

CITY AND COUNTY



OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025 San Francisco, CA 94102 (415) 554-7642
FAX (415) 252-0461

January 9, 2008

TO: Supervisor Ammiano

FROM: Budget Analyst

SUBJECT: Arts Funding

In response to your request, the Budget Analyst completed this report in preparation for your requested hearing on the City and County funding of the arts in FY 2005-2006, FY 2006-2007, and FY 2007-2008 (File 07-1210).

Summary of Findings and Recommendation

The Budget Analyst finds that although funding for the arts has increased by \$10,349,071 or approximately 18 percent, since FY 2005-2006, changes to the Hotel Tax revenue allocations established pursuant to the City's Business and Tax Regulations Code have resulted in (a) less Hotel Tax revenue appropriated to the arts, tourism, and affordable housing and (b) more Hotel Tax revenue appropriated to the City's General Fund for discretionary use.

Specifically, beginning in FY 2003-2004, and every fiscal year thereafter, the Hotel Tax allocations, as specified in the City's Business and Tax Regulations Code, have been amended through the City's Administrative Provisions of the Annual Appropriation Ordinance (AAO). As a result, since FY 2005-2006, there has been an average annual decrease of \$25,171,974 in Hotel Tax revenue appropriated to the arts, tourism, and affordable housing – all of which has been appropriated to the City's General Fund for discretionary use.

Further, since FY 2004-2005, the Administrative Provisions of the AAO have additionally required that all Hotel Tax revenues collected in excess of the appropriated amounts be transferred to the City's General Fund. As a result,

in FY 2005-2006 and FY 2006-2007, an average of \$13,263,142 in additional Hotel Tax revenues were transferred to the City's General Fund for discretionary use.

The Budget Analyst recommends that if the practice of reallocating Hotel Tax revenue for discretionary General Fund purposes through amendments to the Administrative Provisions of the AAO continues to be the ongoing policy of the Board of Supervisors, the Board of Supervisors should amend City's Business and Tax Regulations Code in order to make the Code consistent with the Administrative Provisions of the AAO.

Background

On December 15, 2004, the Board of Supervisors approved Resolution No. 0781-04 which established a San Francisco Arts Task Force¹ for the purposes of making recommendations to the Board of Supervisors and the Mayor on whether and how to update or restructure the various elements of the City's arts agencies, programs, and policies to better achieve the goals of:

- (a) Sustaining and stabilizing community-based not-for-profit arts organizations;
- (b) Building upon the City's creative workforce and existing arts economy to increase employment and leverage new economic opportunities; and,
- (c) Expanding City resources for low and moderate income housing and affordable studios and workspaces to help retain artists in San Francisco.

In March of 2006, the San Francisco Arts Task Force submitted a report to the Board of Supervisors and the Mayor which (a) identified funding appropriations made in FY 2005-2006 to eight City departments and agencies to support the arts, (b) detailed Hotel Tax allocations from FY 2001-2002 through FY 2005-2006, and (c) provided 20 recommendations to improve the structure, programming, and funding of the arts in San Francisco.

¹Pursuant to Resolution No. 0781-04, the San Francisco Arts Task Force is comprised of 34 individuals who represent the fiscal and artistic diversity of San Francisco's art industry including, (a) 21 voting members and (b) 13 non-voting members. Of the 21 voting members, (a) one member was appointed by each member of the Board of Supervisors, for a total of 11 members, (b) five members were collectively appointed by the Board of Supervisors, and (c) five members were appointed by the Mayor. The 13 non-voting members were comprised of specified representatives from City departments and agencies, the Mayor's Office, and a charitable foundation that provides funding for the arts.

The Arts Task Force report identified funding to the following City departments and agencies in their determination of funding for the arts in FY 2005-2006:

- Arts Commission (ARTS);
- Asian Art Museum (AAM);
- Fine Arts Museum (FAM);
- War Memorial and Performing Arts Center (WAR);
- Grants for the Arts, under Administrative Services Department (ADM);
- Entertainment Commission, under Administrative Services Department (ADM);
- Airport Arts Program, under Airports Commission (AIR);
- Film Commission, under Department of Economic and Workforce Development (ECN);
- Museum of the African Diaspora, Yerba Buena Center for the Arts, and the Zeum, under the San Francisco Redevelopment Agency (SFRA).

For the purposes of this report, the Budget Analyst notes that funding for the arts in FY 2005-2006, FY 2006-2007, and FY 2007-2008 is inclusive of funding allocated to and revenue generated by the City departments and agencies for arts-related programs and activities identified in the March 2006 San Francisco Arts Task Force report.

Although we include the aforementioned City departments and agencies identified by the Arts Task Force in our analysis of funding for the arts in fiscal years 2005-2006, 2006-2007, and 2007-2008, the Budget Analyst notes that pursuant to Article V, Section 5.100 of the City's Charter, the arts and culture departments of the City and County of San Francisco are expressly identified as the Arts Commission, the Asian Art Museum, the Fine Arts Museum, and the War Memorial and Performing Arts Center.

Funding for the Arts: FY 2005-2006 to FY 2007-2008

Tables I, II, and III below prepared by the Budget Analyst summarize funding for the arts in San Francisco, as specified, by City department, program, and source of funds for fiscal years 2005-2006, 2006-2007, and 2007-2008. As shown in the tables below, overall funding for the arts has increased by \$10,349,071, or approximately 18 percent, over these three fiscal years, from \$57,501,727 in FY 2005-2006 to \$67,850,798 in FY 2007-2008.

Hotel Tax revenue remains the largest source of funding for the arts in San Francisco – representing \$36,849,059, or approximately 54.3 percent, of the \$67,850,798 in total funding for the arts in FY 2007-2008. Similarly, in FY 2005-2006, Hotel Tax revenues of \$31,237,000 comprised approximately 54.3

percent of total arts funding of \$57,501,727. Hotel Tax revenues to City arts departments and agencies has increased by \$5,612,059, or approximately 18 percent, over this three fiscal year period, from \$31,237,000 in FY 2005-2006 to \$36,849,059 in FY 2007-2008.

