Evaluation of City and County of San Francisco Departments' General Fund Revenue

Prepared for the

Board of Supervisors
of the City and County of San Francisco

by the

Budget and Legislative Analyst

June 15, 2010

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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June 15, 2010

Honorable Ross Mirkarimi,
and Members of the Board of Supervisors
City and County of San Francisco
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Dear Supervisor Mirkarimi and Members of the Board of Supervisors:

The Budget and Legislative Analyst is pleased to submit this *Evaluation of City and County of San Francisco Departments' General Fund Revenues.* On February 23, 2010 the Board of Supervisors approved Motion No. 10-32, directing the Budget and Legislative Analyst to evaluate the City and County of San Francisco's existing lease, fee, and other General Fund revenues generated by City departments.

To begin this evaluation, the Budget and Legislative Analyst surveyed City departments' General Fund revenues, including:

- Obtaining a comprehensive list of all City departments' General Fund fees; and surveying City departments to determine to what extent City departments fees recovered costs.

- Conducting survey interviews with representatives from the Recreation and Park Department and Department of Administrative Services regarding marketing and charging for rental of City property for special events.

- Conducting survey interviews with representatives from the Office of the Treasurer and Tax Collector and obtaining summary documents on debt collection.

- Conducting survey interviews with representatives from the Real Estate Division and obtaining summary documents on City property rentals.

- Obtaining data on City departments' encumbered funds for prior years' work orders, purchase orders, and projects.

Based on the initial survey, the Budget and Legislative Analyst identified the following areas for further evaluation:

- City departments' encumbered funds for inactive purchase orders, work orders, and projects;
- Rental revenues from Real Estate Division properties;
- Collection procedures for emergency medical service revenues, and property alarm license and false alarm fee revenues; and
- Cost recovery of emergency medical service fees, and property alarm license and false alarm fees.

Summary

The Budget and Legislative Analyst has identified additional revenues for the City, totaling $4,120,735, as shown in Table 1 and described in detail below.

Table 1
Summary of New General Fund Revenues

One Time Revenues Available in FY 2010-11	
Close out of purchase orders, work orders and projects	
General Fund departments (see Table 2 below)	$2,978,224
Recreation and Park Department (see Table 4 below)	258,354
Lease underpayment (see page 7 of Summary)	31,156
Total [1]	3,267,735
Ongoing Revenues Available in FY 2010-11	
Increased emergency medical services fee amount (see page 8 of Summary)	250,000
Increased emergency medical services fee collections (see page 8 of Summary)	108,000
Increased false alarm fee collections (see page 10 of Summary)	320,000
Total	678,000
Ongoing Revenues Available in FY 2011-12	
Increased annual alarm license fees (see page 10 of Summary)	175,000
Total	175,000
Total Revenues	**$4,120,735**

[1] Rounding

1. Prior Years' Annual Appropriations Encumbered for Purchase Orders, Work Orders, and Projects

City departments encumber funds appropriated in the annual operating budget to pay for purchase orders and work orders with other City departments. The Controller can authorize the carry forward of these encumbered funds into the following fiscal year if departments provide sufficient justification to the Controller.

The Budget and Legislative Analyst identified $2,978,224 in encumbrances that should be closed and the funds returned to the General Fund fund balance, as shown in Table 2 below.

Table 2
Encumbered Funds to be Returned to the General Fund Fund Balance in FY 2010-11

Department	Purchase Orders and Work Orders	Projects	Total
Arts Commission	$16,509	$31,748	$48,257
Assessor/Recorder	17,274		17,274
Board of Supervisors	1,292		1,292
City Planning	10,819		10,819
Controller	16,071		16,071
Emergency Management	7,232		7,232
Econ/Workforce Development	24,310		24,310
Elections	44,962		44,962
Fire Department	30,568		30,568
Gen City Responsibility	34,452		34,452
Administrative Services (GSA)	337,728	9,906	347,634
Public Works (GSA)	16,308	1,294	17,602
Technology (GSA)	63		63
Human Resources	5,209		5,209
Human Services	526,331		526,331
Law Library	4,821		4,821
Mayor	60,000		60,000
Police	639,931		639,931
Public Health	935,066	114,090	1,049,156
Sheriff	10,212	8,269	18,481
Superior Court	13,500		13,500
Treasurer/ Tax Collector	60,259		60,259
Total	**$2,812,917**	**$165,307**	**$2,978,224**

As shown in Table 3 below, of the $2,812,917 in purchase orders and work orders, $1,312,789, or 46.7 percent, were appropriated prior to FY 2008-09, or more than two years ago.

Table 3
Encumbered Funds to be Returned to the General Fund Fund Balance in FY 2010-11

Fiscal Year in Which Encumbered Funds Were Appropriated	**Encumbrances to be Closed and Funds Returned to Fund Balance**	**Percent of Total Outstanding Encumbrances**
FY 2001-02	0	0.0%
FY 2002-03	1,770	0.1%
FY 2003-04	143,425	5.1%
FY 2004-05	176,186	6.3%
FY 2005-06	349,151	12.4%
FY 2006-07	27,328	1.0%
FY 2007-08	614,928	21.9%
Total prior to FY 2008-09	1,312,789	46.7%
FY 2008-09	1,500,127	53.3%
Total	**$2,812,916**	**100.0%**

Attachment I to this Summary shows the encumbered funds to be returned to the General Fund fund balance by department and year of appropriation.

As shown in Table 2, the Budget and Legislative Analyst identified $2,812,916 in prior years' purchase orders and work orders and $165,307 in prior years' projects, totaling $2,978,224, that should be closed and the outstanding balance returned to the General Fund fund balance. Subsequent to advising the respective departments of the $2,978,224 in unexpended prior years' purchase orders, work orders, and projects, as shown in Table 2 above, some departments indicated that they had already planned to have such unexpended monies closed out to surplus in order to assist in balancing the Mayor's recommended FY 2010-11 budget.

As a direct result of the Budget and Legislative Analyst identifying this $2,978,224 in prior years' purchase orders, work orders, and projects, which as noted above go all the way back to FY 2002-03, these funds have reportedly been made available to balance the Mayor's recommended FY 2010-11 budget.

The Budget and Legislative Analyst recommends that the expenditure of such funds, identified by the Budget and Legislative Analyst for this report, be subject to the priorities of the Board of Supervisors.

In addition to the $2,978,224 shown in Table 2 above, City departments claim that $7,119,278 in encumbered funds for purchase orders and work orders established in FY 2008-09 and prior years are still necessary for department operations. Of this $7,119,278, $1,371,188, or 19.3 percent, were funds that were appropriated prior to FY 2008-09, or more than two years ago, as shown in Table 4.

Table 4
Outstanding Funds Encumbered for Purchase Orders and Work Orders from FY 2001-02 through FY 2008-09

Fiscal Year in Which Encumbered Funds Were Appropriated	Outstanding Encumbrances	Percent of Total Outstanding Encumbrances
FY 2001-02	$108,667	1.5%
FY 2002-03	0	0.0%
FY 2003-04	0	0.0%
FY 2004-05	0	0.0%
FY 2005-06	20,000	0.3%
FY 2006-07	28,500	0.4%
FY 2007-08	1,214,021	17.1%
Total prior to FY 2008-09	1,371,188	19.3%
FY 2008-09	5,748,090	80.7%
Total	**$7,119,278**	**100.0%**

Attachment II to this Summary shows the outstanding funds encumbered for purchase orders and work orders by department and year of appropriation.

While carrying forward encumbrances into the next fiscal year is allowable with the Controller's approval, and City departments provided reasons to the Budget and Legislative Analyst for retaining these prior years' encumbrances, these prior years' encumbrances show that the amount appropriated in the annual operating budget exceeded the actual ability of the City department to spend the funds within the fiscal year. The Budget and Legislative Analyst will review these prior years' encumbrances in more detail during the FY 2010-11 budget review.

Recreation and Park Department

The Charter allows the Recreation and Park Department to retain annual expenditure savings to be dedicated to one-time expenditures. The Recreation and Park Department did not provide specific information on prior years' purchase orders and work orders that were no longer needed. The Budget and Legislative Analyst found at least $70,939 in prior years' purchase orders and work orders in which no expenditures had ever been made against the purchase order or work order. The total amount of unexpended prior years' purchase orders and work orders that could potentially be returned to the Recreation and Park Savings Incentive Reserve is an estimated $258,354, as shown in Table 5 below. The Budget and Legislative Analyst will review these prior years' encumbrances in more detail during the FY 2010-11 budget review.

Table 5
Remaining Balance of the Recreation and Park Departments' Prior Years' Purchase Orders and Work Orders

Fund	Remaining Balance of Purchase Orders or Work Orders In Which Partial Expenditures Have Been Made	Remaining Balance of Purchase Orders or Work Orders in Which No Expenditures Have Been Made	Total Remaining Balance of Prior Years' Work Orders or Purchase Orders
General Fund Operating (1AGFAAA)	$33,264	$29,914	$63,178
General Fund Annual Project (1AGFAAP)	124,360	2,257	126,617
General Fund Overhead (1GOHFREC)	29,791	38,768	68,559
Total	$187,415	$70,939	$258,354

Source: FAMIS

2. Property Managed by the Department of Administrative Services Real Estate Division

The Real Estate Division manages properties owned by the City and under the jurisdiction of the City's General Fund departments. This includes managing properties that (a) house City General Fund departments; (b) have month-to-month leases, such as parking lots designated to be sold; (c) have an existing lease agreement; (d) are in the process of a competitive bid for a new lease; or (e) are intended to be sold.

The Real Estate Division has jurisdiction over five properties in Kern and Fresno Counties that were bequeathed to the City by the estate of Alfred Fuhrman in 1941, with the requirement that revenues be used for the San Francisco Public Library and Golden Gate Park. As shown in Table 6 below, four of these five properties generated lease revenue to the City of $0 to $2,760. The fifth property is leased to Chevron USA, Inc., generating oil and lease revenue.

