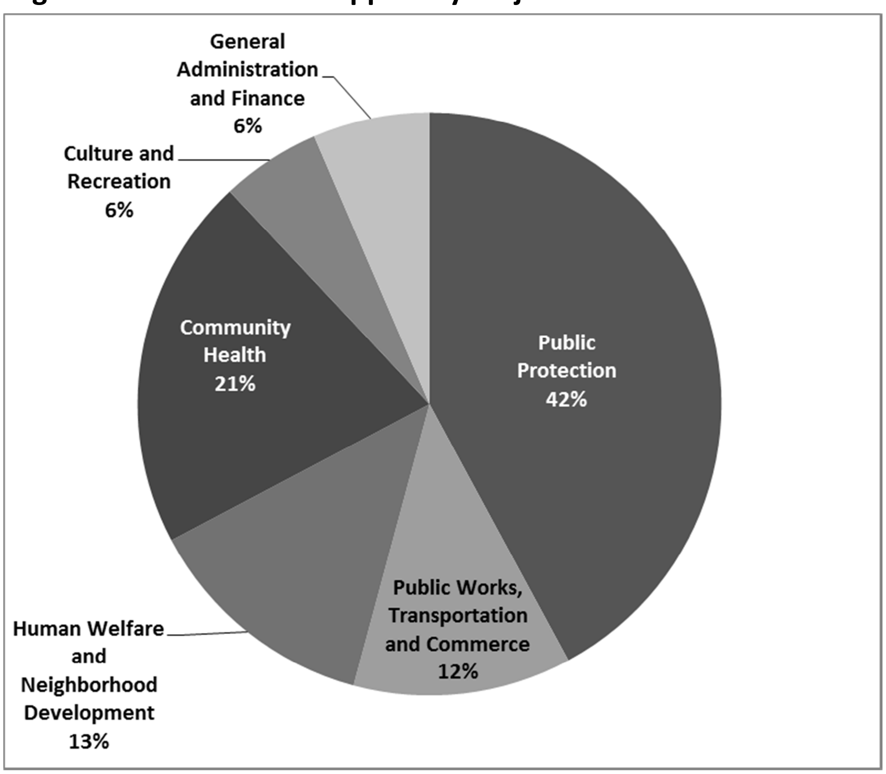
Figures 1 & 2 show the total $7.4 billion City budget by major service area and the total $3.5 billion General Fund budget by major service area. The Public Works, Transportation & Commerce major service area has the largest overall budget, due primarily to the budgets for large Enterprise Departments.

Figure 1: Total Budget by Major Service Area FY 2012-13



The Public Protection major service area receives the largest General Fund subsidy due primarily to the combined budgets for the Police, Fire and Sheriff departments, which are almost entirely locally funded.

Figure 2: General Fund Support by Major Service Area FY 2012-13



FIVE-YEAR OUTLOOK FOR GENERAL FUND-SUPPORTED OPERATIONS

San Francisco Administrative Code Section 3.6(b) requires that in each odd-numbered year, the City must submit a Five-Year Financial Plan; in even-numbered years, a similar report, called the Joint Report, must be issued with an update to the remaining four years of the previous year's Five-Year Financial Plan. In both the Five-Year Financial Plan and the Joint Report, the Mayor, the Controller, and the Board of Supervisors Budget Analyst must forecast expenditures and revenues during the five-year period. In the Five-Year Financial Plan, the Mayor's Office must also propose actions to balance revenues and expenditures during each year of the plan and discuss strategic goals and corresponding resources for City departments. This Five-Year Financial Plan provides expenditure and revenue projections for FY 2013-14, FY 2014-15, FY 2015-16, FY 2016-17, and FY 2017-18.

SUMMARY OF 'BASE CASE' PROJECTIONS AND FINDINGS

This Five-Year Financial Plan represents the 'base case,' which means that the revenue and expenditure projections included in this Plan assume only known and accepted policy changes as of the spring of 2013. Significant changes include known revenue and expenditure changes in all areas where there is reasonable information or basis for a projection. Key assumptions are also detailed below.

Table 3 summarizes the projected changes in General Fund-supported revenues and expenditures over the next five years compared to the original FY 2012-13 budget. It shows the City with a cumulative deficit of $123.6 million in FY 2013-14 growing to $487.2 million in FY 2017-18.

Table 3: Base Case – Summary of General Fund-Supported Projected Budgetary Surplus/(Shortfall) FY 2014-18 ($ in millions)

	FY 12-13 Original Budget	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Sources						
Regular Revenues, Transfers and Other	4,232.8	4,470.0	4,575.2	4,696.3	4,791.0	4,910.4
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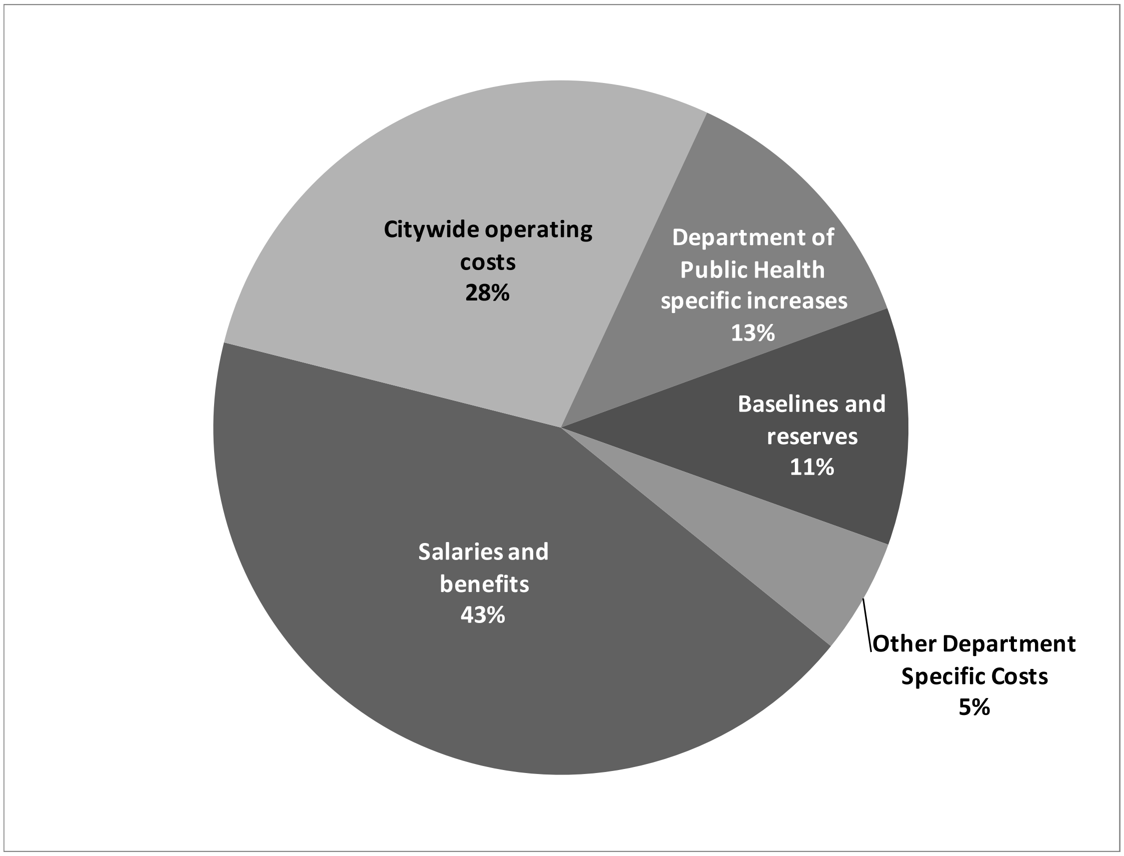
Projected Cumulative Surplus/(Shortfall)		**(123.6)**	**(256.1)**	**(367.7)**	**(423.2)**	**(487.2)**

This projection demonstrates that although revenues are growing each year, they are not growing fast enough to keep pace with the City's increase in expenditures; a structural deficit remains even with the improving economy. The City currently projects revenue growth of $577.5 million over the five-year period of this Plan, and expenditure growth of $1.064.7 million: $458.9 million of the expenditure growth, 43 percent, is attributed to rising salary and fringe benefit cost increases. This is not surprising, since the City's budget is made up of approximately 50 percent personnel expenses both overall and within the General Fund. Total expenditure growth is shown below in Figure 3, which illustrates that after salary and fringe benefit cost increases, the next largest drivers of expenditure growth are: citywide operating costs of $297.8 million (28 percent), Department of Public Health specific cost increases of $133.1 million (13 percent); charter-mandated baseline and reserve changes of $117.7 million (11 percent), and other department specific cost increases of $57.1 million (5 percent).

Figure 3: General Fund-Supported Expenditure Increases by Expenditure Type FY 2014-18



While the projected shortfalls shown reflect the deficits over the next five years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and/or additional revenues. These projections assume no on-going solutions are implemented. To the extent budgets are balanced with on-going solutions, future shortfalls will decrease. The remainder of this section discusses key assumptions made in this Plan and provides additional details on the projected expenditure and revenue changes over the next five years.

KEY ASSUMPTIONS AFFECTING THE FY 2013-14 THROUGH FY 2017-18 PROJECTIONS

- **No major changes to service levels and number of employees.** This projection assumes no major changes to policies, service levels, or the number of employees from the previously adopted FY 2013-14 budgeted levels. Exceptions to this includes those supplemental appropriations approved by the Board of Supervisors and the Mayor as of the Six-Month Report issued on February 12, 2013; an anticipated supplemental appropriation for the Department of Public Health; and the hiring plans for Police and Fire described later in this Plan. This projection does not include potential savings due to additional changes proposed in departmental FY 2013-14 and FY 2014-15 budget submissions.

- **Continued economic recovery.** This projection assumes the economic recovery that began in 2010 will continue and will be reflected in tax revenue increases, many of which reached prior peak levels in FY 2011-12.

- **Preliminary estimate of State and federal budget impacts.** For the first time in many years, the State of California is not projecting a major budget shortfall and this Plan is not assuming any significant cuts from the State. The City will continue to assess the impacts of the federal sequestration, as well any changes to the State's fiscal outlook. However, as the General Fund Reserve grows and the State budget improves, the City is not assuming a reserve for State budget cuts as it has in past years.

- **No change in closed labor agreements and inflationary increase on open labor agreements.** This projection assumes no change to closed collective bargaining agreements, the majority of which expire at the end of FY 13-14. Miscellaneous employees will receive a phased in 3 percent raise, which translates to an increase in General Fund support of $34.0 million. In FY 2014-15, the 3 percent increase received in the prior year will annualize costing an additional $22.7 million. Agreements for Police and Fire expire in FY 14-15. Starting in FY 2015-16, all labor agreements are assumed to receive wage increases at the rate of the Consumer Price Index (CPI), which is projected by the Controller's Office of Economic Analysis to be 3.1 percent for FY 2015-16, 2.9 percent for FY 2016-17, and 2.8 percent for FY 2017-18.

- **Retirement plan employer contribution rates and implementation of Pension Reform (Proposition C).** This projection assumes employer pension contributions to the San Francisco Employee Retirement System (SFERS) in accordance with a projection scenario provided by the Cheiron consulting group in November 2012. The scenario assumes that the plan achieved a 0.5 percent investment return in FY 2011-12 and will achieve its target investment return in each subsequent year (7.6 percent in FY 2012-13 and 7.5 percent thereafter). This scenario yields a rise in SFERS employer contribution rates from 20.7 percent in FY 2012-13 to rates of 25.4 percent, 28.8 percent, 27.7 percent, 26.6 percent, and 26.3 percent in FY 2013-14, FY 2014-15, FY 2015-16, FY 2016-17 and 2017-18, respectively. These rates are assumed to be reduced by the floating employee contribution rates included in the pension cost sharing provisions of the Charter passed by voters in November 2011, which range from 0 percent to 4.5 percent depending on the salary and type of employee.

  Employer contribution rates for the California Public Employees' Retirement System (CalPERS), which covers some public safety personnel, are projected to remain flat at 21.6 percent in FY 2013-14. This Plan assumes this rate rises and falls at the same rate of change as SFERS described above. Therefore, the City is assuming CalPERS rates will peak in FY 2014-15 at a rate of 24.5 percent and then fall slightly to a rate of 22.4 percent by FY 2017-18. In accordance with the Charter, which requires that the City achieve comparable savings from CalPERS members as SFERS members, this report assumes that these rates are reduced by the floating employee contribution rates that apply to SFERS Safety members (e.g. police officers and fire fighters).

- **Health and dental insurance cost increases.** This projection assumes that the employer share of health and dental insurance costs will increase by approximately 5.3 percent in FY 2013-14 and 6.0 percent each year after. The Health Service System will be negotiating rates for calendar year 2014 throughout the spring and summer of 2013. For retiree health benefits, this Plan assumes that the City will continue its pay-as-you-go practice of funding the amounts currently due for retirees. The growth in this obligation has been estimated based on projected actual cost increases of approximately 9.0 percent each year.

- **Inflationary increase on non-personnel operating costs.** This projection assumes that the cost of materials and supplies, professional services, contracts with Community-Based Organizations and other non-personnel operating costs, will rise by CPI increases of 3.2 percent, 3.1 percent, 2.9 percent, and 2.8 percent for FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively. The projection reflects the adopted FY 2013-14 budget.

- **Ten-Year Capital Plan and inflationary increases on equipment funding.** This projection assumes that capital funding will increase over the next five years based on the levels assumed in the City's FY 2014-

23 Ten-Year Capital Plan for FY 2014-15, FY 2015-16, FY 2016-17, and FY 2017-18. For FY 2013-14, the capital projection reflects the previously adopted FY 2013-14 budget, which did not include full funding of the capital plan. This projection assumes equipment funding will increase to $5.0 million in FY 2013-14 and increase by CPI in the following years.

- **Five-Year Information & Communication Technology Plan**: This projection assumes the Committee on Information Technology (COIT) funding allocation of $8.0 million in FY 2013-14 will increase by 10.0 percent per year over the next five years. It also assumes the use of one-time General Fund monies to fund IT needs at the new SF General Hospital and the Public Safety Building. It does not assume funding for any other major IT investments identified in the Five-Year Information & Communication Technology (ICT) Plan.

- **In-Home Supportive Services Maintenance of Effort.** Statutory changes adopted through the 2012 State budget process will significantly modify the governance structure and financing of the In-Home Supportive Services (IHSS) program over the next five years. Effective FY 2012-13, the State has established an IHSS Maintenance of Effort (MOE) with the City and County of San Francisco. The MOE increases by 3.5 percent each year beginning on July 1, 2014, and the State will be responsible for covering costs that exceed the MOE amount. As a result of this agreement, this Plan assumes initial General Fund savings in the Human Services Agency's Aid budget of $5.0 million in FY 2013-14, and subsequent cost increases in this program at a rate of 3.5 percent.

- **Rainy Day Reserve withdrawals**. This Plan assumes the City will not be eligible to withdraw from the Rainy Day Economic Stabilization Reserve in any of the five years of this Financial Plan, nor will the City be required to deposit into the reserve based on forecasted revenues. However, the City estimates that the San Francisco Unified School District (SFUSD) will continue to withdraw its maximum 25.0 percent of the Rainy Day Reserve in each of the five years due to declining inflation-adjusted per-pupil revenues. This assumption may change pending further analysis and adoption of the Governor's proposed budget, which does plan to increase funding to schools.

- **Effect of Redevelopment dissolution.** The dissolution of Redevelopment Agencies became effective February 1, 2012 after the California Supreme Court upheld Assembly Bill 26 (First Extended Session), originally passed at the end of June 2011. The State enacted AB 1484 in June 2012 to clarify implementation details of AB 126. AB 1484 requires the State Department of Finance (DOF) to approve the use of Real Property Tax Trust Fund expenditures to fulfill enforceable obligations of the former Redevelopment Agency. AB 1484 also required the Successor Agency to undergo a housing and non-housing due diligence review of its cash and assets to determine whether any funds should be distributed to the county's taxing entities. DOF has not yet made final determinations on those Due Diligence Reviews. It is possible the State will require a portion of the Agency's fund balances be surrendered and distributed to the county's affected taxing entities.

  The City and the Successor Agency continue to work with the State on these matters. Since the passage of AB 1484, the Successor Agency has received a final and conclusive determination from the DOF that particular obligations are enforceable obligations, and the Successor Agency is actively working with DOF to review the remaining obligations. This document assumes the Successor Agency is able to spend Real Property Tax Trust Fund monies in accordance with its enforceable obligations, retain fund balances from the Low and Moderate Income Housing Fund, and draw tax increment for enforceable housing obligations at a level consistent with past practices. Until these major issues are resolved, the impact of the dissolution on the General Fund cannot be completely determined.

- **34th America's Cup.** The scope of this project is smaller than initially anticipated, but the event is still expected to produce financial benefits to the City and bring about infrastructure improvements on the City's waterfront. The City continues to carefully manage expenses related to the event. Event-related increased tax revenues, combined with fundraising to cover event expenses, are intended to reduce or eliminate potential impact on the City's General Fund.

- **Candlestick Park rental revenues.** This report assumes the 2013 football season will be the last that the San Francisco Forty Niners will spend at Candlestick Park. If this occurs, the City will experience a loss of rent and admission tax revenue at the Recreation and Parks Department of $6.4 million per year starting in FY 2014-15. The team will pay the Department $3.3 million in FY 2014-15 as compensation and $0.5 million in FY 2014-15 and FY 2015-16 to support youth recreation programming. This Financial Plan also assumes a reduction in on-going stadium expenditures in materials and supplies, contracting costs, and cleaning services totaling $2.3 million starting in FY 2014-15, which partially offsets this revenue loss.

- **Department of Public Health.** The Department of Public Health is projected to have significant costs above and beyond those included in citywide assumptions due to the implementation of Federal Health Care Reform, the opening of the new SF General Hospital, and correcting a historical budget shortfall. This plan projects that without operational changes, the Department will need an increase of $141.9 million to its General Fund subsidy in FY 2013-14, $69.7 million in FY 2014-15, $17.1 million in FY 2015-16, $13.7 million in FY 2016-17, and $48.8 million in FY 2017-18.

- **Housing Trust Fund.** This Plan assumes the implementation of the Housing Trust Fund, a new set-aside, which was passed by voters in November of 2012. To implement this initiative, this Plan assumes a cost of $20.0 million dollars in the first year, followed by an additional $2.8 million each of the remaining four years.

- **Police and Fire multi-year hiring plans.** Over the next five years, the Plan assumes there will be one Fire Academy class and three Police Academy classes each year.

- **Annualization of supplementals.** In FY 2012-13, the Board of Supervisors approved mid-year supplemental appropriations to fund domestic violence prevention and prosecution funding, and also to backfill State reductions in health and human services. In addition, it is anticipated there will be an appropriation of a mid-year supplemental for the Department of Public Health. This report assumes the costs of these current year supplemental appropriations will be funded in future years for all costs that are projected as on-going.

KEY FACTORS THAT COULD AFFECT THESE FORECASTS

As with all projections, uncertainties exist regarding key factors that could affect the City's financial condition. These include:

- **Outcome of State and federal budget-balancing efforts and pending litigation.** When this Plan is published, the City will not yet know the outcome of State and federal budget deliberations and, in particular, the timing of pending litigation related to prior-year State reductions to In-Home Supportive Services and the impact of federal sequestration.

- **Pace of local economic recovery.** This Plan assumes continued recovery in tax revenues from the improvements experienced since FY 2011-12. However, continued economic progress will depend heavily on job growth and changes in business activity and tourism over the next five years. This Plan does not assume any economic downturns or large changes in macroeconomic conditions; however, the

City has historically not experienced more than six consecutive years of expansion, and therefore the final two years of this Plan contain slower rates of revenue growth.

- **Collective bargaining agreement negotiations.** Other than approved wage increases in collective bargaining agreements and CPI on open contracts, this report does not assume any contract changes due to labor negotiations with unions. Actual wage or benefit increase costs greater than these assumptions would increase the projected shortfall, while lower actual increases would reduce it.

- **Affordable Care Act implementation**. The Department of Public Health, along with other affected City agencies, is currently planning for the implementation of Federal Health Care Reform, known as the Affordable Care Act. Although there are some assumptions in the Department of Public Health budget to fund initiatives to prepare for health care reform, this massive legislative change is largely not included in the base case projections. At the time of this Plan, it is still unclear how the Affordable Care Act will affect the City's budget.

Table 4, and the remainder of this section, will explain revenue and expenditure changes in the citywide deficit in detail. First, revenue changes will be discussed, then expenditures changes, including: changes to baselines and reserves; salary and benefit costs; citywide operating costs; and department specific changes.

Table 4: Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2014-18
($ in millions)

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
SOURCES Increase / (Decrease)					
General Fund Taxes, Revenues and Transfers net of items below	198.1	114.5	94.6	68.9	93.8
Change in Use of One-Time Sources	13.8	(24.0)	(86.6)	-	-
Department of Public Health Revenues	10.8	16.9	24.7	23.8	23.7
Other General Fund Supported	1.0	(2.2)	1.8	2.0	2.0
TOTAL CHANGES TO SOURCES	**223.7**	**105.2**	**34.5**	**94.7**	**119.4**
USES Decrease / (Increase)					
Baselines and Reserves					
Public Education Enrichment Fund Annual Contribution	(23.3)	(3.4)	(2.7)	(1.9)	(2.7)
Housing Trust Fund	(20.0)	(2.8)	(2.8)	(2.8)	(2.8)
All Other Baselines and Set-Asides	(26.0)	(14.8)	(12.4)	(9.0)	(10.6)
Contributions to Reserves	(35.1)	32.7	15.6	(0.7)	7.8
Subtotal Baselines and Reserves	**(104.4)**	**11.7**	**(2.3)**	**(14.4)**	**(8.3)**
Salaries & Benefits					
Annualization of Partial Year Positions	(10.9)	(0.5)	-	-	-
Projected Costs of Closed Labor Agreements	(34.0)	(22.7)	-	-	-
Projected Costs of Open Labor Agreements	-	-	(68.3)	(65.9)	(65.0)
Health & Dental Benefits - Current Employees	(11.1)	(13.7)	(14.4)	(15.2)	(16.1)
Health & Dental Benefits - Retired Employees	(9.1)	(10.3)	(10.7)	(11.7)	(12.7)
Retirement Benefits - Employer Contribution Rates	(49.7)	(46.6)	17.1	14.5	4.7
Other Misc. Costs (Unemployment Insurance & Work Days/Year)	(2.8)	(0.2)	(7.5)	3.4	0.6
Subtotal Salaries & Benefits	**(117.7)**	**(93.9)**	**(83.8)**	**(75.0)**	**(88.6)**
Citywide Operating Budget Costs					
Capital, Equipment, & Technology	9.4	(76.9)	(9.2)	(28.0)	(13.8)
Inflation on non-personnel costs and grants to non-profits	-	(33.0)	(33.0)	(31.8)	(31.6)
Debt Service & Lease Financings	(5.1)	(5.7)	(10.4)	(2.1)	(3.9)
Workers' Compensation	(1.3)	(1.8)	(1.9)	(2.0)	(2.1)
Other Citywide Costs	(6.9)	(8.9)	5.7	(1.2)	(2.3)
Subtotal Citywide Operating Budget Costs	**(3.9)**	**(126.3)**	**(48.8)**	**(65.1)**	**(53.7)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	(2.2)	(2.2)	(0.4)	-	-
Elections - Number of Scheduled Elections	(5.0)	3.9	(4.6)	4.6	(1.0)
Ethics Commission - Public Financing of Elections	(2.0)	(2.0)	(0.6)	1.3	(0.3)
Fire and Police - Opening of the Public Safety Building	(16.1)	5.2	0.2	(0.6)	(0.5)
Fire and Police - Multi-Year Hiring Plans	(0.7)	(0.1)	(10.3)	(10.9)	(8.5)
Mayor's Office of Housing - HOPE SF and Affordable Housing	(3.1)	(2.2)	0.8	(2.2)	-
Human Services Agency - Aid	8.0	(3.4)	(2.8)	(2.4)	(2.0)
Public Health - SFGH Rebuild on-going and one-time FF&E costs	(40.0)	(25.0)	15.0	23.8	(1.3)
Public Health - Annualization of Anticipated Supplemental	(37.6)	(2.2)	(2.4)	(2.5)	(2.7)
Public Health - Inflationary, Regulatory, and Other	(25.3)	(3.1)	(5.2)	(8.2)	(16.3)
Recreation and Parks - Candlestick Park Closure	-	(0.4)	(3.3)	(0.5)	-
Treasurer-Tax Collector - Gross Receipts Tax Implementation	(4.9)	(2.9)	2.0	1.0	1.0
Annualization of Supplementals	(7.8)	(0.1)	1.5	-	-
All Other Departmental Savings / (Costs)	15.4	5.4	(1.1)	1.0	(1.1)
Subtotal Departmental Costs	**(121.3)**	**(29.2)**	**(11.2)**	**4.2**	**(32.8)**
TOTAL CHANGES TO USES	**(347.3)**	**(237.6)**	**(146.2)**	**(150.2)**	**(183.4)**
Projected Surplus (Shortfall) vs. Prior Year	**(123.6)**	**(132.5)**	**(111.7)**	**(55.5)**	**(64.0)**
Cumulative Projected Surplus (Shortfall)	**(123.6)**	**(256.1)**	**(367.7)**	**(423.2)**	**(487.2)**

DETAIL OF BASE CASE CITYWIDE REVENUE PROJECTIONS

The projections outlined in this section highlight changes in the City's revenues over the next five years. More detail on the main revenues driving these changes is provided below.

GENERAL FUND TAXES, REVENUES & TRANSFERS

These projections assume continued modest growth in tax revenues during the next five years. With the exception of property tax revenues, which did not decline during the last recession, local tax revenues bottomed out in FY 2008-09 or FY 2009-10, and returned to pre-recessionary levels by FY 2011-12, one to two years earlier than projected at the start of the recovery.

The pace of revenue growth during the projection period will depend heavily on job growth, which will be moderated by federal spending cuts and tax increases aimed at reducing the federal deficit. Despite thirteen consecutive quarters of national economic expansion through the third quarter of 2012, national unemployment rates remain relatively high, an indicator of the weakness of the recovery. California has recovered faster than the nation, and the Bay Area has recovered faster than the rest of the State, bolstered by rapid growth in high value-added sectors such as technology, information, research and development, and real estate. Tech and tourism are projected to continue to grow faster locally than nationally, while professional and financial services growth is projected to follow national trends.

In the near term, strong housing prices, consumer credit, tourism, job growth and demand for real estate in global gateway cities will support growth in tax revenues. Projected rates of revenue growth are slightly lower in the final two years of this Plan to reflect the risk of a downturn. Although San Francisco enjoyed ten consecutive years of employment growth in the 1970s and eight years in the 1980s, since 1990, the longest periods of expansion have been six and four years, suggesting the risk of a slowdown in FY 2015-16. General Fund taxes, revenues and transfers are projected to increase by $577.5 million over the next five years. These projections exclude certain revenue changes that have offsetting expenditure changes. This Plan projects continued moderate economic growth with stronger growth reflected in the first two years from strong commercial and residential real estate markets, steady tourism and job growth. The later years of the Plan include slower rates of growth to reflect the risk of a downturn. Below are details on specific revenue streams included in the General Fund Taxes, Revenues and Transfers line of Table 4**:**

- **Property tax:** The base case projections assume increases in assessed valuation of at least 4.0 percent annually. Half of this growth comes from the assumption of 2.0 percent California CPI increases in each fiscal year, and the other half comes from assuming roll growth above inflation realized in FY 2012-13. In addition, the sale values of high-value commercial properties (those with market values above $20 million) are assumed to be enrolled within two years of sale, increasing the tax base by $1.3 billion in FY 2013-14 and $2.1 billion in FY 2014-15, and current construction is anticipated to add approximately $1.0 billion to assessed values in both FY 2014-15 and FY 2015-16. This projection takes into account other factors affecting property tax revenues, including reserving funds for assessment appeals. For this report, the General Fund share of property tax revenue is projected to increase from $1.1 billion in FY 2013-14 to $1.4 billion in FY 2017-18. One source of uncertainty in these projections is State decisions regarding the use of tax increment in redevelopment project areas after the dissolution of redevelopment agencies. The State may or may not allow the Successor Agency to retain cash balances and issue bonds to meet contractual obligations for affordable housing and infrastructure improvements.

- **Payroll and business tax**: Private payroll is expected to grow at an average rate of approximately 5.5 percent in 2013 through 2015, reflecting real growth above inflation, and 3.0 percent per year thereafter, indicating inflationary growth only. San Francisco was late to enter the last recession and early to exit, due partly to lower dependence on housing sector jobs, strong recovery in tourism, and a concentration of high wage technical and scientific employment.

- **Local sales taxes:** Local sales tax revenues exceeded their pre-recessionary peak in FY 2011-12 and are projected to grow just slightly above inflation in the first three years of the Plan. Federal deficit reduction actions will moderate growth in consumption through the expiration of the payroll tax holiday and a possible reduction in the number of federal government employees in San Francisco. Growth equal to inflation, or approximately 3.0 percent, is projected for the final two years of the period.

- **Hotel taxes:** Hotel tax receipts also exceeded their prior peak in FY 2011-12 due to a rapid recovery in occupancy rates and recent historically high room rates. Room rates are projected to plateau in the near term, and total revenue is projected to increase with inflation in the last three years of the period, reflecting continued moderate growth in employment and airport landings and no change in room supply.

- **Real property transfer tax:** Strong demand from institutional investors and owner-users for San Francisco real estate across all property types (office, hotel, retail and residential) in the current year is projected to continue during the first two years of the Plan due to the continued strength of market fundamentals, such as strong tenant demand, rental and occupancy rates, the relative attractiveness of San Francisco real estate compared to other investment options worldwide, and no known changes in federal interest rate policy through 2015. Revenue in the final three years is projected to step down as investors hold properties purchased at low cap rates, a loss not entirely offset by increased residential prices and transactions, and the likelihood of interest rate increases.

- **State and federal revenues:** Revenues from State sales taxes that are allocated to local governments for public safety, health, and social services are projected to grow at 3.0 percent, or at projected inflation, throughout the period. Recovery at the State will be slower than that experienced locally. Consumer spending will be moderated as employment in the State as a whole is more vulnerable to federal defense spending cuts, and recent job growth has been concentrated in lower wage industries like construction.

Table 5 provides greater detail on the revenue assumptions.

Table 5: General Fund Revenue Actuals and Projections FY 2012-18 ($ millions)

	FY 11-12 Year-End Actuals	FY 12-13 Original Budget	FY 12-13 6-Month Projection	FY 13-14 Projection	FY 14-15 Projection	FY 15-16 Projection	FY 16-17 Projection	FY 17-18 Projection
Property Taxes	$ 1,059.2	$ 1,078.1	$ 1,092.0	$ 1,139.0	$ 1,211.0	$ 1,275.0	$ 1,333.0	$ 1,390.0
Business Taxes	435.3	452.8	460.5	513.6	543.8	570.5	584.8	600.4
Sales Tax	117.1	121.7	121.9	126.9	132.0	137.3	141.4	145.6
Hotel Room Tax	188.7	194.0	198.3	212.1	224.2	236.6	243.9	251.5
Utility Users Tax	91.7	91.9	93.7	95.6	97.5	99.4	101.4	103.4
Parking Tax	76.6	76.5	80.0	82.0	84.5	87.0	88.8	89.6
Real Property Transfer Tax	233.6	203.5	224.7	225.0	225.0	200.0	175.0	175.0
Stadium Admission Tax	2.6	2.7	2.7	2.8	2.8	2.9	2.9	2.9
Access Line Tax	41.0	43.0	40.3	40.7	41.1	41.5	41.9	42.4
Subtotal - Local Tax Revenues	**2,245.8**	**2,264.2**	**2,314.2**	**2,437.7**	**2,561.9**	**2,650.2**	**2,713.1**	**2,800.8**
Licenses, Permits & Franchises	25.0	25.3	25.6	25.6	25.7	25.9	25.9	25.9
Fines, Forfeitures & Penalties	8.4	7.2	7.2	7.1	7.1	7.1	7.1	7.1
Interest & Investment Income	10.5	6.8	10.5	10.7	10.8	11.0	11.2	11.4
Rents & Concessions	26.7	21.4	25.2	21.0	21.2	21.5	21.5	21.5
Subtotal - Licenses, Fines, Interest, Rent	**70.6**	**60.7**	**68.4**	**64.4**	**64.8**	**65.5**	**65.7**	**66.0**
Social Service Subventions	183.8	196.7	197.6	197.4	197.4	197.4	197.4	197.4
Other Grants & Subventions	12.5	2.1	3.3	12.8	2.8	2.8	2.8	2.8
Subtotal - Federal Subventions	**196.4**	**198.8**	**200.8**	**210.3**	**200.3**	**200.3**	**200.3**	**200.3**
Social Service Subventions	97.8	125.2	129.3	126.3	126.3	126.3	126.3	126.3
Health & Welfare Realignment - Sales Tax	111.9	112.2	126.2	135.2	138.2	141.2	144.2	147.2
Health & Welfare Realignment - VLF	28.1	38.6	38.6	27.4	27.4	27.4	27.4	27.4
Health & Welfare Realignment - CalWORKs MOE	25.5	25.6	25.6	25.5	25.5	25.5	25.5	25.5
Health/Mental Health Subventions	73.9	106.0	96.1	91.7	91.7	91.7	91.7	91.7
Public Safety Sales Tax	76.6	79.0	81.2	85.2	88.2	90.9	93.6	96.4
Motor Vehicle In-Lieu (County & City)	0.8	-	0.8	-	-	-	-	-
Other Grants & Subventions	64.2	29.7	29.8	30.5	30.5	30.5	30.5	30.5
Preliminary State Budget Assumption	-	(15.0)	(15.0)	-	-	-	-	-
Subtotal - State Subventions	**478.6**	**501.3**	**512.7**	**521.8**	**527.8**	**533.5**	**539.2**	**545.0**
General Government Service Charges	37.0	37.6	43.0	39.0	39.4	39.8	39.8	39.8
Public Safety Service Charges	23.5	24.2	23.2	25.3	25.5	25.8	25.8	25.8
Recreation Charges - Rec/Park	13.4	13.1	13.1	13.6	13.7	13.8	13.8	13.8
MediCal, MediCare & Health Svc. Chgs.	49.3	65.4	57.5	67.5	68.2	68.8	68.8	68.8
Other Service Charges	11.6	14.3	14.8	14.3	14.5	14.6	14.6	14.6
Subtotal - Charges for Services	**134.8**	**154.7**	**151.7**	**159.7**	**161.3**	**162.9**	**162.9**	**162.9**
Recovery of General Government Costs	11.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1
Other General Fund Revenues	15.5	18.3	20.7	22.3	6.2	6.2	6.2	6.2
TOTAL REVENUES	**3,152.8**	**3,210.1**	**3,280.5**	**3,428.2**	**3,534.3**	**3,630.6**	**3,699.5**	**3,793.2**
Transfers in to General Fund								
Airport	34.0	34.9	36.2	36.9	37.7	38.3	39.1	39.9
Other Transfers	83.6	121.1	121.7	120.1	120.1	120.1	120.1	120.1
Total Transfers-In	**117.6**	**156.0**	**157.9**	**157.0**	**157.8**	**158.4**	**159.2**	**160.0**
TOTAL GF Revenues and Transfers-In	**3,270.4**	**3,366.1**	**3,438.4**	**3,585.2**	**3,692.1**	**3,789.0**	**3,858.7**	**3,953.2**

Table 6 shows the percent change in General Fund revenues projected over the next five years.