In addition to Hotel Tax revenue, several City arts departments and agencies also receive General Fund support for arts-related facilities, programs, and services. As detailed in the below tables, General Fund support for the arts has increased by \$3,514,327, or approximately 27.7 percent, over this three fiscal year period, from \$12,666,751 in FY 2005-2006 to \$16,181,078 in FY 2007-2008. In FY 2007-2008, General Fund support for City arts departments and agencies totals \$16,181,078 and represents approximately 23.8 percent of the \$67,850,798 in total funding for the arts in FY 2007-2008. In comparison, in FY 2005-2006, the General Fund appropriation of \$12,666,751 represented approximately 22 percent of total funding for the arts of \$57,501,727.

Several City departments and agencies also generate departmental revenues from various fees, concessions, rentals, performances, programs, and activities to support the arts. Departmental revenues have increased by \$1,212,685, or approximately 13.5 percent, over this three fiscal year period, from \$8,957,976 in FY 2005-2006 to \$10,170,661 in FY 2007-2008. In FY 2007-2008, departmental revenues of \$10,170,661 comprise nearly 15 percent of the \$67,850,798 in total funding for the arts in FY 2007-2008. However, in FY 2005-2006, departmental revenues of \$8,957,976 comprised nearly 15.6 percent of total funding for the arts of \$57,501,727.

The SFRA also provides fixed annual operating subsidies to arts organizations located within SFRA project areas including the Museum of the African Diaspora, the Yerba Buena Center for Arts, and Zeum, a multi-media arts and technology museum. SFRA funding to these arts organizations has increased by only \$10,000, or .2 percent, over this three fiscal year period from \$4,640,000 in FY 2005-2006 to \$4,650,000 in FY 2007-2008. In FY 2007-2008, SFRA funding of \$4,650,000 represents approximately 6.9 percent of the \$67,850,798 in total funding for the arts in FY 2007-2008.

Table I
FY 2005-2006 Arts Funding by Department and Source*

| Dept. | Program | General Fund | Hotel Tax Fund | SFRA | Interdepartmental Transfers | TOTAL CITY FUNDING | Earned Revenue** | TOTAL FUNDING |
|---------------------|---------------------------------|---------------------|---------------------|--------------------|-----------------------------|---------------------|--------------------|---------------------|
| ADM | Grants for the Arts | - | \$13,031,000 | - | (\$1,018,400) | \$12,012,600 | - | \$12,012,600 |
| | Entertainment Commission | \$525,048 | | - | - | \$525,048 | - | \$525,048 |
| | ADM TOTAL | \$525,048 | \$13,031,000 | - | (\$1,018,400) | \$12,537,648 | - | \$12,537,648 |
| AAM | Asian Art Museum | \$6,114,621 | \$1,761,000 | - | - | \$7,875,621 | \$693,999 | \$8,569,620 |
| AIR | Airport Arts Program | - | - | - | - | - | \$264,190 | \$264,190 |
| ARTS | Administration | \$493,907 | - | - | - | \$493,907 | \$525,720 | \$1,019,627 |
| | Civic Collection | \$82,300 | - | - | - | \$82,300 | - | \$82,300 |
| | Community Arts & Education | \$75,000 | - | - | \$200,000 | \$275,000 | \$516,750 | \$791,750 |
| | Cultural Centers | - | \$1,711,000 | - | \$353,400 | \$2,064,400 | - | \$2,064,400 |
| | Cultural Equity Grants | - | \$1,938,000 | - | - | \$1,938,000 | - | \$1,938,000 |
| | Gallery | - | - | - | \$15,000 | \$15,000 | - | \$15,000 |
| | Municipal Symphony Concerts | \$1,400,642 | - | - | - | \$1,400,642 | - | \$1,400,642 |
| | Public Art | - | - | - | - | - | \$700,300 | \$700,300 |
| | Street Artists | - | - | - | - | - | \$170,968 | \$170,968 |
| ARTS TOTAL | \$2,051,849 | \$3,649,000 | - | \$568,400 | \$6,269,249 | \$1,913,738 | \$8,182,987 | |
| ECN | Film Commission | \$42,000 | - | - | \$450,000 | \$492,000 | \$129,700 | \$621,700 |
| FAM | Fine Arts Museum | \$3,933,233 | \$4,440,000 | - | - | \$8,373,233 | \$3,792,719 | \$12,165,952 |
| WAR | War Memorial Operations | - | \$8,356,000 | - | - | \$8,356,000 | \$2,163,630 | \$10,519,630 |
| SFRA | Museum of the African Diaspora | - | - | \$485,000 | - | \$485,000 | - | \$485,000 |
| | Yerba Buena Center for the Arts | - | - | \$3,555,000 | - | \$3,555,000 | - | \$3,555,000 |
| | Zeum | - | - | \$600,000 | - | \$600,000 | - | \$600,000 |
| | SFRA TOTAL | - | - | \$4,640,000 | - | \$4,640,000 | - | \$4,640,000 |
| GRAND TOTALS | | \$12,666,751 | \$31,237,000 | \$4,640,000 | \$0 | \$48,543,751 | \$8,957,976 | \$57,501,727 |

*Figures are based on actual revenues and expenditures.