Table 6
Properties Bequeathed to the City by the Fuhrman Estate

Location	Acres	Status	Rent	2009 Rent Revenues
Fresno County	40	Cattle grazing	$2,760 per year	$2,760
Kern County	160	Sheep grazing	$200 per year	200
Kern County	440	Not in use	None	0
Kern County	40	Not in use	None	0
Kern County	800	Oil and Gas	15.5 percent royalty payment	690,450
Total	**1,480**			**$693,410**

Source: Real Estate Division

According to Real Estate Division staff, Chevron has inquired about drilling on these other four properties, and the properties may have potential for solar power generation. However, the Real Estate Division does not currently have specific plans to maximize the lease or sale potential of these properties. According to 2001 estimates, the total sale value of these four properties ranged from $104,000 to $232,000. The Real Estate Division should develop a plan for the lease or sale of these properties, including obtaining a professional real estate appraisal when Fresno and Kern County property values recover from their current low valuation.

The City's oil and gas lease with Chevron requires lease payments equal to 15.5 percent of oil revenues. Chevron paid to the City $690,450 in lease payments in 2009, which is a reduction of $650,536 compared to $1,340,986 in lease payments in 2008. The Real Estate Division lacks resources to audit this complex oil and gas lease with Chevron in order to ensure that Chevron complies with all of the lease provisions. For example, Chevron deducted $31,156 in possessory interest tax payments from the lease payments to the City from 2007 through 2009, although the lease does not allow such deductions. The Real Estate Division should contract with an experienced oil and gas auditor to ensure accurate lease payments and full compliance with all of the lease provisions.

3. Emergency Medical Service Fees and Revenues

Until April 2008, the San Francisco Fire Department (SFFD) was the primary emergency medical service provider in San Francisco, providing first responder emergency medical services and subsequent transportation to hospitals. However, in 2008 the California Emergency Medical

Services Authority, which oversees counties' emergency medical systems, determined that San Francisco must allow private ambulances to respond to emergency medical calls. Therefore, SFFD was no longer authorized to serve as the primary emergency medical service provider. In FY 2009-10, private ambulances have provided approximately 17.8 percent of emergency hospital transports.

As a result, the SFFD has billed fewer medical transports since the non-exclusive emergency medical service system was implemented. Yet, the SFFD has still maintained the same level of ambulance staffing. In FY 2009-10 actual emergency medical services revenues are projected to be $200,000 less than budgeted revenues.

According to the SFFD, because private ambulances make themselves available for emergency medical calls on an irregular basis, the SFFD must continue to fully staff ambulances to meet all possible medical emergencies. The California Emergency Medical Services Authority allows for counties to select private and public emergency medical service providers through a competitive process and enter into contracts to ensure availability of providers. However, after two years of the non-exclusive system, the Department of Emergency Management's Emergency Medical Service Agency (EMSA) is only now beginning to plan for competitively bidding for countywide medical emergency services.

The City and County of San Francisco assesses emergency medical service fees for emergency medical calls and subsequent transport to hospitals, based on SFFD costs and subject to Board of Supervisors approval. However, the SFFD has not included all of the City's costs in its emergency medical service fee calculations. The Budget and Legislative Analyst estimates that an additional $3.1 million should be included in the SFFD's cost calculations. This estimate of $3.1 million includes allocating (a) total Emergency Medical Service Rescue Captain salaries and benefits; (b) collection fees equal to 5.5 percent of collections; (c) billing software costs; (d) increased uniform costs; (e) increased engine replacement costs; (f) engine fuel and repair costs; (g) increased defibrillator costs; (h) increased disability costs; and (i) increased administrative overhead costs. SFFD should use these cost estimates to develop a revised fee calculation for fiscal year 2010-11 emergency medical service fees. In order to more accurately capture the SFFD's costs, the SFFD should increase the fee for providing emergency medical services and transporting patients to hospitals by $50, or 3.4 percent, from $1,458 to $1,508. This fee increase would result in $250,000 in additional annual revenues to the City.

The SFFD contracts with a private billing company, Advanced Data Processing West, to bill and collect emergency medical service accounts. Under that contract, the private billing company is supposed to refer uncollected accounts to the Bureau of Delinquent Revenue (BDR) after 270 days from the date of billing. However, in 2009, 72.8 percent of the uncollected accounts, or 14,345 out of 19,710 uncollected accounts, were referred to BDR more than 400 days after the date of service. The SFFD would receive at least an estimated $108,000 in additional reimbursements if the private billing contractor referred uncollected accounts to BDR after 270 days from the date of billing, as required by the billing services contract.

4. Police Emergency Alarm Licenses and False Alarm Fees

The Police Emergency Alarm program was implemented in 2003 with the intent of reducing the number of false alarms and the number of corresponding San Francisco Police Department (SFPD) responses to false alarms. Since the implementation of the Police Emergency Alarm program, the number of false alarms has decreased by 5,367 per year, or 27.0 percent, from 19,843 in 2004 to 14,476 in 2009.

Police Emergency Alarm program revenues consist of annual residential and business alarm license fees and false alarm fees. Alarm license fees are $45 for residential users and $65 for business users. Unlicensed alarm users pay $250 for the first false alarm plus a $100 penalty. Licensed alarm users do not pay for the first false alarm but pay for subsequent false alarms. Total alarm revenues paid to the City in calendar year 2009, which includes annual alarm license fees and false alarm fees, were $2,442,782.

The Police Emergency Alarm program is administered by the Department of Emergency Management. The Office of the Treasurer and Tax Collector collects alarm license and false alarm fees through a work order with the Department of Emergency Management. The SFPD responds to false alarms. The Budget and Legislative Analyst estimates that the calendar year 2009 Emergency Alarm program costs were $2,968,869, which exceeded program revenues of $2,442,782 by $526,087, or 21.5 percent.

Under the Police Emergency Alarm ordinance, the alarm companies are responsible for (a) ensuring that the alarm user has a valid license, and (b) collecting the alarm license fee. The alarm companies are then required to remit the alarm license fee revenues to the Office of the Treasurer and Tax Collector each month. The alarm companies are also responsible for notifying alarm users of annual license renewals. The alarm companies must contact the alarm user at least two times prior to notifying the Department of Emergency Management that that the alarm user has refused to pay the license fee.

Alarm license renewal fees are due on January 1 of each year. According to the Department of Emergency Management Alarm Program Coordinator, alarm companies do not consistently collect and remit alarm license renewal fees by January 1. As of May 2010 not all alarm companies had paid renewal fees for 2010. Delays in alarm company remittances can potentially result in lost collections to the City. The Department of Emergency Management should work with the Office of the Treasurer and Tax Collector's Legal Section to better enforce alarm company remittances of annual license renewal fees.

Additionally, the Office of the Treasurer and Tax Collector does not refer uncollected false alarm fees to the Bureau of Delinquent Revenue (BDR) after 90 days, as required by the Administrative Code. In FY 2008-09, 94.6 percent of uncollected false alarm fees were referred to BDR after 200 days.[1] The collection rate for false alarm fees referred to BDR after 200 days is approximately 24 percent, while the collection rate for false alarm fees referred to BDR prior to 200 days is approximately 74 percent.

In 2010 the Department of Emergency Management increased the number of alarms billed as false alarms by billing alarms coded as "handled" that were not previously billed, resulting in an approximately 23 percent increase in false alarm billing. A combined increase in billing due to billing alarms coded as "handled" and in collections by referring all uncollected accounts to BDR after 90 days would increase false alarm fee revenue collection by an estimated $320,000 annually.[2]

The SFPD should work with the Department of Emergency Management to evaluate total Police Emergency Alarm program costs in 2010, and determine if increased collections, as discussed above, sufficiently recover program costs. The SFPD should recommend fee increases in FY 2011-12 as necessary to ensure that program revenues recover program costs. If the SFPD were to recommend a $5 increase to residential and business alarm license fees, revenues would increase by an additional $175,000 annually beginning in FY 2011-12.

Attachment III to this Summary contains the Budget and Legislative Analyst's recommendations.

We would like to thank representatives from the Real Estate Division, Department of Emergency Management, SFFD, and other City departments for their cooperation during this performance audit.

[1] In FY 2008-09, 942 uncollected false alarm accounts totaling $259,006, were referred to BDR, of which 878 uncollected accounts totaling $245,093, or 94.6 percent, were referred after 200 days.

[2] The Budget and Legislative Analyst estimates that (1) the 23 percent increase in false alarm bills would result in $152,800 increased revenues, and (2) increased referrals of uncollected accounts to BDR after 90 days would result in an estimated $167,200, totaling $320,000.