Table 6: Percent Changes in General Fund Revenue Projections FY 2014-18

	FY 13-14 % Chg from FY 12-13 Original Budget	FY 14-15 % Chg from FY 13-14 Five Year Projection	FY 15-16 % Chg from FY 14-15 Five Year Projection	FY 16-17 % Chg from FY 15-16 Five Year Projection	FY 17-18 % Chg from FY 17-18 Five Year Projection
Property Taxes	5.7%	6.3%	5.3%	4.5%	4.3%
Business Taxes	13.4%	5.9%	4.9%	2.5%	2.7%
Sales Tax	4.3%	4.0%	4.0%	3.0%	3.0%
Hotel Room Tax	9.4%	5.7%	5.5%	3.1%	3.1%
Utility Users Tax	4.0%	2.0%	2.0%	2.0%	2.0%
Parking Tax	7.2%	3.0%	3.0%	2.0%	1.0%
Real Property Transfer Tax	10.6%	0.0%	-11.1%	-12.5%	0.0%
Stadium Admission Tax	2.0%	2.0%	2.0%	0.0%	0.0%
Access Line Tax	-5.3%	1.0%	1.0%	1.0%	1.0%
Subtotal - Tax Revenues	**7.7%**	**5.1%**	**3.4%**	**2.4%**	**3.2%**
Licenses, Permits & Franchises	1.0%	0.4%	1.0%	0.0%	0.0%
Fines, Forfeitures & Penalties	-0.6%	0.0%	0.0%	0.0%	0.0%
Interest & Investment Income	57.8%	0.6%	2.0%	2.0%	2.0%
Rents & Concessions	-2.1%	1.3%	1.1%	0.0%	0.0%
Subtotal - Licenses, Fines, Interest, Rent	**6.0%**	**0.7%**	**1.1%**	**0.3%**	**0.3%**
Social Service Subventions	0.3%	0.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	512.2%	-77.8%	0.0%	0.0%	0.0%
Subtotal - Federal Subventions	**5.7%**	**-4.8%**	**0.0%**	**0.0%**	**0.0%**
Social Service Subventions	0.9%	0.0%	0.0%	0.0%	0.0%
Health & Welfare Realignment - Sales Tax	20.5%	2.2%	2.2%	2.1%	2.1%
Health & Welfare Realignment - VLF	-29.1%	0.0%	0.0%	0.0%	0.0%
Health & Welfare Realignment - CalWORKs MOE	-0.5%	0.0%	0.0%	0.0%	0.0%
Health/Mental Health Subventions	-13.4%	0.0%	0.0%	0.0%	0.0%
Public Safety Sales Tax	7.9%	3.5%	3.0%	3.0%	3.0%
Motor Vehicle In-Lieu (County & City)	0.0%	0.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	2.6%	0.0%	0.0%	0.0%	0.0%
Preliminary State Budget Assumption	-100.0%	0.0%	0.0%	0.0%	0.0%
Subtotal - State Subventions	**4.1%**	**1.1%**	**1.1%**	**1.1%**	**1.1%**
General Government Service Charges	3.7%	1.0%	1.0%	0.0%	0.0%
Public Safety Service Charges	4.6%	1.0%	1.0%	0.0%	0.0%
Recreation Charges - Rec/Park	3.4%	1.0%	1.0%	0.0%	0.0%
MediCal, MediCare & Health Svc. Chgs.	3.1%	1.0%	1.0%	0.0%	0.0%
Other Service Charges	0.1%	1.0%	1.0%	0.0%	0.0%
Subtotal - Charges for Services	**3.2%**	**1.0%**	**1.0%**	**0.0%**	**0.0%**
Recovery of General Government Costs	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Other Revenues	**22.1%**	**-72.2%**	**0.0%**	**0.0%**	**0.0%**
TOTAL REVENUES	**6.8%**	**3.1%**	**2.7%**	**1.9%**	**2.5%**
Transfers in to General Fund					
Airport	5.8%	2.1%	1.6%	2.1%	2.0%
Other Transfers	-0.8%	0.0%	0.0%	0.0%	0.0%
Total Transfers In	**0.7%**	**0.5%**	**0.4%**	**0.5%**	**0.5%**
TOTAL GF Revenues and Transfers-In	**6.5%**	**3.0%**	**2.6%**	**1.8%**	**2.4%**

CHANGE IN USE OF ONE-TIME SOURCES

The change in use of one-time sources consists of a combination of the change in use of starting fund balance, use of reserves, and other one-time sources as described below.

Change in Starting Fund Balances

This Plan assumes available fund balance, reported in the Controller's Six-Month Report to be $173.2 million, will be split evenly across the two upcoming budget years, resulting in a net loss in General Fund-supported starting fund balances of $13.5 million in FY 2013-14, $0 million in FY 2014-15, and a loss of $86.6 million in FY 2015-16.

Changes in Use of Reserves

The net change to use of reserves is estimated to be a gain of $2.3 million in FY 2013-14, followed by the loss of these sources in FY 2014-15 totaling $12.5 million. This Plan assumes the City's reserves will be reduced to the level adopted in the previous FY 2013-14 budget. Additional available balances can be used to support one-time expenditures in future years depending on need and qualifications. Reserve uses assumed in this Plan are:

- **Recreation & Parks Budget Savings Incentive Reserve:** The FY 2013-14 budget used $1.9 million of the Recreation & Parks Budget Savings Incentive Reserve to support one-time capital expenditures in the Recreation and Parks Department.

- **Budget Savings Incentive Fund**: The Citywide Budget Savings Incentive Fund receives 25 percent of year-end departmental expenditure savings to be available for one-time expenditures. The FY 2013-14 budget used $9.9 million to support one-time capital and IT expenditures.

- **Rainy Day Economic Stabilization Reserve:** This Plan assumes the City will not be eligible to withdraw from the Rainy Day Economic Stabilization Reserve in any of the five years of this Financial Plan, nor will the City be required to deposit into the reserve based on forecasted revenues. However, the City estimates that the San Francisco Unified School District (SFUSD) will continue to withdraw its maximum 25.0 percent of the Rainy Day Economic Stabilization Reserve in each of the five years due to declining inflation-adjusted per-pupil revenues.

- **Rainy Day One-Time Reserve:** No deposits or uses are projected for the Rainy Day One-Time Reserve in the five-year period.

State Revenue Loss Reserve

Due to an improved outlook at the State, the City is no longer anticipating a reserve for State budget cuts as has been the practice in recent years. This is consistent with the adopted FY 2013-14 budget.

Other One-Time Sources

Other one time sources include a litigation payment to the Department of Public Works; retroactive payment of medical ambulance reimbursements to the Fire Department; and the expiration of Consumer Protection revenues at the City Attorney's Office pending review of their pilot project.

PUBLIC HEALTH REVENUES

The Department of Public Health projects no change to revenues from the adopted FY 2013-14 budget and is projecting increases equivalent to CPI on patient revenues beginning in FY 2014-15.

OTHER GENERAL FUND-SUPPORTED REVENUES

This category captures other small incremental changes in each year of this Plan.

DETAIL OF BASE CASE CITYWIDE EXPENSE PROJECTIONS

USES – BASELINES & RESERVES

Various code and Charter provisions govern the establishment and use of reserves and required contributions through baselines. The projections outlined in in this section anticipate required deposits into several of those reserves and growth in baselines.

The City's current baselines include:

- **Public Education Enrichment Fund Annual Contribution**: The Public Education Enrichment Fund (PEEF) contribution is projected to be fully funded in FY 2013-14. The charter allows for the contribution to be decreased by 25 percent in budget years when the budgetary deficit is projected to be $100 million or more. In previous years, this contribution has been funded at the lower level. Increasing to the full contribution level represents a $23.3 million increase in FY 2013-14 followed by contributions increasing by the percentage increase in the City's aggregate discretionary revenue in FY 2014-15 through FY 2017-18. This set-aside expires at the end of FY 2013-14; however, this Plan assumes that it will be renewed, and that the contribution will continue to grow at the rate of growth of discretionary revenues.

- **Housing Trust Fund:** In November of 2012, San Francisco voters passed Proposition C, which establishes a Housing Trust Fund to provide a 30-year source of local revenue to support housing creation and preservation. The City will contribute $20.0 million to the fund in FY 2013-14, and increase the annual contribution by $2.8 million each year until the contribution reaches $50.8 million in 2024. After 2024, the City will contribute an annual amount based on $50.8 million, adjusted for changes in the City's General Fund revenues. The Housing Trust Fund expires automatically after 30 years.

- **Other Baseline and Mandate Requirements:** The Charter specifies baseline-funding levels for various programs or functions, including the Municipal Transportation Agency (Muni and Parking & Traffic), the Public Library, Public Education, Children's Services, the Human Services Care Fund, and the City Services Auditor. Baseline amounts are generally linked to changes in discretionary City revenues, though some are a function of citywide expenditures or base-year program expenditure levels.

Table 7 shows the City's projected baseline contribution and the change from the prior year over the next five years; it also shows FY 2012-13 budgeted contributions for the City's baselines.

Table 7: Projected Baselines and Mandated Expenditures FY 2013-18 ($ millions)

Total Contribution	**FY 12-13**	**FY 13-14**	**FY 14-15**	**FY 15-16**	**FY 16-17**	**FY 17-18**
Public Education Enrichment Fund	53.7	77.1	80.4	83.1	85.1	87.8
Housing Trust Fund	-	20.0	22.8	25.6	28.4	31.2
Municipal Transportation Baseline	212.9	229.7	239.6	247.6	253.4	261.5
MTA Transfer In-Lieu of Parking Tax	61.2	65.6	67.6	69.6	71.0	71.1
Library Preservation Baseline	53.0	57.1	59.6	61.6	63.0	65.0
Controller- City Services Auditor	12.4	12.9	13.3	13.6	13.9	14.3
Municipal Symphony Baseline	2.0	2.1	2.2	2.3	2.4	2.4
	395.2	**464.6**	**485.5**	**503.4**	**517.1**	**533.3**
Change from Prior Year		**FY 13-14**	**FY 14-15**	**FY 15-16**	**FY 16-17**	**FY 17-18**
Public Education Enrichment Fund		(23.3)	(3.4)	(2.7)	(1.9)	(2.7)
Housing Trust Fund		(20.0)	(2.8)	(2.8)	(2.8)	(2.8)
Municipal Transportation Baseline		(16.8)	(9.9)	(8.1)	(5.8)	(8.1)
MTA Transfer In-Lieu of Parking Tax		(4.4)	(2.0)	(2.0)	(1.4)	(0.1)
Library Preservation Baseline		(4.2)	(2.4)	(2.0)	(1.4)	(2.0)
Controller- City Services Auditor		(0.5)	(0.4)	(0.3)	(0.3)	(0.4)
Municipal Symphony Baseline		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
		(69.3)	**(20.9)**	**(17.9)**	**(13.7)**	**(16.2)**

The City's reserves include:

- **General Fund Reserve:** Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this Plan anticipates the General Reserve rising to 2 percent of Aggregate Discretionary General Fund Revenues in FY 2016-17. This Plan also assumes that the entire current reserve balance of $32.2 million will be spent in FY 2012-13, requiring a deposit of the full amount of $42.9 million in FY 2013-14. Beginning in FY 2013-14, unspent monies at the end of each fiscal year will be carried forward to the subsequent year.

- **Budget Stabilization Reserve**: Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this Plan anticipates a deposit of $17.4 million into the Budget Stabilization Reserve in FY 2013-14 and $16.7 million in FY 2014-15, due to projected Real Property Transfer Tax revenues above the average of the previous five years. No deposits are projected during the final three years of the Plan.

- **Salary and Benefits Reserve:** In each of the next five years, this Plan projects increasing the Salary and Benefits Reserve by CPI from the $13.1 million level appropriated in the FY 2013-14 budget to support costs related to labor agreements not budgeted in individual departments.

- **Litigation Reserve**: In each of the next five years, this Plan projects increasing the Litigation Reserve by CPI from the $11.0 million level appropriated in the FY 2013-14 budget to support annual City liabilities related to claims, settlements and judgments.

Table 8 outlines the projected uses, deposits, and balances of all reserves discussed above and in the Sources section of this Plan.

Table 8: Projected Uses, Deposits & Balances of Reserves FY 2013-18 ($ in millions)

		FY 13-14 (Deposit)/ Use	FY 14-15 (Deposit)/ Use	FY 15-16 (Deposit)/ Use	FY 16-17 (Deposit)/ Use	FY 17-18 (Deposit)/ Use
General Fund Reserve		(42.9)	(10.2)	(10.5)	(10.5)	(1.9)
Budget Savings Incentive Fund		9.9	-	-	-	-
Recreation & Parks Budget Savings Incentive Reserve		1.9	-	-	-	-
Rainy Day Economic Stablilization Reserve		5.8	4.4	3.3	2.5	1.8
Rainy Day One-Time Reserve		-	-	-	-	-
Budget Stabilization Reserve		(17.4)	(16.7)	-	-	-
Salary and Benefits Reserve		(13.1)	(13.5)	(13.9)	(14.3)	(14.7)
Litigation Reserve		(11.0)	(11.3)	(11.7)	(12.0)	(12.4)
	Projected FY 12-13 Ending Balance	**FY 13-14 Ending Balance**	**FY 14-15 Ending Balance**	**FY 15-16 Ending Balance**	**FY 16-17 Ending Balance**	**FY 17-18 Ending Balance**
General Fund Reserve	-	42.9	53.0	63.5	74.0	75.9
Budget Savings Incentive Fund	19.0	9.1	9.1	9.1	9.1	9.1
Recreation & Parks Budget Savings Incentive Reserve	7.0	5.1	5.1	5.1	5.1	5.1
Rainy Day Economic Stablilization Reserve	23.3	17.5	13.1	9.8	7.4	5.5
Rainy Day One-Time Reserve	3.0	3.0	3.0	3.0	3.0	3.0
Budget Stabilization Reserve	94.9	112.3	129.0	129.0	129.0	129.0
Salary and Benefits Reserve*	-	-	-	-	-	-
Litigation Reserve*	-	-	-	-	-	-
TOTAL	**147.2**	**189.8**	**212.3**	**219.5**	**227.5**	**227.6**

** These reserves are assumed to either be spent or closed to fund balance at the end of each fiscal year.*

USES – SALARIES & BENEFITS

This Plan projects General Fund-supported salaries and fringe benefit costs to increase by $458.9 million over the next five years. These increases reflect the annualization of partial year positions approved in the current fiscal year, provisions in collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs, as shown in Table 4.

Annualization of Partial Year Positions

In FY 2013-14, the City is projected to incur $10.9 million in additional costs to annualize positions funded for only a partial year in the FY 2012-13 budget, and an additional $0.5 million in FY 2014-15 for positions already approved to begin mid-year in FY 2013-14.

Projected Costs of Closed Labor Agreements

The additional salary and benefit costs of closed labor agreements are projected to be $34.0 million for FY 2013-14 and $22.7 million in FY 2014-15. These costs include agreed-upon wage increases of 3.0 percent during FY 2013-14 and annualization in FY 2014-15 for most City employees. Most of the City's current labor agreements end on June 30, 2014.

Projected Costs of Open Labor Agreements

These projections assume no additional raises in FY 2014-15 (although the projections do incorporate a cost increase in that year due to the annualization of prior agreed-upon raises). Beginning in FY 2015-16, the Plan assumes that bargaining units receive salary increases equivalent to the change in the Consumer Price Index (CPI) of 3.1 percent, 2.9 percent, and 2.8 percent in the final three years of the Plan. The additional salary and benefit costs for open collective bargaining agreements are projected to be $68.3 million in FY 2015-16, $65.9 million in FY 2016-17, and $65.0 million in FY 2017-18.

Health and Dental Benefits for Current Employees

In August 2012, the Board of Supervisors adopted Health Plan rates for calendar year 2013, or the first half of the budget year. According to the new calendar year schedule for negotiating rates, the Health Service System anticipates negotiating rates for calendar year 2014 to be adopted in late summer of 2013. Based on historical averages, these projections assume approximately 6.0 percent rate increases on health and dental in each of the years of this Plan. Given these assumptions, health and dental insurance premium costs related to current employees are projected to increase by $11.1 million in FY 2013-14, $13.7 million in FY 2014-15, $14.4 million in FY 2015-16, $15.2 million in FY 2016-17, and $16.1 million in FY 2017-18. The changing landscape in the provision of health care in the City and the County presents many challenges in projecting future year rates, including: the implementation of a new cost-sharing model for medically single employees and migratory effects of that change scheduled to begin for most miscellaneous employees in January of 2014; the expected positive results of shifting Blue Shield from a fully-insured plan to a flex-funded plan; the results of building accountable care organizations within the Blue Shield Plan; and the impact of various fees and taxes that are expected to be levied on employer-based health plans as part of the implementation of the Affordable Care Act.

Health and Dental Benefits for Retired Employees

Charter Section A8.428 mandates health coverage for retired City employees. The cost of medical benefits for retirees is projected to increase by $9.1 million, $10.3 million, $10.7 million, $11.7 million, and $12.7 million in FY 2013-14, FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively. Not included in these figures is the City's unfunded liability for the benefits accruing to current employees, which was estimated at approximately $4.4 billion as of July 1, 2010. Proposition B, passed by voters in June of 2008, began to address this unfunded liability by requiring new employees, and the City, to pay 2 percent and 1 percent of their salaries respectively into a retiree health care trust fund. Proposition C, passed by voters in November of 2011, enhanced Proposition B's efforts by requiring all remaining employees and the employer to begin contributing to this fund beginning in FY 2016-17. Employees and the City each contribute 0.25 percent in the first year, increasing by 0.25 percent annually until reaching 1 percent in FY 2019-20.

Retirement Benefits – Employer Contribution Rates

Total retirement costs continue to increase due to investment losses in the San Francisco Employees' Retirement System (SFERS) and California Public Employees' Retirement System (CalPERS) during the 2008 recession. The SFERS Board also adopted a policy of lower projected earnings on retirement plan assets in December of 2011, decreasing estimated future investment returns from 7.75 percent to 7.5 percent. These factors are partially offset by reductions to the City's employer contribution rates due to the passage of Proposition C (November 2011), which requires the employee contribution rate to fluctuate depending on the employer contribution rate. The net result of these changes is an increase in total General Fund-supported employer contributions into SFERS and CalPERS of $49.7 million in FY 2013-14 and $46.6 million in FY 2014-15, followed by incremental cost decreases of $17.1 million in FY 2015-16, $14.5 million in FY 2016-17, and $4.7 million in FY 2017-18. These changes are comprised of contributions into CalPERS and SFERS as follows:

- **SFERS Contribution Rate Changes (Employer-Share):** Total employer-share contribution rates are projected to peak in FY 2014-15 at a rate of 28.8 percent of salaries before beginning a slow reduction to 26.3 percent in FY 2017-18. Required employer-share rates included in this projection are based on a projection scenario provided by the Cheiron consulting firm, which assumes that the pension fund achieves a 0.5 percent investment return in FY 2011-12 and achieves its target investment return in each subsequent year. These rates are assumed to be reduced by the floating employee contribution rates included in the recently enacted pension cost sharing provisions of the Charter, and by the increased employee contributions included in the amended labor agreements with the Police Officers Association and Firefighters Local 798.

- **CalPERS Contribution Rate Changes (Employer-Share):** The California Public Employees' Retirement System (CalPERS) has notified the City that the employer contribution rates for employees covered by CalPERS Safety will remain relatively flat from FY 2012-13 to FY 2013-14 at 21.6 percent. This Plan assumes that the rate of change in future years will follow the same pattern as SFERS, and projects a peak rate in FY 2014-15 of 24.5 percent, slowing to a slightly lower rate of 22.4 percent by FY 2017-18. In accordance with the Charter, which requires that the City achieve comparable savings from CalPERS members as SFERS members, this report assumes that these rates are reduced by floating employee contribution rates that apply to SFERS-Safety members.

Other Miscellaneous Salary and Fringe Benefit Cost Increases
Other miscellaneous salary and benefit cost changes are expected to be modest, with the biggest changes occurring due to the changing number of work days in a given fiscal year. Most fiscal years consist of 261 workdays for regularly scheduled shifts and 365 days for 24/7 operations. FY 2013-14 is a normal year; however, because FY 2012-13 contained 260 regularly scheduled workdays, the City experiences an increase in costs in FY 2013-14. The City will experience an increase in costs in FY 2015-16, which is a leap year and contains 366 days for 24/7 operations and 262 workdays for regularly scheduled shifts. FY 2017-18 again contains only 260 regularly scheduled workdays and the City expects to see savings in that year. Other salary and benefit changes include changes to costs for unemployment insurance, Long Term Disability, and any changes to the FICA income cap, as well as other small salary and fringe adjustments and MOU-related agreements.

USES – CITYWIDE OPERATING COSTS

Over the next five years, the City will also incur increasing non-salary costs. Citywide operating costs are projected to increase by $3.9 million in FY 2013-14, $126.3 million in FY 2014-15, $48.8 million in FY 2015-16, $65.1 million in FY 2016-17, and $53.7 million in FY 2017-18 as shown in Table 4. The impacts and costs associated with these increases span multiple departments and are described in more detail below.

Citywide – Capital, Equipment & Technology
Changes in funding for capital, equipment, and technology will result in a decrease in General Fund support of $9.4 million in FY 2013-14, an increase of $76.9 million in FY 2014-15, $9.2 million in FY 2015-16, $28.0 million in FY 2016-17, and $13.8 million in FY 2017-18. The FY 2013-14 capital budget represents a decrease in General Fund support of $11.7 from the prior year; this reflects the adopted FY 2013-14 budget, which did not include full funding of the capital plan. The FY 2014-23 Capital Plan projects General Fund capital costs to increase by $73.3 million in FY 2014-15, $8.2 million in FY 2015-16, $15.2 million in FY 2016-17, and $10.9 million in FY 2017-18. In addition to capital costs identified in the capital budget, the City is experiencing increasing operational, moving, and furniture, fixture and equipment costs (FF&E) associated with new and upgraded City facilities in the amounts of $0.2 million in FY 2013-14, $0.1 million in FY 2014-15, $0.1 million in FY 2015-16, $11.1 million in FY 2016-17, and $1.5 million in FY 2017-18. Other Department of Public Health and Public Safety Building (Police and Fire) related costs for expenses associated with large capital projects are broken out in the major service area of this Plan.

This Plan assumes $5.0 million for the cash purchase of equipment in FY 2013-14, which represents an increase of $1.4 million from the FY 2012-13 budget. This Plan assumes that General Fund funding for equipment will increase by CPI in FY 2014-15, FY 2015-16, FY 2016-17, and FY 2017-18. Technology investments are projected to increase by $0.6 million in FY 2013-14, $3.3 million in FY 2014-15, $0.8 million in FY 2015-16, $1.5 million in FY 2016-17, and $1.3 million in FY 2017-18.

Citywide – Inflation on Non-Personnel Costs and Grants to Non-Profit Contractors
Over the next five years, this projection assumes that the cost of materials and supplies, professional services, contracts with Community-Based Organizations and other non-personnel operating costs, will rise by Consumer Price Index (CPI) increases of 3.2 percent, 3.1 percent, 2.9 percent and 2.8 percent for FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively. The projection reflects the adopted FY 2013-14 budget spending levels in the first year of the Plan. This generates an increase in costs to the City of $33.0 million in FY 2014-15, $33.0 million in FY 2015-16, $31.8 million in FY 2016-17, and $31.6 million in FY 2017-18.

Citywide – Debt Service & Lease Financings
Over the next five years, total debt service and lease financing costs are projected to increase by $5.1 million in FY 2013-14, $5.7 million in FY 2014-15, $10.4 million in FY 2015-16, $2.1 million in FY 2016-17, and $3.9 million in FY 2017-18. These projections are based on current debt repayment requirements and projected debt service costs for investments anticipated in the Capital Plan, as well as an assumed lease-financing program for equipment purchases. These projections do not include debt service related to the Moscone Convention Center, which is reflected in the Convention Facilities Fund subsidy projection.

The increases over the next several years are primarily due to the repayment of Certificates of Participation (COPs) for the War Memorial Veterans Building seismic upgrade, HOPE SF, the Jail Replacement project, and the on-going citywide equipment lease-finance program.

Citywide – Workers' Compensation
Workers' compensation costs are projected to increase by $1.3 million in FY 2013-14, $1.8 million in FY 2014-15, $1.9 million in FY 2015-16, $2.0 in FY 2016-17, and $2.1 million in FY 2017-18. These projections are based on projected actual spending in FY 2012-13, known changes to State workers compensation requirements, and an assumed 5.0 percent medical inflation rate.

Other Citywide Costs
This category includes assumed costs of real estate transactions for the City's General Fund Departments; rate increases by the Public Utilities Commission (PUC) for electricity, natural gas and steam, sewer and water; cost of labor negotiations, which fluctuates depending on open labor agreements; and other minor changes. Over the next five years, several City departments will be required to move locations, resulting in greater General Fund costs both for relocation and for on-going rent increases due to the recovering real estate market. The Public Utilities Commission has set water and sewer rates through FY 2014-15, and will be conducting a rate study and proposing new rates for ensuing years. Based on current PUC projections, this Plan assumes an overall rate increase of approximately 8.0 percent in each year following FY 2014-15. These issues together generate an increase of costs to the General Fund of $6.9 million in FY 2013-14 and $8.9 million in FY 2014-15, an incremental decrease in costs of $5.7 million in FY 2015-16, and incremental increases in costs of $1.2 million in FY 2016-17 and $2.3 million in FY 2017-18.

USES – DEPARTMENTAL COSTS

This section provides a high-level overview of large departmental costs over the next five years. More details on departmental costs are provided in the major service area sections of this report.

City Administrator's Office – Convention Facilities Subsidy
This Plan assumes the Convention Facilities Fund will need a General Fund subsidy increase of $2.2 million in FY 2013-14, $2.2 million in FY 2014-15, and $0.4 million in FY 2015-16. These cost increases are due to lower than expected operating revenue at the facilities, and loss of one-time prior year fund balance.

Elections – Number of Scheduled Elections
The number of elections, and the associated costs for holding elections, varies annually. Currently, two elections are scheduled for FY 2013-14 (a November municipal election and a June State primary), one November gubernatorial election is projected for FY 2014-15, two elections are projected in FY 2015-16 (a municipal election and a June Presidential primary), one Presidential General Election in November 2016, and finally, one gubernatorial primary election in FY 2017-18. This schedule results in a projected incremental cost of $5.0 million in FY 2013-14, a savings of $3.9 million in FY 2014-15, a cost of $4.6 million in FY 2015-16, a savings of $4.6 million in FY 2016-17, and a cost of $1.0 million in FY 2017-18.

Ethics Commission – Public Financing of Elections
The Ethics Commission administers the Election Campaign Fund, which is projected to need an increasing General Fund subsidy of $2.0 million in FY 2013-14, $2.0 million FY 2014-15, and $0.6 million in FY 2015-16, followed by a decrease of $1.3 million in FY 2016-17, and a further increase of $0.3 million in FY 2017-18.

Fire and Police – Opening of the Public Safety Building
In addition to the project costs for the Public Safety Building and Fire Station 4 funded through the Earthquake Safety and Emergency Response bond, there are also associated operating, moving and furniture, fixture and equipment (FF&E) costs for these new projects. None of these costs are bond eligible therefore requiring General Fund support. Overall, these one-time and on-going costs require an increase in General Fund subsidy of $16.1 million in FY 2013-14, a decrease of $5.2 million in FY 2014-15 and $0.2 million in FY 2015-16, and additional increases of $0.6 million in FY 2016-17 and $0.5 million in FY 2017-18.

Fire and Police – Multi-Year Hiring Plans
Over the next five years, the Plan assumes there will be one Fire Academy class and three Police Academy classes each year. Implementation of these hiring plans will require an additional General Fund subsidy of $0.7 million in FY 2013-14, $0.1 million in FY 2014-15, $10.3 million FY 2015-16, $10.9 million in FY 2016-17, and $8.5 million in FY 2017-18.

Mayor's Office of Housing – HOPE SF and Affordable Housing
Over the next five years, costs related to HOPE SF and affordable housing will require an increase in General Fund support of $3.1 million in FY 2013-14, $2.2 million in FY 2014-15, a decrease of $0.8 million in FY 2015-16, and an increase of $2.2 million in FY 2016-17.

Human Services Agency – Aid
The Human Services Agency projects that Aid and the Care Not Cash programs will generate General Fund savings of $8.0 million in FY 2013-14, then require an increased General Fund subsidy of $3.4 million in FY 2014-15, $2.8 million in FY 2015-16, $2.4 million in FY 2016-17, and $2.0 million in FY 2017-18 due primarily to changes in caseloads and state reimbursements.

Department of Public Health
The Department of Public Health is projected to have significant costs above and beyond those included in citywide assumptions due to the implementation of Federal Health Care Reform, the opening of the new General Hospital, and correcting a historical budget shortfall. Those costs are projected to be $133.1 over the course of the five-year period. As detailed later in this Plan, these costs, coupled with citywide costs related to the Department of Public Health, result in an overall departmental shortfall of $291.2 million at the end of the five years.

Recreation and Parks Department – Candlestick Park Closure
This report assumes the 2013 football season will be the last that the 49ers will spend at Candlestick Park. This will lead to an increase in the Recreation & Parks Department's General Fund subsidy of $0.4 million in FY 2014-

15, $3.3 million in FY 2015-16, and $0.5 million in FY 2016-17. This includes a mix of revenue loss and expenditure reductions as a result of the closure of the park.

Treasurer-Tax Collector – Gross Receipts Tax Implementation
In November of 2012, the citizens of San Francisco passed Proposition E, mandating the transition of the City's primary business tax from the current payroll tax structure to a new tax based on gross receipts. The City passed a mid-year supplemental appropriation in the amount of $2.6 million in order to begin implementation of the gross receipts tax. The Office of the Treasurer-Tax Collector projects costs to increase as a result of Gross Receipts Tax implementation by $4.9 million in FY 2013-14 and by an additional $2.9 million in FY 2014-15. As implementation transitions to regular operations, costs of the implementation project will decrease by $2.0 million in FY 2015-16, $1.0 million in FY 2016-17, and $1.0 million in FY 2017-18.

Annualization of Supplementals
In FY 2012-13, the Board of Supervisors approved mid-year supplemental appropriations for domestic violence prevention and prosecution and to backfill State cuts. The annualized cost of these supplemental appropriations translates to an increased General Fund subsidy of $7.8 million in FY 2013-14, $0.1 million in FY 2014-15, and then a reduction of General Fund support of $1.5 million in FY 2015-16.

All Other Departmental Savings/(Costs)
This section includes other smaller departmental changes including: the expiration of one-time costs from the prior year's budget; the expiration of programs including the Film Rebate Program; increased costs to move the Law Library out of the War Memorial Veterans building; and several other small changes.

San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require a combination of expenditure reductions and/or additional revenues. Strategies and proposed solutions to address these issues can be found in the subsequent section.

Fiscal Strategies

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Fiscal Strategies

IMPROVEMENT SINCE THE CITY'S LAST FIVE-YEAR FINANCIAL PLAN

Since the prior plan was adopted in the spring of 2011, the City has made significant progress towards strengthening its fiscal health. The City has implemented two-year budgeting on a citywide basis, adopted new financial policies which limit the use of one-time revenues, and developed a new budget stabilization reserve. As a result of these policies, in conjunction with a stronger economy and balanced efforts to identify new revenues and on-going savings, the City is better off today than it was two years ago.

Table 9: Base Case – Citywide Deficit Changes from the FY 2012-16 Five-Year Plan to the Updated FY 2014-18 Five-Year Plan ($ in millions)

	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	Total 5 Year
FY 2012-16 Five-Year Cumulative Deficit Projection	(283.1)	(457.5)	(619.4)	(745.7)	(829.1)	-	-	**(829.1)**
FY 2014-18 Five-Year Cumulative Deficit Projection	-	-	(123.6)	(256.1)	(367.7)	(423.2)	(487.2)	**(487.2)**

Since the prior Five-Year Financial Plan was released in March 2011, the City has reduced the five-year projected deficit from $829.1 million to $487.2 million. This reduction of 41 percent demonstrates that the City's efforts to reduce the structural deficit are working. Using sensible strategies including controlling wage and benefit costs, identifying savings in capital and debt spending, and identifying additional revenues both through economic growth and additional revenue measures such as the new business license fee, significant progress has been made. The City must continue this effort over the next five years to improve its fiscal outlook and strengthen its overall financial position.