**Earned revenue total includes expenditure recoveries.

Table II
FY 2006-2007 Arts Funding by Department and Source*

| Dept. | Program | General Fund | Hotel Tax Fund | SFRA | Interdepartmental Transfers | TOTAL CITY FUNDING | Earned Revenue** | TOTAL FUNDING |
|---------------------|---------------------------------|---------------------|---------------------|--------------------|-----------------------------|---------------------|--------------------|---------------------|
| ADM | Grants for the Arts | - | \$13,988,000 | - | (\$1,018,400) | \$12,969,600 | - | \$12,969,600 |
| | Entertainment Commission | \$563,950 | - | - | - | \$563,950 | - | \$563,950 |
| | ADM TOTAL | \$563,950 | \$13,988,000 | - | (\$1,018,400) | \$13,533,550 | - | \$13,533,550 |
| AAM | Asian Art Museum | \$4,666,507 | \$1,890,000 | - | - | \$6,556,507 | \$567,058 | \$7,123,565 |
| AIR | Airport Arts Program | - | - | - | - | - | - | \$0 |
| ARTS | Administration | \$694,490 | - | - | - | \$694,490 | \$557,207 | \$1,251,697 |
| | Civic Collection | \$50,000 | - | - | - | \$50,000 | - | \$50,000 |
| | Community Arts & Education | \$1,160,000 | - | - | \$200,000 | \$1,360,000 | \$487,661 | \$1,847,661 |
| | Cultural Centers | - | \$1,837,000 | - | \$353,400 | \$2,190,400 | - | \$2,190,400 |
| | Cultural Equity Grants | - | \$2,080,000 | - | - | \$2,080,000 | - | \$2,080,000 |
| | Gallery | - | - | - | \$15,000 | \$15,000 | - | \$15,000 |
| | Municipal Symphony Concerts | \$1,506,471 | - | - | - | \$1,506,471 | - | \$1,506,471 |
| | Public Art | \$128,266 | - | - | - | \$128,266 | \$517,371 | \$645,637 |
| | Street Artists | - | - | - | - | - | \$184,011 | \$184,011 |
| ARTS TOTAL | \$3,539,227 | \$3,917,000 | - | \$568,400 | \$8,024,627 | \$1,746,250 | \$9,770,877 | |
| ECN | Film Commission | \$600,000 | - | - | \$450,000 | \$1,050,000 | \$114,786 | \$1,164,786 |
| FAM | Fine Arts Museum | \$5,051,665 | \$4,766,000 | - | - | \$9,817,665 | \$4,659,918 | \$14,477,583 |
| WAR | War Memorial Operations | - | \$8,967,577 | - | - | \$8,967,577 | \$2,364,652 | \$11,332,229 |
| SFRA | Museum of the African Diaspora | - | - | \$625,000 | - | \$625,000 | - | \$625,000 |
| | Yerba Buena Center for the Arts | - | - | \$3,555,000 | - | \$3,555,000 | - | \$3,555,000 |
| | Zeum | - | - | \$600,000 | - | \$600,000 | - | \$600,000 |
| | SFRA TOTAL | - | - | \$4,780,000 | - | \$4,780,000 | - | \$4,780,000 |
| GRAND TOTALS | | \$14,421,349 | \$33,528,577 | \$4,780,000 | \$0 | \$52,729,926 | \$9,452,664 | \$62,182,590 |

*Figures are based on actual revenues and expenditures.

**Earned revenue total includes expenditure recoveries.

Table III
FY 2007-2008 Arts Funding by Department and Source*

| Dept. | Program | General Fund | Hotel Tax Fund | SFRA | Interdepartmental Transfers | TOTAL CITY FUNDING | Earned Revenue** | TOTAL FUNDING |
|---------------------|---------------------------------|---------------------|---------------------|--------------------|-----------------------------|---------------------|---------------------|---------------------|
| ADM | Grants for the Arts | - | \$15,386,800 | - | (\$1,106,229) | \$14,280,571 | - | \$14,280,571 |
| | Entertainment Commission | \$737,373 | - | - | - | \$737,373 | - | \$737,373 |
| | ADM TOTAL | \$737,373 | \$15,386,800 | - | (\$1,106,229) | \$15,017,944 | - | \$15,017,944 |
| AAM | Asian Art Museum | \$4,678,116 | \$2,079,000 | - | - | \$6,757,116 | \$873,375 | \$7,630,491 |
| AIR | Airport Arts Program | - | - | - | - | - | \$335,000 | \$335,000 |
| ARTS | Administration | \$686,332 | - | - | - | \$686,332 | \$610,683 | \$1,297,015 |
| | Civic Collection | \$156,000 | - | - | - | \$156,000 | \$30,000 | \$186,000 |
| | Community Arts & Education | \$2,128,206 | - | - | \$200,000 | \$2,328,206 | \$493,017 | \$2,821,223 |
| | Cultural Centers | - | \$2,020,700 | - | \$441,229 | \$2,461,929 | - | \$2,461,929 |
| | Cultural Equity Grants | - | \$2,288,000 | - | - | \$2,288,000 | - | \$2,288,000 |
| | Gallery | - | - | - | \$15,000 | \$15,000 | - | \$15,000 |
| | Municipal Symphony Concerts | \$1,633,039 | - | - | - | \$1,633,039 | - | \$1,633,039 |
| | Public Art | - | - | - | - | - | \$539,779 | \$539,779 |
| | Street Artists | - | - | - | - | - | \$185,642 | \$185,642 |
| ARTS TOTAL | \$4,603,577 | \$4,308,700 | - | \$656,229 | \$9,568,506 | \$1,859,121 | \$11,427,627 | |
| ECN | Film Commission | \$600,000 | - | - | \$450,000 | \$1,050,000 | \$70,898 | \$1,120,898 |
| FAM | Fine Arts Museum | \$5,562,012 | \$5,242,600 | - | - | \$10,804,612 | \$4,775,000 | \$15,579,612 |
| WAR | War Memorial | - | \$9,831,959 | - | - | \$9,831,959 | \$2,257,267 | \$12,089,226 |
| SFRA | Museum of the African Diaspora | - | - | \$500,000 | - | \$500,000 | - | \$500,000 |
| | Yerba Buena Center for the Arts | - | - | \$3,550,000 | - | \$3,550,000 | - | \$3,550,000 |
| | Zeum | - | - | \$600,000 | - | \$600,000 | - | \$600,000 |
| | SFRA TOTAL | - | - | \$4,650,000 | - | \$4,650,000 | - | \$4,650,000 |
| GRAND TOTALS | | \$16,181,078 | \$36,849,059 | \$4,650,000 | \$0 | \$57,680,137 | \$10,170,661 | \$67,850,798 |

*Figures are based on budgeted revenues and expenditures.