Respectfully submitted,

Harvey M. Rose
Budget and Legislative Analyst

cc: President Chiu
Supervisor Alioto-Pier
Supervisor Avalos
Supervisor Campos
Supervisor Chu
Supervisor Daly
Supervisor Dufty
Supervisor Elsbernd
Supervisor Mar
Supervisor Maxwell
Clerk of the Board
Cheryl Adams
Greg Wagner
Controller

Encumbered Funds to be Returned to the General Fund
Fund Balance by Department
FY 2001-02 through FY 2008-09

Department	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	Total
Arts Commission							$9,390	$7,118	$16,509
Assessor/Recorder								17,274	$17,274
Board of Supervisors								1,292	$1,292
City Planning								10,819	$10,819
Controller							7,488	8,582	$16,071
Department of Emergency Management		1,770				924		4,538	$7,232
Economic and Workforce Development							409	23,901	$24,310
Elections							11,531	33,431	$44,962
Fire Department					7,723		1,182	21,663	$30,568
General City Responsibility								34,452	$34,452
General Services Agency - Administrative Services							15,663	322,065	$337,728
General Services Agency - Public Works							5,028	11,280	$16,308
General Services Agency - Technology								63	$63
Human Resources								5,209	$5,209
Human Services			12				382,651	143,668	$526,331
Juvenile Probation									$0
Law Library								4821	$4,821
Mayor							60,000		$60,000
Police						4,234	36,061	599,636	$639,931
Public Health			143,414	176,186	341,427	22,170	61,717	190,151	$935,066
Sheriff								10,212	$10,212
Superior Court								13,500	$13,500
Treasurer/ Tax Collector							23,808	36,451	$60,259
Grand Total	**$0**	**$1,770**	**$143,425**	**$176,186**	**$349,151**	**$27,328**	**$614,928**	**$1,500,127**	**$2,812,916**

Attachment II

Outstanding Funds Encumbered for Purchase Orders and Work Orders by Department
FY 2001-02 through FY 2008-09

Department	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	Total
Arts Commission							$17,226	$45,660	$62,886
Assessor/Recorder					20,000			3,240	23,240
Board of Supervisors						6,000		8830	14,830
City Planning									0
Controller	108,667						348,207	238,100	694,975
Department of Emergency Management								4,847	4,847
Economic and Workforce Development						20,000	250,000	51,793	321,793
Elections									0
Fire Department							129,241	822,854	952,095
General City Responsibility									0
General Services Agency - Administrative Services								108,200	108,200
General Services Agency - Public Works									0
General Services Agency - Technology									0
Human Resources							10,985	21,546	32,531
Human Services							24,945	103,880	128,825
Juvenile Probation									0
Law Library									0
Mayor							166,006	201,068	367,074
Police						2,500	45,928	202,427	250,855
Public Health							198,144	3,848,274	4,046,418
Sheriff								66,107	66,107
Superior Court									0
Treasurer/ Tax Collector							23,339	21,264	44,602
Total	**$108,667**	**$0**	**$0**	**$0**	**$20,000**	**$28,500**	**$1,214,021**	**$5,748,090**	**$7,119,278**

1. Prior Years' Annual Appropriations Encumbered for Purchase Orders, Work Orders, and Projects

The Controller should:

1.1 Instruct City departments to close out unneeded encumbrances and project funds, returning these funds to the General Fund fund balance.

2. Property Managed by the Department of Administrative Services Real Estate Division

The Director of Real Estate should:

2.1 Evaluate whether Chevron's tax deductions from rent payments are allowed under the existing lease, and if not allowed, require Chevron to reimburse the City for (a) $31,156 in deductions for 2007 through 2009, and (b) any tax deductions for 2002 through 2006.

2.2 Contract with an experienced oil and gas royalty auditor to periodically audit Chevron for compliance with the terms of the lease, in consultation with the Library Commission and Recreation and Park Commission.

2.3 Evaluate the highest and best use for the Fresno and Kern County properties bequeathed to the City by the Furhman Estate; develop a plan to obtain property appraisals when Fresno and Kern County property values recover from the current low valuation; and develop a plan for the lease or sale of the properties.

2.4 Require Walgreens to report 2009 sales.

3. Emergency Medical Service Fees and Revenues

The Department of Emergency Management Deputy Director should:

3.1 Provide a report to the Board of Supervisors on the status of the medical emergency services strategic planning and competitive provider selection process prior to September 30, 2010.

The SFFD Deputy Chief for Administration should:

3.2 Monitor and enforce the contract requirement that the contractor submit delinquent accounts to BDR on the 271st day from the initial billing date.

3.3 Revise medical emergency service cost estimates to include (a) total Rescue Captain salaries and benefits; (b) collection fees equal to 5.5 percent of collections; (c) billing software costs; (d) increased uniform costs; (e) increased engine replacement costs; (f) engine fuel and repair costs; (g) increased defibrillator costs; (h) increased disability costs; and (i) increased administrative overhead costs. SFFD should use these cost estimates to develop a revised fee calculation for fiscal year 2010-11 emergency medical service fees.

4. Police Emergency Alarm Licenses and False Alarm Fees

The Director of Emergency Management should:

4.1 Work with the Tax Collector and the Tax Collector's Legal Section to identify procedures to increase alarm company remittances of license fees.

4.2 Work with the Tax Collector and the Department of Technology to streamline procedures for collecting false alarm fees and referring uncollected fees to BDR after 90 days.

The Chief of Police should:

4.3 Evaluate SFPD costs for the Police Emergency Alarm program and recommend annual residential and business alarm license increases for FY 2011-12 as needed to recover program costs.

Evaluation of City and County of San Francisco Departments' General Fund Revenue

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1. Prior Years' Annual Appropriations Encumbered for Purchase Orders, Work Orders, and Projects

- **City departments encumber funds appropriated in the annual operating budget to pay for purchase orders, work orders with other City departments, projects, and other purposes. The Controller can authorize the carry forward of these encumbered funds into the following fiscal year with sufficient justification.**

- **The Budget and Legislative Analyst identified approximately $2.8 million in encumbrances that should be closed and the funds returned to the General Fund fund balance.**

- **City departments claim that approximately $7.1 million in encumbered funds for purchase orders and work orders established in FY 2008-09 and prior years are still necessary for department operations. Of this $7.1 million, $5.7 million of the $7.1 million in outstanding encumbrances were appropriated in FY 2008-09, but $1.37 million, or 19.0 percent, were funds that were appropriated prior to FY 2008-09, or more than two years previously. While carrying forward encumbrances into the next fiscal year is allowable with the Controller's approval, and City departments provided reasons to the Budget and Legislative Analyst for retaining these prior years' encumbrances, these prior years' encumbrances show that the amount appropriated in the annual operating budget exceeded the actual ability of the City department to spend the funds within the fiscal year.**

City departments encumber funds that have been appropriated by the Board of Supervisors to pay for purchase orders, work orders with other City departments, projects, and other purposes. Technically, encumbrances are funds that have been set aside to pay for goods or services that have been ordered but not yet received or billed.

According to the City's 2009 Comprehensive Annual Financial Report (CAFR), prepared by the City's external auditors, encumbrances are recorded in the annual financial statement as a reservation of the General Fund fund balance because they do not constitute expenditures or liabilities. As shown in Table 1.1 below, reservations for encumbrances have increased as a percentage of the total General Fund fund balance from calendar year 2006 through calendar year 2009.

Table 1.1
Encumbered Funds as a Percent of Total General Fund Fund Balance

	2006	2007	2008	2009
General Fund Balance	$478,001,000	$563,435,000	$462,193,000	$390,512,000
Reservations for Encumbrances	$38,159,000	$60,948,000	$63,068,000	$65,902,000
Encumbrance Reservations as a Percent of General Fund Balance	8.0%	10.8%	13.6%	16.9%

Source: Comprehensive Annual Financial Report

General Fund appropriations can include annual operating, annual project, or continuing project expenditures. Unexpended annual operating and annual project funds are closed out to fund balance at the end of the fiscal year. Funds that have been encumbered to pay for purchase orders and work orders may be carried forward into the next fiscal year if the purchase orders or work orders have not yet been billed. According to the Controller's year-end close-out instructions to City departments, annual operating and project encumbrances must provide the date and amount of the service or goods that have been purchased but not yet billed if the encumbered funds are to be carried forward into the next fiscal year. The Controller requires "sufficient justification" to keep open encumbrances that are older than one year.

According to the City's Financial and Accounting Management Information System (FAMIS), City departments have $13.4 million in General Fund annual operating or annual project encumbrances[1] that were incurred in FY 2008-09 or earlier. These encumbrances were for work orders with other City departments and for purchase orders. Based on the Budget and Legislative Analyst's review of the City departments that had incurred the encumbrances, approximately $2.8 million of the $13.4 million in encumbrances should be closed and the funds returned to the General Fund fund balance, as shown in Table 1.2 below.

[1] These encumbrances were recorded in FAMIS as 1GAGFAAA or 1AGFAAP.

Table 1.2
Encumbered Funds as a Percent of Total General Fund Balance

Department	General Fund Encumbrances FY 2001-02 through FY 2008-09	Encumbrances Closed Prior to May 2010	Encumbrances to be Closed and Funds Returned to Fund Balance	Outstanding Encumbrances
Adult Probation	$13,473	$13,473		
Arts Commission	79,395		16,509	62,886
Assessor/Recorder	40,514		17,274	23,240
Board of Supervisors	16,123		1,292	14,830
City Planning	10,819		10,819	
Civil Service Comm	2,417	2,417		
Controller	711,045		16,071	694,975
Emergency Management	12,080		7,232	4,847
Econ/Workforce Development	346,103		24,310	321,793
Elections	44,962		44,962	
Fire Department	982,663		30,568	952,095
Gen City Resp	34,452		34,452	
Admin Services (GSA)	445,928		337,728	108,200
Public Works (GSA)	16,308		16,308	
Technology (GSA)	63		63	
Human Resources	37,740		5,209	32,531
Human Services	655,156		526,331	128,825
Juvenile Probation	5,498	5,498		
Law Library	4,821		4,821	
Mayor	427,074		60,000	367,074
Police	890,786		639,931	250,855
Public Health	8,433,664	3,452,180	935,066	4,046,418
Sheriff	76,319		10,212	66,107
Superior Court	13,500		13,500	
Treasurer/ Tax Coll	104,862		60,259	44,602
Total	**$13,405,763**	**$3,473,568**	**$2,812,917**	**$7,119,278**

Source: FAMIS and City departments

City departments claim that approximately $7.1 million in encumbered funds for purchase orders and work orders established in FY 2008-09 and prior years are still necessary for department operations. As shown in Table 1.3 below, while $5.7 million of the $7.1 million in outstanding encumbrances were appropriated in FY 2008-09, $1.37 million, or 19.0 percent, were funds that were appropriated prior to FY 2008-09. All of these encumbered funds were appropriated for annual operating expenditures or annual projects, with the intent that the funds would be spent in the fiscal year in which they were appropriated. While carrying forward encumbrances into the next fiscal year is allowable with the Controller's approval, and City departments provided reasons to the Budget and Legislative Analyst for retaining these prior years' encumbrances, these prior years' encumbrances show that the amount appropriated exceeded the actual ability of the City department to spend the funds within the fiscal year.