One of the most significant improvements in the City's outlook since the adoption of the 2011 Financial Plan is the joint effort by the City and its labor partners to address the City's pension cost increases. In November 2011, the City's voters passed Proposition C, a charter amendment that reformed the City's pension system by changing the way that both the City and its employees contribute to the San Francisco Employees' Retirement System (SFERS). The mandated changes create cost sharing when pension costs rise, and generated nearly $40 million in savings to the General Fund in FY 2012-13. As a result of these efforts, the City is not proposing any additional strategies with respect to funding employee pensions in this Plan.

Table 10: Five-Year Outlook for Selected Reserves ($ in millions)

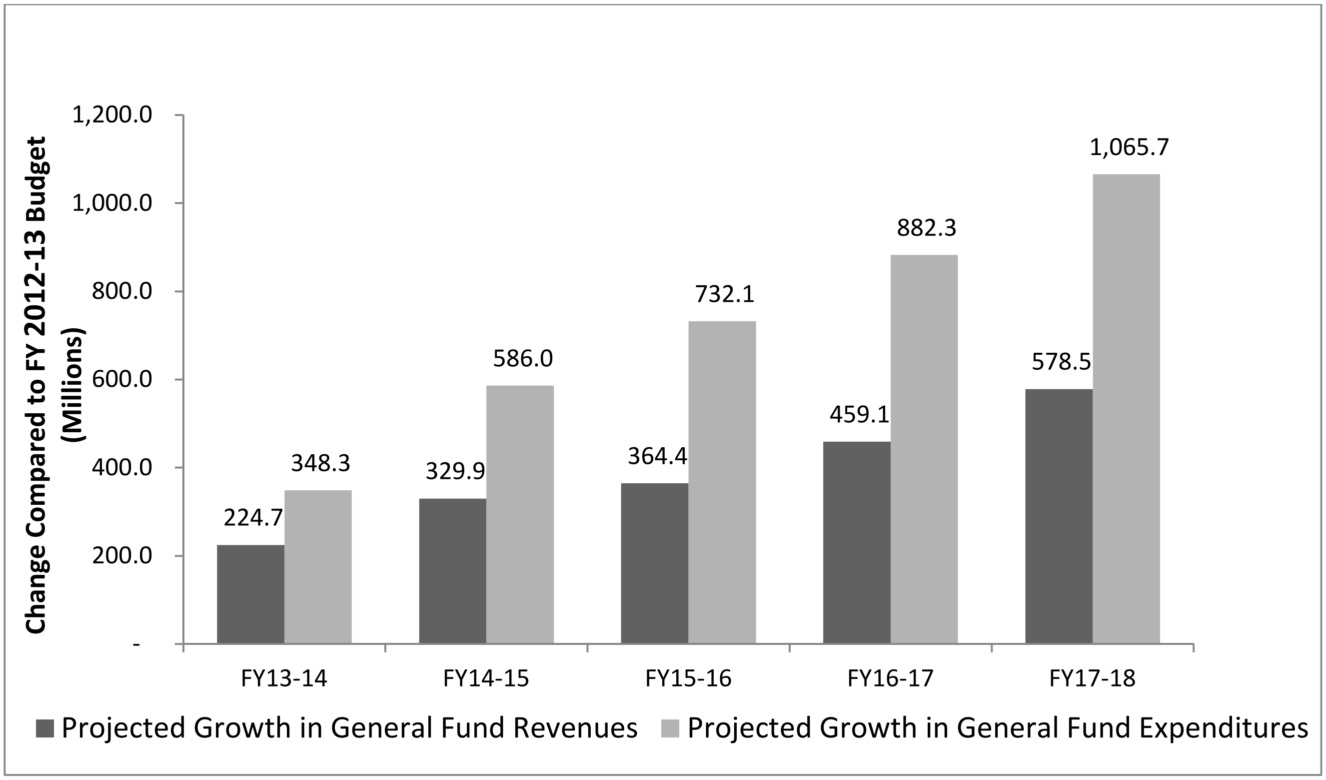
	Projected FY 12-13 Ending Balance	FY 13-14 Ending Balance	FY 14-15 Ending Balance	FY 15-16 Ending Balance	FY 16-17 Ending Balance	FY 17-18 Ending Balance
General Fund Reserve	-	42.9	53.0	63.5	74.0	75.9
Budget Stabilization Reserve	94.9	112.3	129.0	129.0	129.0	129.0

In addition, the City is in a stronger fiscal position to withstand any economic downturn because of the increasing strength of its reserves. Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this Plan anticipates the General Reserve rising to 2.0 percent of Aggregate Discretionary General Fund Revenues in FY 2016-17, for a projected reserve balance of $75.9 million in the final year of the Plan. The City also has a Budget Stabilization Reserve which is projected to contain $129.0 million at the end of the five year period. No withdrawals are assumed from the Budget Stabilization Reserve or from the General Reserve during the five year planning horizon.

STRATEGIES TO RESTORE FISCAL STABILITY

Financial stability is central to the City's ability to provide services to the public. The projections in this Plan illustrate the importance of developing and implementing multi-year strategies to correct the projected imbalance between expenses and revenues. As Figure 4 demonstrates, if over the next five years the City does not take corrective action, the City's structural deficit will grow larger each year, making it more challenging to develop a balanced two-year budget that does not require significant operational changes.

Figure 4: Growth in Expenditures Projected to Outpace Growth in General Fund-Supported Revenues



Actions taken in earlier years of the planning horizon can play a significant role in reducing projected future year deficits. The financial strategies outlined below provide a framework intended to meet two key financial goals for the City during the coming five years: to create more stability and to increase the City's financial resilience in preparation for future economic downturns. There remains a significant amount of work and planning by City departments and policy makers to develop more detailed plans to implement these strategies. The goal of the proposed strategies is to set ambitious but achievable targets, so the City can begin developing revenue, savings and operational proposals that may require multi-year planning efforts.

The City must continue to take a balanced approach in order to bring down the City's structural deficits over the five-year horizon. This means identifying revenue growth as well as expenditure savings, compared to the base case assumptions. One way of identifying savings is by slowing down anticipated growth; for example, instead of allowing costs to grow by the Consumer Price Index (CPI) rate of approximately 3 percent per year, the City could allow those costs to grow at a slower rate. The Fiscal Strategies that follow are a blend of both revenue and cost constraining ideas. New to the Plan this year is a more detailed focus on changes that must be made by the Department of Public Health, due to the significant share of the deficit that is generated by that Department's projected increasing costs, including expectations related to labor costs, regulatory and inflationary costs, and the costs associated with opening a new San Francisco General Hospital.

Table 11 shows each fiscal strategy and its corresponding savings.

Table 11: Strategies to Restore Fiscal Stability ($ in millions)

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Base Case Outlook	(124)	(256)	(368)	(423)	(487)
Proposed Financial Strategies - Savings					
Capital Spending and Debt Restructuring	10	41	36	43	44
Manage Employee Wage and Benefit Costs	17	21	60	83	119
Additional Tax, Fees and Other Revenues	20	25	85	86	87
Adjust Baselines and Revenue Allocations	-	27	30	32	34
Limit Non-Personnel Inflation	-	33	50	67	78
Non-Recurring Revenues and Savings	48	57	30	12	2
On-Going Departmental Revenues and Savings Initatives	28	52	76	101	121
New On-Going Savings Initiatives	*12*	*12*	*12*	*13*	*13*
Cumulative Value of On-Going Savings Initiatives	*-*	*12*	*24*	*36*	*49*
Health Department On-Going Savings Initiatives	*17*	*12*	*12*	*12*	*7*
Cumulative Value of Health Department Savings Initatives	*-*	*17*	*28*	*40*	*52*
Adjusted Outlook	0	0	0	0	0

While the projected shortfalls shown reflect the deficits over the next five years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budget in each year will require some combination of expenditure reductions and/or additional revenues. To the extent budgets are balanced with on-going solutions, future shortfalls will decrease. If the financial strategies are implemented, the City's expenditure growth will still increase by $702 million as opposed to the $1.1 billion assumed in the base case projection. The remainder of this section discusses the options available to the Mayor and the Board of Supervisors to balance the budget over the five-year planning horizon.

Economic Assumptions

The proposed financial strategies are sensitive and adaptable to changing economic conditions, as outlined in Table 12. Should General Fund revenues increase by 1.0 percent annually versus the base case assumption, it will reduce the need to adopt $134.0 million in cumulative on-going expenditure reductions from capital, wage and benefit costs, inflationary changes, or departmental savings by the close of the Plan. Conversely, if revenue projections decrease 1.0 percent annually, an additional $134.0 million in cumulative budget reductions will be required to maintain balance during the coming five years.

Table 12: Economic Assumptions Scenarios ($ in millions)

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	Change from Base Case
Base Case Outlook	**(123.6)**	**(256.0)**	**(367.7)**	**(423.2)**	**(487.1)**	
More Optimistic Economic Outlook						
Revenues stronger than projection by 1% annually	25.0	26.1	26.9	27.6	28.4	134.0
Revised Outlook	***(98.6)***	***(204.9)***	***(289.7)***	***(317.6)***	***(353.1)***	
More Pessimistic Outlook: Revenue Change to Base Case Outlook						
Revenues weaker than projection by 1% annually	(25.0)	(26.1)	(26.9)	(27.6)	(28.4)	(134.0)
Revised Outlook	***(148.6)***	***(307.1)***	***(445.7)***	***(528.8)***	***(621.2)***	

Capital Spending and Debt Restructuring
The City proposes to restructure planned capital and debt spending during the coming five years to achieve savings versus the levels of investment assumed in the City's Ten-Year Capital Plan.

Since the City's Capital Plan was created in 2006, each year it calls for a 10 percent increase in the level of General Fund cash investment in City-owned infrastructure. This assumed level of investment is included in the projected costs in the financial outlook outlined earlier in this Plan, except for the first year of the plan which assumes a lower level of investment consistent with the adopted FY 2013-14 budget. Given the effects of the economic downturn beginning in 2008, the City's General Fund cash expenditures on capital have been significantly lower than the level proposed in the Capital Plan. The City has deferred investments and used alternate revenue sources where available to preserve investments in critical projects. As a result, the Capital Plan's spending assumptions have become increasingly disconnected from actual General Fund cash appropriations. This Financial Plan proposes to reset capital spending assumptions at the FY 2013-14 level of investment (consistent with the adopted FY 2013-14 budget), and then gradually increase investments in infrastructure by 10.0 percent from that level in the following four years. This Plan also assumes full funding of the street repaving program starting in FY 2014-15 when the Road Repaving and Streets Safety bond ends.

The City has also successfully pursued refinancing and restructuring of existing debt obligations during recent years, resulting in lower annual debt service costs. The Financial Plan assumes continued restructuring of existing and planned debt to achieve additional savings, as well as the cancellation of planned prepayment of prior year variable rate debt assumed in the City's Capital Plan.

These strategies are projected to achieve a combined savings of approximately $10 million in FY 2013-14, increasing to $44 million in the final year of the plan as capital spending grows more slowly compared to the levels assumed in the Capital Plan.

Manage Employee Wage and Benefit Costs
The five-year outlook anticipates that, absent change, the rate of employee salary and fringe benefit costs will rise significantly during the coming five years, and represent 43.1 percent of all expenditure growth. In order to minimize service reductions and impacts on the City's workforce, this Plan assumes that the City will take actions to reduce total employee costs through a combination of related approaches, including holding positions vacant and negotiation of future labor contracts; management of health benefit costs; implementation of a wellness plan for City employees; and planning for the unfunded liability of the City's other post-employment benefits (OPEB).

The majority of City employees are covered by labor contracts that expire at the end of FY 2013-14 and the remainder by contracts that expire at the end of FY 2014-15. The financial outlook detailed above assumes the implementation of previously agreed upon cost-of-living adjustments in FY 2013-14. The base case outlook also assumes additional cost-of-living adjustments commencing in FY 2015-16 for all employees. Given the current assessment of the City's financial outlook, it is unlikely the City can afford these increases without additional service reductions beyond those assumed in this Plan. Over the next five years, the City will need to set goals for labor contract agreements that reduce costs relative to the projections assumed above. Each one percent reduction in the increasing costs for wages and benefits would result in approximately $24 million in General Fund savings in FY 2015-16.

Employer contributions to pay for active and retiree health benefits are projected to be a significant driver of benefit cost growth over the next five years and reducing the rate of growth is a top priority for the City. The Health Service System continues to explore innovative ways to reduce costs while maintaining adequate coverage. For example, the Department has worked to create accountable care organizations within Blue Shield and has recently converted Blue Shield from a fully insured to a flex-funded product. These changes have yielded the lowest overall rate increases of any city in the Bay Area and are expected to have future benefits. In addition to the work of the Health Service System, the City is exploring changes to its benefit program to align benefit levels with those offered by other large employers, and increase cost-sharing with City employees and retirees to both reduce costs and incentivize cost-effective health care choices. If the City reduced the employer share of health benefit growth by half a percent per year, this would result in $7 million in savings in FY 2013-14, rising to $28 million in FY 2017-18.

Starting in FY 2012-13, the City began to explore ways to control rising health care costs by focusing on employee health through a comprehensive wellness plan being developed by the Controller's Office, the Health Services System, the Department of Human Resources, the Mayor's Office, and labor leaders. The wellness plan will address key health risk factors that can be modified through behavior change, and is intended to support choices that improve the health and morale of City employees, dependents and retirees. In calendar year 2013, these efforts will culminate in a five-year strategic wellness plan, which will include a phased-in program implementation schedule.

In addition to the health increases described in the base case and paid on an annual basis, the City also has an unfunded $4.4 billion liability for other post-employment benefits (OPEB) for existing employees. The City has made some progress toward funding this liability with recent charter changes passed by voters in June of 2008 and November 2011, which created a Retiree Health Care Trust Fund requiring varying rates of employee and employer contributions for all employees. In order to more comprehensively address this significant financial liability, the City must explore additional governance and funding strategies.

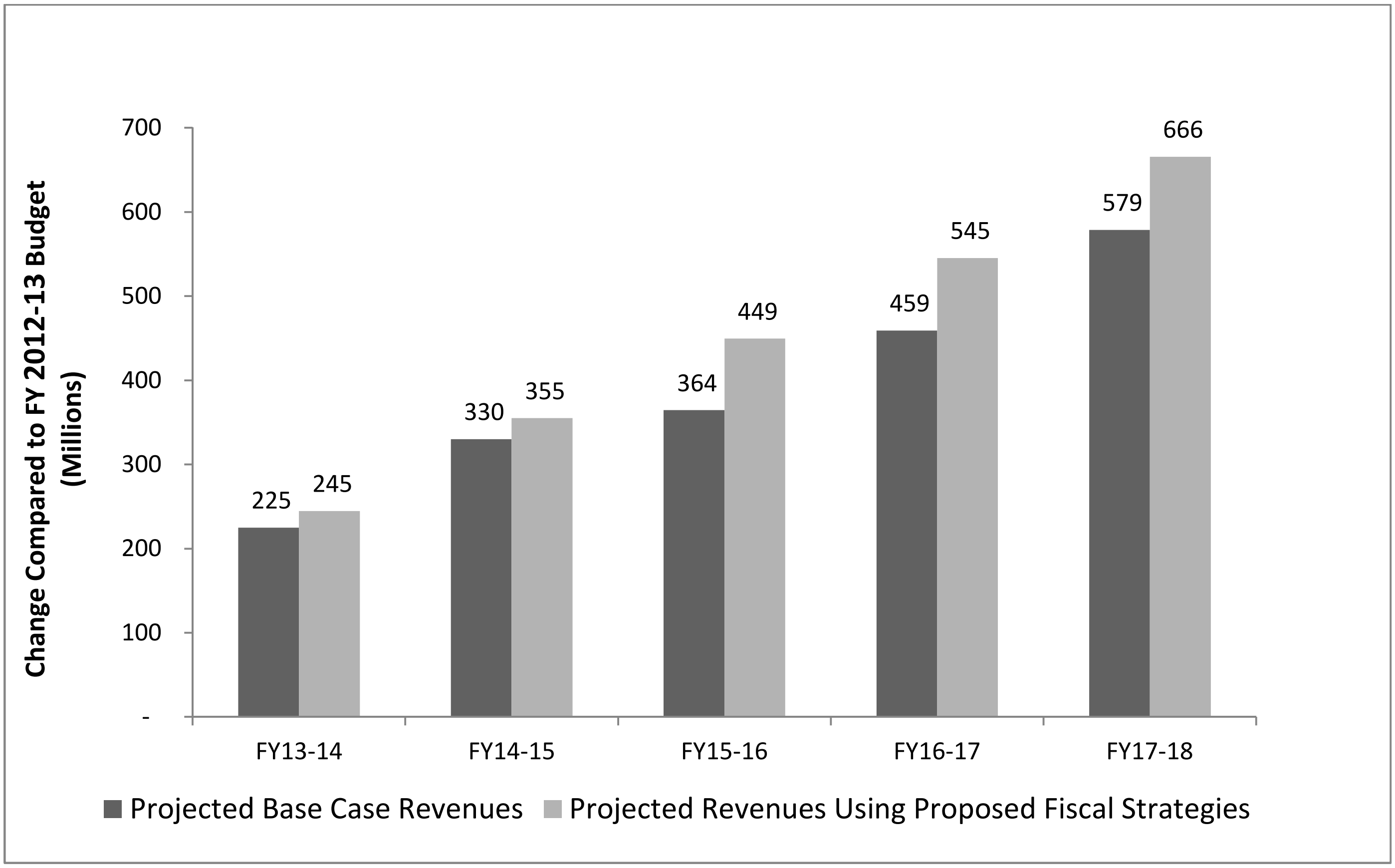
General Fund savings resulting from these strategies are estimated to generate approximately $17 million in the first year of the plan, growing to $119 million in FY 2017-18. These proposals represent planning goals, many of these solutions will require agreements with employee unions and/or voter approval. Total savings assumed in this Plan can be achieved through a combination of the strategies described above. To the extent the City is unable to reduce the costs of wages and benefits through contract negotiations or reducing health care cost increases, it will need to make up the difference through further reductions to the number of City employees with measures such as layoffs, eliminating vacant position, and hiring freezes. The savings proposed in this Plan resulting from controlling employee wage and benefit costs is equivalent to eliminating approximately 850 City positions.

Additional Tax, Fees & Other Revenues

By far, the most significant factor in increasing the City's revenue is fostering a healthy economic climate, where growth in economic activity drives growth in revenues. In the base case projections, the Five-Year Financial Plan assumes strong revenue growth of $577.5 million over the coming five years as the economy continues to strengthen. This growth plays a significant role in reducing projected imbalances between revenue and expenditures over the Plan's five-year horizon.

In addition to revenue growth generated by increasing economic activity, the Five-Year Financial Plan assumes the City will take actions to increase revenues over and above the base projection by $20.0 million beginning in FY 2013-14, growing to $87.2 million in the last year of the Plan. This Financial Plan does not assume any specific sources for this revenue, but assumes that policy makers will select and implement one or more actions from the options available to them under the constraints of State law and voter approval requirements. One example of a new revenue source that the City could pursue is a local Vehicle License Fee (VLF), which was authorized by the State in 2012. If this tax were approved by the voters, it would generate approximately $55 million annually.

Figure 5: Proposed Growth in Revenues FY 2014-18



The City also has some degree of control to grow its existing revenues through its ability to adjust rates for permits, fees and other revenues. However, there are significant restrictions in State law on the City's ability to adjust the rates of taxes and many other revenues. Property taxes are the City's single largest General Fund revenue source, but authority to adjust property tax rates is highly restricted in the State Constitution. Proposition 26, approved by State voters in 2010, places new limits on local governments' ability to establish new fees and increase existing fee rates. Where tax and fee rate increases are allowed, voter approval is generally required. Over the horizon of the Five-Year Financial Plan, only two elections (November 2014 and November 2016) will provide an opportunity to adjust tax rates with a simple majority vote under State law. In each of the other elections, a two-thirds majority vote would be required.

Adjust Baselines & Revenue Allocations

The Five-Year Financial Plan proposes to maximize revenues available to the General Fund where possible and without impacting operations in other funds, by reallocating revenues to the General Fund from other baselines, funds, and funding allocations.

This Financial Plan assumes the full contribution to the Public Education Enrichment Fund (Proposition H), a voter-adopted initiative that requires a certain amount of General Fund spending on schools and other educational programs in the first year of the Plan, and a reduction of 25.0 percent in the subsequent years, where the projected budget shortfall exceeds $100 million, as allowed under the voter initiative. This action creates savings of approximately $27 million growing to $34 million over the final four years of the Plan.

In recent years, the City has, through the annual budget process, capped growth on hotel tax allocations scheduled by ordinance to flow to certain arts and cultural programs. The Five-Year Financial Plan proposes to continue capping growth in hotel tax allocations during the first two years of the plan, and then once again begin allocating growth to hotel tax funded programs to cover cost inflation beginning in year three.

These strategies, which would not create additional General Fund savings until the second year of the plan, are estimated to generate approximately $27 million, growing to annual savings of $37 million by FY 2017-18.

Limit Non-Personnel Inflation

The five-year outlook assumes inflationary increases on most non-salary costs for the City, including spending on contracts, materials and supplies, and services provided by other City departments. Given the financial challenges facing the City, this Financial Plan assumes that departments will absorb a portion of these cost increases within existing spending levels.

A large portion of community-based health and human services functions are provided through non-profit organizations. In FY 2012-13, the City granted a 1.91 percent cost-of-doing business increase to non-profit contractors, which grew to 2.0 percent in the FY 2013-14 adopted budget. Similar to assumptions for capital and employee cost spending levels, the Plan assumes no inflationary increases in these contracts during the coming two years as the budget is stabilized. The final three years of the plan assume modest increases on contracts.

For other categories of non-salary spending, the Plan generally assumes that inflationary cost increases will be absorbed in the first two years. This will require continual reevaluation by City departments of priority purchasing needs, improved focus on effective purchasing practices to ensure the lowest possible price, and where necessary, adjustments in service levels. In the subsequent three years, this Plan assumes that some inflationary increases will be funded by the City.

Given cost increases assumed in the five-year outlook, General Fund savings resulting from these strategies begin in FY 2014-15 and are estimated to be $33.0 million that year and increase to $78.4 million in FY 2017-18.

Non-Recurring Revenues and Savings

While the City has used one-time or limited duration savings in the past to balance its budget shortfalls, this type of savings does not impact the structural deficit since it offers relief only for a limited timeframe. The City has recently enacted polices which govern the use of one-time sources to better align them with one-time expenditures, such as capital and technology investments and efficiency proposals. Since the last Financial Plan was adopted, the City has slowed the use of one-time sources, and as part of the two-year budgeting process, has split fund balance accrued in one year over the two years. This category also includes reducing the cost impact of large one-time expenditures like furniture, fixture and equipment for the new SF General Hospital and the Public Safety Building. Overall, this solution equates to a savings of $48 million in FY 2013-14 and decreases over the course of the Plan, declining to $2 million in FY 2017-18.

On-Going Departmental Revenues and Savings Initiatives

The financial strategies outlined above will not be sufficient to fully restore structural balance to the City's budget during the Plan period, even assuming additional improvement in the local economy versus the current forecast. Accordingly, the Mayor and Board of Supervisors through the annual budget development process will be required to implement program changes, develop alternate funding strategies, prioritize services, and adjust service levels to balance each year's budget. These choices will require detailed analysis and work, and in many cases, more than a single year to implement.

Given the depth and duration of the recent economic downturn, the City has actively employed a number of strategies in recent years to balance the budget. These strategies, some of which are outlined below, will need to be pursued more aggressively in future years to achieve structural balance in the City's budget. A phased approach to implementing these strategies is recommended in order to minimize impacts to the public and to allow time for thoughtful planning processes for development of longer-term proposals. A phased approach will also allow the City to periodically reassess local economic conditions and other uncertainties and adjust future financial plans and budgets accordingly. As the City now budgets two-years for all departments, the Mayor's Office has issued two-year budget reduction targets to departments which helps with planning. The goals set forth in the Financial Plan will allow departments to anticipate the size of likely future year reduction targets and plan accordingly.

To achieve on-going operational savings, departments should:

- Develop plans to operate with fewer employees to allow the workforce to shrink through attrition and retirements;
- Implement all possible administrative reductions and efficiencies;
- Maximize cost-recovery and revenue from non-General Fund sources;
- Use technology to more cost-effectively meet workload demands;
- Improve the use of performance-based contracting to efficiently meet program needs;
- Improve scheduling and staff deployment to manage overtime;
- Develop new program models that minimize costs;
- Consolidate targeted departments, programs, facilities, services, and contracts; and
- Identify and prioritize core services.

This Financial Plan projects a need for approximately $28 million in on-going departmental savings starting in FY 2013-14 and rising to $121 million by the last year of the Plan. This is equivalent to a 1.5 percent annual reduction in General Fund support each of the five years of the Plan. While these are significant savings goals, department solutions comprise less than a fourth of the total balancing solutions over the life of the Plan.

Health Department Operation Changes

The Financial Plan assumes that the Department of Public Health will assume a larger share of responsibility for correcting the deficit than other City departments as its structural imbalance is contributing to and even driving the City's overall shortfall. This Plan proposes allocating a proportional share of revenue growth to the Department of Public Health, $159 million over the five years. Even with this allocation, the Department's shortfall is projected to be $57 million in the first year of the Plan, growing to $131.5 million in FY 2017-18. The Plan assumes that the Department will work to find ways to absorb their projected shortfall after being allocated a proportional share of General Fund revenue growth.

Table 13: Department of Public Health (DPH) Strategies to Restore Fiscal Stability ($ in millions)

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
DPH Net Projected Cumulative Shortfall	(141.9)	(211.6)	(228.7)	(242.4)	(291.2)
General Fund Growth allocated to DPH	85.0	107.4	126.0	140.3	159.7
DPH Shortfall after General Fund Revenue Growth	**(57.0)**	**(104.2)**	**(102.7)**	**(102.1)**	**(131.5)**
Proposed Financial Strategies - Savings					
Department Solutions	16.5	28.2	40.1	52.2	59.5
DPH Share of salary and benefit savings	6.1	7.5	21.1	29.1	41.8
DPH Share CPI savings	-	20.7	31.6	41.7	49.1
Adjusted Outlook	(34.4)	(47.9)	(9.9)	20.8	18.8
Cumulative Outlook	**(34.4)**	**(82.3)**	**(92.2)**	**(71.3)**	**(52.5)**

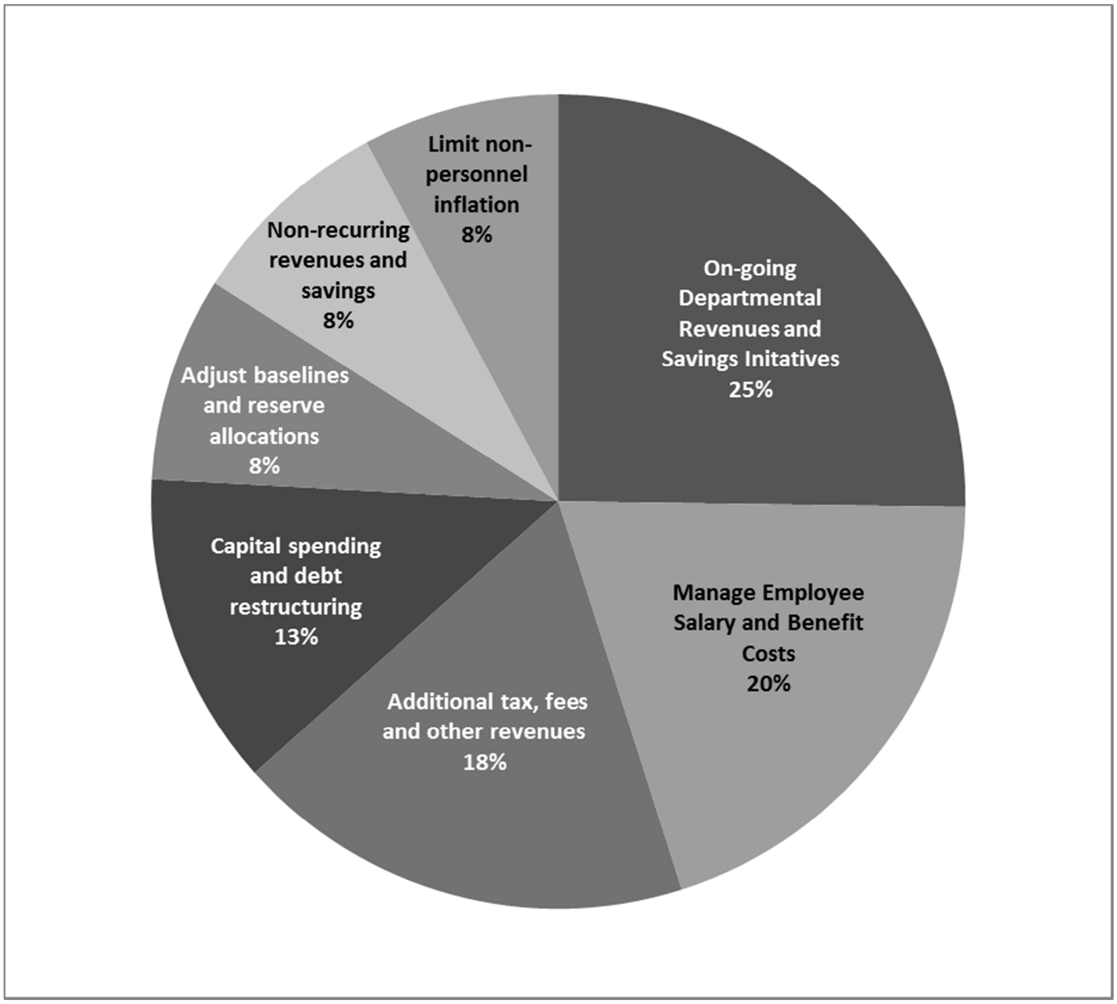
To address the structural imbalance at the Department of Public Health, the Department is expected to identify departmental solutions of 1.5 percent in each year, similar to the expectation of other departments. In addition, the Department will need to develop additional on-going savings proposals of $10 million in FY 2013-14 and an additional $5 million in each subsequent year. These savings, plus the assumed benefits that the Department will experience due to citywide solutions in controlling wage and benefit growth and limiting non-personnel inflation, results in a cumulative shortfall of $52.5 million over the five years. This shortfall is assumed to be covered by a combination of one-time and on-going changes.

The Department of Public Health can meet this challenge through a combination of solutions. Deficits in the first years of the Plan are largely due to large cash infusions needed to fund furniture, fixtures and equipment (FF&E) at the new San Francisco General Hospital. To the extent that these and other capital costs can be reduced, delayed, or spread more evenly over the five-year period through various financing strategies, additional savings and smoothing can be achieved. The implementation of Federal Health Care Reform will require the Department to reevaluate its core services and make operational changes that ensure that future service delivery is closely aligned with the Affordable Care Act's requirements. This can involve maintaining rather than expanding its existing capacity at the new General Hospital, reevaluating staffing and contractual work levels, and prioritizing revenue generating services under the new health care landscape.

A Balanced Approach

The strategies outlined above represent a balanced approach to correcting the structural imbalance between the City's projected revenues and expenditures. If these strategies are implemented over the five year period, it will be in a much more stable financial position and better able to weather any potential economic downturns. These strategies will not be easy to implement, and they all require difficult decisions and trade-offs for policy makers and departments. No one approach to reducing the City's structural imbalance will be sufficient to eliminate the projected shortfalls; however, by constraining growth across multiple categories of expenditures (wages and benefits, non-personnel inflation, capital, etc.), developing revenue solutions, and reducing our reliance on one-time sources to balance the City's operating budget, San Francisco will be able to meet this challenge.

Figure 6: Fiscal Strategies – Each Strategy as a Percent of Total Reductions



Financial stability is central to the City's ability to provide quality services to the public. The projections in this Plan illustrate the importance of developing and implementing balanced, multi-year strategies to correct the projected imbalance between expenses and revenues. These financial strategies provide a framework for the City to continue to provide excellent services and remain fiscally prudent during the coming five years.

Capital Plan

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Capital Plan

OVERVIEW

The Fiscal Year 2014-23 Ten-Year Capital Plan recommends $19.2 billion in direct City investments and $5.9 billion in external agency investment, for a total of $25.1 billion in capital improvements over the next ten years. These improvements represent a set of projects that address critical capital needs while supporting nearly 223,000 local jobs over the next ten years.

The General Fund pay-as-you-go program recommends the City spend $1.6 billion over the next ten years (including $599.5 million within the five years of this Financial Plan). This is in addition to the City's General Fund bond program, which includes $1.5 billion over the next ten years, and our General Fund debt program, recommending $515.0 million over the next five years.

Table 14 shows the Capital Plan recommended funding levels by department type.

Table 14: Summary by Department Type in Five-Year Intervals FY 2014-23 ($ in millions)

By Department Type	FY 14-18	FY 19-23	Plan Total
General Fund Departments	2,986.3	1,748.4	4,734.7
Enterprise Departments	8,086.3	6,364.1	14,450.4
External Agencies	4,574.8	1,306.7	5,881.5
Subtotal - Capital Plan Total	**15,647.3**	**9,419.3**	**25,066.6**

Since the first Capital Plan was created in 2006, the City has made significant progress in addressing critical infrastructure needs. Over the past five years, voters have approved five General Obligation (G.O.) bonds totaling $1.9 billion to seismically strengthen and modernize key facilities, parks, and street infrastructure.

Table 15 shows an overview of the City's $25.1 billion Capital Plan recommended funding levels by service category:

Table 15: Summary by Service Category in Five-Year Intervals FY 2014-23 ($ in millions)

By Service Category	FY 14-18	FY 19-23	Plan Total
Public Safety	821.1	555.2	1,376.3
Health and Human Services	1,220.9	84.8	1,305.7
Infrastructure & Streets	4,531.9	4,142.7	8,674.5
Recreation, Culture, and Education	812.2	428.4	1,240.6
Economic & Neighborhood Development	2,131.1	2,019.8	4,150.9
Transportation	6,100.2	2,127.9	8,228.1
General Government	29.9	60.6	90.5
Subtotal - Capital Plan Total	**15,647.3**	**9,419.3**	**25,066.6**

The Capital Plan proposes a number of initiatives that have been key objectives since its inception in 2006. These are fully funding the street repaving program; funding facility renewals at levels that not only meet annual needs but reduce the backlog; relocating nearly all of the functions in the Hall of Justice to safer facilities; and continuing construction on several critical projects.