**Earned revenue total includes expenditure recoveries.

Hotel Taxes

As shown in Tables I, II, and III, Hotel Tax revenues represent the largest funding source, or approximately 54 percent, of all revenues to the arts in the City. Article 7 of the San Francisco Business and Tax Regulations Code imposes a 14 percent tax on hotel room occupancy and requires that (a) 6 percent of the 14 percent tax, or 42.9 percent, be deposited in the City's General Fund for discretionary use and (b) 8 percent of the 14 percent tax, or 57.1 percent, be allocated to support the arts, tourism, affordable housing, and to pay debt service on San Francisco Redevelopment Agency (SFRA) Hotel Tax Revenue Bonds.²

Specifically, as previously approved by ordinance of the Board of Supervisors, Article 7, Section 515.01 of the San Francisco Business and Tax Regulations Code established baseline dollar amounts for each designated allocation of Hotel Taxes and required that these baselines be adjusted annually beginning in FY 1997-1998 (for most allocations) by the percentage increase or decrease in actual Hotel Tax revenues compared with the prior fiscal year, provided that the amount of the annual adjustment did not exceed 10 percent. Additionally, Business and Tax Regulations Code Section 515.2(b) and Section 11.12 of the Administrative Provisions of the FY 2005-2006, FY 2006-2007, and FY 2007-2008 Annual Appropriation Ordinances (AAO) authorize the Controller to make adjustments to Hotel Tax revenue allocations, as may be necessary, based on the debt service requirements for the 1994 Hotel Tax Revenue Bonds issued by the SFRA.

In accordance with the City's Business and Tax Regulations Code, any remaining Hotel Tax revenue, in excess of specified allocations and adjustments, is required to be transferred to the City's General Fund, of which up to 0.2 percent is appropriated to the Tax Collector to cover administrative expenses. As shown in Table IV below, the City's total Hotel Tax revenues have increased by between approximately 5.3 percent to 13.6 percent during fiscal year 2005-2006 through fiscal year 2007-2008.

²According to Mr. Mario Menchini of the SFRA, Hotel Tax Revenue Bonds were issued in 1994, subject to approval by the Board of Supervisors, the proceeds from which were used to build a portion of the Yerba Buena Gardens, which include a park, visual arts building, theater, and a children's facility on top of Moscone Center South. Mr. Menchini advises that the amount of Hotel Tax revenue provided to SFRA mirrors the amount of debt service due and payable in any given year.

Table IV
Hotel Tax Revenue
FY 2005-2006 to FY 2007-2008

| Fiscal Year | Hotel Tax Revenue | % Increase from Prior Year Budget |
|--------------------|--------------------------|------------------------------------------|
| 2005-2006 | \$179,472,827 | 13.6% |
| 2006-2007 | \$199,764,457 | 11.3% |
| 2007-2008* | \$210,340,000 | 5.3% |

*Estimate obtained from the Controller's FY 2007-2008 Revenue Letter.

The Hotel Tax allocations established pursuant to Article 7, Section 515.01 of the San Francisco Business and Tax Regulations Code were amended by the Board of Supervisors in Sections 11.13 and 11.13.5 of the Administrative Provisions of the FY 2003-2004 AAO.³ Beginning in FY 2004-2005, and every fiscal year since, Hotel Tax allocations have been established by Section 11.11 of the Administrative Provisions of the AAO. Specifically, Section 11.11 of the Administrative Provisions (a) lists the amount of Hotel Tax revenue appropriated to specified City departments and agencies, including the Academy of Sciences for operation and maintenance costs associated with the Steinhart Aquarium⁴ and (b) expressly requires that all Hotel Tax revenue collected in excess of the appropriated amounts be transferred to the City's General Fund.

According to Mr. Buck Delventhal of the City Attorney's Office, because the Hotel Tax allocations specified in Article 7, Section 515.01 of the San Francisco Business and Tax Regulations Code were established pursuant to an ordinance approved by the Board of Supervisors, these allocations can subsequently be amended by another ordinance approved by the Board of Supervisors. As such, Mr. Delventhal states that any Hotel Tax allocations

³Following the September 11th, 2001 terrorist attacks, Hotel Tax revenue decreased by 29.8 percent, from \$188,377,000 in FY 2000-2001 to \$132,226,000 in FY 2001-2002. Hotel Tax revenue further decreased by 2.7 percent, from \$132,226,000 in FY 2001-2002 to \$128,590,000 in FY 2002-2003. Sections 11.13 and 11.13.5 of the FY 2003-2004 AAO appropriated an additional \$9,700,000 in Hotel Tax revenue to the General Fund by reducing Hotel Tax allocations made to other City departments including, (a) \$5,000,000 allocated to the Mayor's Office for capital projects, (b) \$4,400,000 allocated to the War Memorial, and (c) \$300,000 allocated to the Administrative Services Department for the Grants for the Arts Program. According to Ms. Tamar Dorfman from the Mayor's Office of Housing, from FY 2003-2004 through FY 2005-2006, no Hotel Tax revenues were allocated to the Mayor's Office for capital projects because such funding was backfilled by the SFRA.

⁴Unlike the other City departments and agencies that receive a Hotel Tax allocation pursuant to Section 11.11 of the Administrative Provisions of the AAO, the Academy of Sciences was not initially designated for such an allocation pursuant to the Hotel Tax allocations previously approved by the Board of Supervisors established by the Business and Tax Regulations Code.

specified in an AAO approved by the Board of Supervisors would automatically supersede those allocations established pursuant to Article 7, Section 515.01 of the San Francisco Business and Tax Regulations Code.