Table 1.3
Prior Year's Encumbered Funds by Fiscal Year

Fiscal Year in Which Encumbered Funds Were Appropriated	Encumbrances Closed Prior to May 2010	Encumbrances to be Closed and Funds Returned to Fund Balance	Outstanding Encumbrances	Total
FY 2001-02	0	0	$108,667	$108,667
FY 2002-03	0	1,770	0	1,770
FY 2003-04	0	143,425	0	143,425
FY 2004-05	0	176,186	0	176,186
FY 2005-06	0	349,151	20,000	369,151
FY 2006-07	0	27,328	28,500	55,828
FY 2007-08	0	614,928	1,214,021	1,828,950
FY 2008-09	3,473,568	1,500,129	5,748,090	10,721,785
Total	**$3,473,568**	**$2,812,917**	**$7,119,278**	**$13,405,763**

Source: FAMIS and City departments

Continuing Projects

City departments also encumber funds for ongoing projects, either continuing operating projects or capital projects. While these funds can be carried forward from year to year to complete the project, the Budget and Legislative Analyst identified at least $165,307 in inactive General Fund projects that should be closed out and unexpended funds returned to fund balance.

Recreation and Park Department

The Charter allows the Recreation and Park Department to retain annual expenditure savings to be dedicated to one-time expenditures. According to the Controller's nine-month report, the projected year-end FY 2009-10 Recreation and Park Savings Incentive Reserve is $1.2 million, which includes $1.0 million in reserves carry forward from FY 2008-09 and $0.2 million in FY 2009-10 expenditure savings.[2]

[2] The 2009 Comprehensive Annual Financial Report reported $6.6 million in Recreation and Park Savings Incentive Reserve, of which $5.6 million was appropriated in the FY 2009-10 budget and $1.0 million was retained in the Reserve.

The Recreation and Park Department did not provide specific information on prior years' purchase orders and work orders that were no longer needed. The Budget and Legislative Analyst found at least $70,939 in prior years' purchase orders and work orders in which no expenditures had ever been made against the purchase order or work order. The total amount of unexpended prior years' purchase orders and work orders that may no longer be needed and could potentially be returned to the Recreation and Park Savings Incentive Reserve is an estimated $258,354, as shown in Table 1.4 below.

Table 1.4
Remaining Balance of the Recreation and Park Departments' Prior Years' Purchase Orders and Work Orders

Fund	Remaining Balance of Purchase Orders or Work Orders In Which Partial Expenditures Have Been Made	Remaining Balance of Purchase Orders or Work Orders in Which No Expenditures Have Been Made	Total Remaining Balance of Prior Years' Work Orders or Purchase Orders
General Fund Operating (1AGFAAA)	$33,264	$29,914	$63,178
General Fund Annual Project (1AGFAAP)	124,360	2,257	126,617
General Fund Overhead (1GOHFREC)	29,791	38,768	68,559
Total	$187,415	$70,939	$258,354

Source: FAMIS

In addition, the Recreation and Park Department has six completed capital projects, with total remaining balance of $163,996. These funds are available for re-appropriation to other projects.

Conclusion

City departments carry forward into the next fiscal year annually-appropriated funds that have been encumbered for purchase orders, work orders, and projects. The City departments need to review and close out unneeded encumbrances in a more timely manner to ensure availability of these monies for other purposes.

Recommendation

The Controller should:

1.1 Instruct City departments to close out unneeded encumbrances and project funds, returning these funds to the General Fund fund balance.

Cost and Benefit

Close out of prior years' encumbrances that are no longer needed would make available $2,978,224 for General Fund reserve or re-appropriation in FY 2010-11 ($2,812,917 in encumbered purchase order and work order funds and $165,307 in project funds). Additionally, close out of prior years' encumbrances that are no longer needed would make available an estimated $234,935 to the Recreation and Park Savings Incentive Reserve ($70,939 in encumbered purchase order and work order funds and $163,996 in project funds).

2. Property Managed by the Department of Administrative Services Real Estate Division

- **The Real Estate Division manages City properties under the jurisdiction of the City's General Fund departments. This includes managing properties that (a) house City General Fund departments; (b) have month-to-month leases, such as parking lots designated to be sold; and (c) are located within San Francisco or outside of San Francisco and have existing lease agreements, are in process of bidding new leases, or are preparing to be sold.**

- **The Real Estate Division has jurisdiction over five properties in Kern and Fresno Counties that were bequeathed to the City by the estate of Alfred Fuhrman in 1941, with the requirement that revenues be used for the San Francisco Public Library and Golden Gate Park. Four of these five properties generate no or minimal revenues of less than $2,760 annually. According to Real Estate Division staff, Chevron has inquired about drilling on these properties, and the properties may have potential for solar power generation. However, the Real Estate Division does not currently have specific plans to maximize the lease or sale potential of these properties. According to 2001 estimates, the sale value of these four properties ranged from $104,00 to $232,000. The Real Estate Division should develop a plan for the lease or sale of these properties, including obtaining a professional real estate appraisal when Fresno and Kern County property values recover from their current low valuation.**

- **The City has an oil and gas lease with Chevron for the fifth property, with lease payments equal to 15.5 percent of oil revenues. Chevron paid $690,450 in lease payments in 2009, which is a reduction of $650,536, or 45.5 percent, compared to $1,340,986 in lease payments in 2008. The Real Estate Division lacks resources to audit the complex oil and gas lease and ensure Chevron's compliance with lease provisions. For example, Chevron deducted $31,156 in tax payments from the lease payments to the City from 2007 through 2009, although the lease does not allow such deductions. The Real Estate Division should contract with an experienced oil and gas auditor to ensure accurate lease payments.**

Under the Administrative Code, the Director of Administrative Services is responsible for all buildings and grounds not under the jurisdiction of other City agency boards or commissions. The Director of the Real Estate Division within the Department of Administrative Services is responsible for real property transactions.

The Real Estate Division:

- Manages the properties housing City General Fund departments, including City Hall, One South Van Ness, 25 Van Ness, 30 Van Ness, 240 Van Ness, 250 Polk Street, 875 Stevenson, 1660 Mission Street, 1650 Mission Street, 555 7th Street, and the Hall of Justice.

- Serves as landlord on more than 40 properties within San Francisco on month-to-month leases. These properties are parking lots designated to be sold; occupied by non-profit service organizations to be transferred to the Human Services Agency; occupied by the University of California at San Francisco (UCSF) and located on the site of the original San Francisco General Hospital which is currently being reconstructed; or are in a lease arrangement with the Redevelopment Agency.

- Serves as landlord on 73 properties within San Francisco and outside of San Francisco with existing lease agreements, in process of bidding new leases, or preparing to be sold.

Properties Bequeathed to San Francisco by the Fuhrman Estate

The Real Estate Division has jurisdiction over five properties in Kern and Fresno Counties that were bequeathed to the City by the estate of Alfred Fuhrman in 1941, with the requirement that revenues were to be used for the San Francisco Public Library and Golden Gate Park. Only three of the five properties generate revenues and only one property generates revenue of any significance, as shown in Table 2.1 below.

Table 2.1
Properties Bequeathed to the City by the Fuhrman Estate

Location	Acres	Status	Rent	2009 Rent Revenues
Fresno County	40	Cattle grazing	$2,760 per year	$2,760
Kern County	160	Sheep grazing	$200 per year	200
Kern County	440	Not in use	None	0
Kern County	40	Not in use	None	0
Kern County	800	Oil and Gas	15.5 percent royalty payment	690,450
Total	**1,480**			**$693,410**

Source: Real Estate Division

Oil and Gas Lease

The City currently leases the 800 acre property in Kern County to Chevron USA, Inc. (Chevron) for oil and gas production. Previously, the City leased the property to Shell Oil (Shell) for 35 years, from 1963 to 1998. The original agreement provided for a 12.5

percent royalty payment on crude oil produced from the City's property. Specifically, the lease agreement stated "At the option of the Lessor, the Lessee either shall purchase the Lessor's royalty oil at the market value in the same field for oil of similar gravity and quality, or shall yield and deliver to Lessor on the lease premises, twelve and one-half (12 ½%) of said oil." The lease was amended in 1994, extending the agreement until March 31, 2020, and increasing the royalty percentage on the value of crude oil produced to 15.5 percent. Shell also paid the City an additional $240,000 to amend the lease.

In 1995, the lease was assigned to CalResources LLC, which later changed its name to Aera Energy LLC. In 1998, Aera Energy LLC traded properties with Texaco California Inc. (Texaco) and the property was assigned to Texaco. In 2001, Texaco and Chevron merged, and Chevron assumed the lease in 2002. Chevron's royalty payments to the City over the last three calendar years totaled more than $3.1 million. Specifically, the royalty payments for calendar years 2007, 2008, and 2009 were $1,086,745, $1,340,986, and $690,450, respectively.

The royalty payments are based on the amount of oil and the market value of the oil produced. Chevron uses fuel to create and inject steam into the oil wells to extract the oil, and the lease allows Chevron to deduct the cost of any fuel used to create the steam from its royalty payments. Chevron also uses a pipeline to transport the oil obtained from the production area leased from the City to a central facility where it is commingled with other oil that Chevron has obtained from other drilling operations.

The complexity of these operations requires strong oversight to ensure that the City is receiving all of the royalty payments for which it is entitled under the lease. The City should provide stronger oversight to verify (1) the amount of oil produced; (2) the amount transported from the production area leased from the City to Chevron's holding tanks; (3) the amount of fuel Chevron uses to extract the oil; and (4) the market price of the oil produced. The City also needs to ensure that Chevron is only deducting costs specifically allowed under the lease, and complying with all of lease terms.