Overall, the City's prospects for building a stronger, more resilient infrastructure program are looking brighter after years of economic stagnation. An improved local economy is putting the City in a better position to make capital investments. However, the City's capital needs still far exceed available funding, and new growth coupled with increasing construction costs will continue to put pressure on the City's capital budget.

GENERAL FUND PAY-AS-YOU-GO PROGRAM

The Capital Plan proposes investing a record $1.6 billion into the pay-as-you-go program over the next decade. This is a 60 percent increase over the FY 2012-2021 Capital Plan. The main driver of this increase is the decision to fully fund the street resurfacing program to achieve and maintain a Pavement Condition Index (PCI) score of 70. Table 16 shows the recommended General Fund pay-as-you-go investment of $599.5 million over the next five years broken up into the different capital planning categories:

Table 16: Recommended Pay-As-You-Go Funding Levels FY 2014-18 ($ in millions)

Funding Category	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Facility Renewal	37.8	39.1	40.0	47.4	52.4
Infrastructure Renewal	3.0	4.5	4.4	7.6	8.8
Street Resurfacing	-	46.0	49.1	52.3	55.7
Routine Maintenance	11.8	12.4	13.0	13.7	14.4
ADA - ROW (Curbs & Sidewalks)	0.6	8.1	8.6	9.0	9.5
ADA - ROW Facilities	7.8	5.6	1.1	1.2	1.3
Critical Project Development	17.0	(1.9)	5.7	6.0	6.3
Subtotal - Capital Plan Funding Levels	**78.1**	**113.8**	**122.0**	**137.2**	**148.4**
Change from the prior year:	(25.9)	(35.6)	(8.2)	(15.2)	(10.9)

Table 16 shows that the Capital Plan recommends the City spend an additional $25.9 million in FY 2013-14, $35.6 million in FY 2014-15, $8.2 million in FY 2015-16, $15.2 million in FY 2016-17, and $10.9 million in FY 2017-18. The increase from FY 2012-13 to FY 2013-14 is due to moving the City back up to full funding at the Capital Plan recommended funding level from the actual funding level in FY 2012-13. The increase from FY 2013-14 to FY 2014-15 is due to the expiration of the City's Road Repaving and Streets Safety Bond for the City's street repaving program and the transfer of those costs onto the General Fund. This Five-Year Financial Plan does not assume full funding at the Capital Plan recommended level shown above for FY 2013-14, and instead reflects the funding level included in the FY 2012-13 and FY 2013-14 adopted budget.

The most significant General Fund change in this Capital Plan compared to prior ones is the inclusion of a comprehensive set of improvements to provide safe and complete streets and improve transit reliability, referred to as the Transportation and Streets Infrastructure Package (TSIP). The TSIP addresses a number of issues that the City has been wrestling with for several years, including: fully funding street repaving; addressing long-term MUNI state-of-good-repair and fleet overhauls; and investing in safe and complete streets for autos, bikes, pedestrians, and transit vehicles. This set of recommendations ties annual capital needs to on-going revenue sources, and major enhancement projects to one-time bond funding. The Plan recommends funding these through approximately $841.1 million in new revenues from three sources: (1) on-going General Fund allocations; (2) an on-going proposed Vehicle License Fee (VLF) tax that would go on the November 2014 ballot;

and (3) one-time funding through a proposed General Obligation (G.O.) bond that would also go on the November 2014 ballot. Specifically, these funding sources will be used to:

Provide Safe and Complete Streets in Neighborhoods Across the City by:

- Achieving and maintaining streets at a PCI of 70;
- Funding historic levels of investment in pedestrian and bike safety improvements; and
- Making critical street and right-of-way enhancements that accommodate new growth.

Improve Transit Reliability by:

- Funding Municipal Transportation Agency (MTA) state-of-good repair, fleet renewals, & transit signalization projects; and
- Investing in transit effectiveness and transit first policies.

Another area of note in the pay-as-you-go program is critical project development. This continues the City's commitment to funding pre-development planning so that capital project costs and impacts are clearly understood before a decision is made to either fund or place a project before voters. In FY 2014-15, the negative $1.9 million represents reimbursement funds to the City from an implemented bond paying back the General Fund for prefunding through a previous year's capital budget. Future projects requesting pre-development planning dollars through these funds include: (1) the relocation of key services out of the seismically vulnerable Hall of Justice including County Jails 3 and 4, the Forensic Services Division, Traffic Company, and Medical Examiner; (2) the seismic retrofit of critical public health buildings; including 101 Grove and Buildings 5 and 80/90 at the San Francisco General Hospital campus; and (3) the expansion of the Moscone Convention Center.

Lastly, for the first time in the history of the Capital Plan, the City will begin to address its backlog within the Plan's ten-year timeframe under the proposed funding recommendations. Starting in FY 2019-20, the City will fully fund its annual needs and begin to address its backlog.

ENTERPRISE DEPARTMENTS

Capital investments for enterprise departments during the next ten years total approximately $14.1 billion. This 15 percent increase from the FY 2012-2021 Capital Plan is the result of several large projects such as the Central Subway, the Port's Pier 70 project, the Public Utilities Commission's Sewer Replacement and Improvement Program, and several large capital projects at the San Francisco International Airport.

DEBT FINANCING STRATEGIES

The City uses General Obligation (G.O.) bonds, in addition to Certificates of Participation (COPs) to fund larger capital projects. The City's Capital Planning program does long range planning through the Ten-Year Capital Plan to identify the City's priority projects to fund above and beyond our General Fund pay-as-you-go program.

Since the creation of the first Ten-Year Capital Plan in 2006, the City has successfully gained voter approval for five G.O. bonds totaling $1.9 billion in funding to support a wide range of critical infrastructure improvements. In the next ten years, the City plans to take an additional $1.5 billion to the voters to continue to upgrade and seismically strengthen the City's aging public safety and public health infrastructure, as well as improve streets and transportation systems. Table 17 is a list of the scheduled upcoming G.O. bonds over the next ten years.

Table 17: G.O. Bond Program FY 2014-23 ($ in millions)

Proposed Date to Ballot	Bond Program	Total
June 2014	Earthquake Safety and Emergency Response (Phase 2)	428.0
November 2014	Transporation and Streets Infrastructure Package	150.0
November 2015	Public Health Facilities Seismic Improvement	435.0
November 2020	Neighborhood Parks & Open Space Improvements	185.0
June 2021	Earthquake Safety and Emergency Response (Phase 3)	290.0
Subtotal - G.O. Bond Program		**1,488.0**

Unlike G.O. bonds, lease revenue bonds and COPs are typically repaid from the City's General Fund. Table 18 is a list of the scheduled COP projects over the next ten years.

Table 18: General Fund Debt Program FY 2014-23 ($ in millions)

Proposed Debt Issuance	Project	Total
FY 2013-14	HOJ Replacement Program 1: Jail Replacement	290.0
FY 2020-21	HOJ Replacement Program 2: Other Criminial Justice Agencies	225.0
Subtotal - GF Debt Program		**515.0**

In addition to the project costs outlined in Table 18, a big challenge facing the City is funding the increasing operational, moving, and furniture, fixture and equipment costs (FF&E) that are associated with new and upgraded City facilities. These costs are discussed further in the citywide and departmental sections of this report.

The City's Ten-Year Capital Plan and additional information on the Capital Planning program can be found at www.onesanfrancisco.org.

Information & Communication Technology Plan

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Information & Communication Technology Plan

OVERVIEW

The Fiscal Year 2014-18 Information & Communication Technology (ICT) Plan builds on the progress made in the first Plan, and provides a framework for how the City can proactively plan for, fund, and implement projects that support the strategic goals outlined in the Plan.

Over the next five years, there are $548.0 million in information technology (IT) project requests identified citywide. Project requests are split with 53.6 percent non-General Fund dollars, representing 55 projects, and 46.4 percent General Fund dollars, representing 77 distinct projects. Table 19 illustrates the five-year IT project requests compared to their proposed funding sources:

Table 19: Total IT Project Requests from Departments FY 2014-18

$ in millions	Initial Project Request	Proposed Funding Source	Difference
Non-General Fund Projects	293.5	293.5	-
General Fund and Citywide Projects	254.5	49.1	(205.4)
Subtotal: IT Project Requests	**548.0**	**342.6**	**(205.4)**

As Table 19 indicates, the 77 General Fund projects requested will cost $254.5 million over the next five years. These departmental requests are weighted towards the early years of the Plan and far outweigh the COIT General Fund allocation (as shown in Table 20 below), which is expected to be $49.1 million over the same period. This leaves a funding gap of $205.4 million.

Table 20: COIT General Fund Budgeted Support FY 2014-18

$ in millions	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
General Fund Support	8.0	8.9	9.7	10.7	11.8
General Fund Support Growth		10%	10%	10%	10%

PRIORITIES AND GOALS

The Plan's overarching guiding principles are Innovation, Sustainability and Resilience. To put these priorities into action, COIT has identified four Strategic IT Goals. Departments must identify a primary goal supported through their project requests when they apply for funding and consideration of their project at COIT. These IT Goals are:

- **Make Government More Efficient & Effective Through Technology**
  In all economic climates, the City strives to become more efficient and effective in all business operations and public service offerings. Technology enables and supports the City's efforts to maximize resources and provide the best possible service to its constituents.

  Over the next five years, there are $205.9 million in project requests that identify *government efficiency and effectiveness* as their primary goal. These projects make up 37.6 percent of the citywide IT project requests. Two major IT investment projects are included within this goal, the City's Financial System Replacement Project and the Property Tax Database Replacement, which together account for $85.2 million of the total project requests.

- **Improve Public Access & Transparency**
  The City recognizes that a foundation of effective governance is providing greater public access to City information and services. Over the coming years, the City will continue to invest in projects to expand online services, improve access to citywide information, and address the digital divide through computer literacy programs and increased internet connectivity services.

  There are $57.0 million in project requests that identify *public access and transparency* as their primary goal. These projects make up 10.4 percent of the total IT project requests citywide. Project requests under this goal include: Mobile Strategies, the Municipal Transportation Agency's Muni Metro Public Announcement and Display System Replacement, and the San Francisco Digital Inclusion Project.

- **Strengthen Security & Disaster Preparedness**
  San Francisco considers the protection of City business systems and services a primary objective. The City's IT Security program is a holistic approach to protecting City government services and providing secure, reliable technology solutions for our constituents and visitors.

  Over the next five years, there are $21.6 million in project requests that identify *security and disaster preparedness* as their primary goal. These projects make up 4.0 percent of the total IT project requests citywide. These requests represent 13 projects from eight departments that build on existing security efforts occurring citywide to further safeguard IT infrastructure. Projects highlighted under this goal include: Radio Security Enhancement Project, Security Visibility and Intelligence, and the Systems Recovery Project.

- **Support & Maintain Critical City IT Infrastructure**
  Investing in the City's IT infrastructure continues to be a foundational need. The City will invest in this crucial area in order not only to implement new technologies but to also sustain the current systems in place today.

  The importance of investing in the maintenance and support of the City's IT infrastructure is clearly demonstrated through the $263.5 million in project requests under this goal. These represent 48.1

percent of the total City IT project requests. This goal includes two major radio replacement projects, which together comprise $185.5 million of the total requests. Additionally, costs associated with the IT components of two major capital projects, the new Public Safety Building and the San Francisco General Hospital, are accounted for within this goal.

Table 21: IT Project Requests Identified by COIT Goal FY 2014-18

$ in millions	**Project Request**	**% of Total Requests**
Make Government More Efficient & Effective Through Technology	205.9	37.6%
Improve Public Access & Transparency	57.0	10.4%
Strengthen Security & Disaster Preparedness	21.6	4.0%
Support & Maintain Critical City IT Infrastructure	263.5	48.1%
Subtotal:	**548.0**	**100%**

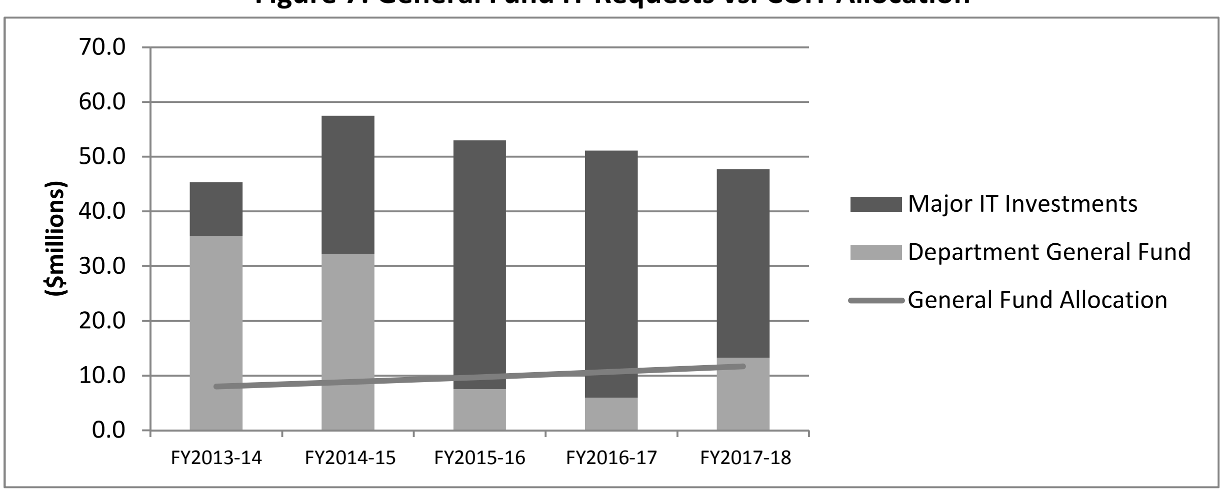
In addition to proposed IT projects meeting these guiding priorities and strategic goals, COIT members also consider the functional category of project requests, including whether the requests are enhancements, renewals, maintenance, or critical project development. Similar to the City's Ten-Year Capital Plan, these categories enable COIT to prioritize renewals, maintenance and critical project development, while also investing in new projects and enhancements as funding permits.

FINANCIAL STRATEGIES

As Table 19 shows, the ICT Plan identifies a $205.4 million funding gap over the next five years from departmental requests and identified revenue sources. A significant portion of the $205.4 million funding gap is generated by proposals to replace several major legacy systems within the five-year planning window, including the replacement of the City's Financial System ($72.2 million), the replacement of the Public Safety Radio system ($69.0 million), and tax system replacement projects at both the Assessor-Recorder's Office ($13.0 million) and Treasurer-Tax Collector's Office ($6.0 million). These projects are categorized as major IT investments due to their scale and complexity, longer timelines, and significant financial investment.

Figure 7 shows the General Fund allocation growing over the five-year period, while project requests from departments and for citywide IT investments exceed available funding.

Figure 7: General Fund IT Requests vs. COIT Allocation



Over the coming five years, the City will need to balance short-term smaller departmental requests with longer-term major IT investments. The General Fund allocation at its current commitment level cannot fund both major IT investments and on-going citywide and departmental requests. This Plan recommends that critical project development of major IT investments and on-going citywide and department requests be reviewed and funded within the General Fund allocation of $49.1 million over the next five years. By investing in the planning and pre-implementation of large IT projects, COIT is empowered to make informed recommendations for the use of other funding sources above the General Fund allocation.

There are several options available to help close the $205.4 million funding gap caused largely by the major IT investments mentioned above. These options are summarized below:

- **Improve Planning/Increase Collaboration**: Until pre-planning is complete, the ICT Plan defers funding larger projects to ensure project timelines and budgets are solid before committing City resources. This financial strategy defers $78.4 million in projects over the next five years and also reduces the gap by an additional $12.0 million through the consolidation of projects and collaboration between City departments.

- **Alternative Funding Sources**: The City should use an allocation methodology for large scale citywide projects, so that the costs of these investments are shared between Enterprise Departments and the General Fund. The City should also pursue non-General Fund sources, such as grants and other State and federal sources. This will reduce the funding gap by $35.0 million over the next five years.

- **Budget Reallocation**: The City should identify one-time funding sources to support IT projects and explore shifting existing IT dollars within the City's budget to support new projects as older IT projects are completed. Budget reallocation can reduce the IT project funding gap by $80.0 million over the next five years.

Table 22 shows the path towards closing the funding gap using these strategies. Similar to the City's Ten-Year Capital Plan, projects must be sequenced, planned, and scoped or they will be deferred. Once projects are planned, then COIT can make an informed recommendation for funding within or above the current General Fund commitment. Projects listed in the Plan reflect early requests for funding and will ultimately need to be reviewed by COIT during the annual budget process.

Table 22: Impact of Proposed General Fund Financial Strategies on Funding Gap FY 2014-18

$ in millions	**Project Request**	**Fiscal Strategy**	**Remaining Funding Gap**
Total General Fund Project Requests	**254.5**	**-**	**(254.5)**
Financial Strategies			
Grow COIT GF Allocation by 10% per year	-	49.1	(205.4)
Improve Planning/Increase Collaboration	-	12.0	(193.4)
Project Deferrals	-	78.4	(115.0)
Alternative Funding Sources	-	35.0	(80.0)
Budget Reallocation	-	80.0	-
Total	**254.5**	**254.5**	**-**

As the City works to balance all of these investments, COIT will review all project requests with the financial strategies that are highlighted above. These strategies will allow the City to bridge the funding gap over the five-year period, though not without making trade-offs through project prioritization, sequencing and deferrals. The City will also need to continue to review alternative funding sources including grants, lease-financing and non-General Fund sources. Recognizing that these strategies are unlikely to fill the entire gap, the City should continue to grow its General Fund allocation by 10 percent annually and identify one-time sources to support major ICT investments when possible.

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Department Planning

Public Protection

Public Works, Transportation & Commerce

Human Welfare & Neighborhood Development

Community Health

Culture & Recreation

General Administration & Finance

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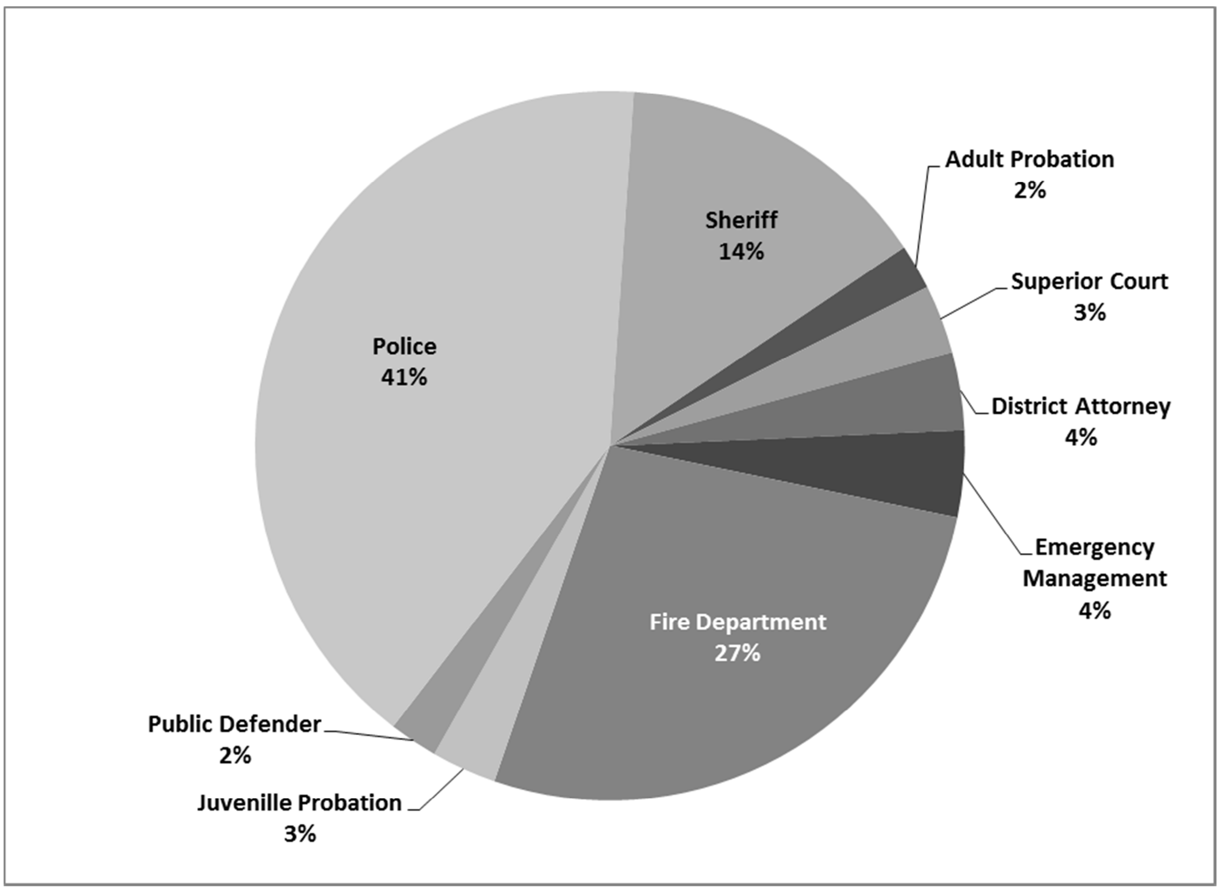
Public Protection

OVERVIEW

The Public Protection major service area includes the Police Department, the Sheriff's Department, the Superior Court, the District Attorney's Office, the Public Defender's Office, the Juvenile Probation Department, the Adult Probation Department, the Fire Department and the Department of Emergency Management. These departments ensure that our City is safe, secure, and prepared for unforeseen emergencies. Most of the departments in this major service area are funded through an annual allocation of the General Fund revenues. Several departments, including the Fire Department and the Police Department, have mandated levels of staffing that are key factors influencing their budget development each year.

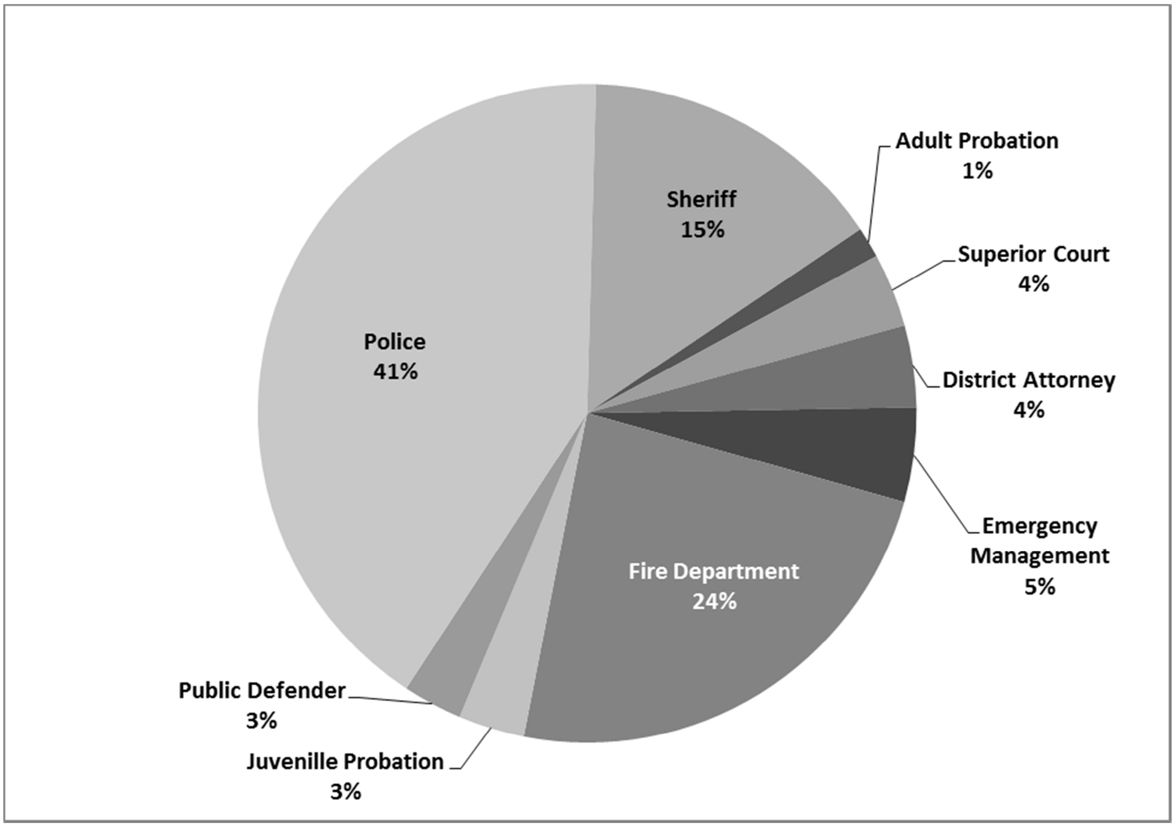
Together these nine departments have a total budget of $1.2 billion in FY 2012-13.

Figure 8: Total Budget by Department FY 2012-13



This includes $906.7 million in General Fund support (26.0 percent of the total General Fund budget).

Figure 9: General Fund Support by Department FY 2012-13



Over the coming five years, a number of strategic issues face the Public Protection departments, including: continued implementation of public safety realignment; retirements and staffing plans at the Police and Fire departments; significant capital investments in replacing public safety infrastructure, and the associated furniture, fixture and equipment (FF&E) and operating costs associated with these projects.

FIVE-YEAR BASE CASE

Table 23 shows a list of the projected expenditures and revenue changes specific to the Public Protection major service area, and provides additional detail on these changes mentioned earlier in this Plan.

Table 23: Base Case Projection ($ in millions)

Department - Issue	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Domestic Violence - Annualization of Supplemental	(1.9)	(0.1)	1.5	-	-
Fire - Multi- Year Hiring Plan	(0.7)	0.8	0.0	(0.6)	(1.3)
Fire - Operating Station 4 (Public Safety Building)	-	(4.4)	(1.5)	(0.3)	(0.3)
Police - Multi-Year Hiring Plan	-	(0.9)	(10.3)	(10.3)	(7.2)
Police - Public Safety Building on-going operating costs	-	(4.4)	(0.8)	(0.3)	(0.2)
Police - Public Safety Building one-time move and FF&E costs	(16.1)	14.0	2.5	-	-
Subtotal - Public Protection	**(18.7)**	**5.1**	**(8.6)**	**(11.5)**	**(9.0)**

The increasing costs in this major service area over the next five years includes the annualization of supplementals affecting Public Safety departments; additional staff costs related to public safety hiring plans at the Police and Fire departments; one-time and on-going costs associated with the new Public Safety building for the Police Department; and impacts from the State's realignment of Public Safety through AB109.

NOTES TO THE BASE CASE PROJECTION

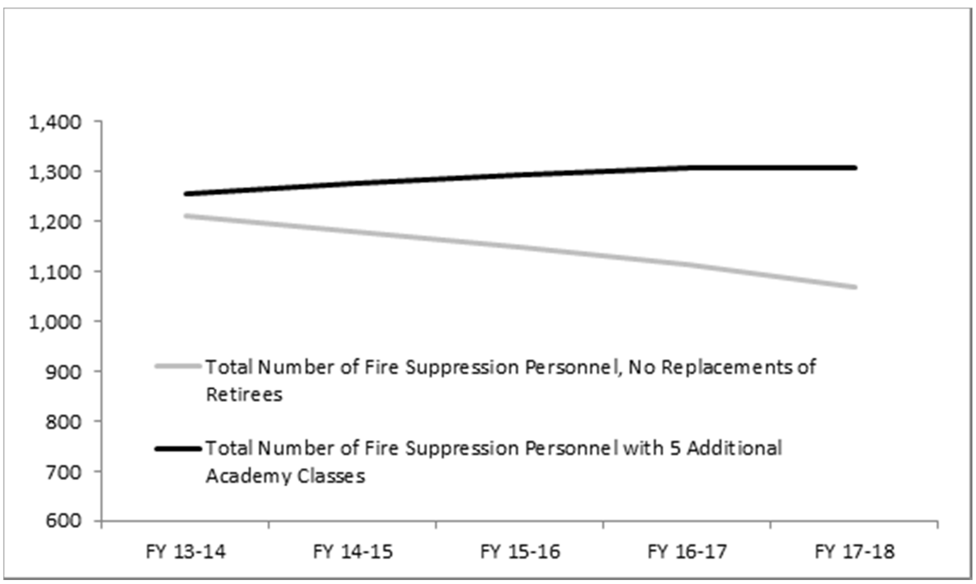
Domestic Violence – Annualization of Supplemental

In FY 2012-13, the Board of Supervisors approved additional funding for domestic violence prevention and prosecution. Through this mid-year supplemental appropriation, the District Attorney's Office received nine limited-term positions for a cost of $1.9 million and the Department on the Status of Women received one on-going position for a cost of $0.1 million. Additionally, $0.4 million was allocated to community-based organizations. The supplemental appropriation results in a General Fund subsidy of $2.1 million in FY 2013-14, an additional $0.1 million in FY 2014-15, and then a savings of $1.5 million in FY 2015-16 representing the expiration of the limited term positions.

Fire Department – Multi-Year Hiring Plan

Over the next five years, one Fire Academy class is planned in each year. This equates to roughly 240 firefighters over the five year period. These new classes will enable the Department to backfill the expected 175 retirements in the next five years. The classes also reduce overtime and promote public safety.

Figure 10: Fire Department – Multi-Year Staffing Plan FY 2013-14 through FY 2017-18



The Fire Department's hiring plan reflects multi-year financial effects of academy classes. Each new class incurs upfront costs, but the Department then realizes some savings for two years following, a result of new hires' starting hourly cost normally being less expensive than overtime costs. The General Fund support needed to implement the hiring plan is an increase of $0.7 million in FY 2013-14, but this need then decreases by $0.8 million in FY 2014-15 and is stable in FY 2015-16. An additional General Fund cost of $0.6 million is incurred in FY 2016-17 and $1.3 million in FY 2017-18.

Fire – Operating Station 4 (Public Safety Building)

The City recently broke ground on the new Public Safety Building at 3rd street and Mission Rock. Slated for completion in Fall 2014, this building will house the Police Command Center, the Southern District Station from the Hall of Justice (HOJ), and a new fire station (Fire Station 4). In addition to the project construction costs for the Public Safety Building and Fire Station 4 funded through the Earthquake Safety and Emergency Response (ESER) 1 bond, there are also associated operating, moving and furniture, fixture and equipment (FF&E) costs for these new projects. None of these costs are bond eligible; they are significant and paid for entirely by the

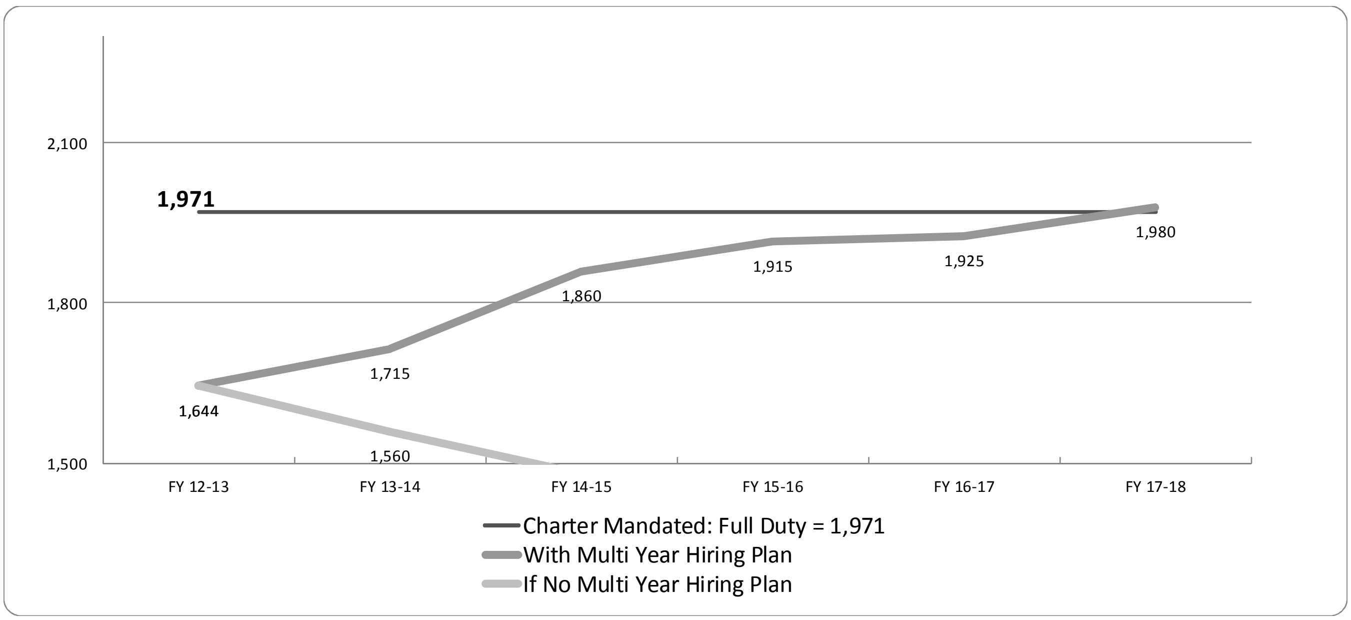
General Fund. For the Fire Department, new on-going operating costs associated with Fire Station 4 are projected to be $4.4 million in FY 2014-15 and an additional $1.5 million in FY 2015-16, $0.3 million in FY 2016-17, and $0.3 million in FY 2017-18.

Police Department – Hiring Plan

Due to the anticipated retirements of 517 police officers over the next five years, the City is planning to conduct three 50-person Police Academy Classes per year over the next five years for a total of 750 new officers. The Police Department's hiring plan also anticipates employing 50 additional civilians by the end of FY 2013-14, ensuring adequate staff in non-sworn functions. This will allow the Department to redeploy officers currently performing administrative functions onto the street to perform critical public safety functions. This plan will ensure that the City meets the charter mandated level of 1,971 full duty officers by June 2018.