FY 2005-2006

In FY 2005-2006, budgeted Hotel Tax allocations to certain agencies and City departments were frozen at FY 2004-2005 levels as reflected in Section 11.11 of Administrative Provisions of the FY 2005-2006 AAO. Table V below illustrates how Hotel Tax revenues were allocated in FY 2005-2006 pursuant to (a) the City's Business and Tax Regulations Code, (b) the FY 2005-2006 budget as approved by the Board of Supervisors in July of 2005, and (c) the year-end (actual) Hotel Tax revenues received by various City departments and agencies.

Table V
Hotel Tax Allocations
FY 2005-2006

| | Department/Agency/Program | Dept. | FY 2005-2006 Tax Code Allocation | % of Total | FY 2005-2006 AAO Allocation | % of Total | FY 2005-2006 Actuals | % of Total |
|-----------------------|-------------------------------|-------|----------------------------------------|---------------|-----------------------------------|---------------|-------------------------|---------------|
| General Fund | Unallocated | UNA | \$73,040,000 | 42.9% | \$97,188,000 | 57.1% | \$106,549,827 | 59.4% |
| | Grants for the Arts* | ADM | \$17,096,000 | 10.0% | \$13,031,000 | 7.7% | \$13,031,000 | 7.3% |
| | Fine Arts Museum | FAM | \$5,338,000 | 3.1% | \$4,440,000 | 2.6% | \$4,440,000 | 2.5% |
| | Cultural Centers** | ART | \$2,057,000 | 1.2% | \$1,711,000 | 1.0% | \$1,711,000 | 1.0% |
| | Cultural Equity Endowment | ART | \$2,330,000 | 1.4% | \$1,938,000 | 1.1% | \$1,938,000 | 1.1% |
| | Asian Art Museum | AAM | \$2,118,000 | 1.2% | \$1,761,000 | 1.0% | \$1,761,000 | 1.0% |
| | Academy of Sciences | SCI | \$ - | 0% | \$1,273,000 | 0.7% | \$1,273,000 | 0.7% |
| | Administration | TTX | \$150,000 | 0.1% | \$120,000 | 0.1% | \$120,000 | 0.1% |
| Special Revenue Funds | Moscone/Convention Facilities | ADM | \$37,026,000 | 21.8% | \$26,822,000 | 15.8% | \$26,822,000 | 14.9% |
| | Convention & Visitors Bureau | ADM | \$8,800,000 | 5.2% | \$7,321,000 | 4.3% | \$7,321,000 | 4.1% |
| | Low-Income Housing*** | MYR | \$6,500,000 | 3.8% | \$600,000 | 0.4% | \$600,000 | 0.3% |
| | War Memorial | WAR | \$10,106,000 | 5.9% | \$8,356,000 | 4.9% | \$8,356,000 | 4.7% |
| SFRA | Yerba Buena Gardens**** | SFRA | \$5,550,000 | 3.3% | \$5,550,000 | 3.3% | \$5,550,000 | 3.1% |
| | Subtotal: Allocated | | \$97,071,000 | 57.1% | \$72,923,000 | 42.9% | \$72,923,000 | 40.6% |
| | TOTAL | | \$170,111,000 | 100.0% | \$170,111,000 | 100.0% | \$179,472,827 | 100.0% |

*Hotel Tax revenues allocated to the Administrative Services Department for Grants for the Arts in the FY 2005-2006 AAO include (a) \$12,816,000 for Publicity/Advertising: Recurring Events, including annual amounts transferred to the Arts Commission for the Cultural Centers and (b) \$215,000 for Publicity/Advertising: Nonrecurring Events.

**Hotel Tax revenues allocated to the Arts Commission for the Cultural Centers exclude annual amounts transferred from the Administrative Services Department for the Cultural Centers as required by the City's Business and Tax Regulations Code.

***Hotel Tax revenues allocated to the Mayor's Office for Low-Income Housing include \$600,000 for rental assistance. From FY 2003-2004 through FY 2005-2006, no Hotel Tax revenues were allocated to the Mayor's Office for low-income housing capital projects because such funding was backfilled by the SFRA.

****Hotel Tax revenue allocated for the Yerba Buena Gardens is paid directly to the SFRA for debt service on SFRA Hotel Tax Revenue Bonds and do not appear in the FY 2005-2006 AAO. As such, this figure represents the difference between total estimated/actual Hotel Tax revenue and all other known FY 2005-2006 Hotel Tax allocations.

As shown in the above Table V, in FY 2005-2006 the Board of Supervisors appropriated \$97,188,000, or approximately 57.1 percent, of the estimated \$170,111,000 in Hotel Tax revenue to the City's General Fund for discretionary use, or \$24,148,000 more than the \$73,040,000 General Fund allocation that would have been required pursuant to the Business and Tax Regulations Code. The remaining \$72,923,000 in Hotel Tax revenues, or approximately 42.9 percent, was allocated to various City departments and agencies as specified above. However, as illustrated in Table V above, the \$72,923,000 appropriated in the FY 2005-2006 budget for the arts, tourism, affordable housing, and to pay debt service on SFRA Hotel Tax Revenue Bonds, was actually \$24,148,000 less than the \$97,071,000 that would have been appropriated for such purposes pursuant to the City's Business and Tax Regulations Code.

In FY 2005-2006, actual Hotel Tax revenues totaled \$179,472,827, which was \$9,361,827, or approximately 5.5 percent, more than the budgeted revenues of \$170,111,000. As noted above, in accordance with Section 11.11 of the FY 2005-2006 Administrative Provisions of the AAO, this additional \$9,361,827 in Hotel Tax revenue was transferred to the City's General Fund for discretionary use.