The Library Commission and the Recreation and Park Commission are the trustees of the Fuhrman bequest and the Real Estate Division provides limited oversight of the properties, including the Chevron lease. The Real Estate Division receives the monthly payments from Chevron and the other leases and deposits the money. According to Real Estate Division staff, one of the staff has visited the properties and occasionally converses with the lessees. However, the Real Estate Division staff noted that they do not have the expertise needed to verify that the City received all of the revenues for which the City is entitled to under the lease agreement with Chevron.

In fact, we found that Chevron is deducting taxes, probably possessory interest taxes, from the amount it pays the City. During the last three years, Chevron has deducted $31,156 in taxes from the amount it pays the City, which is not allowed under the terms of the lease. The lease agreement specifically states, "As a further consideration for this lease, Lessee agrees to pay all taxes levied and assessed against the land herein demised, and all the taxes levied and assessed against the mineral rights, improvements and personal property situated therein or thereon. Lessee further agrees to pay all severance or gross production taxes in the event that such taxes are levied." The 1994 amendment recognizes that the lease may create a possessory interest subject to property taxation and that the "Lessee agrees to pay taxes of any kind…".

To ensure that Chevron remits all monies owed to the City, the Real Estate Division should determine if the tax deductions are consistent with the terms of the lease, and require Chevron to reimburse the City for any tax deductions not allowed under the lease. The Real Estate Division should not only pursue the reimbursement of the $31,156 deducted over the last three years, but it should also request reimbursement for any unauthorized tax deductions since Chevron assumed the lease in 2002.

Monitoring oil royalty payments is complex, requiring professional expertise to ensure that all royalty revenues are received. For instance, the California State Lands Commission maintains a staff of auditors who are responsible for auditing the revenues from oil and gas leases on State land. One of the primary goals of the audit function is to ensure that payments to the State are accurate. In 2008, the California State Land Commission reported recovering or saving over $21.9 million from audits conducted from January 2004 through August 2007.

To ensure that the City receives all of the royalty payments it is entitled to under the lease, the Real Estate Division, with the support of the Library Commission and the Recreation and Parks Commission, should contract with an experienced oil and gas royalty auditor to periodically audit Chevron for compliance with the terms of the lease agreement.

Other Furhman Bequest Properties

The City needs to maximize the use of the other properties from the Fuhrman estate. Other than the property leased to Chevron, the City is receiving little income on the other properties, as shown in Table 2.1 above. The Real Estate Division should evaluate the best and highest use for leasing the properties. According to Real Estate Division staff, Chevron has inquired about drilling on other City properties, and the properties may have potential for solar power generation. However, the Real Estate Division does not currently have specific plans to maximize the lease revenue potential of these properties.

These properties could also be sold. The last formal appraisal of the properties was conducted in 1977. This appraisal valued the six sites that existed at that time.[1] In 2001, the Real Estate Division updated the valuation based on conversations with local real estate brokers and the Kern County Assessor's office.

The appraised values of the properties in 1977 and the estimated value of the properties in 2001 are shown in the table below.

[1] The sixth parcel, located in Monterey County, was sold in 1992. The Monterey County property was valued at $2,000 and sold for approximately $20,000.

Table 2.2
Fuhrman Bequest Property Appraisals

Location	Acres	1997 Appraisal	2001 Estimates	
			Low	High
Coalinga, Fresno County	40	$15,000	$40,000	$40,000
Lost Hills, Kern County	160	8,000	16,000	48,000
Poso Creek, Kern County	440	111,000	44,000	132,000
McKittrick, Kern County [2]	40	3,000	4,000	12,000
Subtotal	680	137,000	104,000	232,000
Oildale, Kern County [3]	800	700,000	Not valued	
Total	**1,480**	**$837,000**	**n/a**	**n/a**

Source: Real Estate Division

Because of the uncertainty in the current real estate market in Fresno and Kern Counties, the Real Estate Division can not provide estimates of the current value of the four Furhman Bequest properties with minimal or no lease revenues. The Real Estate Division estimates that a professional appraisal for all five properties would cost approximately $20,000.

The Real Estate Division should develop a plan for the best and highest use of the five Furhman Bequest properties, including potential lease or sale revenues. The Real Estate Division should obtain a professional real estate appraisal of the four properties from the Fuhrman estate that are not being fully utilized when Fresno and Kern County property values recover.

The Real Estate Division's Lease with Walgreens

The City leases the ground floor retail space at 30 Van Ness Avenue to Walgreens. The original lease was between the Herbst Foundation, the owner of 30 Van Ness Avenue, and Thrifty Payless Inc., for a 20-year term from September 1998 through August 2018. The lease was transferred to the Real Estate Division when the City purchased the building from the Herbst Foundation in 2001. The lease was assigned to Walgreens in June 2009 when Walgreens purchased the retail store from Thrifty Payless Inc.

Under the lease, Walgreens pays minimum annual rent of $403,914 and percentage rent based on sales if the percentage rent exceeds the minimum annual rent. Specifically, the tenant is required to pay the percentage rent if 2.0 percent of gross sales plus 0.5 percent of prescription sales exceeds the amount of the minimum annual rent. The lease requires the tenant to keep accurate records on sales and to provide the City with an accurate statement of the all transactions for the periods that the percentage rent is applicable. The lease agreement allows the City to audit the tenant's records to verify reported sales.

[2] The value of this property was based on the surface rights and did not include the mineral rights.
[3] The Real Estate Division did not value this property because it determined that the value of the property was with oil lease.

The former tenant, Thrifty Payless, reported total annual sales each year to the Real Estate Division. According to these reports, Thrifty Payless' total sales in 2007 and 2008 were insufficient to pay percentage rent in addition to the minimum annual rent. Walgreens assumed the lease in June 2009 but did not report total annual sales in 2009 in order to calculate if percentage rent exceeds minimum annual rent. The Real Estate Division did not clarify how 2009 annual percentage rent was to be calculated, since Thrifty Payless reported sales and paid rent from January 2009 through June 2009, and Walgreens paid rent (but did not report sales) from July 2009 through December 2009.

Conclusion

The Real Estate Division needs to evaluate the highest and best use for the five Fresno and Kern County properties bequeathed to the City by the Fuhrman Estate, including determining whether the City should retain or sale the properties. The Real Estate Division should also develop an audit protocol for the existing oil and gas lease with Chevron to ensure accurate reporting of sales and payment of rents.

Recommendations

The Director of Real Estate should:

2.1 Evaluate whether Chevron's tax deductions from rent payments are allowed under the existing lease, and if not allowed, require Chevron to reimburse the City for (a) $31,156 in deductions for 2007 through 2009, and (b) any tax deductions for 2002 through 2006.

2.2 Contract with an experienced oil and gas royalty auditor to periodically audit Chevron for compliance with the terms of the lease, in consultation with the Library Commission and Recreation and Park Commission.

2.3 Evaluate the highest and best use for the Fresno and Kern County properties bequeathed to the City by the Furhman Estate; develop a plan to obtain property appraisals when Fresno and Kern County property values recover from the current low valuation; and develop a plan for the lease or sale of the properties.

2.4 Require Walgreens to report 2009 sales.

Costs and Benefits

The Real Estate Division would incur unknown costs for an oil and gas royalty auditor to conduct periodic audits of Chevron's compliance with lease provisions. The Real Estate Division would also incur costs of approximately $20,000 to conduct an appraisal of the Fresno and Kern County properties. These costs could be offset by potential but unknown increases in lease revenues or property sales.

The City would realize at least $31,156 in lease revenues by requiring Chevron to reimburse for tax deductions that are not allowed under the lease. The City would also potentially increase lease revenues from the Chevron lease from periodic audits of the lessees' financial records.

3. Emergency Medical Service Fees and Revenues

- **Until April 2008, the San Francisco Fire Department (SFFD) was the primary emergency medical service provider in San Francisco, providing first responder emergency medical services and subsequent transportation to hospitals. However, in 2008 the California Emergency Medical Services Authority, which oversees counties' emergency medical systems, determined that San Francisco must allow private ambulances to respond to emergency medical calls. Therefore, SFFD was no longer authorized to serve as the primary emergency medical service provider. In FY 2009-10, private ambulances have provided approximately 17.8 percent of emergency hospital transports.**

- **As a result, SFFD has billed fewer medical transports than prior to the non-exclusive emergency medical service system while maintaining the same level of ambulance staffing. In FY 2009-10 actual emergency medical services revenue is projected to be $200,000 less than budget. According to the SFFD, because private ambulances make themselves available for emergency medical calls on an irregular basis, the SFFD must continue to fully staff ambulances to meet all possible medical emergencies. The California Emergency Medical Services Authority allows for counties to select private and public emergency medical service providers through a competitive process and enter into contracts to ensure availability of providers. However, after two years of the non-exclusive system, the Department of Emergency Management's Emergency Medical Service Agency (EMSA) is only now beginning to plan for competitively bidding for countywide medical emergency services.**

- **The City and County of San Francisco assesses emergency medical service fees for emergency medical calls and subsequent transport to hospitals, based on SFFD costs and subject to Board of Supervisors approval. The SFFD does not include all possible costs in its emergency medical service fee calculations, with the result that services are undervalued by an estimated $3.4 million annually. Based on the Budget and Legislative Analyst's calculations, the SFFD could increase fees for providing emergency medical services and transporting patients to hospitals by $50, or 3.4 percent, from $1,458 to $1,508. This fee increase would result in $250,000 in additional annual revenues.**

- **The SFFD could receive an estimated $108,000 in additional reimbursements if the private billing contractor referred uncollected accounts to the BDR after 270 days from the date of billing, as required by the billing services contract. In 2009, almost 70 percent of accounts were not referred until 400 days or more from the date of service.**

Emergency Medical Services

Under State law, each county with an emergency medical services program must designate a local emergency medical services agency to administer emergency medical services. In San Francisco, the Department of Emergency Management's Emergency Medical Services Agency (EMSA) administers countywide emergency medical services, with responsibility for coordinating emergency medical transportation services with available hospital trauma and other services.

