



October 2, 2009

President Chiu
Board of Supervisors
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear President Chiu:

On September 14, the Controller issued a report estimating the General Fund impact of State budget reductions. This letter and the attached documents contain my plan for addressing the projected shortfall, as required under Section 9.3 of the Administrative Provisions of the Annual Appropriation Ordinance.

As you know, we worked together to include a reserve of \$18 million in the City's 2009-2010 budget in anticipation of State budget cuts. That decision has proven to be fiscally prudent. The reserve will allow us to cover two-thirds of the projected \$26.5 million budget impact, protecting critical health and human services programs slated for State cuts. My proposed use of the \$18 million State reserve is detailed on the attached pages.

\$ in Millions

(26.50)	Total Estimated State General Fund Revenue Impact (September 14 th estimate)
<u>18.00</u>	FY2009-10 Budget Reserve for State Impact
(8.50)	Projected Unfunded State Impact

Revised Shortfall Projection (\$2.25 million)

Since the Controller issued his report, the Department of Public Health has received new information on the State's plans to implement reductions impacting City revenues that result in a lower overall shortfall.

(\$8.50)	Projected unfunded State impact
\$6.00	Changes to allocation of State Medi-Cal reductions
<u>0.25</u>	Federal funds used to cover reductions to immunization programs
\$6.25	Total reductions in lost State revenue

(\$2.25) Revised Unfunded State Impact

The State budget included a \$323.2 million unallocated reduction to Medi-Cal programs. Because information regarding how the State would allocate those reductions was unavailable at the time, the City assumed the reduction would be allocated to counties proportionately based on each county's current share of Medi-Cal funding. Consequently, the City projected a \$6.0 million reduction in Medi-Cal revenues. Based on consultation with the State agency and the California Association of Public Hospitals on plans to implement this cut, California counties are now advised that the State will

implement the cut through internal administrative changes rather than allocating it directly to counties through reduced Medi-Cal payments. As a result, the amount of lost revenue to the City is now projected to be \$6.0 million lower than anticipated when the State budget was approved.

The State budget also included a reduction of \$250,000 for immunizations programs. The City has been informed that this funding will be restored using the State's share of federal stimulus funding. Together, these adjustments reduce the remaining unfunded impact to \$2.25 million.

I propose the following additional budget adjustments to close the remaining \$2.25 million projected deficit:

- **Leveraging Additional Federal Revenue (\$0.30 million savings).** By restoring State reductions to Maternal, Child and Adolescent Health (MCAH) programs and children's dental disease prevention with a portion of the \$18 million State impact reserve, the City will be eligible to receive an additional \$300,000 in federal Medicaid revenues.
- **Proposed General Fund Solutions (\$1.95 million savings)**
 - 1) Based on past practice, I do not plan to use City funds to backfill \$1.1 million in Proposition 99 pass-through funding from the State to San Francisco hospital emergency rooms. While these hospitals provide critical services to San Franciscans, the City has not in past years restored direct State funding cuts of this nature, and is not in a position to assume financial responsibility for backfilling what is essentially a direct pass-through program.
 - 2) Additionally, the City can maintain its current service levels, without service impacts, for Proposition 36 substance abuse treatment without backfilling \$0.70 million in State budget cuts.
 - 3) Finally, I propose restoring 81 percent, or \$650,000 of the \$800,000 in proposed State reductions to Drug Med-Cal reimbursements. This funding will be used to protect Methadone treatment slots for uninsured clients while their Medi-Cal eligibility is determined or applications are pending.

Summary of Proposed Solutions

Revenue Increases

0.3 Leverage additional federal Medicaid revenue for MCAH and children's dental programs

Reductions Not Backfilled

1.10 Do not backfill Proposition 99 pass-through

0.70 Partial Backfill (65%) of Proposition 36 to maintain current service level

0.15 Partial backfill (81%) of reduction to Medi-Cal reimbursements for drug and alcohol programs

2.25 Total Solutions

0 Remaining Unfunded State Impact

Property Tax and Redevelopment Financing

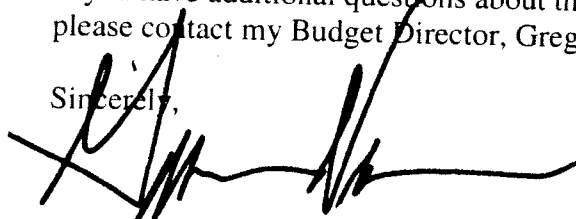
As assumed in the Controller's September 14 report, I propose financing the State's Proposition 1A property tax shift through the Proposition 1A Securitization Program. In addition, the State has also proposed redirecting \$28.7 million in Redevelopment Agency funds. The Redevelopment Agency has

approximately \$6 million in cash on hand to pay for a portion of this funding shift. I propose financing the additional impact by increasing the value of bond sales scheduled for December 2009. This financing plan will allow the Redevelopment Agency to proceed with funding projects as previously scheduled and with no General Fund impact for Fiscal Year 2009-2010.

I believe the plan outlined here will allow the City to absorb the State impact on the General Fund with relatively modest short-term impacts to program funding and service delivery, primarily due to the \$18 million reserve included in the Fiscal Year 2009-2010 budget. However, it is worth noting that both the City of San Francisco and the State of California both face significant financial challenges in the coming year due to the economic climate. A substantial amount of uncertainty remains regarding future impacts of State budget reductions on San Francisco and other local governments in California. We will continue to closely monitor the State's plans for implementation of spending reductions, and we plan to work closely with the Board of Supervisors to address our financial challenges during the coming year.

If you have additional questions about this proposal or the State budget and its impact on San Francisco, please contact my Budget Director, Greg Wagner, at 415-554-6486.

Sincerely,

A handwritten signature in black ink, appearing to be 'Gavin Newsom', written over a horizontal line.

Gavin Newsom, Mayor

Cc: Angela Calvillo, Clerk of the Board of Supervisors
Harvey Rose, Board of Supervisors Budget Analyst
Ben Rosenfield, Controller