Accordingly, in FY 2005-2006, a total of \$106,549,827 (\$97,188,000 appropriated in the original budget plus \$9,361,827 additional actual revenues), or approximately 59.4 percent of all Hotel Tax revenues of \$179,472,827 collected in FY 2005-2006, was allocated to the City's General Fund for discretionary use. The remaining \$72,923,000 in actual Hotel Tax revenue, or approximately 40.6 percent, was appropriated to the City departments and agencies as specified above.

FY 2006-2007

In FY 2006-2007, Hotel Tax allocations to various City departments and agencies were increased based on the amount originally appropriated by the Board of Supervisors in the FY 2005-2006 budget adjusted for the estimated 7.3 percent growth in Hotel Tax revenues in FY 2006-2007 – from an estimated \$170,111,000 in FY 2005-2006 to an estimated \$182,600,000 in FY 2006-2007, an increase of \$12,489,000. Table VI below shows how Hotel Tax revenues were allocated in FY 2006-2007 pursuant to (a) the Business and Tax Regulations Code, (b) the FY 2006-2007 original budget (AAO), and (c) year-end actual revenues.

As shown in the below Table VI, in FY 2006-2007 the Board of Supervisors approved \$99,851,423, or approximately 54.7 percent, of the estimated \$182,600,000 in Hotel Tax revenue to the General Fund for discretionary use,

representing \$21,441,423 more than the \$78,410,000 General Fund allocation that would have been required pursuant to the City's Business and Tax Regulations Code. The remaining \$82,748,577 in estimated Hotel Tax revenue, or approximately 45.3 percent, was allocated to various City department and agencies as specified below. As shown in the below Table VI, this total of \$82,748,577 was appropriated in the FY 2006-2007 budget for the arts, tourism, affordable housing, and to pay debt service on SFRA Hotel Tax Revenue Bonds, which is \$21,441,423 less than the \$104,190,000 that would have been appropriated for such purposes pursuant to the City's Business and Tax Regulations Code.

Table VI
Hotel Tax Allocations
FY 2006-2007

| | Department/Agency/Program | Dept. | FY 2006-2007 Tax Code Allocation | % of Total | FY 2006-2007 AAO Allocation | % of Total | FY 2006-2007 Actuals | % of Total |
|----------------------------|-------------------------------|-------|----------------------------------------|---------------|-----------------------------------|---------------|-------------------------|---------------|
| General Fund | Unallocated | UNA | \$78,410,000 | 42.9% | \$99,851,423 | 54.7% | \$117,015,880 | 58.6% |
| | Grants for the Arts* | ADM | \$18,350,000 | 10.0% | \$13,988,000 | 7.7% | \$13,988,000 | 7.0% |
| | Fine Arts Museum | FAM | \$5,730,000 | 3.1% | \$4,766,000 | 2.6% | \$4,766,000 | 2.4% |
| | Cultural Centers** | ART | \$2,210,000 | 1.2% | \$1,837,000 | 1.0% | \$1,837,000 | 0.9% |
| | Cultural Equity Endowment | ART | \$2,500,000 | 1.4% | \$2,080,000 | 1.1% | \$2,080,000 | 1.0% |
| | Asian Art Museum | AAM | \$2,270,000 | 1.2% | \$1,890,000 | 1.0% | \$1,890,000 | 0.9% |
| | Academy of Sciences | SCI | \$ - | 0% | \$1,366,000 | 0.7% | \$1,366,000 | 0.7% |
| | Administration | TTX | \$160,000 | 0.1% | \$129,000 | 0.1% | \$129,000 | 0.1% |
| Special Revenue Funds | Moscone/Convention Facilities | ADM | \$40,220,000 | 22.0% | \$28,792,000 | 15.8% | \$28,792,000 | 14.4% |
| | Convention & Visitors Bureau | ADM | \$9,450,000 | 5.2% | \$7,859,000 | 4.3% | \$7,859,000 | 3.9% |
| | Low-Income Housing*** | MYR | \$6,970,000 | 3.8% | \$5,600,000 | 3.1% | \$5,600,000 | 2.8% |
| | War Memorial | WAR | \$10,850,000 | 5.9% | \$8,967,577 | 4.9% | \$8,967,577 | 4.5% |
| SFRA | Yerba Buena Gardens**** | SFRA | \$5,480,000 | 3.0% | \$5,474,000 | 3.0% | \$5,474,000 | 2.7% |
| Subtotal: Allocated | | | \$104,190,000 | 57.1% | \$82,748,577 | 45.3% | \$82,748,577 | 41.4% |
| TOTAL | | | \$182,600,000 | 100.0% | \$182,600,000 | 100.0% | \$199,764,457 | 100.0% |

*Hotel Tax revenues allocated to the Administrative Services Department for Grants for the Arts in the FY 2006-2007 AAO include (a) \$13,757,000 for Publicity/Advertising: Recurring Events, including annual amounts transferred to the Arts Commission for the Cultural Centers and (b) \$231,000 for Publicity/Advertising: Nonrecurring Events.

**Hotel Tax revenues allocated to the Arts Commission for the Cultural Centers exclude annual amounts transferred from the Administrative Services Department for the Cultural Centers as required by the City's Business and Tax Regulations Code.

***Hotel Tax revenues allocated to the Mayor's Office for Low-Income Housing include (a) \$600,000 for rental assistance and (b) \$5,000,000 for capital projects.

****Hotel Tax revenue allocated for the Yerba Buena Gardens are paid directly to the SFRA for debt service on SFRA Hotel Tax Revenue Bonds and do not appear in the FY 2006-2007 AAO. As such, this figure represents the difference between total estimated/actual Hotel Tax revenue and all other known FY 2006-2007 Hotel Tax allocations.