The San Francisco Fire Department (SFFD) is the first responder to most emergency medical calls in San Francisco. The SFFD dispatches advanced life support (ALS) engines, staffed with at least one paramedic, to Code 3 (or the highest level of medical emergency) calls. The SFFD also maintains approximately 19 flexibly deployed ambulances to respond to emergency medical calls and transport the patient to a hospital, if necessary.

Until April 2008, the SFFD was the primary emergency medical service provider in San Francisco, providing first responder emergency services and subsequent transportation to hospitals. Various federal court decisions limit counties' ability to restrict private ambulance companies from providing emergency medical services. According to the California Emergency Medical Services Authority, the only method to restrict competition in the ambulance market place is through adherence to the provisions of the State EMS Act/Health and Safety Code. The Health and Safety Code authorizes counties to adopt local patient transportation ordinances, including tasking the local EMSA with recommending adoption of the ordinance to the Board of Supervisors. The local EMSA must ensure that all transportation providers, both public and private, are integrated into the transportation plan.

Prior to April 2008, the City was allowed to be the exclusive emergency medical service provider because it had been providing these services continuously since 1981, when the State EMS Act was adopted. However, in 2008 the California Emergency Medical Services Authority determined that San Francisco emergency medical services had changed sufficiently that the City was no longer authorized to exclude other Advanced Life Support emergency medical service providers. Therefore, private ambulance companies were allowed to provide Advanced Life Support emergency medical services and subsequent transport to hospitals. As shown in Table 3.1 below, private ambulances now provide approximately 17.8 percent of emergency hospital transports.

Table 3.1
SFFD and Private Ambulance Emergency Hospital Transports

	FY 2008-09	Percent	FY 2009-10 (as of April 21, 2010)	Percent
Private Ambulance Transport	4,623	8.3%	7,925	17.8%
SFFD Ambulance Transport	51,311	91.7%	36,480	82.2%
Total	55,934	100.0%	44,405	100.0%

Source: SFFD

Billing for First Responder and Ambulance Services

SFFD bills for both responding to a medical emergency and for transporting the patient to the hospital. The Board of Supervisors annually approves an ordinance setting the fees for these services, which are currently $350 for treatment without transportation, and $1,458 for treatment with transportation.

Under the current non-exclusive system, the private ambulance provider can notify the emergency communications dispatch center of its availability and will be dispatched to the medical emergency if it is the closest ambulance. The SFFD will also dispatch an engine for certain medical calls, especially for Code 3 medical emergencies. Both an SFFD engine and an ambulance were dispatched to 75.3 percent of medical calls from July 1, 2009 through December 11, 2009 (or 17,790 out of 23,618 calls). Of these combined engine and ambulance responses, 14.4 percent of the ambulance responses were private ambulance providers and 85.6 percent were SFFD ambulances. As shown in the table below, the share of private ambulance providers responding to medical calls with combined engine and ambulance responses increased from 8.0 percent in FY 2008-09 to 14.4 percent in the first six months of FY 2009-10.

Table 3.2
SFFD and Private Ambulance Emergency Hospital Transports

	FY 2008-09		FY 2009-10 (as of December 11, 2009)	
	Dispatch of Engine and Ambulance	Percent	Dispatch of Engine and Ambulance	Percent
Private Ambulance Transport	3,463	8.0%	2,565	14.4%
SFFD Ambulance Transport	39,673	92.0%	15,225	85.6%
Total	43,136	100.0%	17,790	100.0%

Source: SFFD

Most SFFD emergency medical service revenues derive from ambulance transport to hospitals. While the SFFD can bill for treatment without transport, the revenue collection rate can be low because patient data obtained at the site of treatment is generally much less complete compared to patient data obtained through a more extended hospital stay after transport.

Although FY 2009-10 projected emergency medical service revenues are $953,940 more than FY 2008-09 emergency medical service revenues, these projected FY 2009-10 revenues are approximately $200,000 less than the FY 2009-10 budget, as shown in the table below.

Table 3.3
SFFD Emergency Medical Service Revenues

Revenue	FY 2008-09	FY 2009-10 (projected)	Increase/ (Decrease)	Percent
Budget	$19,460,412	$21,025,100	1,564,688	8.0%
Actual	19,871,960	20,825,900	953,940	4.8%
Revenue Surplus/ (Deficit)	$411,548	($199,200)	-	-

Source: SFFD

FY 2009-10 emergency medical service revenue collections include outstanding accounts for services provided in prior fiscal years as well as collections for services in the current fiscal year. Additionally, the Board of Supervisors approved a 38.5 percent increase in FY 2009-10 emergency medical service rates, resulting in higher collection amounts for services provided in FY 2009-10.[1]

While the SFFD attributes the estimated approximately $200,000 reduction of actual revenues compared to budgeted revenues in FY 2009-10 to the increased share of transports by private ambulance providers, the SFFD acknowledges that actual revenue reductions due to increased share of transports by private providers will be better known going forward due to the lag time between the date of transport and receipt of payment. According to the SFFD Deputy Chief for Administration, the SFFD has partially offset the expected emergency medical services revenue reduction by increased efforts to obtain more detailed patient information from hospitals, allowing for more accurate billing and collections.

Although the SFFD ambulances currently make up a smaller share of transports than in FY 2008-09, the SFFD is continuing to staff its ambulances at the same level as FY 2008-09 because of the uncertainty of private ambulance availability and the need to meet response times.

Ambulance Plans

San Francisco has been a non-exclusive emergency medical system for two years, but the EMSA is still evaluating the direction of the system. San Francisco has the option of remaining a non-exclusive system or entering into a competitive process to select one or more bidders to provide emergency medical services as permitted by the California Emergency Medical Services Authority.

According to the Department of Emergency Management Deputy Director, EMSA has made a decision that the emergency medical services system needs to be stabilized, with

[1] The Board of Supervisors approved an increase of $405, or 38.5 percent, in ambulance service transport rates from $1,053 in FY 2008-09 to $1,458 in FY 2009-10 in May 2009 (File 09-0706).

defined rules and market shares for SFFD and private service providers. Since April 2008, EMSA has brought the San Francisco countywide emergency medical services system into compliance with California Emergency Medical Services Authority requirements that the system include private providers. EMSA has also submitted San Francisco's emergency medical services transportation plan to the California Emergency Medical Services Authority for approval.

EMSA began the planning process for a five-year strategic plan in December 2010 and has obtained grant funds to hire a consultant to facilitate the process. The Department of Emergency Management Deputy Director hopes to complete the process within six months of hiring the consultant.

Although the emergency medical services strategic plan is not in place, EMSA plans to move forward with a proposed competitive process to select countywide emergency medical services providers. EMSA has not yet defined the structure of the RFP and subsequent provision of emergency medical services in San Francisco. EMSA held a meeting in May 2010 with representatives from EMSA, SFFD, private ambulance providers, and labor unions to discuss the RFP. According to the Department of Emergency Management Deputy Director, EMSA would like to move forward with the competitive process by fall 2010.

The goal of the RFP is to better define who provides medical emergency services in San Francisco, allowing SFFD to better predict revenues and staffing requirements, and to allocate staffing more efficiently to meet service requirements.

Emergency Medical Service Fee Calculation

The City and County of San Francisco assesses fees for the delivery of pre-hospital emergency medical care in accordance with Section 128.1 of the San Francisco Health Code. SFFD provides emergency services, including transport, and a private company provides billing and collection services. The Tax Collector's Office Bureau of Delinquent Revenues (BDR) also provides collection services on those accounts that the private billing company cannot collect.

Emergency medical service fees are calculated based on the SFFD's costs of service. To calculate the cost of providing emergency medical services, SFFD has developed a detailed methodology which includes (1) the direct cost of the ambulance and SFFD first responder staff, services and supplies, and equipment, and (2) indirect costs, such as administration, training, and disability costs.

SFFD's cost analysis for the emergency medical services identified $91.1 million in costs related to its response to medical emergencies. These costs are shown in the table below.

Table 3.4
SFFD FY 2009-10 Ambulance Service Cost Calculation

Cost Category	Amount allocated
Salaries and benefits	$76,459,643
Service and Supplies	2,722,970
Equipment	2,508,041
Disability	1,859,027
Training	1,228,876
Direct Administration	1,680,456
Overhead	4,651,912
Total	**$91,110,925**

Source: SFFD

Based on its estimate of the cost of providing emergency medical services, SFFD determines the appropriate fees to charge for emergency medical services. The Controller reviews and approves the cost analysis before the proposed fees are submitted to the Board of Supervisors for approval.

For FY 2009-10, the Board of Supervisors approved the following fee schedule for SFFD emergency medical services:

- Treatment without transportation, a base rate fee of $350 per call;
- Basic life service, including transportation, a base rate of $1,458 per call;
- Advanced life service, including transportation, a base rate of $1,458 per call; and
- Mileage if transported, an additional fee above the base rate of $28 per mile.

The SFFD calculated total FY 2009-10 ambulance service costs of $91,110,925. The Budget and Legislative Analyst estimates that total FY 2009-10 ambulance service costs were at least $94,240,459, or $3,129,534 more than the SFFD cost estimates, as shown in the table below.

Table 3.5
Budget and Legislative Analyst Recommended Cost Calculation Revisions

Cost item	Fire Department Estimate	Budget and Legislative Analyst Estimate	Difference
Salaries and benefits	$1,712,322	$3,283,455	1,571,133
Collection fee	975,000	1,072,500	97,500
Software costs	0	187,787	187,787
Uniforms	75,000	147,150	72,150
Ambulance fuel	82,000	169,245	87,245
Defibrillators	240,425	331,500	91,075
Disability	1,859,027	2,738,854	879,827
Administrative overhead	4,651,912	4,794,729	142,817
Total			**$3,129,534**

Source: Budget and Legislative Analyst calculations based on SFFD data

The Budget and Legislative Analyst estimated increased emergency medical service costs as follows:

- SFFD allocated a portion of the Rescue Captains' salary and benefit costs as emergency medical costs, but these positions fully support emergency medical services. If the Rescue Captain's full salary and benefit costs are included, it would add $1,571,133 to the total costs of providing emergency medical services.