The cost to implement this hiring plan is $0.9 million in FY 2014-15, $10.3 million in FY 2015-16, $10.3 million in FY 2016-17, and $7.2 million in FY 2017-18. There is no projected cost increase in FY 2013-14 because the Department projects savings in that year from retirements, which enables the Department to cover the increased class costs in that year.

Figure 11: Police Department – Multi-Year Staffing Plan FY 2012-13 through FY 2017-18



Police – Public Safety Building On-Going Operating Costs

As mentioned above, the City will soon open the new Public Safety Building. In addition to the construction costs, there are additional costs for the Police Department as well. These costs include on-going expenses of $4.4 million a year starting in FY 2014-15, increasing by $0.8 million in FY 2015-16, $0.3 million in FY 2016-17, and $0.2 million in FY 2017-18. This includes costs for building security and custodians.

Police – Public Safety Building One-Time Move and FF&E Costs

In addition, there are one-time furniture, fixture and equipment (FF&E) costs that result in an increased one-time General Fund subsidy of $16.1 million in FY 2013-14, a reduction in General Fund support of $14.0 million in FY 2014-15 and finally a reduction of $2.5 million in FY 2015-16 as all these one-time costs are funded.

OTHER ISSUES

In addition to the base case costs listed in Table 23, there are other important issues within the Public Protection major service area. These are issues with unknown cost implications, including: potential State and/or federal policy changes; projects that are considered important but that do not currently have a funding source identified; large capital or IT projects; and policies captured in the citywide base case projection that have a significant impact on this major service area.

Department of Emergency Management – Public Safety 800MHz Radio Replacement
The Department of Emergency Management, along with several other public safety departments, is requesting funding through COIT to fund the Public Safety Radio Replacement project, which will upgrade the Citywide Radio Communications System for public safety departments. This system is used primarily by the City's public safety agencies for emergency, push-to-talk voice communications between the 9-1-1 Dispatch Center and officers in the field to relay incident information, as well as day-to-day communications between units. The current system was installed in 2000, and is nearing the end of its service life. This project was identified in the first Five-Year ICT Plan; however, due to a lack of reliable cost estimates, this project has not received any General Fund support to date. The replacement of this system, phased in over a number of years, is estimated to cost $69.0 million. The ICT Plan recommends funding for critical project development in FY 2013-14 and FY 2014-15 through COIT. This project will report back to COIT on a regular basis on the scope, budget and timeline for the project implementation. This project is identified as a major IT investment in the City's Five-Year ICT Plan.

Implementation of State Public Safety Realignment AB109
In April 2011, the State of California passed the 2011 Public Safety Realignment Act (AB109). This historic policy change, which took effect on October 1, 2011, shifted substantial responsibilities for managing "non-violent/non-serious/non-sexual" offenders from the State to the county level.

The State provided some funding to implement AB109. San Francisco received $5.8 million to begin work in FY 2011-12, and the City's allocation increased to $17.3 million in FY 2012-13. As shown in Table 24, the City expects to receive this $17.3 million allocation in FY 2013-14 and beyond; however, costs associated with AB109 will continue to climb over time resulting in an increasing General Fund subsidy of $1.1 million in FY 2013-14, growing by an additional $0.7 million per year through FY 2017-18. These costs are almost entirely staff (salary and benefit) and contract related; therefore, these cost increases are represented in this Plan within those categories in the citywide charts. The costs are broken out in Table 24 to highlight the increasing impact of this State legislative change on the City's General Fund.

Table 24: Base Case Projection – AB109 Public Safety Realignment FY 2014-18 ($ in millions)

AB109 State Revenue	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Sheriff	8.5	8.5	8.5	8.5	8.5
Adult Probation	8.5	8.5	8.5	8.5	8.5
District Attorney	0.1	0.1	0.1	0.1	0.1
Public Defender	0.1	0.1	0.1	0.1	0.1
Subtotal - Sources	**17.3**	**17.3**	**17.3**	**17.3**	**17.3**
Uses*	**FY 13-14**	**FY 14-15**	**FY 15-16**	**FY 16-17**	**FY 17-18**
Adult Probation	10.0	10.3	10.6	10.9	11.3
Sheriff	11.9	12.3	12.6	13.0	13.4
Public Defender	0.3	0.3	0.3	0.3	0.3
District Attorney	0.3	0.3	0.3	0.3	0.3
Subtotal - Uses	**22.5**	**23.2**	**23.8**	**24.6**	**25.3**
General Fund Support (Uses less Sources)	**(5.2)**	**(5.9)**	**(6.6)**	**(7.3)**	**(8.0)**
Change from the prior year	**(1.1)**	**(0.7)**	**(0.7)**	**(0.7)**	**(0.7)**

**Costs are inflated 3% in the out years to account for salary and fringe benefit cost increases.*

As of the writing of this Plan, it is not clear if the State will change the current revenue allocation to counties in future years. The costs listed above detail known direct costs associated with AB109; there are likely additional indirect costs associated with this policy change that are currently unknown and/or not quantified.

In addition, the responsibility for representing parolees that violate their probation will shift from the State to the County beginning in July 2013. This change could affect workloads at the Public Defender and District Attorney's Offices.

Earthquake Safety and Emergency Response (ESER) Bond Program

The Earthquake Safety and Emergency Response (ESER) program is a $1.1 billion dollar program that focuses on making seismic improvements to critical first responder facilities and infrastructure. It includes ESER 1, passed in 2010, ESER 2 slated for the ballot in 2014, and ESER 3 in 2021.

The ESER program is designed to save lives, protect property, and assure prompt economic recovery after a major earthquake or disaster. This $1.1 billion in investments will address core components of our Auxiliary Water Supply System (AWSS), improve neighborhood fire and police stations, and ensure our first responders buildings are operational after a natural disaster by upgrading or replacing the Public Safety Building for the Police Department, the Medical Examiner's Office, the Police Department's Traffic Company and Forensic Services Divisions, and seismically improving the City's Animal Shelter. Additional detail on these projects is provided in the City's FY 2014-23 Ten-Year Capital Plan.

Justice Facilities Improvement Project

Since its inception, a major goal of the City's Ten-Year Capital Plan has been the replacement of the seismically deficient Hall of Justice (HOJ) building. Replacement of County Jails 3 and 4 that sit atop the HOJ is the next step in the process. This project is proposed as a $290.0 million project in the FY 2014-23 Capital Plan, and is funded through the City's General Fund supported Certificates of Participation (COPs) program. Between the ESER bond program described above and the City's COP program, over the next ten years, all criminal justice departments will be moved out of the seismically unsafe Hall of Justice.

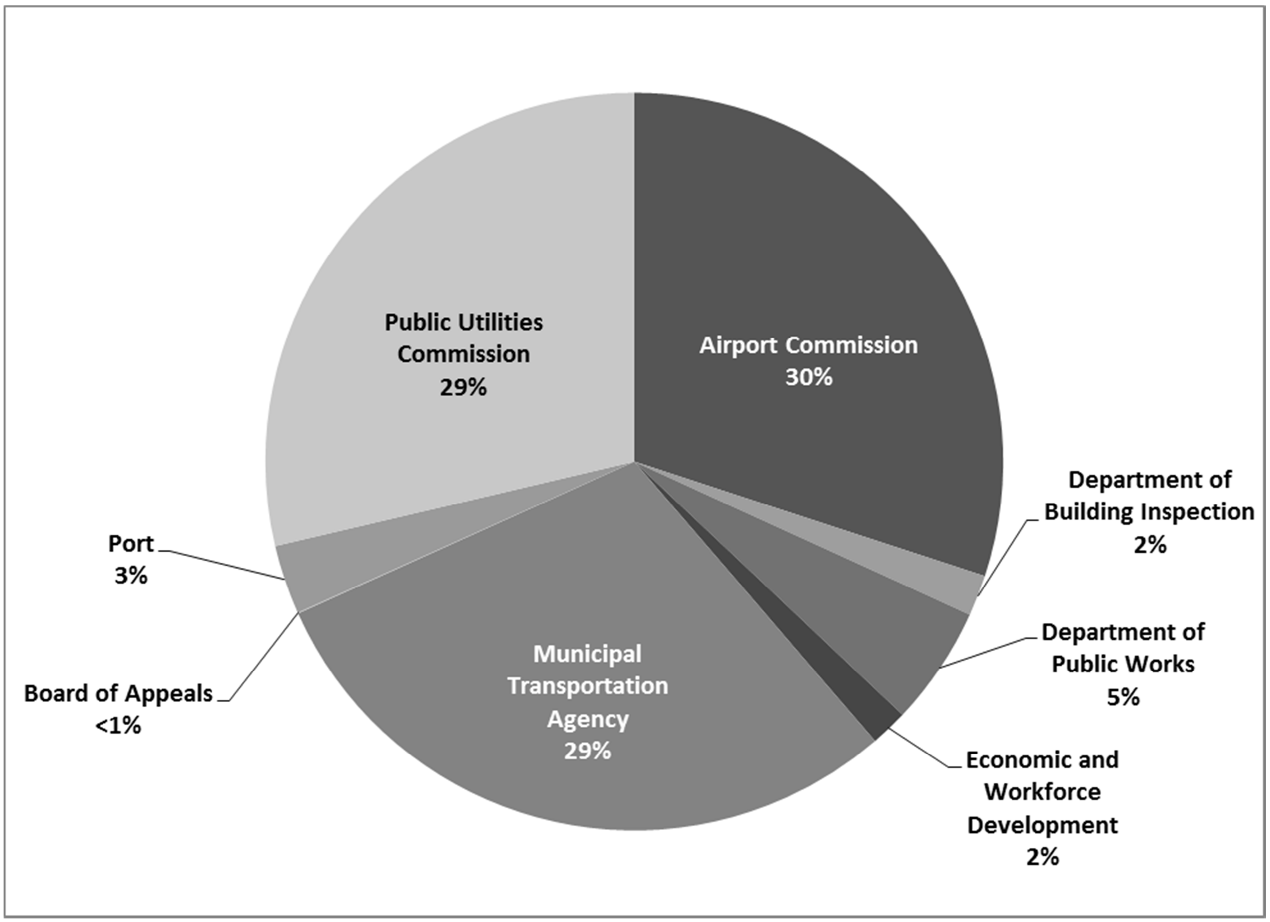
Public Works, Transportation & Commerce

OVERVIEW

The Public Works, Transportation and Commerce major service area includes the Airport, the Board of Appeals, the Department of Building Inspection, the Office of Economic and Workforce Development, the General Services Agency – Department of Public Works, the Municipal Transportation Agency, the Port, and the Public Utilities Commission. Most of the departments in this service area are funded by operating revenues and payments from customers. However, the Department of Public Works, the Office of Economic and Workforce Development, and the Municipal Transportation Agency all receive a significant General Fund allocation.

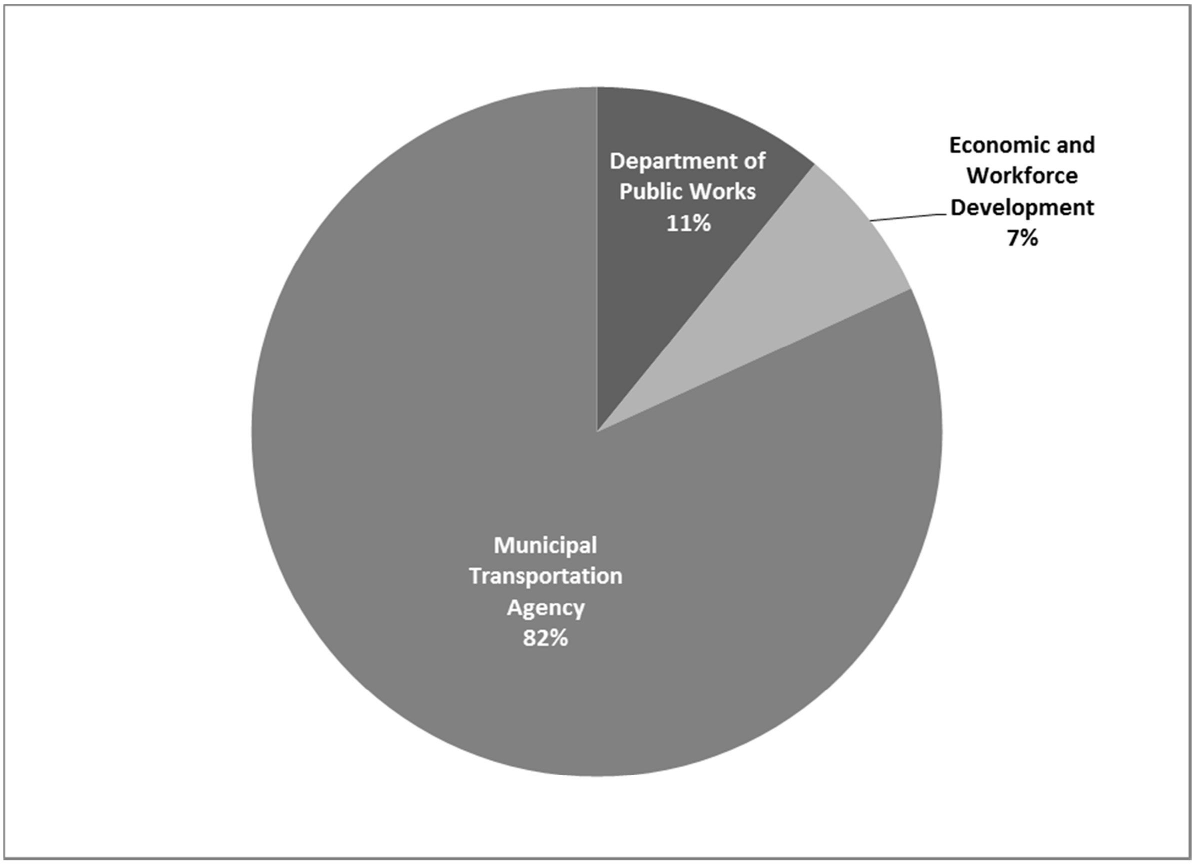
Together these nine departments have a total budget of $2.8 billion in FY 2012-13.

Figure 12: Total Budget by Department FY 2012-13



This includes $260.2 million in General Fund support (7.5 percent of the total General Fund budget).

Figure 13: General Fund Support by Department FY 2012-13



The four Enterprise Departments included in this section – the Airport, the Municipal Transportation Agency, the Public Utilities Commission and the Port – have separate sections at the end of this plan providing more detail.

FIVE-YEAR BASE CASE

Projected General Fund expenditures and revenue changes specific to the Public Works, Transportation and Commerce major service area are mostly included in overall salary and benefit cost increases, which are captured in the citywide base case projection. This major service area, largely because it is made up of several non-General Fund and Enterprise departments, does not have any department specific changes to highlight at this time.

OTHER ISSUES

In addition to the base case costs listed in the citywide sections of this Plan, there are two other important issues to highlight within the Public Works, Transportation & Commerce major service area.

Transportation and Streets Infrastructure Package

The most significant General Fund change in this year's Ten-Year Capital Plan is the inclusion of a comprehensive set of improvements to provide safe and complete streets and to improve transit reliability referred to as the Transportation and Streets Infrastructure Package (TSIP). The TSIP addresses a number of improvements that the City has been wrestling with for several years, including: fully funding street repaving to reach and maintain a Pavement Condition Index (PCI) of 70, which is in the "good" category; addressing long-term MUNI state-of-good-repair and mid-life fleet overhauls; and investing in safe and complete streets for autos, bikes, pedestrians, and transit vehicles. This set of recommendations ties annual capital needs to on-going revenue sources, and major enhancement projects to one-time bond funding, including a new vehicle license fee.

Joint Development Projects

In recent years, the City has actively sought out and promoted a number of joint development opportunities. These may include valuable, but under-utilized federal, State and City-owned parcels, as well as large privately owned parcels whose owners wish to develop in exchange for benefits to the public. Through the vehicle of lease or sale disposition agreements (for publicly-owned parcels) or development agreements (for privately-owned sites), the City is able to leverage the opportunity to create needed public benefits without diverting scarce resources from even more basic civic needs, such as public health, police and fire services. These may include parks and open space, affordable housing, streetscape and transit improvements, and access to jobs and workforce training. The Office of Economic and Workforce Development's Joint Development Division is tasked with realizing the promise of these important development projects.

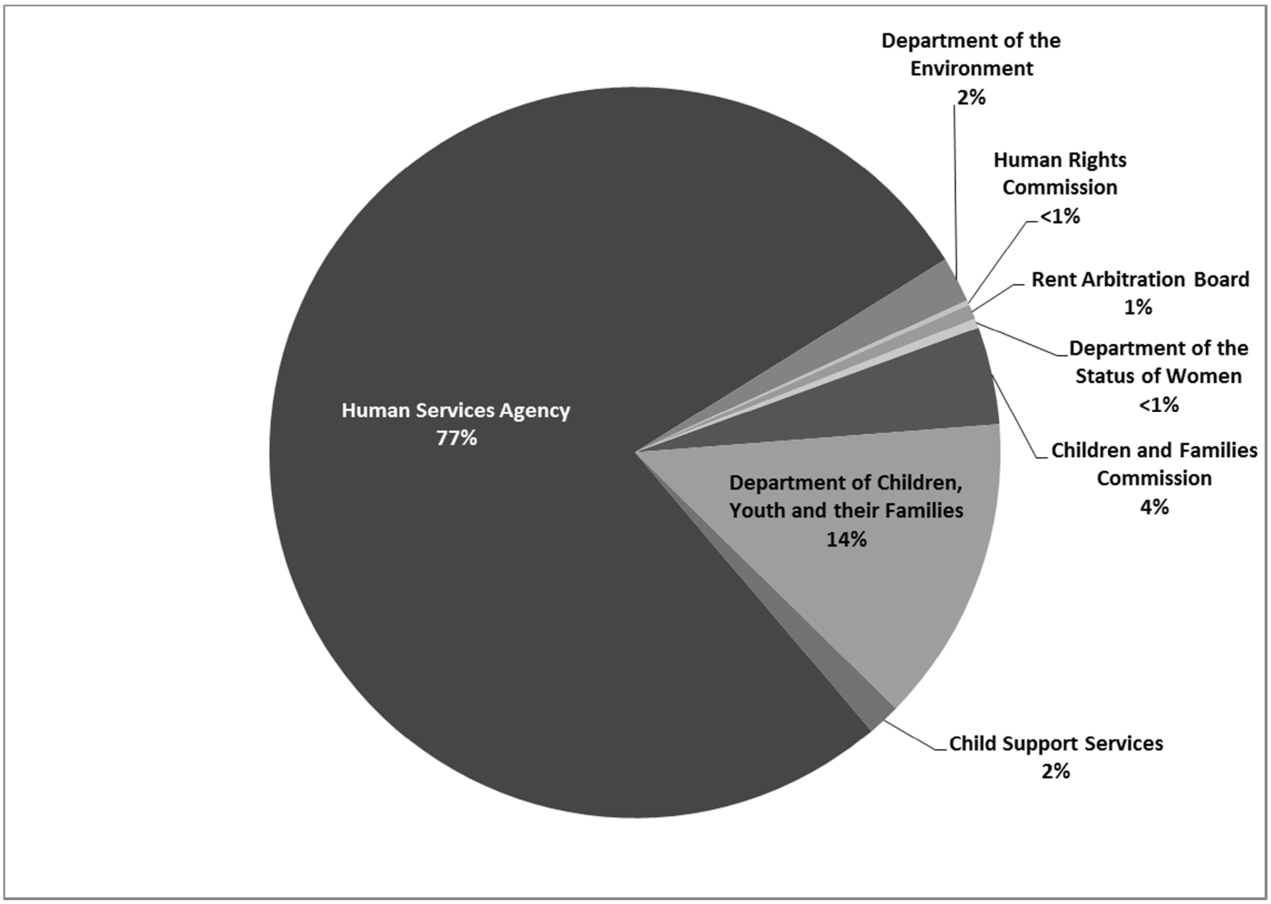
Human Welfare & Neighborhood Development

OVERVIEW

The Human Welfare and Neighborhood Development major service area includes the Children and Families Commission (First 5), the Department of Children, Youth and their Families (DCYF), Child Support Services, the Department of the Environment, the Human Rights Commission, the Human Services Agency, the Rent Arbitration Board, and the Department of the Status of Women. Most of the departments in this service area are funded through an on-going General Fund allocation through the annual budget process.

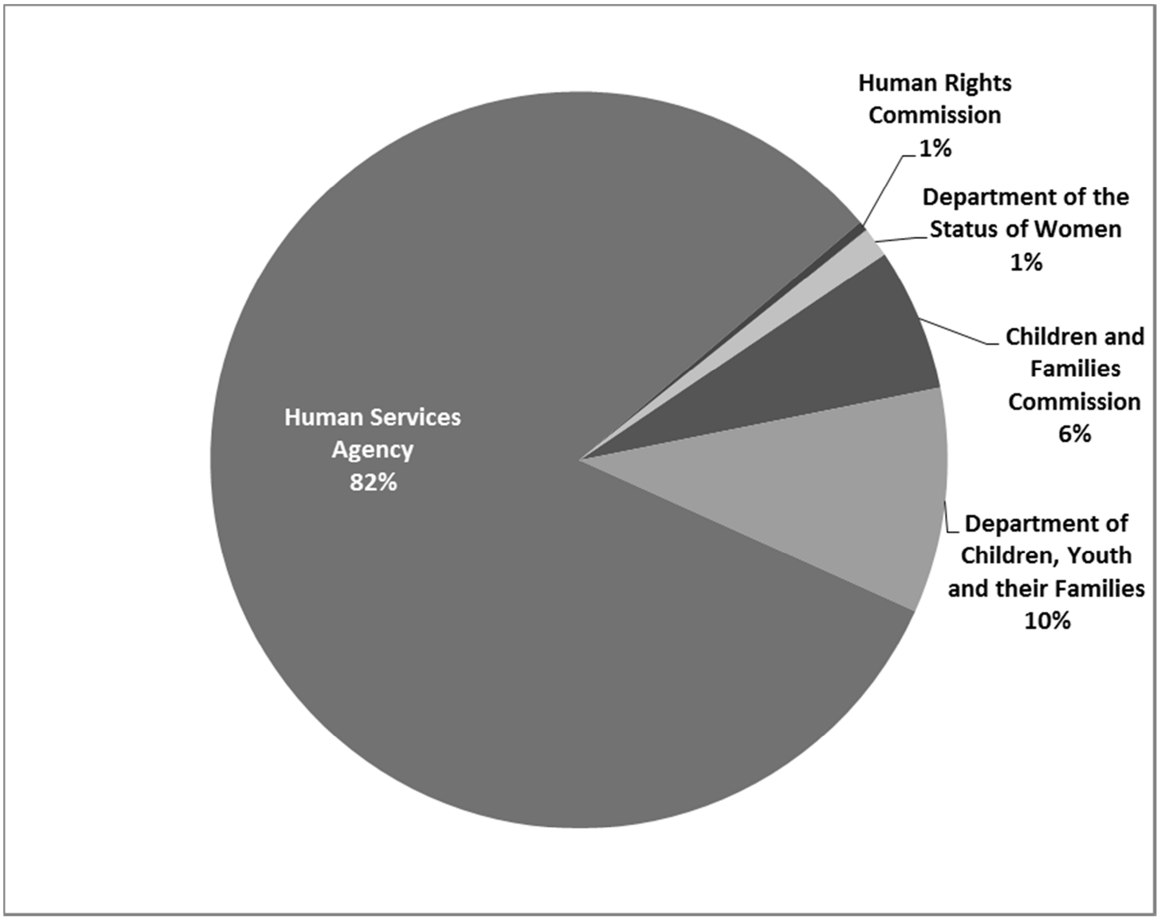
Together these nine departments have a total budget of $909.7 million in FY 2012-13.

Figure 14: Total Budget by Department FY 2012-13



This includes $281.4 million in General Fund support (8.0 percent of the total General Fund budget).

Figure 15: General Fund Support by Department FY 2012-13



Over the coming five years, a number of strategic issues face the Human Welfare and Neighborhood Development major services area departments, including: implementation of health care reform; the cost of funding housing initiatives in the City in light of the loss of the Redevelopment Agency; annualized costs of State cuts; on-going increased need for aid and programming within the City's social safety net; and the sunset of two major initiatives supporting children's services.

FIVE-YEAR BASE CASE

Below is a list of the projected expenditures and revenue changes specific to the Human Welfare and Neighborhood Development major service area, and provides additional detail on these changes mentioned earlier in this Plan.

Table 25: Base Case Projections ($ in millions)

Department - Issue	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Human Services Agency - Aid	8.0	(3.4)	(2.8)	(2.4)	(2.0)
Annualization of the State Supplemental	(2.8)	-	-	-	-
Subtotal - Human Welfare and Neighborhood Development	**5.2**	**(3.4)**	**(2.8)**	**(2.4)**	**(2.0)**

The changes in this major service area over the next five years includes: increased costs in the Care not Cash program; General Fund Aid programs; and the annualization of the current year State supplemental. These costs are offset by increased state revenues in Aid programs in the first year of the projection.

NOTES TO THE BASE CASE PROJECTIONS

Human Services Agency – Aid
Aid programs are human welfare programs within the Human Services Agency that receive State or federal funding based on caseload or type of services rendered, and provide aid payments to eligible populations.

The Human Services Agency projects that Aid programs will see a General Fund savings of $8.9 million in FY 2013-14, and then an incrementally increasing General Fund subsidy of $3.4 million in FY 2014-15, $2.8 million in FY 2015-16, $2.4 million in FY 2016-17, and $2.1 million in FY 2017-18. The $8.9 million surplus, (offset by $0.8 million in Care Not Cash cost increases discussed below) in FY 2013-14 is due to: increasing revenues for foster care services and in-home supportive services (IHSS); a decrease in enrollment of the non-homeless County Adult Assistance program; and a decrease of caseloads in the adoption program. The cost increases in FY 2014-15 through FY 2017-18 are primarily due to caseload growth in the IHSS programs.

Care Not Cash, approved by voters in November 2002, reduced general assistance subsidies for homeless individuals in exchange for housing and services. Savings generated from redirecting the subsidies were used to create a baseline for housing and services for this population. In its initial years, the caseload of general assistance requests dropped so significantly that the program generated a surplus. This surplus was gradually spent down as caseloads stabilized and operating costs of housing and homeless services remained constant. By FY 2012-13, the program had exhausted its surplus and the General Fund provided $0.3 million to subsidize the program. In each of the next five fiscal years, there is a need for an on-going General Fund subsidy of $0.8 million per year starting in FY 2013-14 to maintain the service level baseline.

Annualization of the State Supplemental
The FY 2012-13 State budget included a 10.0 percent across-the-board cut to Title V childcare providers. The local impact of this cut was $5.9 million, $3.1 million of which was absorbed within existing funding uses by the Human Services Agency, the San Francisco Unified School District, and the Children and Families Commission. The City provided the remaining $2.8 million through a mid-year supplemental appropriation. This supplemental will add an annual on-going cost of $2.8 million beginning in FY 2013-14.

OTHER ISSUES

In addition to the base case costs listed in Table 25, there are other important issues within the Human Welfare & Neighborhood Development major service area. These are issues with unknown cost implications, including: potential State and/or federal policy changes; projects that are considered important but that do not currently have a funding source identified; large capital or IT projects; and policies captured in the citywide base case projection above that have a significant impact on this major service area.

Federal Sequestration
Should federal sequestration continue, direct cost to City agencies could exceed $25 million in FY 2012-13. These figures are estimates and do not include potential indirect costs of sequestration, nor on-going impacts to the City in ensuing years. Much uncertainty remains around the potential implementation and details of sequestration.

Human Services Agency – Medi-Cal Expansion
The Human Services Agency processes Medi-Cal applications and determines initial and on-going eligibility for Medi-Cal clients. Under the federal Affordable Care Act, approximately 30,000 San Francisco residents will become newly eligible for Medi-Cal beginning in 2014, potentially increasing the Department’s caseload by 50 percent or more. The State has set aside $700 million to help with implementation of this expansion, and the

Department expects to receive a portion of these funds to support expanded staffing and support for the newly eligible caseloads. However, the projected cost to the City and implementation details of Medi-Cal expansion are currently unknown.

Human Services Agency – IHSS Program/State Coordinated Care Initiative

Statutory changes adopted through the 2012 State budget process will significantly modify the governance structure and financing of the In-Home Supportive Services (IHSS) program over the next five years. Effective FY 2012-13, the State established an IHSS Maintenance of Effort (MOE) with the City and County of San Francisco. The MOE increases by 3.5 percent each year beginning on July 1, 2014, and the State will be responsible for covering costs that exceed the MOE amount. In addition, a newly created Statewide Authority will take over the collective bargaining functions for individual IHSS independent providers (IPs) from county jurisdictions. This change is prospective and will occur once San Francisco has implemented the Coordinated Care Initiative (CCI). The CCI is a major State policy initiative that will improve the care delivery system for low-income seniors and people with disabilities through better care coordination and the integration of long-term care services (including IHSS) into Medi-Cal managed care. The City budget impact of the collective bargaining shift is unknown but could potentially approach a loss of $40 million annually beginning in 2015 or later. The magnitude of the impact hinges upon whether and how the Statewide Authority restructures the provision of health benefits for providers, which are currently provided through the locally administered Healthy Workers program.

Human Services Agency – Health Care Reform

While all human welfare departments anticipate large changes due to the implementation of Health Care Reform, much uncertainty remains in the way in which the implementation of the Affordable Care Act will affect the City. Generally speaking, departments that provide social services expect their caseloads to grow as more of the population becomes integrated into social service systems through mandated health care coverage. More details on the potential effects of Health Care Reform are provided in the Community Health major service area section of this report.

Children and Families Commission & San Francisco Unified School District – Proposition H Renewal

Proposition H, also known as the Public Education Enrichment Fund, (PEEF) was passed in March 2004 and mandates the annual investment of General Fund dollars for San Francisco Unified School District enrichment programs and the Children and Families Commission's (also known as First 5 San Francisco) Preschool for All program. As mentioned in the Citywide baselines section of this Plan, the PEEF contribution is projected to be fully funded in FY 2013-14. The charter allows for the contribution to be decreased by 25 percent in budget years when the budgetary deficit is projected to be $100 million or more. In previous years, this contribution has been funded at the lower level; increasing to the full contribution level represents a $22.8 million increase in FY 2013-14 followed by contributions increasing by the percentage increase in the City's aggregate discretionary revenue in FY 2014-15 through FY 2017-18. This contribution currently expires in FY 2015-16 and a process for its renewal is currently underway. This Plan assumes the contribution will continue to grow at the rate of growth of discretionary revenues.

Department of Children, Youth and their Families – Children's Fund Renewal

In 1991, San Francisco voters passed the Children's Amendment to the San Francisco Administrative Code, mandating the City set aside a portion of local property tax revenues to be used for children's services as administered by the Department of Children, Youth and their Families. The Amendment was re-authorized in 2000. Financial information on the Children's Fund is provided in the revenue section of this Plan. The Children's Amendment is set to sunset at the end of FY 2015-16, and the City is beginning conversations regarding its renewal.

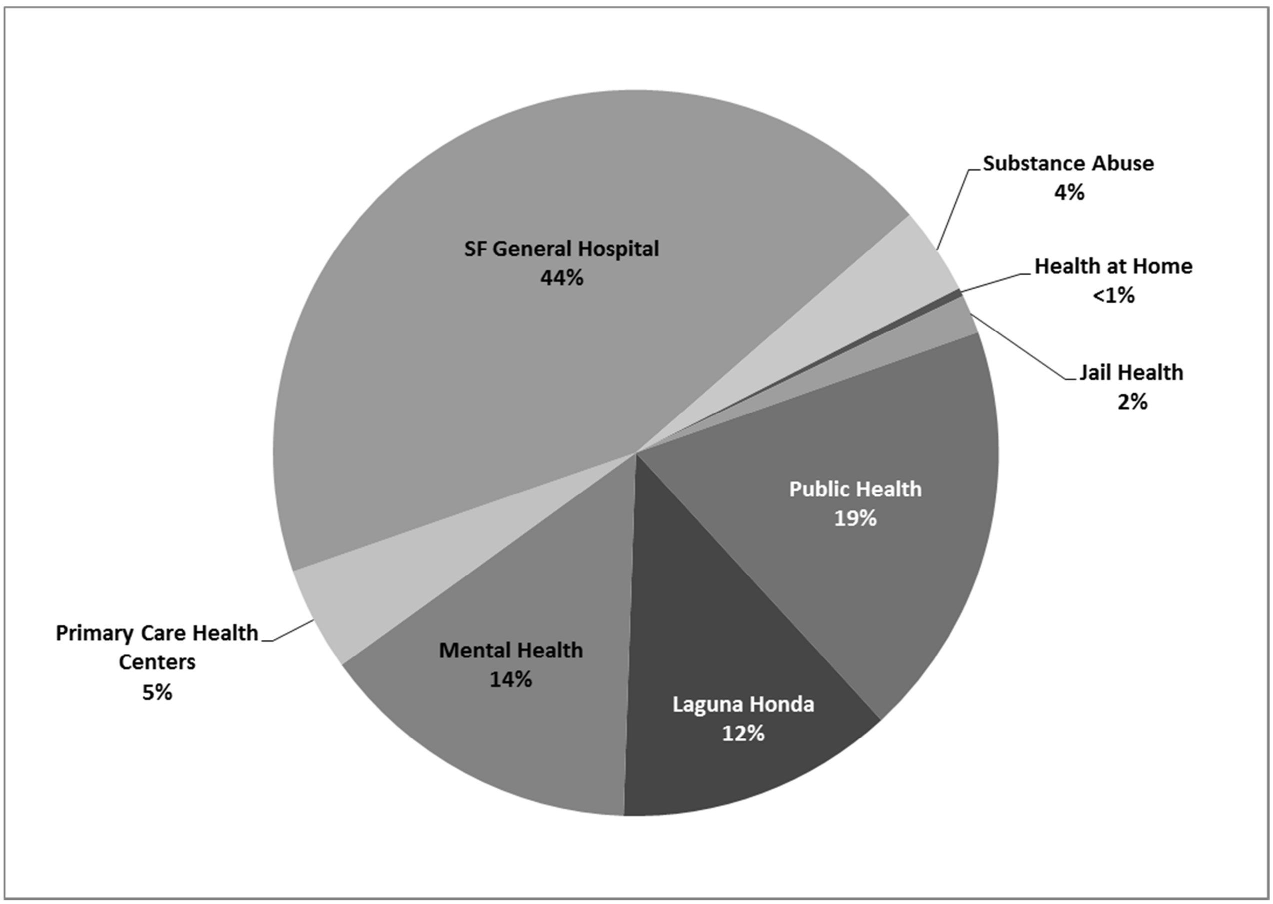
Community Health

OVERVIEW

The Community Health major service area includes only one department, the Department of Public Health (DPH). The Department of Public Health is the largest department in the City and County of San Francisco and receives the largest General Fund allocation.