As occurred in prior years, in FY 2006-2007, actual Hotel Tax revenues were significantly greater than budgeted revenues – totaling \$199,764,457, which is \$17,164,457, or approximately 9.4 percent, more than budgeted revenues of

\$182,600,000. In accordance with Section 11.11 of the FY 2006-2007 Administrative Provisions of the AAO, this additional \$17,164,457 in Hotel Tax revenue was transferred to the City's General Fund for discretionary use. As a result, in FY 2006-2007, a total of \$117,015,880 (\$99,851,423 appropriated in the original budget plus \$17,164,457 in additional actual revenues), or approximately 58.6 percent of the actual Hotel Tax revenues realized in FY 2006-2007, was appropriated to the General Fund for discretionary use. The remaining \$82,748,577 in Hotel Tax revenue, or approximately 41.4 percent, was allocated to City departments and agencies as specified above.

FY 2007-2008

In FY 2007-2008, Hotel Tax allocations to various City departments and agencies were increased based on the amount originally appropriated by the Board of Supervisors in the FY 2006-2007 budget adjusted for approximately 10 percent of the estimated 15.2 percent growth in Hotel Tax revenues in FY 2007-2008 – from an estimated \$182,600,000 in FY 2006-2007 to an estimated \$210,340,000 in FY 2007-2008.⁵ Table VII below illustrates how Hotel Tax revenues were allocated in FY 2007-2008 pursuant to (a) the Business and Tax Regulations Code and (b) the FY 2007-2008 original budget.

As shown in Table VII, in FY 2007-2008 the Board of Supervisors appropriated \$120,206,500, or approximately 57.1 percent, of the estimated \$210,340,000 in Hotel Tax revenue to the City's General Fund for discretionary use, which is \$29,926,500 more than the \$90,280,000 General Fund allocation that would have been required pursuant to the Business and Tax Regulations Code. The remaining \$90,133,500 in estimated Hotel Tax revenue, or approximately 42.9 percent, was appropriated as specified below.

As shown in the below Table VII, a total of \$90,133,500 was appropriated in the FY 2007-2008 budget for the arts, tourism, affordable housing, and to pay debt service on SFRA Hotel Tax Revenue Bonds, which is \$29,926,500 less than the \$120,060,000 that would have been appropriated for such purposes pursuant to the City's Business and Tax Regulations Code. As in prior years, Section 11.11 of the FY 2007-2008 Administrative Provisions of the AAO requires any Hotel Tax revenues realized in excess of budgeted amounts to be transferred to the City's General Fund.

⁵ As noted above, Article 7, Section 515.01 of the Business and Tax Regulations Code limits the amount of the annual adjustment in Hotel Tax allocations to 10 percent of the increase/decrease in actual Hotel Tax revenues compared with the prior fiscal year.

**Table VII
 Hotel Tax Allocations
 FY 2007-2008**

| | Department/Agency/Program | Dept. | FY 2007-2008 Tax Code Allocation | % of Total | FY 2007-2008 AAO Allocation | % of Total |
|------------------------------|-------------------------------|-------|----------------------------------------|---------------|-----------------------------------|---------------|
| General Fund | Unallocated | UNA | \$90,280,000 | 42.9% | \$120,206,500 | 57.1% |
| | Grants for the Arts* | ADM | \$21,510,000 | 10.2% | \$15,386,800 | 7.3% |
| | Fine Arts Museum | FAM | \$6,720,000 | 3.2% | \$5,242,600 | 2.5% |
| | Cultural Centers** | ART | \$2,590,000 | 1.2% | \$2,020,700 | 1.0% |
| | Cultural Equity Endowment | ART | \$2,930,000 | 1.4% | \$2,288,000 | 1.1% |
| | Asian Art Museum | AAM | \$2,660,000 | 1.3% | \$2,079,000 | 1.0% |
| | Academy of Sciences | SCI | 0 | 0% | \$1,502,600 | 0.7% |
| | Administration | TTX | \$190,000 | 0.1% | \$141,900 | 0.1% |
| Special Revenue Funds | Moscone/Convention Facilities | ADM | \$46,110,000 | 21.9% | \$31,671,200 | 15.1% |
| | Convention&Visitors Bureau | ADM | \$11,070,000 | 5.3% | \$8,644,900 | 4.1% |
| | Low-Income Housing*** | MYR | \$8,170,000 | 3.9% | \$5,900,000 | 2.8% |
| | War Memorial | WAR | \$12,720,000 | 6.0% | \$9,831,959 | 4.7% |
| SFRA | Yerba Buena Gardens**** | SFRA | \$5,390,000 | 2.6% | \$5,423,841 | 2.6% |
| | Subtotal: Allocated | | \$120,060,000 | 57.1% | \$90,133,500 | 42.9% |
| | TOTAL | | \$210,340,000 | 100.0% | \$210,340,000 | 100.0% |

*Hotel Tax revenues allocated to the Administrative Services Department for Grants for the Arts in the FY 2007-2008 AAO include (a) \$15,132,700 for Publicity/Advertising: Recurring Events, including annual amounts transferred to the Arts Commission for the Cultural Centers and (b) \$254,100 for Publicity/Advertising: Nonrecurring Events.

**Hotel Tax revenues allocated to the Arts Commission for the Cultural Centers exclude annual amounts transferred from the Administrative Services Department for the Cultural Centers as required by the City's Business and Tax Regulations Code.

***Hotel Tax revenues allocated to the Mayor's Office for Low-Income Housing include (a) \$900,000 for rental assistance and (b) \$5,000,000 for capital projects.

****Hotel Tax revenue allocated for the Yerba Buena Gardens are paid directly to the SFRA for debt services on SFRA Hotel Tax Revenue Bonds and do not appear in the FY 2007-2008 AAO. As such, this figure represents the difference between total estimated/actual Hotel Tax revenue and all other known FY 2007-2008 AAO Hotel Tax allocations.

Findings

1. Funding for the Arts has Increased Since FY 2005-2006.

Funding for the arts in San Francisco has increased by \$10,349,071, or approximately 18 percent, over the three fiscal year period from \$57,501,727 in FY 2005-2006 to \$67,850,798 in FY 2007-2008. This increase is due to (a) a \$5,612,059, or approximately 18 percent, increase in Hotel Tax revenue, (b) a \$3,514,327, or approximately 27.7 percent increase in General Fund support, (c) a \$1,212,685, or approximately 13.5 percent increase in departmental revenues, and (d) a \$10,000, or approximately .2 percent increase in funding from the SFRA.