- To estimate the private contractor's fees for providing billing and collection services, SFFD used 5.0 percent of estimated collections instead of the actual percentage of 5.5 percent. The additional 0.5 percent will increase total costs by $97,500.

- The SFFD did not include the cost of the software purchased from the billing company. The cost over the last four years was approximately $904,000. According to SFFD, the software will be paid at the end of fiscal year 2009-10. The Budget and Legislative Analyst's estimate amortizes the cost of the software over five years. This would add $187,787 annually to SFFD's cost of the next five years.

- The SFFD allocated 15 percent of the estimated $500,000 in annual uniforms costs to emergency medical services. The Budget and Legislative Analyst's estimate allocated 30 percent these costs based on the percentage of staff providing emergency medical services, increasing costs by $72,150. The SFFD total FY 2009-10 uniform budget was $1,079,646, which includes $500,000 for regular uniforms plus $579,646 for protective "turn out" gear. According to SFFD officials, some protective gear costs could be appropriately allocated to emergency medical services. SFFD needs to develop an estimate of the amount of protective gear that could be charged to emergency medical services.

- SFFD's estimate of the cost of the ambulance fuel was based on six months usage. The Budget and Legislative Analyst's estimate is based on a full year's usage, increasing emergency medical services costs by $87,245.

- SFFD's estimate is based on a cost of 42 defibrillators depreciated over five years. The Budget and Legislative Analyst's estimate is based on the cost of 42 defibrillators used on the ambulances, and 41 medium-sized defibrillators used on engines that are priced at $10,000 and depreciated over five years, and 19 smaller defibrillators used on trucks that are priced at $3,000 and depreciated over five years. The Budget Analyst's estimate would increase emergency medical services costs by $91,075.

- SFFD allocated 23 percent of disability costs to emergency medical services. The Budget and Legislative Analyst's estimates 30 percent of disability costs should be allocated to emergency medical services, which is the percentage of staff performing emergency medical services. The Budget and Legislative Analyst's estimate would increase disability costs by approximately $879,827.

- The Budget and Legislative Analyst allocated administrative overhead based on the percentage of the salaries and benefits costs associated with performing emergency medical services to the total salary and benefits of SFFD's Operations Division. SFFD's estimate is slightly different. The Budget and Legislative Analyst's estimate would increase emergency medical service costs by $142,817.

While the SFFD estimate includes the cost of engines, generally the first response vehicle in medical emergencies, SFFD's estimate limits the cost to the cost of an ambulance which is approximately $125,000. Engines, on the other hand, cost approximately $450,000. Based on discussions with SFFD officials, SFFD should develop revised estimates of engine replacement costs that include a higher replacement cost of these vehicles above the amount of an ambulance.

Also, SFFD's estimate did not include the cost of fuel and repairs for the engines which used as the first responder to medical emergency. SFFD agrees that a portion of these costs should be included in the cost of providing emergency medical services. Thus, SFFD needs to develop an estimate of the amount that would be appropriate to include. The Budget and Legislative Analyst's estimate does not include any costs for these items.

The Budget and Legislative Analyst's estimate of emergency medical service costs would have increased the FY 2009-10 fees as follows:

Table 3.6
Budget and Legislative Analyst Recommended Fee Revisions

	FY 2009-10 Actual Fee	Budget and Legislative Analyst's Revised Fee	Increase	Percent
Treatment without Transport	$350	$362	$12	3.4%
Treatment with Transport	$1,458	$1,508	$50	3.4%

Source: Budget and Legislative Analyst

Based on the SFFD actual collection rate of 30 percent, we estimate that these revised fees would have generated an additional $250,000 in emergency medical services revenues in FY 2009-10.

Bureau of Delinquent Revenue Collections

Section 10.38 of the Administrative Code requires City departments to report to the Bureau of Delinquent Revenue (BDR) all accounts receivable over $300 that remain uncollected for a period in excess of 90 days.

SFFD contracts with Advanced Data Processing West (contractor) to provide billing and collection services for emergency medical services. The contract allows the contractor to pursue collections for 270 days after the billing date rather than the 90 days specified in the Administrative Code. The contract requires that uncollected accounts be transferred to BDR after 270 days. The contractor has not complied with the requirement to submit all accounts to BDR after 270 days after the initial billing, as shown in the table below

Table 3.7
Referral of Uncollected Emergency Medical Services Accounts to BDR
2009

Account Age (Days from the Date of Service)	Number Assigned	Amount Assigned	Amount Assigned as Percent of Total
270-299	2,262	$2,078,635	13.8%
300-330	1,386	1,138,009	7.6%
331-400	1,717	1,338,808	8.9%
More than 400	14,345	10,506,615	69.8%
Total	**19,710**	**$15,062,067**	**100.0%**

Source: BDR

As the table above shows, the contractor submitted almost 70 percent of uncollected accounts more than 400 days after the date of service, indicating that most uncollected accounts are submitted more than 270 days after the billing date.

While only approximately 3.5 percent of uncollected emergency medical services accounts submitted to BDR are collected, BDR collects a higher percentage of accounts between 270 to 300 days after the date of service, as shown in the table below.

Table 3.8
Emergency Medical Services Accounts Collection by Referral Date
2009

Account Age (Days from the Date of Service))	Amount Assigned	Amount Collected	Percent of Amount Assigned
270-299	$2,078,635	$88,614	4.3%
300-330	1,138,009	47,127	4.1%
330-400	1,338,808	33,721	2.5%
> 400	10,506,615	364,559	3.5%
Total	**$15,062,067**	**$534,021**	**3.5%**

Source: BDR

We estimate that collections in 2009 would have increased by $108,000 if the contractor had transferred the delinquent accounts to BDR in a more timely manner.

Conclusion

The City has had a non-exclusive emergency medical services system since April 2008, when the State required the City to allow private ambulance companies to respond to medical emergencies and transport patients to the hospital. Previously, the SFFD had primarily responded to medical emergencies and the subsequent transport. The implementation of the non-exclusive system has resulted in a larger percentage of private ambulances responding to medical emergencies. As a result, SFFD has billed fewer medical transports than prior to the non-exclusive system while maintaining the same level of ambulance staffing. According to the SFFD, because the number of available private ambulances for any specific time period is not known in advance, the SFFD must continue to staff to meet all possible medical emergencies. After two years of the non-exclusive system, EMSA is only know beginning the planning process for the five-year strategic plan and a competitive process to select providers for countywide medical emergency services.

The SFFD is reimbursed for approximately 30 percent of its costs for responding to medical emergency calls and transporting patients to the hospital. The Board of Supervisors annually approves emergency medical services fees that are charged to individuals and third party payers, based on the SFFD costs for providing these services. The Budget and Legislative Analyst calculated additional costs not included by the SFFD in the emergency medical service fees, resulting in $250,000 estimated additional reimbursements annually.

The SFFD could receive an estimated $108,000 in additional reimbursements if the private billing contractor referred uncollected accounts to BDR after 270 days from the date of billing, as required by the billing services contract. In 2009, almost 70 percent of accounts were not referred until 400 days or more from the date of service.

Recommendations

The Department of Emergency Management Deputy Director should:

3.1 Provide a report to the Board of Supervisors on the status of the medical emergency services strategic planning and competitive provider selection process prior to September 30, 2010.

The SFFD Deputy Chief for Administration should:

3.2 Monitor and enforce the contract requirement that the contractor submit delinquent accounts to BDR on the 271st day from the initial billing date.

3.3 Revise medical emergency service cost estimates to include (a) total Rescue Captain salaries and benefits; (b) collection fees equal to 5.5 percent of collections; (c) billing software costs; (d) increased uniform costs; (e) increased engine replacement costs; (f) engine fuel and repair costs; (g) increased defibrillator costs; (h) increased disability costs; and (i) increased administrative overhead costs. SFFD should use these cost estimates to develop a revised fee calculation for fiscal year 2010-11 emergency medical service fees.

Costs and Benefits

Implementation of these recommendations should result in $358,000 additional emergency medical services reimbursements annually.

4. Police Emergency Alarm Licenses and False Alarm Fees

- **The Police Emergency Alarm program was implemented in 2003 with the intent of reducing the number of false alarms and the corresponding San Francisco Police Department (SFPD) response to the alarms. The number of false alarms has decreased by 5,367 per year, or 27.0 percent, from 19,843 in 2004 compared to 14,476 in 2009.**

- **The Police Emergency Alarm program is administered by the Department of Emergency Management. The Tax Collector collects alarm license and false alarm fees through a work order with the Department of Emergency Management. The SFPD responds to false alarms.**

- **Police Emergency Alarm program revenues consist of annual residential and business alarm license fees and false alarm fees. Total alarm revenues in 2009 were $2,442,782. The Budget and Legislative Analyst estimates 2009 program costs of $2,968,869, which exceeds program revenues of $2,442,782 by $526,087, or 22 percent.**

- **Police Emergency Alarm program revenues would increase through increased collection efforts, including (1) requiring that alarm companies, which collect license fees from alarm users, remit these fees to the Tax Collector on time, and (2) referring all uncollected false alarm fees to the Bureau of Delinquent Revenue (BDR) after 90 days, as required by the Administrative Code. In 2009, the Tax Collector referred $245,093 of the $259,006 in uncollected false alarm fees in 2009, or 94.6 percent, to BDR after 200 days. The collection rate for false alarm fees referred to BDR after 200 days is approximately 24 percent, while the collection rate for false alarm fees referred to BDR prior to 200 days is approximately 74 percent.**

- **In 2010 the Department of Emergency Management increased the number of alarms billed as false alarms, resulting in an approximately 23 percent increase in false alarm billing. A combined increase in the number of false alarms that are billed and the number of uncollected alarms that are referred to BDR after 90 days would increase false alarm fee revenue collection by an estimated $320,000 annually**

- **Also, the SFPD should work with the Department of Emergency Management to evaluate total Police Emergency Alarm program costs in 2010 and recommend fee increases in FY 2011-12 as necessary to ensure that program revenues recover program costs.**

Alarm Licenses and False Alarm Fees

The Board of Supervisors adopted the Police Emergency Alarm Ordinance in February 2003, with the goal of reducing the number of San Francisco Police Department (SFPD) responses to false alarms and the associated costs. The Director of Emergency Management administers the Police Emergency Alarm program.