The Department of Public Health has a total budget of $1.7 billion in FY 2012-13, including $446.6 million in General Fund support (12.8 percent of the total General Fund budget). The largest program area within the Department of Public Health is the operation of two hospitals: San Francisco General Hospital and Laguna Honda Hospital.

Figure 16: Total Budget by Program Area FY 2012-13



Over the coming five years, a number of strategic issues face the Department of Public Health, including: implementation of the Affordable Care Act; moving into the new General Hospital; and potential reductions in revenue from the State and federal governments.

FIVE-YEAR BASE CASE

Table 26 shows a list of the projected expenditures and revenue changes specific to the Community Health major service area and provides additional detail on these changes mentioned earlier in this Plan.

Table 26: Base Case Projections for the Department of Public Health (DPH) FY 2014-18 ($ in millions)

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
SOURCES Increase / (Decrease)					
DPH Revenues	10.8	17.0	24.7	23.8	23.7
USES Decrease / (Increase)					
Salaries and Benefits	(44.6)	(35.6)	(28.6)	(30.6)	(32.3)
SFGH Rebuild on-going and one-time FF&E costs	(40.0)	(25.0)	15.0	23.8	(1.3)
Annualization of Anticipated Supplemental	(37.6)	(2.2)	(2.4)	(2.5)	(2.7)
Inflation on non-personnel costs and grants to non-profits	(6.7)	(20.7)	(20.7)	(19.9)	(19.8)
Annualize State Supplemental	(3.0)				
Health Care Reform, Regulatory and Other	(21.0)	(3.1)	(5.2)	(8.2)	(16.3)
TOTAL CHANGES TO USES	**(152.8)**	**(86.6)**	**(41.8)**	**(37.5)**	**(72.5)**
Projected Growth (Shortfall) vs. Prior Year	**(141.9)**	**(69.7)**	**(17.1)**	**(13.7)**	**(48.8)**
Cumulative Growth	**(141.9)**	**(211.6)**	**(228.7)**	**(242.4)**	**(291.2)**
Portion of General Fund Growth Assumed for DPH	**85.0**	**22.4**	**18.6**	**14.3**	**19.4**
Remaining Surplus (Shortfall) vs. Prior Year	**(57.0)**	**(47.3)**	**1.5**	**0.6**	**(29.4)**
Cumulative Projected Surplus (Shortfall)	**(57.0)**	**(104.2)**	**(102.7)**	**(102.1)**	**(131.5)**

Table 26 assumes that the Department is able to share in the General Fund revenue growth projected for the rest of the City, including the portion that was already allocated in the adopted FY 2013-14 budget. This equates to an increase of General Fund Support in FY 2013-14 of $85 million followed by incremental growth of $22.4 million, $18.6 million, $14.3 million, and $19.4 million in each of the following years. Even with this level of General Fund support, the Department will still have a deficit of over $130.6 million in FY 2017-18. This is approximately one third of the deficit projected for the entire City as shown in Table 27. The challenges facing the Department of Public Health are a significant driver of the overall City deficit.

Table 27: Portion of Deficit Attributable to Department of Public Health (DPH) ($ in millions)

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Citywide Cumulative Projected Surplus (Shortfall)	**(123.6)**	**(256.1)**	**(367.7)**	**(423.2)**	**(487.2)**
Portion Attributable to DPH	(57.0)	(104.2)	(102.7)	(102.1)	(131.5)
Remaining Projected Surplus (Shortfall)	**(66.6)**	**(151.8)**	**(265.0)**	**(321.1)**	**(355.6)**
DPH Share of Deficit	46%	41%	28%	24%	27%

Over the next five years, the City—along with the rest of the country—will face a massive change in the provision of health care with the implementation of the Affordable Care Act. Financial outcomes from this change are dependent on many decisions that have not yet been made at the State or federal level, and are therefore unpredictable. Moreover, as newly-insured consumers increasingly drive financial outcomes, the Department of Public Health, and other health care providers are grappling with financial uncertainty and a lack of historical data on which to base future projections for a fundamentally different health care system.

In the meantime, it is clear that the growth trends projected at the Department of Public Health are unsustainable for the Department and the City as a whole, and that the City must build on existing efforts to prepare for change. A combination of solutions will be necessary to avert these projected deficits, including many of the same strategies articulated in the Citywide Solutions section of this report: controlling labor and benefit growth; exploring ways to reduce capital costs or spread the cost over more years; departmental reductions; and investing in operation infrastructure necessary to maintain and grow revenues.

NOTES TO THE BASE CASE PROJECTIONS

Sources – Baseline Revenue Growth
Revenues at the Health Department in FY 2013-14 of this plan are assumed to be the same level as adopted in the FY 2013-14 budget last year. Beginning in FY 2014-15, this report assumes CPI growth on hospital patient revenues and on state supported mental health revenues. These assumptions result in increased revenue of $12.3 million in FY 2013-14, $16.4 million, $24.7 million, $23.8 million, and $23.7 million in each of the following years.

Uses – Salaries and Benefits and Non-Personnel Cost Increases
Increases in salary and benefit costs in this major service area generate a need for an increasing General Fund subsidy of $44.6 million in FY 2013-14, $35.6 million in FY 2014-15, $28.6 million in FY 2015-16, $30.6 million in FY 2016-17, and $32.3 million in FY 2017-18. Of note is the fact that these costs are increasing much faster than DPH's revenue growth.

Uses – SFGH Rebuild on-going and one-time FF&E costs
The Department of Public Health has several General Obligation (G.O.) bond projects that are coming online in the next five years. In 2008 the voters approved an $887.4 million SF General Hospital Rebuild bond initiative required to comply with State seismic safety standards. The new facility will have space for 284 beds - an increase of 32 beds from the existing facility. The hospital rebuild is currently scheduled to be completed on-time and on-budget in FY 2015-16, and is expected to open to the public in December of 2015. The Department will need to purchase new furniture, fixtures and equipment (FF&E) that are not bond eligible prior to occupancy, for which the Department is expecting to need in increase in their Genearl Fund subsidy of $40.0 million in FY 2013-14, $25.0 million in FY 2014-15, and then see a reduction in General Fund support of $15.0 million in FY 2015-16, $23.8 million in FY 2016-17, and an additional increase of $1.3 million in FY 2017-18.

Uses – Other Capital
In addition to the General Hospital rebuild, the Department plans to bring a $435 million G.O. bond before the voters in 2015, which will include seismically strengthening office and clinic space at 101 Grove Street, seismically strengthening SF General Hospital building 5 and buildings 80/90, and expanding the South East Health Center to allow improved coordination of primary care and behavioral health services in one of the most underserved areas of the City. These projects have non-bond eligible moving, operating and FF&E expenses that will require an increasing General Fund subsidy of $1.2 in FY 2013-14, $1.4 million in FY 2014-15, $1.2 million in FY 2015-16, $4.2 million in FY 2016-17, and $12.3 million in FY 2017-18.

Uses – CPI on Non-Personnel Costs
Increases on non-personnel costs in are inflated by the Consumer Price Index (CPI) and generate a need for an increasing General Fund subsidy of $6.7 million in FY 2013-14, $20.7 million in FY 2014-15, $20.7 million in FY 2015-16, $19.9 million in FY 2016-17, and $19.8 million in FY 2017-18.

Uses – Annualization of Anticipated Supplemental
In FY 2012-13, the Department of Public Health is anticipated to need a mid-year supplemental of $46 million as reported by the Controller's Six-Month Report. The Department has required mid-year supplementals for many years now, but as the problem continues to be unfunded, it continues to grow. After removing both one-time problems and one-time solutions, it is estimated that the annualized value of this request will be $37.2 million and grow by 5 percent each year. The shortfall is primarily driven by unfunded salary, benefit, and pharmaceutical cost growth.

Uses – Health Care Reform Initiatives
Although there is much uncertainty around the full financial impact of implementation of the Affordable Care Act, the Department has identified some known costs that are included in this report. These costs will require an increase in General Fund subsidy of $7.8 million in FY 2013-14 and $1.6 million in FY 2014-15. As the Department moves to shift its business model from one focused on volume of services to one that effectively manages the cost of caring for its patients, these additional costs will fund the following:

- **Creating an Office of Managed Care**: This Office will be responsible for contracting strategy with health plans, utilization management, marketing-branding, data reporting, quality improvement, provider services, etc.

- **Integrated Delivery System Recommendations**: As part of an 18 month process, the Department identified key areas where services and programs could be integrated to provide higher quality of care, increase patient satisfaction, and improve efficiency in service delivery.

- **Investment in Data Analysis**: In order to adequately manage costs as the health care system shifts from a fee-for-service model to managed care with capitated rates, the Department needs increased capacity to gather and analyze data, and use that data to make intelligent operational decisions.

- **Access Initiatives**: The Department must ensure access to primary and specialty care services to maintain its revenue base and ensure high-quality, accessible care. This includes expanding primary care capacity through weekend and evening hours, and productivity improvements. In addition, hospital-based services must be strengthened to ensure the Department meets regulatory standards for services including trauma surgery, liver clinic, nephrology oversight, OB/GYN capacity, oral surgery, pediatrics ICU, neurology regulatory requirements, and geriatrics eReferral. These combined efforts will increase clinical access, integrity, and operational efficiencies.

More details on the uncertainties surrounding health care reform are discussed later in this section.

Uses – Annualize State Supplemental
The FY 2012-13 State budget included reduced revenues and increased fees for services provided by the Department of Public Health. Cuts to Medi-Cal and Healthy Families reimbursements resulted in a $0.5 million revenue loss, and increased fees for beds State Institutes of Mental Health and at Napa State Hospital resulted in $2.4 million in increased expenditures. The City backfilled these cuts with a $3.0 million mid-year supplemental appropriation. The annualized cost of these cuts is $3.0 million starting in FY 2013-14.

Uses – Potential Regulatory Changes and Other
The Department annually faces new and changing regulations from State and federal agencies governing health care. In upcoming years, the Department faces increasing costs related to Electronic Medical Records recently updated Phase II requirements. If the Department is unable to meet certain meaningful use standards, it will be required to return revenue previously given for the implementation of this project and face penalties on future MediCare reimbursement rates. Other planned needs in this area are related to changes in pharmaceutical

purchasing requirements, staffing requirements for neurosurgery, staffing changes at Primary Care clinics, and contract adjustments with UCSF.

OTHER ISSUES

In addition to the base case costs listed above, there are other important and outstanding issues within the Community Health major service area. These are issues with unknown cost implications, including potential state and/or federal policy changes; projects that are considered important but that do not currently have a funding source identified; large capital or IT projects; and policies captured in the citywide base case projection above that have a significant impact on this major service area.

The Affordable Care Act – Federal Health Care Reform
On March 23, 2010, President Obama signed into law the Affordable Care Act (ACA), which is designed to expand health insurance coverage, improve health care delivery system, and control increasing health care costs. At the Department, ACA will dramatically change the way health care is provided to patients and how the Department gets revenue to provide that care.

The Department, recognizing the impending changes associated with the ACA, launched an internal planning process in FY 2010-11 focused on strengthening and integrating its delivery system. San Francisco has taken significant actions to prepare for the implementation of the ACA, including creating transitional programs, such as Delivery System Reform Improvement Payments (DSRIP) and its Low Income Health Program (LIHP) as authorized under the Section 1115 Waiver. Moreover, the Department has been working to establish a system of care under its Healthy San Francisco program for several years, laying the groundwork for a primary care-focused system of care for its uninsured customers. Therefore, San Francisco is better prepared than many counties for the transition to health care reform. However, as envisioned under the ACA, San Francisco must undertake additional efforts to prepare for the new environment and ensure its revenues will be sufficient to sustain core safety net health care services.

- **Increased Coverage and Decreased Compensation for the Uninsured**: The expansion of Medicaid—known in California as Medi-Cal—eligibility and the creation of health insurance exchanges will increase coverage for a large number of City residents who are currently uninsured. At the same time, the federal government is planning to reduce Disproportionate Share Hospital (DSH) funding in anticipation of this increased coverage. Similarly, the State has indicated that it is considering reducing realignment revenues paid to county governments for care of uninsured individuals. Such actions are likely to dramatically reduce the financial benefits of the coverage expansion to San Francisco, as the State seeks to shift funding from the county to the state level. The methodology for allocating these funds is not yet finalized, so it is unclear how revenues will change.

- **Expanded Choices for Current/New Clients**: As the City’s uninsured residents become eligible for coverage under the ACA, health care consumers will increasingly have choices about where they receive medical care. At the same time, despite the significant increase in coverage under ACA, many of the City’s residents, particularly the undocumented, will remain uninsured and the Department’s critical role as a safety net provider will remain. As a result, to remain financially viable the Department will need to become a “provider of choice” for this newly-insured population to retain a stable revenue base needed to maintain safety net services. To do so will require a focus on ensuring quality, access, and a positive customer experience.

- **Shift from Fee-for-Service to Managed Care Model**: The Department’s funding continues to shift from a primarily fee-for-service reimbursement model to a managed care system with a fixed capitated rate.

This funding model shifts financial risk to providers including the Department, and alters financial incentives to limit costs. Moreover, the Department could face additional financial pressure if capitated rates are set at levels inadequate to meet provider costs.

Medi-Cal Waiver

A new five year Medi-cal waiver will be implemented in FY 2015-16. As this waiver is just beginning to be developed, it is unclear how it will impact the Department of Public Health. However, as the last two waivers have led to significant program changes such as Healthy San Francisco, and program enhancements due the Delivery System Reform Incentive Pool (DSRIP); the Department expects additional changes in the future.

Mental Health Realignment

Similar to the shift to managed care, as mental health revenues are realigned and counties are given a fixed amount of funding for services, the Department of Public Health will need to manage the costs of providing mental health and other social services.

Changes to Disease Control Funding Formulas

The Center for Disease Control and Prevention (CDC) plans to change its formula for funding to be based on morbidity rates and will phase in the change over the next several years. The City has been very successful in managing the spread of communicable diseases, and as a result there have not been significant increases in cases. The funding for the City's programs are expected to drop. As the Department saw in the past fiscal year, the CDC reduced its funding for HIV prevention work in San Francisco. More recently, the Department expects support for their Tuberculosis treatment and prevention will also be reduced significantly as well.

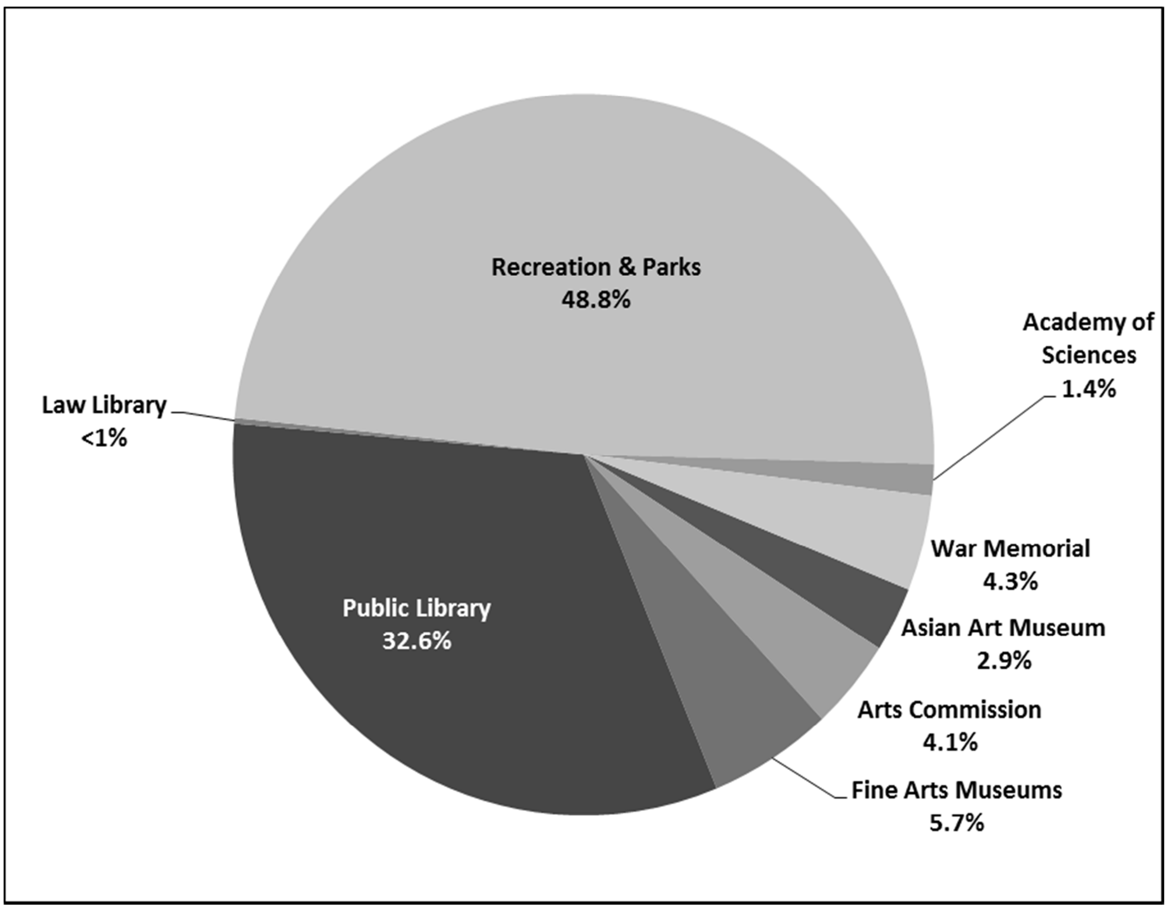
Culture & Recreation

OVERVIEW

The Culture and Recreation major service area includes the Asian Art Museum, the Arts Commission, Fine Arts Museums, the Public Library, the Law Library, the Recreation and Parks Department, the Academy of Sciences, and the War Memorial. These departments receive General Fund monies through an annual budget allocation (Recreation and Parks Department and the Law Library), a voter mandated set aside (the Public Library), or through a hotel tax allocation specified in administrative provision 11.11 in the Annual Appropriation Ordinance (Asian Art Museum, Arts Commission, Fine Arts Museums, the Academy of Sciences, and the War Memorial). Almost all of these departments receive some non-General Fund source support as well.

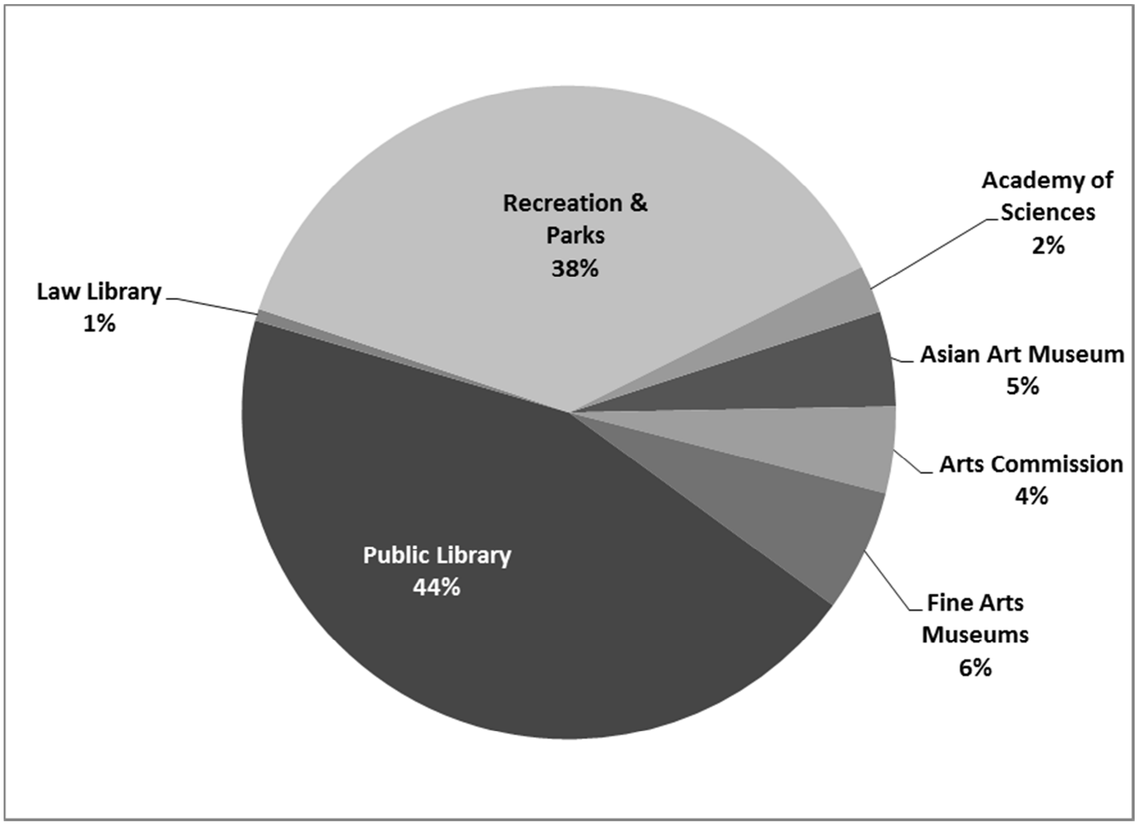
Together these eight departments have a total budget of $283.9 million in FY 2012-13.

Figure 17: Total Budget by Department FY 2012-13



This includes $119.1 million in General Fund support (3.4 percent of the total General Fund budget).

Figure 18: General Fund Support by Department FY 2012-13



Over the coming five years, a number of strategic issues face the Culture and Recreation major service area departments, including: the loss of revenue due to the move of the 49ers from Candlestick Park; the planning and roll out of several large capital projects, including the Veterans Building Seismic Retrofit, the Recreation and Parks Department's G.O. bond program, and the Branch Library Improvement Plan.

FIVE-YEAR BASE CASE

Table 28 is a list of the projected expenditures and revenue changes specific to the Culture and Recreation major service area, and provides additional detail on these changes mentioned earlier in this Plan.

Table 28: Base Case Projections ($ in millions)

Department - Issue	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Law Library Relocation Cost	(1.0)	1.0	-	-	-
Law Library Operating Rent Increase	(0.6)	-	-	-	-
Recreation and Parks - Candlestick Park Closure - Expenditures	-	2.3	-	-	-
Recreation and Parks - Candlestick Park Closure - Revenue	-	(2.6)	(3.3)	(0.5)	-
Subtotal - Culture and Recreation	**(1.6)**	**0.6**	**(3.3)**	**(0.5)**	**-**

The changes in General Fund costs over the next five years are a result of the likely closure of Candlestick Park and additional expenditures associated with the move of the Law Library out of the War Memorial Veterans Building.

NOTES TO THE BASE CASE PROJECTIONS

Law Library – Relocation Cost and On-going Rent Increase
Due to the War Memorial seismic retrofit project, the Law Library must move out of its space on the fourth floor of the War Memorial Veterans Building to a new location, which is still being negotiated by the Department of Real Estate. Currently, it is projected that this move will incur a one-time cost of $1.0 million for relocation, and then an additional on-going cost of $0.6 million per year starting in FY 2013-14 for increased rent costs.

Recreation and Parks Department – Candlestick Park Closure
This report assumes the 2013 football season will be the last that the 49ers will spend at Candlestick Park. If the 49ers do leave Candlestick Park, this will result in a loss of rent and admission tax revenue at the Recreation and Parks Department of $6.4 million per year starting in FY 2014-15. The team will pay the Department $3.3 million in FY 2014-15 as compensation and $0.5 million in FY 2014-15 and FY 2015-16 to support youth recreation programming. This Financial Plan also assumes a reduction in on-going stadium expenditures in materials and supplies, contracting costs, and cleaning services totaling $2.3 million in the FY 2014-15 Department's budget, which somewhat offsets this revenue loss.

If position reductions are made as a result of this change, greater on-going savings could be achieved, but those are not currently assumed. Potential savings in other departments due to the closure of Candlestick Park (the Police Department and the Municipal Transportation Agency) are also not assumed in this report and will need to be quantified at a later date.

OTHER ISSUES

In addition to the base case costs listed in Table 28, there are other important and outstanding issues within the Culture and Recreation major service area. These are issues with unknown cost implications, including: potential state and/or federal policy changes; projects that are considered important but that do not currently have a source identified; large capital or IT projects; and policies captured in the citywide base case projection above that have a significant impact on this major service area.

Recreation and Parks Department – General Obligation (G.O.) Bond Program
The Recreation and Parks Department faces a deferred maintenance backlog of nearly $1.7 billion in capital needs. Irrigation systems, swimming pools, neighborhood recreation buildings, Kezar Pavilion and McLaren Lodge are among a host of Department facilities needing to be repaired or replaced. To help address this gap, the City proposed a $195 million Neighborhood Parks and Open Space Improvements G.O. bond on the November 2012 ballot. The bond successfully passed with 73 percent of the vote. The new bond program includes improvements to specific parks and pools, as well as citywide programs, such as forestry, water conservation and trail restoration. Additional detail on these projects is provided in the City's FY 2014-23 Ten-Year Capital Plan.

War Memorial – Seismic Retrofit Project
Over the next three years, the War Memorial Veterans Building will undergo a $139.8 million seismic retrofit funded mostly with General Fund Certificates of Participation (COPs), along with some private fundraising and grant monies. Although the War Memorial will experience a loss of revenue in rent from the Herbst Theatre and Green Room in the Veterans Building during construction, the Department will offset this loss by reducing staff salary and benefit expenditures.

Arts Commission – Relocation Cost

The Arts Commission will be moving into the War Memorial Veterans Building upon completion of the retrofit project. Within the Veterans Building, the Arts Commission will have office space for their staff and create gallery and storage spaces on the first floor and basement for the display and safekeeping of the Civic Art Collection. The Arts Commission will contribute $1.0 million to the capital construction costs of the War Memorial Veterans Building retrofit project; currently the FY 2013-14 capital budget adopted in July of 2012 funds $0.3 of this need. The Department plans to work with the Capital Planning Committee to identify the additional $0.7 million needed over the next two years. Costs for relocation, furniture, fixtures and equipment related to the new offices, gallery and art storage spaces are unknown at this time.

Public Library – Branch Library Improvement Plan (BLIP)

In November 2000, a $105.9 million G.O. bond was passed to renovate, replace, or construct branch libraries. As of February 2013, the San Francisco Public Library, in partnership with the Department of Public Works, has completed 23 of 24 projects in the Branch Library Improvement Plan (BLIP), with one project remaining - the North Beach branch library. The North Beach branch library project began construction in October of 2012 and is slated for completion is in 2014. Additional detail on these projects is provided in the City's FY 2014-23 Ten-Year Capital Plan.

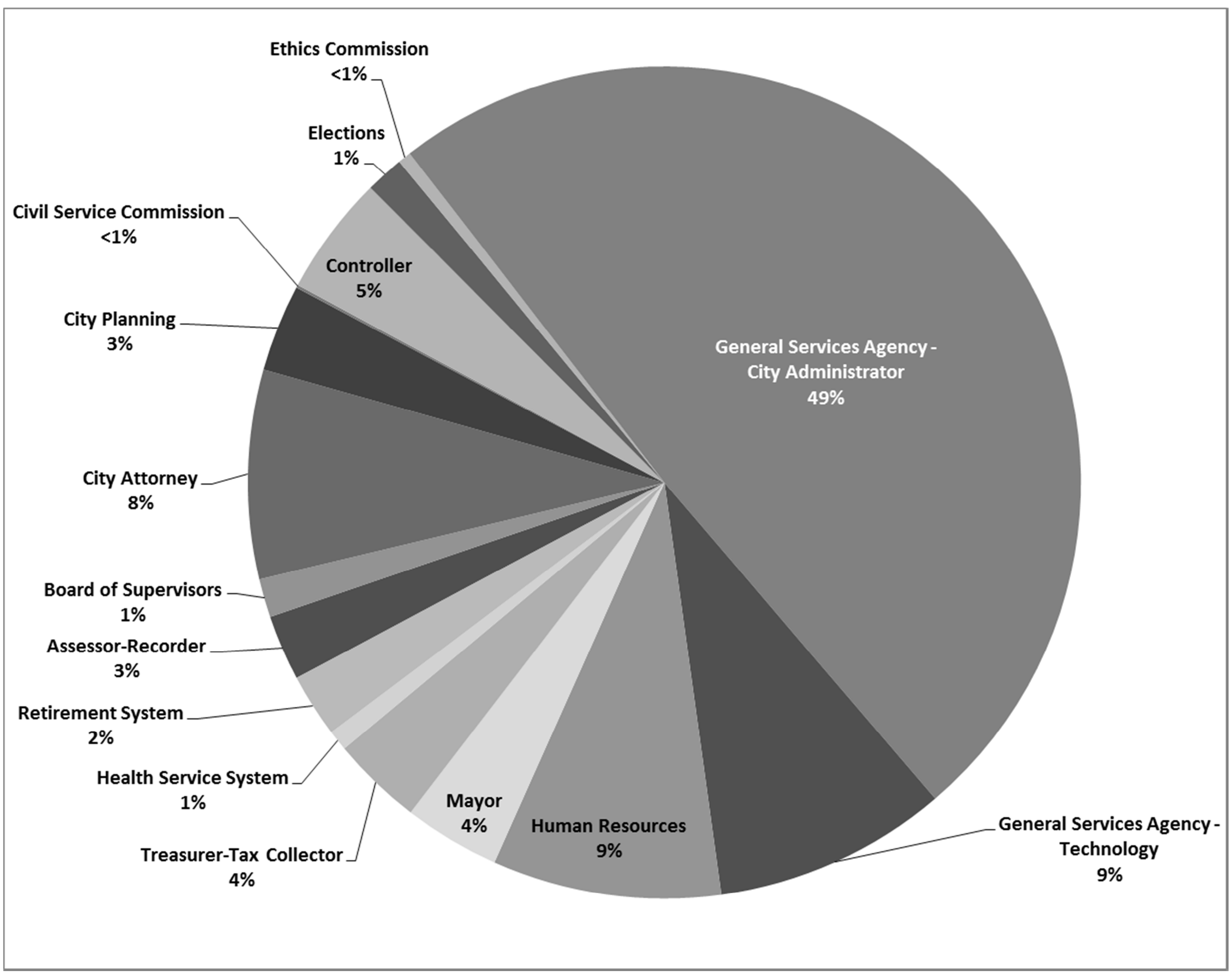
General Administration & Finance

OVERVIEW

The General Administration and Finance major service area includes the General Services Agency – City Administrator's Office, the Office of the Assessor-Recorder, the Board of Supervisors, the City Attorney's Office, the Controller's Office, the City Planning Department, the Civil Service Commission, the Ethics Commission, the Human Resources Department, the Health Service System, the Mayor's Office, the Department of Elections, the Retirement System, the General Services Agency – Department of Technology, and the Office of the Treasurer - Tax Collector. Most of the departments in this major service area are funded through an annual allocation from the General Fund, a rate model charged to city departments, and through fees for services provided to the public.

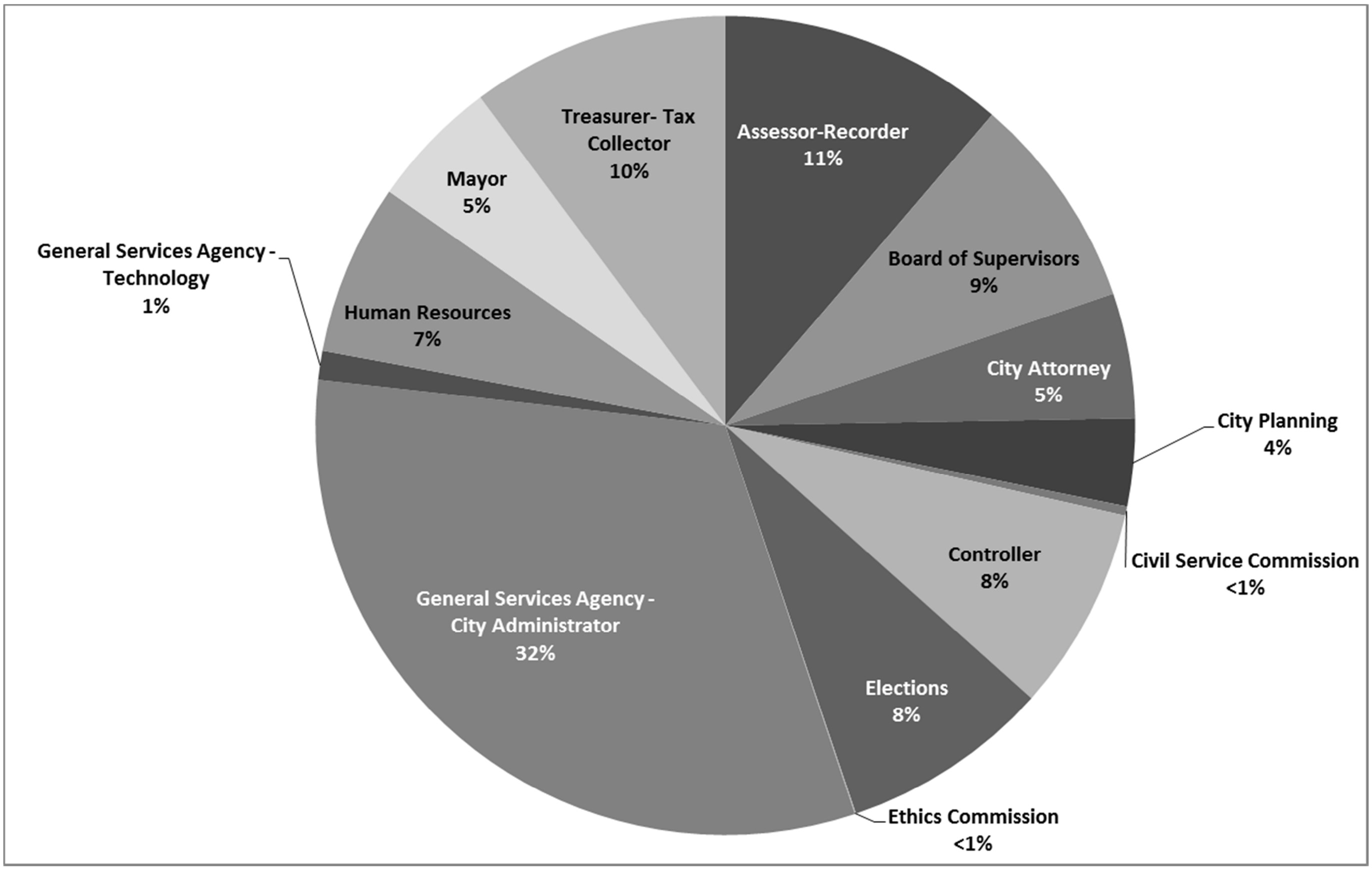
Together these nine departments have a total budget of $832.7 million in FY 2012-13.