2. General Fund Support Comprises a Greater Percentage of Total Arts Funding in FY 2007-2008 than in FY 2005-2006.

In addition to the increase in real dollars specified above, in FY 2007-2008, General Fund support comprised a greater percentage of total funding for the arts than in FY 2005-2006. Table VIII below shows each funding source as a percentage of total arts funding for FY 2005-2006 and FY 2007-2008.

**Table VIII
Funding Source as a Percentage of Total Arts Funding
FY 2005-2006 and FY 2007-2008**

| Funding Source | FY 2005-2006 | FY 2007-2008 | Increase (Decrease) of FY 2007-2008 over FY 2005-2006 |
|----------------|---------------|---------------|----------------------------------------------------------------------|
| Hotel Tax | 54.3% | 54.3% | 0.0% |
| General Fund | 22.0% | 23.8% | 1.8% |
| Revenue | 15.6% | 15.0% | -0.6% |
| SFRA | 8.1% | 6.9% | -1.2% |
| TOTAL | 100.0% | 100.0% | 0.0% |

As shown in the above Table VIII, Hotel Tax revenues, as a percentage of total arts funding, have remained constant at 54.3 percent from FY 2005-2006 to FY 2007-2008. However, while General Fund support represents a greater percentage of total arts funding in FY 2007-2008 than in FY 2005-2006 – an increase of 1.8 percent – departmental revenues, while increasing in real dollars, represent a smaller percentage of total arts funding in FY 2007-2008 than in FY 2005-2006, approximately 0.6 percent less. Additionally, in FY 2007-2008, SFRA funding for the arts represents 1.2 percent less of total arts funding than in FY 2005-2006.

3. Hotel Tax Revenue has Increased Since FY 2005-2006 and is the Largest Source of Funding for the Arts.

Overall, Hotel Tax revenue has increased by \$30,867,173, or approximately 17.2 percent, over the three fiscal year period from \$179,472,827 in FY 2005-2006 to \$210,340,000 in FY 2007-2008. Hotel Tax revenue has been the largest source of funding for the arts in fiscal years 2005-2006, 2006-2007 and 2007-2008 – on average representing approximately 54 percent of total arts funding each fiscal year.

4. The Hotel Tax Revenue Allocations Established Pursuant to the City's Business and Tax Regulations Code Have Been Amended by the Administrative Provisions of the AAO Since FY 2003-2004.

Since FY 2003-2004, the Administrative Provisions of the AAOs have amended the Hotel Tax allocations codified in Section 515.01 of the City's Business and Tax Regulations Code. Specifically, since FY 2004-2005, Section 11.11 of the Administrative Provisions has (a) listed the amount of Hotel Tax revenue appropriated to specified City departments and agencies and (b) expressly required that all Hotel Tax revenue collected in excess of the appropriated amounts be transferred to the City's General Fund. As such, the Hotel Tax revenue allocations established pursuant to the City's Business and Tax Regulations Code have been amended – and thereby superseded – by those allocations detailed in the Administrative Provisions of the Annual Appropriation Ordinances in each of the last five years – in FY 2003-2004, FY 2004-2005, FY 2005-2006, FY 2006-2007, and FY 2007-2008, as previously approved by the Board of Supervisors.

5. In FY 2005-2006, FY 2006-2007, and FY 2007-2008, Less Hotel Tax Revenues have Been Appropriated to the Arts and More Hotel Tax Revenues have Been Appropriated to the City's General Fund for Discretionary Use.

As noted above, the Board of Supervisors, through a Board approved ordinance, can change the Hotel Tax revenue allocations specified in the City's Business and Tax Regulations Code. Since FY 2005-2006, the Board of Supervisors, through the Administrative Provisions of the AAO, have appropriated a combined total of \$75,515,923 in less Hotel Tax revenues to the arts, tourism, affordable housing, and to pay debt service on SFRA Hotel Tax Revenue Bonds, including (a) \$24,148,000 less in the original budget for FY 2005-2006, (b) \$21,441,423 less in the original budget FY 2006-2007, and (c) \$29,926,500 less in the original budget FY 2007-2008 – an average annual decrease of \$25,171,974 – all of which has instead been appropriated to the City's General Fund for discretionary use.

Further, as noted above, in all three fiscal years analyzed for the purposes of this report, the Administrative Provisions of the AAO expressly require that all Hotel Tax revenue collected in excess of the appropriated amounts be transferred to the City's General Fund. As such, year-end Hotel Tax revenues reveal that an additional \$9,361,827 in FY 2005-2006 and \$17,164,457 in FY 2006-2007 for a combined total of \$26,526,284 in Hotel Tax revenue above

appropriated amounts has been transferred to the City's General Fund for discretionary use – an average of \$13,263,142 each fiscal year. The amount of such transfer for FY 2007-2008 is not yet known.

Recommendation

If the practice of reallocating Hotel Tax funds for discretionary General Fund purposes through the Administrative Provisions of the Annual Appropriation Ordinance (AAO) continues to be the ongoing policy of the Board of Supervisors, the Board of Supervisors should amend Article 7, Section 515.01 of the Business and Tax Regulations Code to be consistent with the Administrative Provisions of the AAO as approved by the Board of Supervisors in each of the past five fiscal years.

Harvey M. Rose

cc: President Peskin
Supervisor Alioto-Pier
Supervisor Chu
Supervisor Daly
Supervisor Dufty
Supervisor Elsbernd
Supervisor Maxwell
Supervisor McGoldrick
Supervisor Mirkarimi
Supervisor Sandoval
Clerk of the Board
Cheryl Adams
Controller
Nani Coloretti