Under the Police Emergency Alarm Ordinance:

- All commercial and residential alarm users must obtain a license. The user pays the initial license fee and annual renewal fee to the alarm company, who remits the fee to the Tax Collector.

- Commercial and residential alarm users are charged a fee for the SFPD response to a false alarm. If the commercial or residential alarm user has a current license, they are not charged for the first response to a false alarm but are charged for subsequent responses based on a penalty schedule.

The number of alarms has decreased since implementation of the ordinance in 2003, as shown in the table below. The number of false alarms makes up at least 53.1 percent of total alarms.

Table 4.1
Alarms by Calendar Year

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**Increase/ (Decrease) 2004 to 2009**	**Percent Increase/ (Decrease)**
False alarms	19,843	17,852	16,508	16,371	16,031	14,476	(5,367)	(27%)
"Handled" alarms [1]	7,400	6,694	6,444	6,266	6,417	5,703	(1,697)	(22.9%)
Subtotal, handled and false alarms	27,243	24,546	22,952	22,637	22,448	20,179	(7,064)	(25.9%)
Cancelled alarms	6,090	5,655	5,609	5,537	5,495	4,832	(1,258)	(20.7%)
Other alarms	2,653	2,707	2,680	2,431	2,454	2,198	(455)	(17.2%)
Field events	148	76	79	101	91	41	(107)	(72.3%)
Total	**36,134**	**32,984**	**31,320**	**30,706**	**30,488**	**27,250**	**(8,884)**	**(24.6%)**

Source: Department of Emergency Management

[1] "Handled" alarms are a general SFPD code. In 2010 the Department of Emergency Management began billing alarms coded "handled" as false alarms, based on review of alarm data .

The number of residential and business alarm licenses has varied each year, although the number of alarms in 2009 is 9,072 or approximately 35 percent more than in 2004.

Table 4.2
Alarm Licenses by Calendar Year

Alarm Licenses	2004	2005	2006	2007	2008	2009
Residential	16,068	18,143	19,944	15,108	29,318	22,093
Business	9,637	11,470	12,689	11,045	15,614	12,684
Total	**25,705**	**29,613**	**32,633**	**26,153**	**44,932**	**34,777**

Source: Department of Emergency Management

Alarm Revenues

Alarm revenues consist of alarm license fees, false alarm fees, and various other charges, such as late payment penalties.

The Police Emergency Alarm ordinance set the annual license fees in 2003, charging $40 for residential users and $60 for business users. The ordinance allows the annual license fee to be adjusted by the Consumer Price Index as determined by the Controller, without further Board of Supervisors approval. The current annual license fee is $45 for residential users and $65 for business users.

Under the Police Emergency Alarm ordinance, licensed alarm users do not pay a penalty for the first false alarm but pay increasing penalty amounts for each subsequent false alarm. Unlicensed alarm users pay a penalty of $100, plus $250 for each false alarm. The $100 penalty may be waived if the user registers the alarm with the Treasurer/Tax Collector’s Office within ten days.

Table 4.3
Police Emergency Alarm Program Revenues by Calendar Year

	2004	2005	2006	2007	2008	2009
Total false alarm and license fees revenues	$2,304,571	$2,447,990	$2,558,605	$2,229,105	$2,992,048	$2,442,782

Source: Department of Emergency Management

Total false alarm and alarm license fee revenues have varied each year, although total revenues in 2009 are $138,211 or approximately 6.0 percent more than in 2004.

Alarm Costs

The Police Emergency Alarm Program costs consist of Department of Emergency Management administrative costs, including the collection costs, and SFPD costs to respond to alarms. The Budget and Legislative Analyst's estimated program costs exceed revenues, as shown below.

Table 4.4
Estimated 2009 Police Emergency Alarm Program Costs Compared to Revenues[1]

Alarm license revenues	$1,806,744
False alarm revenues	636,038
	2,442,782
SFPD response costs to false alarms	2,277,221
Administrative costs	691,648
	2,968,869
Deficit	($526,087)

Source: Budget and Legislative Analyst estimates, based on Department of Emergency Management data

Alarm License and False Alarm Fee Collections

The Tax Collector is responsible for billing alarm license fees and false alarm fees through a work order agreement with the Department of Emergency Management.

Alarm License Fee Collection

Under the Police Emergency Alarm ordinance, the alarm companies are responsible for ensuring that the alarm user has a valid license, including collection of alarm license fees. The alarm companies are required to remit the alarm license fee revenues to the Tax Collector each month. The alarm companies are also responsible for notification and collection of alarm users' annual license renewal fees.

The alarm companies must contact the alarm user at least two times prior to notifying the Department of Emergency Management that that the alarm user has refused to pay the license fee.

Alarm license renewal fees are due on January 1 of each year. According to the Department of Emergency Management Alarm Program Coordinator, alarm companies do not consistently collect and remit alarm license renewal fees by January 1, and as of

[1] The Budget and Legislative Analyst estimated the percentage of total calendar year 2009 revenues allocated to licenses and to false alarm fees, based on FY 2008-09 allocation percentages. The Budget and Legislative Analyst estimated SFPD response costs based on (a) calendar year 2009 average SFPD response time by alarm code, (b) total number of single and two police officer responses by alarm code, (c) salary and benefit costs for police officers, and (d) estimated percentage of SFPD responses attributed to false alarms. Administrative costs are based on the Department of Emergency Management FY 2008-09 Police Emergency Alarm program budget.

May 2010 not all alarm companies had paid renewal fees for 2010. The Tax Collector, who is responsible for collecting alarm license renewal fees, carries the prior year registration as an active registration until approximately April of the current year in order to reconcile Tax Collector alarm license records with alarm company records.

Delays in alarm company remittances can potentially result in lost collections. For example, an alarm user who incurs a false alarm prior to paying the alarm license renewal fee will not be charged for the false alarm, even though the alarm user may not renew the alarm license. The Department of Emergency Management should work with the Tax Collector's Legal Section to better enforce alarm company remittances of annual license renewal fees.

False Alarm Fee Collections

The Tax Collector billed for $877,355 in false alarm fees in FY 2008-09 and collected $664,342. Of the $877,355 billed, the Tax Collector referred $259,006 in uncollected false alarm fees to the Bureau of Delinquent Revenue (BDR).

Under the Administrative Code, uncollected bills are to be submitted to BDR after 90 days if the bill is greater than $300. However, the Tax Collector referred $245,093 of the $259,006 in uncollected false alarm fees, or 94.6 percent, to BDR after 200 days. The collection rate for false alarm fees referred to BDR after 200 days is approximately 24 percent, while the collection rate for false alarm fees referred to BDR prior to 200 days is approximately 74 percent.

Table 4.5
Referral of Uncollected False Alarm Fees to BDR
FY 2008-09

Number of Days for Referral	Amount Referred	Amount Collected	Percent Collected
After 400 days	$19,967	$4,831	24%
Between 300 to 400 days	113,350	27,112	24%
Between 200 to 300 days	111,776	26,964	24%
Between 100 to 200 days	12,463	9,236	74%
Less than 100 days	1,450	574	40%
Total	$259,006	$68,717	27%

Source: Bureau of Delinquent Revenue

Delays in referring uncollected accounts to BDR are due, at least in part, to a cumbersome process of transferring electronic files. The Department of Emergency Management needs to work with the Tax Collector and Department of Technology to streamline the collection process and ensure that uncollected accounts are referred to BDR after 90 days.

False Alarm Fee Billing and Collection

In 2010 the Department of Emergency Management increased the number of alarms billed as false alarms by billing alarms coded as "handled" that were not previously billed, resulting in an approximately 23 percent increase in false alarm billing. A combined increase in billing due to billing alarms coded as "handled" and in collections by referring all uncollected accounts to BDR after 90 days would increase false alarm fee revenue collection by an estimated $320,000 annually.[2]

Conclusion

Total Police Emergency Alarm program costs exceeded revenues by an estimated $526,087 in 2009. Police Emergency Alarm program revenues will increase by an estimated $320,000 in 2010 due to increased billing of false alarms and increased referral of uncollected accounts to BDR.

However, the SFPD should work with the Department of Emergency Management to evaluate total Police Emergency Alarm program costs in 2010 and recommend fee increases in FY 2011-12 as necessary to ensure that program revenues recover program costs.

Combined increases in billing, collections, and fee revenues would cover the Police Emergency Alarm program costs.

Recommendation

The Director of Emergency Management should:

4.1 Work with the Tax Collector and the Tax Collector's Legal Section to identify procedures to increase alarm company remittances of license fees.

4.2 Work with the Tax Collector and the Department of Technology to streamline procedures for collecting false alarm fees and referring uncollected fees to BDR after 90 days.

The Chief of Police should:

4.3 Evaluate SFPD costs for the Police Emergency Alarm program and recommend annual residential and business alarm license increases for FY 2011-12 as needed to recover program costs.

[2] The Budget and Legislative Analyst estimates that (1) the 23 percent increase in false alarm bills would result in $152,800 increased revenues, and (2) increased referrals of uncollected accounts to BDR after 90 days would result in an estimated $167,200, totaling $320,000.

Costs and Benefits

The Department of Emergency Management has begun to increase the number of false alarms that are billed. Increased referrals of uncollected accounts to BDR combined with increased billings would increase revenues by an estimated $320,000. If the SFPD were to recommend a $5 increase to residential and business alarm license fees, revenues would increase by an additional $175,000 annually beginning in FY 2011-12.