Figure 19: Total Budget by Department FY 2012-13



This includes $139.2 million in General Fund Support (4.0 percent of the total General Fund budget).

Figure 20: General Fund Support by Department FY 2012-13



Over the coming five years, a number of strategic issues face the General Administration and Finance departments, including how to implement major housing initiatives through the Mayor's Office of Housing (MOH), and the Treasurer-Tax Collector's implementation of the Gross Receipts Tax.

FIVE-YEAR BASE CASE

Table 29 is a list of the projected expenditures and revenue changes specific to the General Finance and Administration major service area and provides additional detail on these changes mentioned earlier in this Plan.

Table 29: Base Case Projections ($ in millions)

Department - Issue	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
City Administrator's Office - Convention Facilities Subsidy	(2.2)	(2.2)	(0.4)	-	-
Elections - Number of Scheduled Elections	(5.0)	3.9	(4.6)	4.6	(1.0)
Ethics Commission - Public Financing of Elections	(2.0)	(2.0)	(0.6)	1.3	(0.3)
Mayor's Office of Housing - HOPE SF and Affordable Housing	(3.1)	(2.2)	0.8	(2.2)	(0.0)
Treasurer-Tax Collector - Gross Receipts Tax Implementation	(4.9)	(2.9)	2.0	1.0	1.0
Subtotal - General Administration & Finance	**(17.2)**	**(5.5)**	**(2.9)**	**4.7**	**(0.3)**

The increasing costs in this major service area over the next five years includes: a General Fund subsidy to the Convention Facilities (Moscone Convention Center); changes in payments to the Election fund due to the number of elections; an increase in supportive housing related costs; changes based on union negotiations each year; and implementation of the Gross Receipts Tax for the Treasurer-Tax Collector. The decrease in costs in FY 2016-17 are due to the City reaching the Election Fund cap and also because there are less elections in that year.

NOTES TO THE BASE CASE PROJECTIONS

City Administrator's Office – Convention Facilities Subsidy
This projection assumes the Convention Facilities fund will need an increasing General Fund subsidy of $2.2 million in FY 2013-14, $2.2 million in FY 2014-15, and $0.4 million in FY 2015-16. These cost increases are due to lower than expected operating revenue and the depletion of one-time fund balance used in prior years.

Elections – Number of Scheduled Elections
The number of elections, and the associated costs for holding elections, varies annually. The projected election schedule for the next five years shown in Figure 21:

Figure 21: Scheduled Elections FY 2013-14 through FY 2017-18

Fiscal Year	Date	Type
2013-14	November 2013	Municipal Election
2013-14	June 2014	Consolidated Gubernatorial Primary Election
2014-15	November 2014	Consolidated Gubernatorial General Election
2015-16	November 2015	Municipal Election
2015-16	June 2016	Consolidated Presidential Primary Election
2016-17	November 2016	Consolidated Presidential General Election
2017-18	June 2018	Consolidated Gubernatorial Primary Election

This schedule results in a projected additional incremental cost of $5.0 million in FY 2013-14, a savings of $3.9 million in FY 2014-15, a cost of $4.6 million in FY 2015-16, a savings of $4.6 million in FY 2016-17, and a cost of $1.0 million in FY 2017-18.

Ethics Commission – Public Financing of Elections
The Ethics Commission administers the Election Campaign Fund, which provides matching funds to candidates for Mayor and the Board of Supervisors. The total annual cost of the public financing program, including program administration, cannot exceed $2.75 per year per resident of San Francisco. Due to the loss of one-time fund balance as a source, General Fund cost increases of $2.0 million in both FY 2013-14 and FY 2014-15 are projected. In FY 2015-16, the fund must contain a statutorily defined amount due to the Mayor's race. To meet this threshold, an additional cost of $0.6 million is projected. Projections in the out years assume savings of $1.3 million in FY 2016-17 and a cost of $0.3 million in FY 2017-18. In the final two years, the projection assumes the fund reaches the statutory $7.0 million cap.

Mayor's Office of Housing – HOPE SF and Affordable Housing
In FY 2013-14, the City allocated $3.0 million for HOPE SF pay-as-you-go costs, such as pre-development expenses. The City intends to issue $22.5 million in Certificates of Participation (COPs) in FY 2013-14 for the Hunters View project and potentially issue additional COPs when needed in the future. Starting in FY 2014-15, the City will increase its HOPE SF contribution by $2.0 million to fund a total of $5.0 million per year for HOPE SF, which will cover $3.0 million in pay-as-you-go costs and $2.0 million in debt service for the COPs. Debt service payments will increase to $3.4 million in FY 2015-16, but MOH will decrease pay-as-you-go costs to

$1.6 million so the City's contribution will stay at $5.0 million per year on an on-going basis (debt service costs are also captured in the citywide debt section of this report).

The Mayor's Office of Housing administers the Local Operating Subsidy Program (LOSP). The Department of Public Health and Human Services Agency provide both rental costs for the LOSP and supportive services to the City's supportive housing operations. Program costs increase by $3.1 million in FY 2013-14, $2.2 million in FY 2014-15, $0.6 million in FY 2015-16, and $2.2 million in FY 2016-17. This number grows each year as new units are built and services come online, until the cost stabilizes in FY 2016-17 when the City expects to have achieved its supportive housing unit goal of 3,000 units. In FY 2013-14, $2.1 million in costs are transferring from the Department of Public Health's budget to the LOSP program, but this is revenue neutral to the General Fund.

Treasurer-Tax Collector – Gross Receipts Tax Implementation
In November of 2012, the citizens of San Francisco passed Proposition E, mandating the transition of the City's primary business tax from the current payroll tax structure to a new tax based on gross receipts. The Treasurer-Tax Collector is legally mandated to implement the gross receipts tax beginning in calendar year 2014. The City passed a mid-year supplemental appropriation in the amount of $2.6 million in order to begin implementation of the gross receipts tax. The Treasurer-Tax Collector projects costs to increase as a result of Gross Receipts Tax implementation by $4.8 million in FY 2013-14 and by an additional $2.9 million in FY 2014-15. As implementation transitions to regular operations, costs of the implementation project will decrease by $2.0 million in FY 2015-16, $1.0 million in FY 2016-17, and $1.0 million in FY 2017-18.

OTHER ISSUES

In addition to the base case costs listed in Table 29, there are other important and outstanding issues within the General Administration and Finance major service area. These are issues with unknown cost implications, including: potential state and/or federal policy changes; projects that are considered important but that do not currently have a source identified; large capital or IT projects; and policies captured in the citywide base case projection above that have a significant impact on this major service area.

The Controller's Office - Replacement of the City's Financial System
The City's mainframe-based central financial and accounting information system (FAMIS) is more than twenty-five years old and will need to be replaced. The Controller's Office is completing its first year of project planning, which will be continued in FY 2013-14. Project implementation is scheduled to begin in FY 2014-15. Replacement of the system is estimated at $72.2 million over the next several years. The Department will evaluate multiple strategies to implement the project, including a phased approach, which will allow the City to receive the benefits of the investments as each module is complete while phasing the cost over time. As a citywide project, the costs of this project will also most likely be allocated between General Fund and Enterprise departments. This will reduce the General Fund impact. This project will report back to COIT on a regular basis on the scope, budget and timeline for the project implementation. This project is identified as a major IT investment in the City's Five-Year ICT Plan.

Treasurer-Tax Collector – Replacement of the Business Tax System
The City's 20+ year old COBOL-based central Business Tax System (BTS) is scheduled to be replaced in FY 2013-14. This project is required as part of the voter approved Gross Receipts Tax and will need to be implemented within a specified time frame. This project is anticipated to be funded through the General Fund initially, but will be offset by the increased revenue generated by the tax. Reimbursements to the General Fund for this

project may begin as early as FY 2013-14. This project is identified as a major IT investment in the City's Five-Year ICT Plan.

The Assessor-Recorder's Property Tax Database Replacement Project

The Assessor-Recorder's legacy property tax database is reaching the end of its life and will need to be replaced in the next five years. The Department is currently completing initial research into property tax databases used by other similar sized counties. This project will require initial funds for critical project development through COIT to determine the scope and final budget for this project. This project is identified as a major IT investment in the City's Five-Year ICT Plan.

Dissolution of Redevelopment

The San Francisco Redevelopment Agency, along with all 400 redevelopment agencies in California, was dissolved on February 1, 2012 by order of the California Supreme Court in a decision issued on December 29, 2011. In response to the requirements of the legislation detailing the dissolution of Redevelopment (AB 26 and AB 1484), the City and County of San Francisco has created the Office of Community Investment and Infrastructure as the Successor Agency to the San Francisco Redevelopment Agency. The Agency works closely with the Office of the City Administrator to coordinate its activities within the City.

Under AB 26 and AB 1484, the Successor Agency is authorized to continue to implement three major redevelopment projects that were previously administered by the former Redevelopment Agency: 1) the Mission Bay North and South Redevelopment Project Areas; 2) the Hunters Point Shipyard Redevelopment Project Area and Zone 1 of the Bayview Redevelopment Project Area; and 3) the Transbay Redevelopment Project Area (collectively, the "Major Approved Development Projects"). In addition, the Successor Agency continues to manage Yerba Buena Gardens and other assets within the former Yerba Buena Center Redevelopment Project Area (YBC). The Commission on Community Investment and Infrastructure exercises land use, development and design approval authority for the Major Approved Development Projects, and manages the former Redevelopment Agency assets in YBC in place of the former San Francisco Redevelopment Agency Commission. The Oversight Board of the Successor Agency, which is required by AB 26, oversees certain fiscal management of former Redevelopment Agency assets, other than affordable housing assets transferred to the Mayor's Office of Housing, as the Successor Housing Agency.

Final determinations regarding the Due Diligence Reviews to determine what, if any, fund balances should be distributed to affected taxing entities are anticipated to be complete by April 2013. It is possible that the State will require a portion of the Successor Agency's fund balances be surrendered and distributed to the County's affected taxing entities. The City and Successor Agency continue to work with the State on these matters. Until these major issues are resolved, the impact of the dissolution on the General Fund cannot be completely determined.

Enterprise Departments

Airport

Municipal Transportation Agency

Port

Public Utilities Commission

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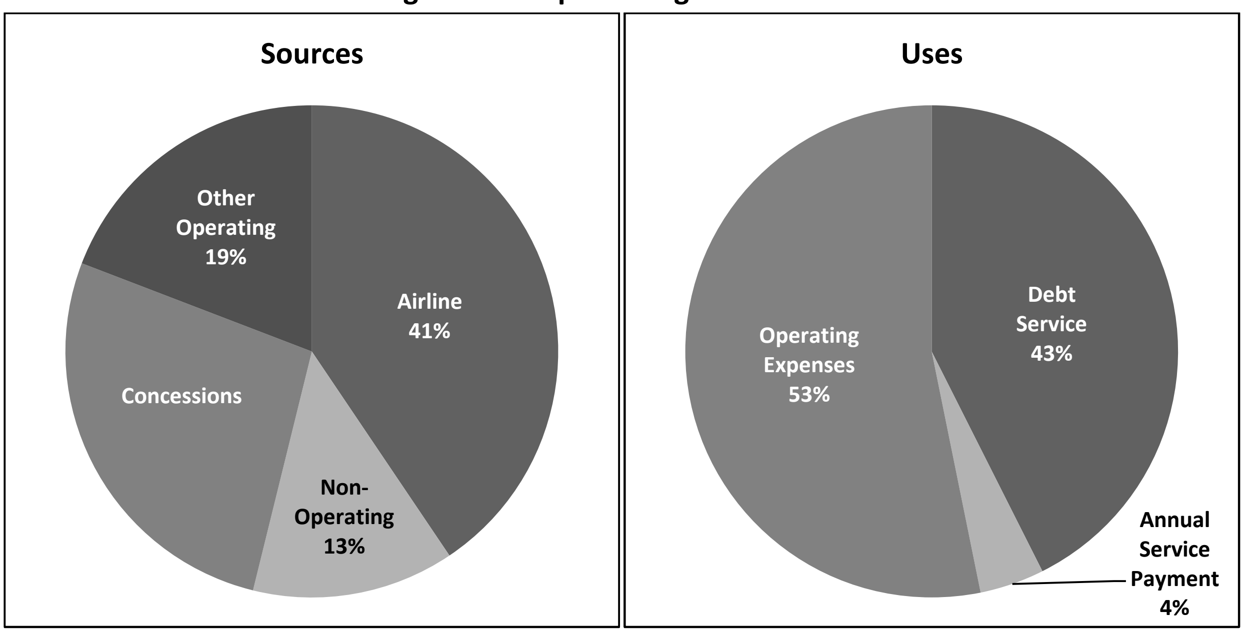
Airport

OVERVIEW

San Francisco International Airport (Airport), an Enterprise Department of the City and County of San Francisco, is a world class facility and is one of the top 25 busiest airports in the world, serving more than 44 million domestic and international passengers annually. The Airport is a leader in safety and security, customer service, community relations, and sustainability, and is an important contributor to the health and vitality of the Bay Area economy.

The Airport's financial operations are governed by: 1) regulations and policies of the Federal Aviation Administration (FAA), which issues guidelines on the acceptable methods of developing Airport rates and the appropriate use of Airport revenue; 2) the Transportation Security Administration (TSA), which issues guidelines on safety and security standards; and 3) the Lease and Use Agreement, which defines the rights, privileges, and obligations of the Airport, and stipulates the way that rentals, fees, and charges paid by the airlines are calculated and adjusted. The Airport has a unique Annual Service Payment (ASP) provision that allows it to pay 15.0 percent of its concession revenues to the City, which provides the Airport with an added incentive to increase concession revenues.

Figure 22: Airport Budget FY 2012-13



The Airport's mission is to provide an exceptional Airport in service to our communities. In the next five years, the Airport will undertake the following strategic initiatives to support its mission:

- Provide customers with a uniquely San Francisco and SFO experience;
- Practice smart traffic growth;
- Control its cost per enplanement;
- Be known and recognized as a great place to work;

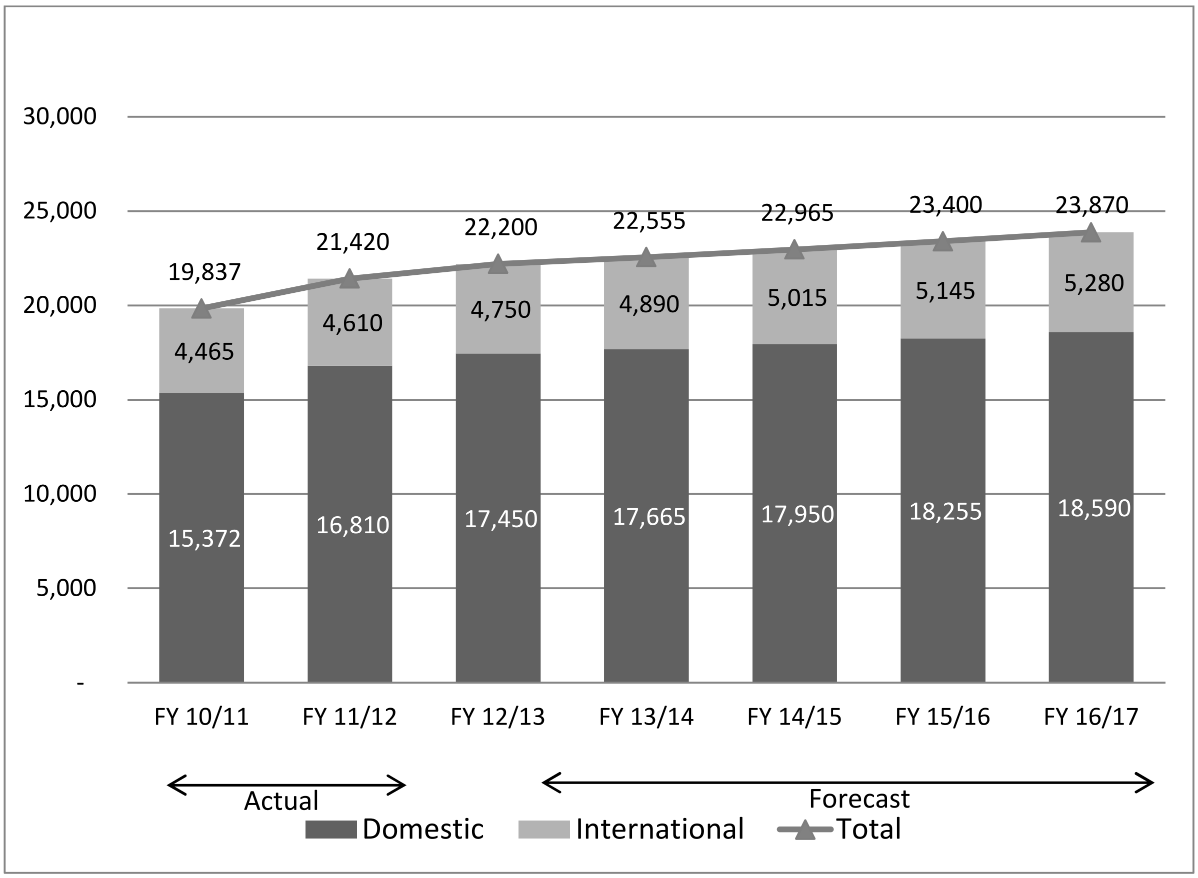
- Ensure Airport sustainability;
- Meet and exceed all aviation safety and security regulations;
- Provide a clean, well-maintained, world class Airport; and
- Create strong and successful relationships with local communities and government agencies.

FIVE-YEAR OUTLOOK

Passenger Traffic

In FY 2011-12, the Airport had 21.4 million enplanements, exceeding its previous peak year of FY 1999-00. The Airport is forecasting 22.2 million enplanements for FY 2012-13. Over the next five years, the Airport anticipates an 8 percent increase in passenger traffic with strong international activity and moderate domestic growth.

Figure 23: Number of Enplanements (in thousands)



Maximize Revenues & Manage Rising Benefit and Debt Expenses

The Airport receives operating revenue from airline and non-airline users based on the lease and use agreement, fees set to recover costs, and ground leases. It uses non-operating revenues, such as passenger facility charges, to moderate the growth of airline rates.

- **Airline revenue consists of terminal rentals and aircraft landing fees.** The Airport receives 49 percent of its revenue from the airlines through various fees and charges. A calculation at the end of the fiscal year determines the amount that the Airport is above or below its revenue estimates. The ultimate risk of a budget deficit is borne by the airlines, but any surplus amount is returned to the airlines as a credit to rates in future years as defined by the Lease and Use Agreement. At of the end of FY 2011-12, the Airport owed the airlines a cumulative total of $57.6 million in revenue, as the Airport's financial results have outperformed the budget estimates. Rates for airlines and other Airport users are set annually in a process that includes final review and approval by the Airport Commission in May of each year.

- **Concession revenue consists of activity-driven revenue and related support facilities.** The Airport receives 27 percent of its revenue from terminal and groundside concessions. Increasing these sources helps to reduce the amount of revenue required from the airlines to operate the Airport, improving its competitiveness. This revenue consists of terminal concessions (including duty free shops, retail, food and beverage), and passenger services and groundside concessions (including public parking, rental cars and ground transportation). The FY 2011-12 actuals reflects the return of business travelers and a year of strong domestic air traffic growth. The Airport projects more moderate increases in passenger traffic and spending trends in FY 2012-13 than it has experienced over the last few years, and this trend continues in the forecast years.

- **Other revenue.** The Airport leases out a variety of aviation support facilities, such as the United Airline's Maintenance Operations Center, the Superbay Hangar, cargo buildings, and airline operations facilities.

- **Manage rising benefit and debt expenses.** Expenses are increasing faster than revenues as a result of higher projected retirement and health benefit costs for Airport employees (including Fire and Police Department staff funded by and stationed at the Airport). Debt service payments are also rising due to scheduled increases for capital projects completed in past years and new debt service for large-scale projects such as Terminal 2, Terminal 3 renovations, and the Runway Safety Area Program. Non-labor expenses are forecast to increase by 3 percent annually from FY 2014-15 through FY 2016-17.

Continue On-Going & Begin New Capital Projects

Over the next ten years, the Airport plans to spend $1.9 billion on capital investments such as airfield runway and taxiway reconstruction, Terminal 1 renovations, Terminal 3 improvements, and upgrades to various systems and infrastructure. The City's 2014-23 Ten-Year Capital Plan includes funding for the Runway Safety Area Program to meet FAA-mandated safety requirements; the renovation of Boarding Area E in Terminal 3; new improvements to the eastern side of Terminal 3; and the rebuild of Boarding Area B and the renovation of Terminal 1.

Table 30: Airport Base Case Projections

AIRPORT *(in millions)*	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
SOURCES Increase/(Decrease)					
Adjustments to Base Revenues					
Airlines	25.2	33.3	28.9	25.3	32.7
Concessions	18.5	5.1	3.9	5.1	5.3
Other Revenue	6.9	0.3	6.0	4.9	4.7
Deferred Airline Revenue in Fund Balance	(14.5)	(19.0)	(6.0)	-	-
Passenger Facility Charges	10.2	18.3	(7.0)	(21.0)	(27.0)
Transfer to Fire and Police Departments	(3.7)	(2.1)	(3.8)	(3.9)	(4.1)
Total Changes to Sources	**42.6**	**35.9**	**22.0**	**10.4**	**11.6**
USES (Increase)/Decrease					
Adjustments to Base Expenditures					
Personnel Expenses	14.3	10.7	2.5	6.3	7.8
Other Operating Expenses	13.0	1.1	2.4	4.9	4.9
Debt Service	12.5	23.3	16.5	(1.6)	(1.8)
Annual Service Payment	2.8	0.8	0.6	0.8	0.7
Total Changes to Uses	**(42.6)**	**(35.9)**	**(22.0)**	**(10.4)**	**(11.6)**

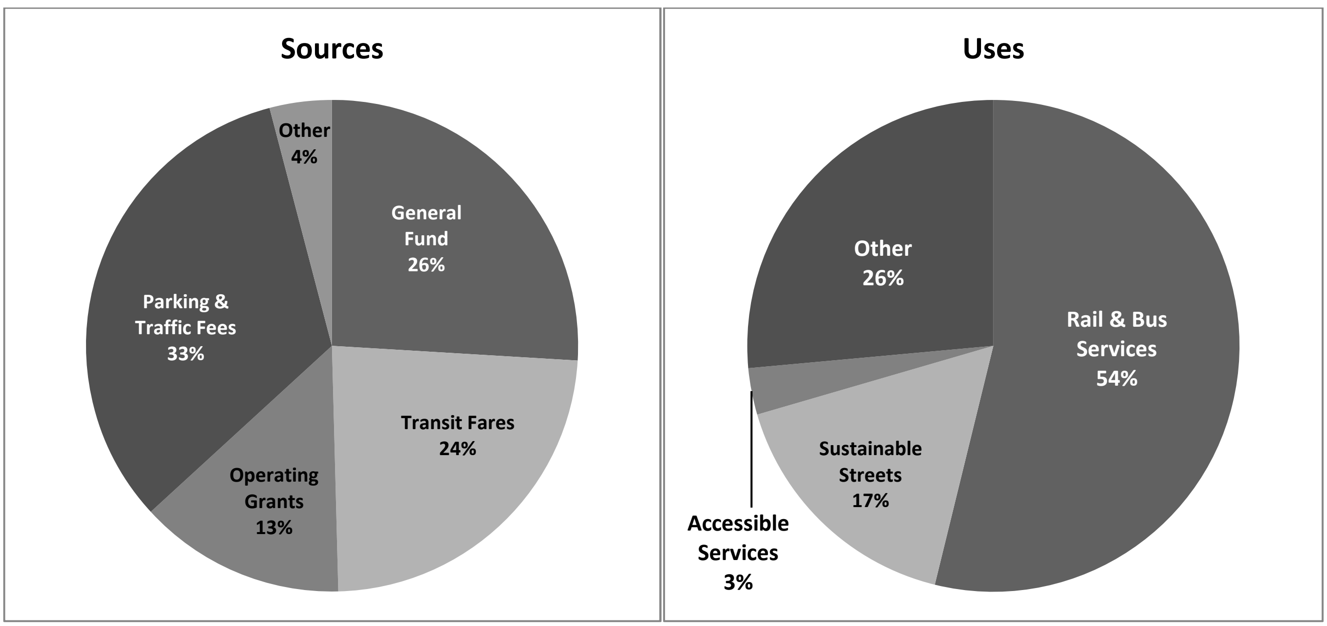
Municipal Transportation Agency

OVERVIEW

San Francisco's Municipal Transportation Agency (the Agency) operates the Municipal Railway (Muni), which is the largest public transportation agency in the Bay Area and carries more than 215 million riders annually on its fleet of buses, trolleys, light rail trains and cable cars. In accordance with the City's *Transit First* policy — which prioritizes public transit, walking, bicycling and alternatives to driving — the Agency also manages parking, traffic and taxi regulation and implements pedestrian, bicycle and better streets programs.

Over the next five years, the Agency anticipates that expenditures will outpace revenues; expenditures are projected to grow by 12 percent as a result of investing in the maintenance of the system, while revenues are projected to grow by five percent. Successful implementation of the Agency's strategic initiatives will help close this projected funding gap and improve the service the Agency provides.

Figure 24: San Francisco Municipal Transportation Agency Budget FY 2012-13



The four overarching goals of the Agency's strategic plan shape how the Agency prioritizes its attention, resources, and staff:

- Create a safer transportation experience for everyone;
- Make transit, walking, bicycling, taxi, ridesharing and car-sharing the preferred means of travel;
- Improve the environment and quality of life in San Francisco; and
- Create a workplace that delivers outstanding service.

FIVE-YEAR OUTLOOK

Increased Demand on the Transportation Network
The chief challenge that the Agency will be facing in the next five years is meeting the transportation needs of a growing residential and commuting population under fiscal and spatial constraints. The projected 25 percent increase in jobs and 15 percent increase in population by 2035 mean substantially more riders on transit and cars.

State-of-Good Repair Backlog
The Agency currently has a $2.2 billion state-of-good repair backlog based on the life cycle of its existing assets. Financial resources allow for a current baseline of $250 million investment into the replacement and renewal of these assets. An annual investment of $366 million is necessary to prevent the backlog from growing and $510 million to replace and renew all assets based on their useful life. Major areas of risk include: operational support facilities, such as maintenance yards, traffic signal infrastructure (conduit, controllers and signals); and renewal of the Muni Fleet. Ongoing vehicle renewal is necessary to maintain service reliability.

Transportation System Improvements
Through the on-going implementation of the Transit Effectiveness Project (TEP), network enhancements on Van Ness, Geary and in the Central Corridor, bus procurement and a series of modal strategies to prioritize projects, the SFMTA anticipates improving the current transportation system.

Federal Funding Uncertainty
On July 6, 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21) was signed into law for a two-year period. One major change included in this new transportation bill is a shift from discretionary to formula programs. The Agency has had fair success in receiving discretionary grants, but the impact of this shift is unclear at this time. Additionally, the short duration of MAP-21 does not provide long-term certainty.

Figure 25: Municipal Transportation Agency Operating Grants by Source

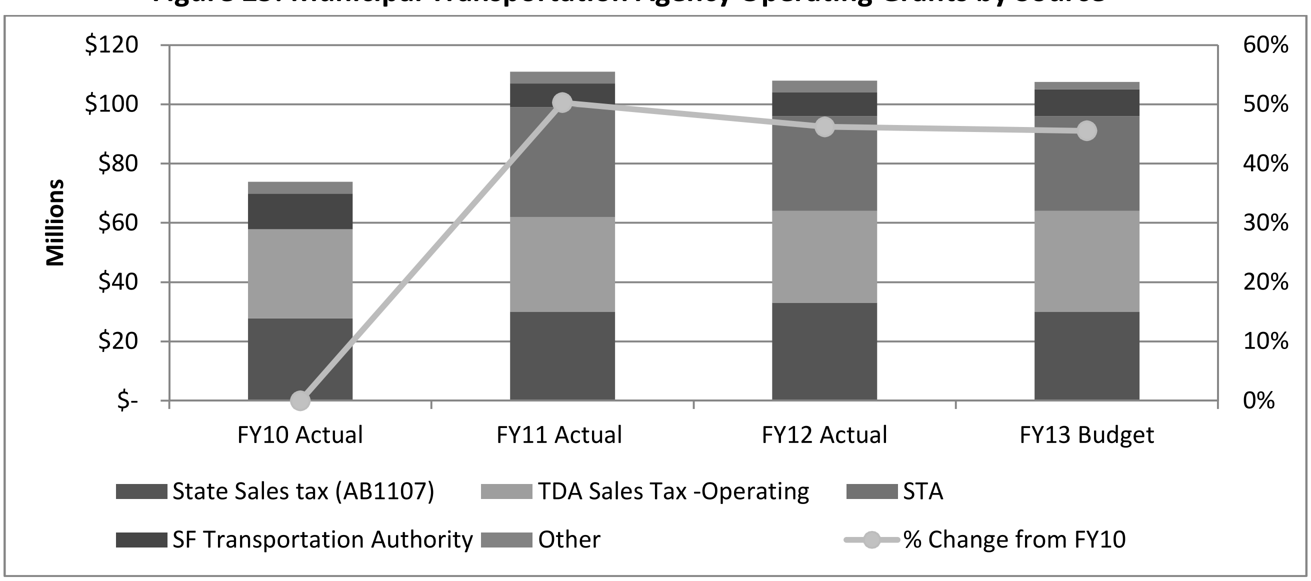


Table 31: Municipal Transportation Agency Base Case Projections

MUNICIPAL TRANSPORTATION AGENCY *(in millions)*	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
SOURCES Increase/(Decrease)					
Adjustments to Base Sources					
General Fund Baseline Adjustment	8.0	7.7	8.0	8.3	8.6
Fare Revenue - Rates and Collection	2.9	7.0	7.3	7.5	7.8
State Grants - Loss of Operating Assistance Funds	2.0	(2.0)	-	-	-
Parking and Traffic Fees and Fines	8.5	(0.4)	2.8	2.8	2.8
Taxi Medallions - Loss of One-Time Revenue	-	(10.2)	-	-	-
All Other - Advertising, Interest, Rent	1.5	0.9	0.9	0.9	0.9
Total Changes to Sources	**22.9**	**3.0**	**19.0**	**19.5**	**20.1**
USES Decrease/(Increase)					
Citywide Adjustments to Expenditures					
Wage and Benefit Rate Changes	(21.0)	(18.3)	(19.0)	(19.6)	(20.3)
Departmental Adjustments to Expenditures					
Professional Services and Other Contracts	(6.5)	(3.2)	(3.3)	(3.4)	(3.6)
Materials and Supplies	3.1	(2.7)	(2.7)	(2.9)	(3.0)
Equipment and Maintenance	(0.1)	(0.4)	(0.4)	(0.4)	(0.5)
Rent, leases, and Debt Service	(0.8)	(0.2)	(0.3)	(0.3)	(0.2)
Insurance and Claims	3.7	(2.3)	(2.5)	(2.5)	(2.5)
Interdepartmental Workorders	(1.3)	(2.3)	(2.4)	(2.4)	(2.5)
Total Changes to Uses	**(22.9)**	**(29.4)**	**(30.6)**	**(31.5)**	**(32.6)**

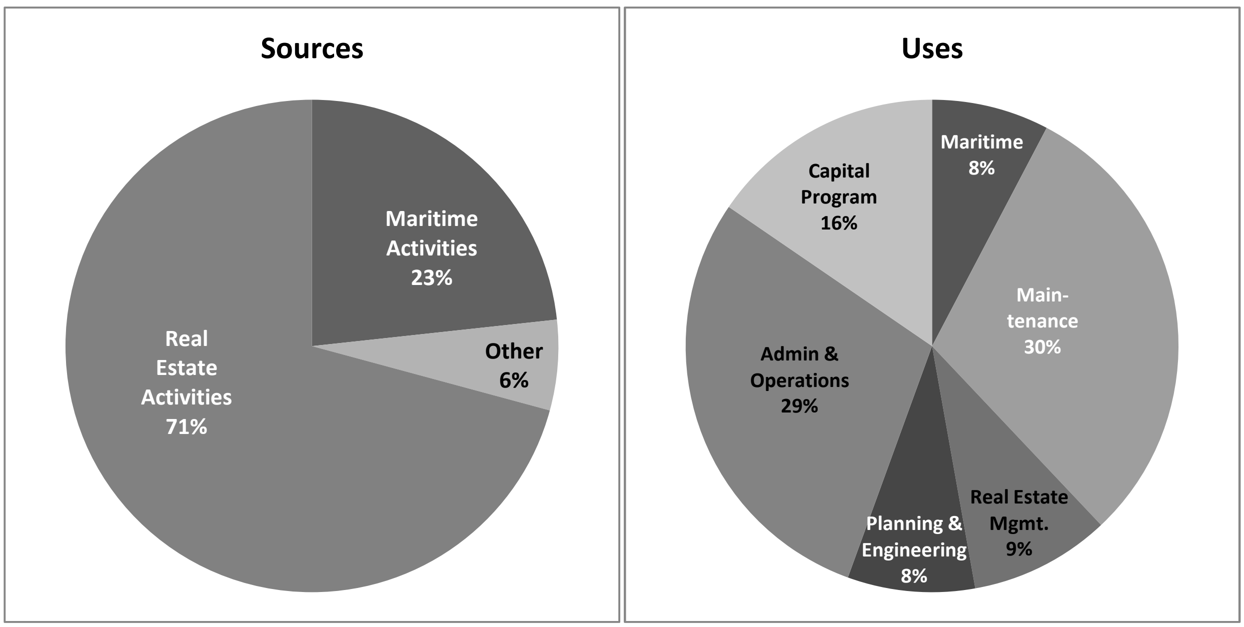
Port

OVERVIEW

The Port of San Francisco is an Enterprise department committed to promoting a balance of maritime, recreational, industrial, transportation, public access and commercial activities on a safe, secure and self-supporting basis. The Port's property consists of 7½ miles of mostly contiguous waterfront property adjacent to the Bay, from Hyde Street Pier in the northeast to India Basin in the southeast.

As one of the most diverse ports in the nation and an economic engine for the City, the Port of San Francisco generates revenues from real estate leasing, parking, maritime and development projects. These funds are used to support program areas such as real estate management, maintenance of facilities, debt service and administration. Any operating surpluses are utilized to fund the Port's repair and replacement capital program.

Figure 26: Port of San Francisco Budget FY 2012-13



In the next five years, the Port will undertake the following strategic initiatives:

- Plan and implement a stable financial future for the City's Port;
- Redevelop and rehabilitate aging waterfront piers, wharfs and seawall lots;
- Lead a City effort to rebuild the seawall and adapt the Port waterfront and its seawall to global warming/sea level rise;
- Preserve industrial and commercial maritime tenants and users; and
- Preserve sufficient space for production, distribution and repair uses and non-profit entities.

FIVE-YEAR OUTLOOK

The next five years represent a period of major opportunity and challenge for the Port, including: implementation of the 34th America's Cup; finalization of the new cruise terminal; and pursuit of major development projects that will continue to transform the waterfront, with new emphasis in the South Beach area and further south of the Bay Bridge. The Port is also striving to address chronic infrastructure needs and prioritize its most mission-critical lines of business, as mandated by the Burton Act[1], and meet the planning and regulatory requirements laid out by the San Francisco Bay Conservation Development Commission (BCDC). The Port is pursuing these activities while addressing the financial challenges and uncertainty that accompanies them.

Plan & Implement a Stable Financial Future for the City's Port
The Port faces a $1.6 billion capital deferral that prevents it from leveraging investment opportunities and results in facilities becoming unsafe and unusable. The problem must be resolved so that the Port can continue to promote economic activity and investment rather than become a drain on the City's General Fund. This means that the Port must strategically address repair and replacement of aging infrastructure by prioritizing revenue-generating development sites.

- **Balance Operating and Capital Funding Requirements:** The Port utilizes operating surpluses to invest in its aging infrastructure to ensure its safety and operability. As this Financial Plan demonstrates, the Port's operating expenses are projected to grow, particularly in the costs of sustaining existing personnel. Additionally, the loss of rental facilities to new development projects has the potential to substantially reduce important revenue streams that supply funds to both operating and capital needs, at least in this five-year horizon. The Port must balance the demands of the operating and capital budgets, prioritizing infrastructure needs and preserving revenues that ensure safe enjoyment, operability and improvement of the waterfront. Investing in revenue-generating capital projects also plays a critical role in ensuring that the Port is able to maintain a strong financial position.

- **Capital Policy and Ten-Year Plan:** In 2012, the Port Commission approved a new capital policy that requires the Port to invest an amount equal to 20 percent of annual operating revenues in capital needs. Pursuant to the Policy, beginning in FY 2017-18 the requirement increases to 25 percent. The policy can be met by either funding capital projects or setting aside funds for future capital investments. The Financial Plan assumes that the Port will meet this policy requirement, which allocates an average of $12.1 million annually toward capital spending. While these investments are valuable, they do not sufficiently address the financing requirements for addressing the capital backlog. The Port has calculated a cost of $1.6 billion to adequately repair its portfolio, but only $377 million in anticipated funding sources have been identified to address state-of-good-repair requirements including the annual capital budget, grants and tenant contributions. The Port's ten-year Capital Plan identifies up to $115 million of additional funds that the Port will pursue to address unmet need.

- **Planning Around the America's Cup:** The Port is the home base for the 34th America's Cup in 2013, but is also preparing for renewed operations after the event. Under the 34th America's Cup Lease Disposition Agreement, the America's Cup Event Authority is occupying numerous piers and other Port properties for periods which vary, but last until six months after the races conclude (Piers 30-32, 80, 19, 19½, 23, 27, 29 and 29½). If Team Oracle succeeds in winning the 34th America's Cup, Team Oracle could try to

[1] In 1968 the State transferred its waterfront management responsibilities to the City and County of San Francisco through the Burton Act.

keep the following America's Cup event in San Francisco. The team would negotiate new terms with the City if that were to happen. If there is no additional America's Cup event, the Port must be ready to undertake new leasing of these properties to private parties. Releasing facilities currently serving as America's Cup venues represents a significant opportunity for higher and better uses over previous shed space. A careful releasing strategy will provide for uses that complement the investments at The Exploratorium and the James R. Herman Cruise Terminal at Pier 27.

Redevelop & Rehabilitate Aging Waterfront Piers, Wharfs & Seawall Lots
The Port is reconnecting San Franciscans, the region and other visitors to the waterfront by developing new recreation and open space facilities. Despite the financing challenges faced by the Port, this public investment leverages the development of underutilized piers, wharfs and seawall lots through private investment in public/private partnerships. Major developments are planned for Piers 19, 23, 30-32, 70 and Seawall Lot 337. These new developments increase the value of Port lands, generate economic value to the City, provide significant public benefits, transform areas of the waterfront, and reduce state-of-good-repair capital needs, identified in the Ten-Year Capital Plan. The Port also recently completed, or has almost completed, a variety of public works projects that will provide the public with more access to the waterfront, including Heron's Head Park, Pier 43 Bay Trail Link, Bayfront Park shoreline, Pier ½ demolition, Blue Greenway parks and the connecting trail in the Southern Waterfront, Crane Cove Park and Brannan Street Wharf.

Adapt the Port Waterfront & Its Seawall
Between 1900 and 2000, the level of the Bay rose by seven inches. Scientific forecasts show that water levels could rise another 16 inches or more by 2050. In order to protect Port assets and the welfare of our tenants and the City as a whole, the Port must be prepared to repair and modify the sea wall to address these changes. The Port will work with City partners to define capital and operational response options to address the deterioration of the seawall and prepare for environmental threats related to climate change and/or natural disaster. In FY 2012-13, the Port will have completed significant repairs to two sections of the seawall.

Preserve Industrial & Commercial Maritime Tenants and Users
Recognizing the significant economic value to the city, the Port is refining its strategy to maintain its primary function as a working Port. Piers 27, 35, 45, 50, 70, 80, 92-96 and the Backlands are priority areas to preserve or expand maritime operations and other industrial activities. The Piers 90-96 maritime terminal in the Southern Waterfront offers the largest assemblage of industrial maritime opportunities on Port property. This area must be managed to recognize and optimize opportunities for maritime shipping and commerce. This area is unique in San Francisco as it has the operational capacity and transportation access to support maritime public trust uses.

Preserve Sufficient Space for Production, Distribution & Repair Uses and Non-Profit Entities
On behalf of the City, the Port provides a critical resource for industrial uses, warehouses, affordable rental space for small businesses, and non-profit entities. This role should be maintained, with additional emphasis placed on generating and supporting blue collar jobs as well as attracting types of cargo shipments such as aggregate and asphalt to meet the demands of the City. Notably, no other segment of the City meets these needs for waterside services and there is limited Production, Distribution and Repair land elsewhere in the City.

Table 32: Port Base Case Projections

PORT *(in millions)*	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
SOURCES Increase/(Decrease)					
Adjustments to Base Sources					
Estimated Fund Balance	4.1	(3.0)	2.3	1.3	1.5
Operating Revenues	2.4	7.7	3.2	3.3	2.9
South Beach Harbor & Marina Revenues	0.1	0.5	0.1	(0.6)	0.1
Total Changes to Sources	**6.6**	**5.2**	**5.5**	**3.9**	**4.5**
USES Decrease/(Increase)					
Citywide Adjustments to Expenditures					
Wage Rate Increases	(0.6)	(0.3)	(0.6)	(0.7)	(0.7)
Benefit Cost Increases	(1.2)	(1.1)	(0.4)	(0.4)	(0.4)
Non-Salary Inflation	0.9	(0.9)	(1.1)	(1.0)	(0.9)
Departmental Adjustments to Expenditures					
Debt Service	(1.1)	(0.6)	0.1	0.1	(0.5)
Annual Projects	1.5	0.1	(0.1)	(0.1)	(0.1)
South Beach Harbor & Marina	(0.1)	(0.5)	(0.1)	0.6	(0.1)
Fireboat Staffing & Maintenance	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Unappropriated Operating Reserve, 15%	(0.2)	(0.4)	(0.3)	(0.3)	(0.4)
Designated Revenue to Future Capital	(2.1)	(5.8)	(0.9)	(1.1)	(0.2)
Capital Budget	(3.8)	4.4	(2.0)	(0.9)	(1.1)
Total Changes to Uses	**(6.6)**	**(5.2)**	**(5.5)**	**(3.9)**	**(4.5)**
POTENTIAL ADJUSTMENTS TO SOURCES					
Warriors Arena at Pier 30/32					
Lost Revenue due to Rent Credits	-	(2.0)	(0.1)	(0.1)	(0.1)
New Revenue	-	-	-	-	0.2
Giants Parking Garage at Sea Wall Lot 337					
Parking Revenue	-	-	(0.5)	0.4	0.4
8 Washington Project at Sea Wall Lot 351					
One-time Land Payment	-	-	-	-	3.2
IFD to Port	-	-	-	-	1.5
Total Potential Adjustments to Sources	**-**	**(2.0)**	**(0.6)**	**0.3**	**5.3**

Public Utilities Commission

OVERVIEW

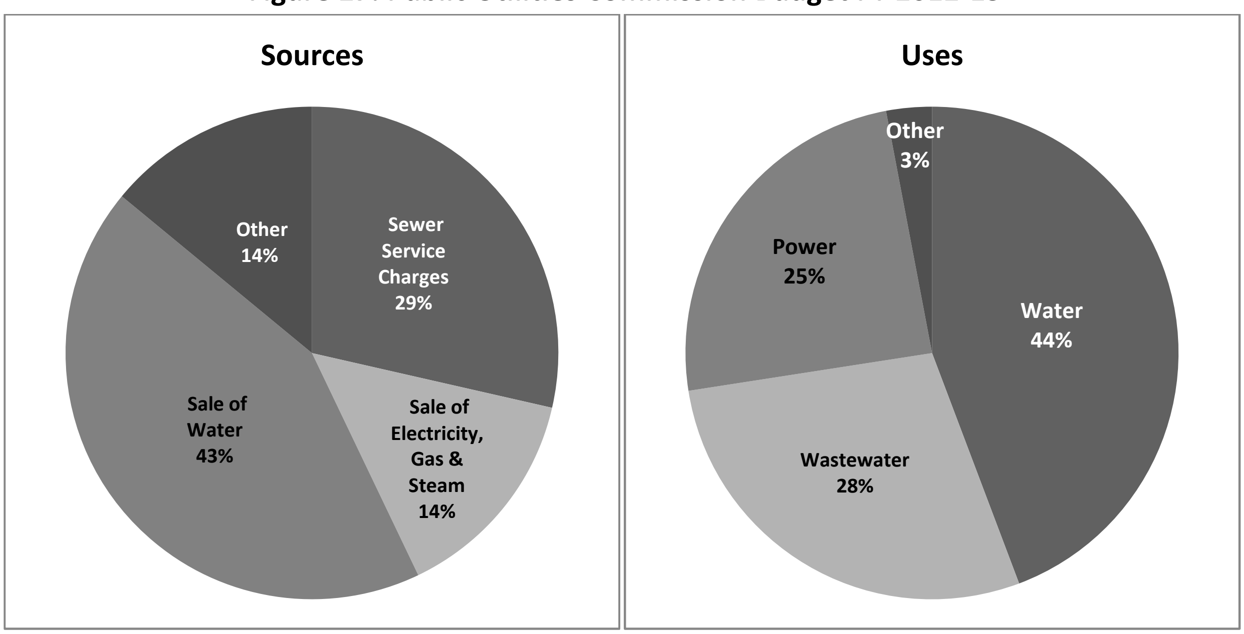
The mission of the San Francisco Public Utilities Commission is to provide its customers with high-quality, efficient and reliable water, wastewater, and power services in a manner that is inclusive of environmental and community interests, and that sustains the resources entrusted to the Department’s care.

- **The Water Enterprise supplies water and hydroelectric power**. Approximately 2.5 million people in the Bay Area rely on water supplied by the Water Enterprise, making the Department the third largest municipal water agency in California.

- **The Wastewater Enterprise collects and treats storm and sanitary flows generated within San Francisco and adjacent communities.** To protect public health and the surrounding bay and ocean, the Enterprise operates four wastewater treatment plants, 71 sewage pumping stations, and 993 miles of combined storm and sanitary collection system pipes, sewer mains, transport/storage boxes, other storage structures and tunnels.

- **Hetch Hetchy Water and Power provides reliable, high quality water and electric energy to its customers.** Eighty-five percent of San Francisco's drinking water collects in Hetch Hetchy's three reservoirs.

Figure 27: Public Utilities Commission Budget FY 2012-13



In the next five years, the Department will tackle several strategic initiatives:

- Complete needed seismic and reliability upgrades to the water system;
- Plan and implement the Sewer System Improvement Program (SSIP) to increase sewer system reliability; and
- Maintain reliable and high quality energy services.

FIVE-YEAR OUTLOOK

New Water and Wastewater Rate Setting

During calendar year 2013, the Department will begin working on new customer rates for Water and Wastewater customers. This effort will include a multi-year Wastewater rate setting effort linked to high-priority capital needs and the SSIP. The Department will review and approve the new rates in 2014.

Sewer System Improvement Program (SSIP)

The PUC will ramp-up and begin implementation of the Wastewater Enterprise's master planning program involving the replacement of key components of the Southeast Treatment plant, which handles two thirds of the City's wastewater flows. Phase 1 will cost $2.7 billion of the program's total $7 billion.

Expiring PG&E Interconnection Agreement

Expiration of this agreement could result in higher Hetchy Power operating costs in 2015 estimated at $8 million.

CleanPowerSF

CleanPowerSF is the City's Community Choice Aggregation (CCA) Program, which allows cities and counties to pool their citizens' purchasing power to buy electricity. CleanPowerSF will enhance local control, create competition, and provide San Franciscans with a 100 percent renewable energy alternative. The initial program roll-out will begin in FY 2013-14. This includes public education, program outreach, and energy costs. The Department is taking a measured approach to program roll-out, coupled with public outreach and a well-communicated opt-out process.

California Cap and Trade Program

California's greenhouse gas (GHG) cap-and-trade program is a central element of California's Global Warming Solutions Act (AB 32) and covers major sources of GHG emissions in the State such as refineries, power plants, industrial facilities, and transportation fuels. The recent launch of the system is expected to result in approximately $1 million in new revenues annually for the Power Enterprise, bringing greater stability to the Hetch Hetchy Power fund balance.

Hunters Point and Treasure Island Expansion

Public Power retail electric rates have been created to serve customers in the areas of Hunters Point Shipyard and Treasure Island, former Navy properties undergoing large scale redevelopment. Gross annual revenues of $2 million to $4 million are expected from these new customers as they come online over the period.

Debt Service

As a proportion of total costs, debt service will increase to approximately 56 percent of total uses over the next five years as planned. Water enterprise debt service costs have increased, as planned, from 30 percent to 38 percent of total costs over the past two years, to pay critical infrastructure investments, seismic strengthening and upgrades.

Table 33: Public Utilities Commission Base Case Projections

WASTEWATER (5C) *(in millions)*	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
SOURCES Increase/(Decrease)					
Adjustments to Base Sources					
Sewer Service Rate and Volume Change	16.2	9.0	13.0	16.3	31.8
Other Revenues	(0.7)	1.0	0.1	1.6	0.3
Total Changes to Sources	**15.4**	**10.0**	**13.1**	**17.9**	**32.1**
USES Decrease/(Increase)					
Departmental Adjustments to Expenditures					
Operations and Maintenance	5.6	(5.1)	(4.6)	(4.7)	(6.3)
Debt Service	(2.0)	(5.4)	(14.4)	(5.4)	(25.4)
Revenue Funded Capital	(4.4)	(2.1)	(2.1)	(2.1)	(2.1)
Total Changes to Uses	**(0.8)**	**(12.5)**	**(21.0)**	**(12.2)**	**(33.8)**

HETCH HETCHY (5T) *(in millions)*	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
SOURCES Increase/(Decrease)					
Adjustments to Base Sources					
Estimated use of Fund Balance	21.3				
Power Rate and Volume Changes	12.3	5.8	7.2	5.7	6.2
Hetchy Transfer	(1.9)	1.0	1.0	1.1	1.1
Other Revenues	0.8	0.4	0.7	0.7	0.8
Total Changes to Sources	**32.5**	**7.2**	**9.0**	**7.5**	**8.1**
USES Decrease/(Increase)					
Departmental Adjustments to Expenditures					
Operations and Maintenance	(3.5)	(8.1)	(12.1)	(4.7)	(5.1)
Debt Service	0.0	(1.0)	(4.4)	(3.5)	(3.4)
Revenue and Bond Funded Capital Projects	(11.5)	(25.6)	13.2	(1.9)	(12.4)
Debt Proceeds	13.5	55.8	(10.7)	1.9	12.1
Total Changes to Uses	**(1.5)**	**21.2**	**(13.9)**	**(8.3)**	**(8.8)**

WATER (5W) *(in millions)*	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
SOURCES Increase/(Decrease)					
Adjustments to Base Sources					
Estimated use of Fund Balance	49.6	80.8	22.7		
Retail Rate and Volume Change	12.6	27.0	25.8	24.0	21.2
Wholesale Rate and Volume Change	(1.7)	32.4	13.3	2.2	31.5
Other Revenues	(1.8)	4.1	0.7	0.5	0.9
Total Changes to Sources	**58.7**	**144.4**	**62.4**	**26.8**	**53.6**
USES Decrease/(Increase)					
Departmental Adjustments to Expenditures					
Operations and Maintenance	(3.5)	(5.0)	(5.4)	(5.6)	(5.8)
Hetchy Transfer	1.8	(1.0)	(1.0)	(1.1)	(1.1)
Debt Service	(4.5)	(74.1)	(17.7)	(31.9)	(41.4)
Revenue funded Capital	62.3	(14.7)	42.6	42.3	0.3
Total Changes to Uses	**56.1**	**(94.8)**	**18.4**	**3.7**	**(47.9)**

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Appendix

Major Department Issues and Goals

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Major Department Issues & Goals

Over the next five years, each City department will strive to accomplish organizational goals in the face of distinct challenges. This section provides a high-level overview of major departmental issues and goals.

Academy of Sciences

- Become a leader in plant and animal welfare and collections management by advancing data-driven husbandry and veterinary medicine;
- Invest in staff development and raise the profile of Steinhart Aquarium; and
- Develop research and conservation partnerships and programs.

Airport

- Be ranked #1 by passengers among U.S.-based international gateway airports as measured by the ASQ survey;
- Ensure SFO can meet passenger growth in the next five years while improving airline on-time arrival rates to 75 percent;
- Maintain the average cost per enplanement below $18.90 in FY 2007-08 constant dollars through FY 2015-16; and
- Improve Airport sustainability by maintaining 100 percent carbon mitigation and achieve 25 percent reduction in baseline GHG emissions controlled by the Airport by 2016.

Adult Probation

- Continue to refine and implement the City's plans to respond to State Bill 678 (evidence-based probation supervision) and Assembly Bill 109 (Public Safety Realignment);
- Use IT to increase the efficiency of departmental operations; and
- Continue to better coordinate services between the Sheriff and Adult Probation Departments, such as the opening of the Reentry Pod at the Jail.

Arts Commission

- Produce a capital needs assessment and plan that will address the needs of our City cultural centers and civic art collection;
- Improve the accountability of long-term leases and grant agreements for the non-profit partners operating out of our City-owned Cultural Centers; and
- Relocate into the War Memorial Veterans building after the completion of the building's seismic retrofit.

Asian Art Museum

- Increase audience reach and impact by offering fresh experiences to repeat visitors;
- Enhance the donor value proposition and improve financial stability; and
- Maximize the number of days the Museum can offer an excellent experience to all audiences.

Assessor-Recorder

- Implement key technology projects including eRecording and the transition to a new property tax database system; and
- Eliminate the backlog of pending assessable events and reduce the number of open AAB appeals.

Board of Appeals

- Ensure that staff is properly trained and materials are developed so that customers are provided with the information necessary to effectively participate in the hearing process; and
- Improve the Department's technological capacity.

Board of Supervisors

- Continue to increase the efficiency and efficacy of the Board of Supervisors by automating the assessment appeals process, digitizing the historical legislation, upgrading the appointments tracking system for Boards and Commissions, and replacing and automating the Clerk to Act system;
- Meet increasing workload demands with increased efficiency; and
- Continue to support the public's "right to know" as it pertains to governmental processes.

Building Inspection

- Improve service delivery through increased training, technology improvements, expanded community outreach, and continuing emphasis on structural safety and emergency response preparedness;
- Ensure that the new regulations scheduled for 2013 and 2016 are correctly enforced by providing extensive training to Department staff; and
- Establish financial reserve policies with the Controller's Office to prepare for and guard against the next economic downturn in the construction industry.

Child Support Services

- Raise additional revenue and make responsible spending cuts that will allow the Department to sustain current service levels despite growing operating costs and flat State and federal funding;
- Realign Department IT systems to better maintain operations; and
- Coordinate and collaborate with other agencies to expand healthcare coverage to children who need it most in response to the Affordable Care Act (ACA).

Children and Families Commission

- Continue to implement the Quality Rating Improvement System to promote high quality early care and education across San Francisco;
- Continue to invest in child development, family support, child health, and systems of care to ensure that that San Francisco children ages birth to five are socially, emotionally, physically and academically prepared to succeed in school; and
- Support and inform efforts to renew Proposition H, which funds Preschool for All as well as other children's services and is set to sunset at the end of FY 2014-15.

Children, Youth and their Families

- Continue to implement the three-year Children's Services Allocation Plan (CSAP) with the central goal of ensuring that children and youth are ready to learn and succeeding in school;

- Support and inform efforts to renew the Children's Amendment, which funds the majority of the Department's work and is scheduled to sunset at the end of FY 2015-16; and
- Support and inform efforts to renew Proposition H, which funds children's services and is set to sunset at the end of FY 2014-15.

City Attorney

- Develop a transition plan to absorb large numbers of projected retirements in upcoming years; and
- Continue to expand code enforcement efforts and the Affirmative Litigation Program.

City Planning

- Improve revenue forecasting and consistency by responding quickly to economic changes by shifting resources when necessary and bringing on new staff when appropriate;
- Manage the additional analytical and procedural work related to the increasingly complex regulations related to the California Environmental Quality Act (CEQA); and
- Implement the Permit and Project Tracking System in collaboration with the Department of Building Inspection to allow City agencies to more effectively track projects and provide the public with greater transparency.

Civil Service Commission

- Increase access to and utilization of the Civil Service Commission's information and resources;
- Create greater transparency and efficiencies in the Civil Service Commission processes and communications;
- Seek ways to address City departments' need for flexibility in personnel management issues while at the same time maintaining the integrity of the City's merit system; and
- Strengthen the Civil Service Commission's ability to meet its Charter mandates and oversee the operation of the merit system.

Controller

- Modernize the City's financial management systems;
- Plan for the City's financial resiliency following a disaster;
- Continue to improve the City's enterprise payroll, human resources, and benefits systems; and
- Attract, train, and promote financial management professionals as significant numbers of staff in the Controller's Office and City departments retire.

District Attorney

- Develop a statistical analysis tool similar to Compstat to promote Department efficiency and effectiveness;
- Increase the use of neighborhood courts for misdemeanor cases;
- Expand the use of the alternative sentencing; and
- Expand victim services throughout the community.

Economic and Workforce Development

- Prepare San Franciscans for and connect them to good jobs through sector-based training and through targeted employer engagement;
- Create a strong climate for job growth and retention in San Francisco;
- Strengthen neighborhood-serving businesses and neighborhood corridors through the Invest in Neighborhoods Program;

- Promote joint development opportunities including the Warriors Arena, Pier 70, Seawall Lot 337, California Pacific Medical Center, and the Old Mint; and
- Support communities impacted by the dissolution of the Redevelopment Agency through neighborhood development initiatives.

Elections

- Find a suitable site for the Department's warehouse and election night operations center; and
- Continue to improve the vote-by-mail and early, on-site voting programs.

Department of Emergency Management

- Implement Bay Area Regional Interoperable Communications System (BayRICS) to improve wireless emergency communications throughout the 10 Bay Area Counties;
- Attain Emergency Management Accreditation Program (EMAP) certification, which is targeted for completion in 2013;
- Upgrade the Computer Aided Dispatch (CAD) system; and
- Replace the Citywide Emergency Radio System (CERS) in collaboration with the Department of Technology and the Controller's Office.

Environment

- Reduce San Francisco greenhouse gases emissions 25 percent below 1990 levels by 2017 by taking priority actions in the building, energy and transportation sectors and working with City departments as well as external partners;
- Achieve zero waste citywide;
- Reduce environmental pollution and health disparities in the City's affected communities, specifically the southeast neighborhoods;
- Conduct multi-lingual outreach and education and offer supportive services on sustainability policies and programs in all communities and in our schools; and
- Identify strategic funding opportunities.

Ethics Commission

- Provide an on-line self-registration web site for consultants to expedite registration, payment of fees, and the establishment of electronic filing accounts;
- Consider amendments to section 1.112 of the Campaign Finance Reform Ordinance, in accordance with the passage of AB 2452 by the California State Legislature;
- Transition the Commission's server to a virtual environment hosted at the City's new data center as part of the City's server consolidation project; and
- Continue consideration of regulations to set out the process of handling complaints related to the Sunshine Ordinance and referrals from the Sunshine Ordinance Task Force.

Fine Arts Museums

- Expand lead times for special exhibitions to capitalize on corporate partnership and sponsorship opportunities; and
- Revisit the installation of the permanent collection galleries at the De Young museum as it approaches its tenth anniversary.

Fire Department

- Formalize roles and responsibilities for private and public ambulance services, resulting in a ramp up of operations to ensure compliance with the State mandates for the Exclusive Operating Area (EOA);
- Meet minimum staffing and apparatus levels in the most cost effective manner; and
- Ensure adequate capital and equipment improvements to fire stations and apparatus.

GSA-City Administrator

- Build a stronger central office with increased staff capability and improved technological and organizational structures in order to provide data driven, fiscally sound recommendations and provide more effective services for the public; and
- Continue to provide oversight and support for departments and programs in transition such as the Successor Agency, the Housing Authority, the Treasure Island Development Association, and the Surety Bond Program, among others.

GSA-Public Works

- Continue to ensure safe, clean and green infrastructure and public rights-of-way; create and maintain beautiful, highly functional and sustainable facilities; and deliver world class public service;
- Find stable funding sources to support and improve the City's street infrastructure and growing urban forest; and
- Continue to use data to make data-driven decisions to effectively deploy resources and improve the quality and efficiency of service delivery.

GSA-Technology

- Develop and maintain a skilled pool of staff members to support the City's IT initiatives;
- Develop and maintain partnerships with other City departments and external agencies in order to effectively implement the City's IT initiatives; and
- Expand and maintain fiber infrastructure in order to support emerging cloud-based solutions.

Health Service System

- Negotiate rates for health benefits for active and retired City employees through innovative efforts to drive down health premium costs while maintaining quality care;
- Expand the City's ability to use data-rich analytics and forecasting to enable intelligent innovation and pro-active decision-making;
- Understand and implement changes related to the Affordable Care Act's regulations related to employer provided health care programs;
- Expand the City's employee wellness programs; and
- Implement the e-benefits portion of the City's emerge program to allow employees to manage their benefits on-line.

Human Resources

- Negotiate prudent and well-balanced labor contracts on behalf of the City, primarily scheduled for FY 2013-14;
- Address needed workforce development and succession planning;
- Develop and implement hiring and examination efficiencies, especially with respect to IT classifications;

- Prevent, investigate and resolve discrimination complaints;
- Minimize workers' compensation claim costs by effectively utilizing medical case management tools and improving complex claim management techniques; and
- Improve employee safety and wellness by establishing and managing a citywide Joint Labor-Management Committee on health issues.

Human Rights Commission

- Continue to deliver the Department's core services of intake, outreach, and advocacy work; and
- Secure additional funding sources.

Human Services Agency

- Monitor and adapt to State and federal policy changes, including social service realignment, MediCal expansion, changes to In-Home Supportive Services, and the transition to Managed Care;
- Address projected increases in Aid caseloads; and
- Monitor and adapt to changing demographics and needs in San Francisco.

Juvenile Probation

- Continue to address the Department's many capital and facility maintenance needs; and
- Monitor and adapt to State and federal policy changes including increased fees at the State Department of Juvenile Justice, Public Safety Realignment, and the Prison Rape Elimination Act.

Law Library

- Relocate the Law Library during the War Memorial seismic renovation.

Mayor

- Ensure that San Francisco is a place where all residents can live full lives in a safe, prosperous, and vibrant environment;
- Ensure that the needs of constituents are addressed quickly and effectively;
- Develop, administer, and monitor Mayor's policy initiatives and the City budget;
- Advocate for the City's interests at the local, regional, state and federal levels of government;
- Implement the key components of the Housing Trust Fund;
- Continue to implement HOPE SF; and
- Ensure successful implementation of affordable housing obligations of the former redevelopment agency, under the direction of the Successor Agency.

Municipal Transportation Agency

- Successfully manage increasing demands on the transportation network;
- Reduce the state-of-good repair backlog; anf
- Implement the Transit Effectiveness Project (TEP).

Police

- Implement the Police Department's multi-year hiring plan, which will bring the Department up to charter-mandated staffing levels;
- Ensure adequate vehicle replacement; and
- Utilize technology to improve officer connectivity and enable officers to spend more time out of the office and in the streets.

Port

- Plan and implement a stable financial future for the City's Port;
- Redevelop and rehabilitate aging waterfront piers, wharfs and seawall lots;
- Lead a City effort to rebuild the seawall and adapt the Port waterfront and its seawall to global warming/sea level rise;
- Preserve industrial and commercial maritime tenants and users; and
- Preserve sufficient space for production, distribution and repair uses and non-profit entities.

Public Defender

- Launch a comprehensive case management system to automate basic functions;
- Properly monitor attorney caseloads through the implementation of a case-weighting system; and
- Represent parolees who violate probation.

Public Health

- Prepare for federal Health Care Reform by implementing an integrated delivery system and Electronic Health Records to comply with meaningful use standards;
- Monitor and adapt to continuing changes in federal and State funding for health and social service programs;
- Successfully open the new San Francisco General Hospital in December of 2015; and
- Work with policy makers to understand City priorities for the Department and make changes to deal with an historical deficit within the Department.

Public Library

- Complete the Branch Library Improvement Program (BLIP);
- Optimize facility investments through an asset management program;
- Create a Teen Digital Media Center; and
- Increase library hours.

Public Utilities Commission

- Successfully complete the Water System Improvement Program and the Sewer System Improvement Program on-time and on-budget;
- Adopt new water and wastewater rates; and
- Roll out and implement CleanPowerSF.

Recreation and Parks

- Close operations at Candlestick Park;
- Implement 2012 General Obligation bond projects;
- Meet mandated high standards in park maintenance;
- Sustain high quality recreation programming; and
- Adequately maintain the urban forest.

Rent Arbitration Board

- Continue to hold expedient hearings on tenant and landlord petitions, and continue aggressive investigation of tenant allegations of wrongful eviction;
- Respond to an increase in demand for Department services projected as a result of the recovering economy; and
- Investigate the use of self-help technology in order to deliver increased and improved services.

Retirement System

- Implement the new Government Accounting Standards Boards (GASB) pension reporting regulations for the San Francisco Employer Retirement System Financial Statements which will be carried forward to the City's Consolidated Annual Financial Report;
- Improve customer service through the transition to an eService model and through service benchmarking and customer satisfaction; and
- Conduct a global review of deferred compensation plan investment menus including the implementation of a Roth Feature and target date investment opportunities.

Sheriff

- Continue to move the Hall of Justice replacement project forward, estimated to break ground January 2017 with an estimated completion date of December 2019;
- Reduce overtime expenditures by expediently replacing staff lost to retirement, resignation and other reasons; and
- Continue to monitor and adapt to the Public Safety Realignment Act.

Status of Women

- Focus work on the strategic areas of Women's Human Rights and Women's Health and Safety;
- Expand policy work to address the emerging issue of human trafficking; and
- Monitor and find potential external funding sources.

Superior Court

- Monitor and adapt to State fiscal and policy changes.

Treasurer-Tax Collector

- Improve customer service through the utilization of 311 and web-based applications;
- Replace the existing business tax system;
- Implement the gross receipts tax; and
- Expand Kindergarten to College to include all entering public kindergarten students.

War Memorial

- Maintain, upgrade and preserve the War Memorial buildings as important and historic facilities for the future;
- Implement the Veterans Building Seismic Upgrade and Improvement Project, scheduled for two-year construction period beginning July 1, 2013; and
- Maximize utilization of the Performing Arts Center.