

# Budget Improvement Project

Presentation to the Mayor and Board of Supervisors  
March 16, 2009



# Presentation Overview

1. Project Overview and Approach
2. Revenue and Spending Trends
3. Financial Policies and Processes
4. Next Steps

Section One.

## Project Overview

- Project Goals
- Project Approach

# Project Overview

Unlike the State of California, the City has a perfect record of adopting and maintaining balanced budgets.

Yet during this past decade, maintaining this track record has often required extraordinary and unsustainable efforts, including:

- Closure of projected deficits in each of the past 10 years,
- Significant mid-year spending reductions in 4 of 10 years,
- Renegotiation of closed labor contracts in 7 of 10 years,
- Voter consideration of tax increases in 8 of 10 years.

Despite these efforts, the City still faces significant deficits for the coming several years.

# Project Overview

Given this historical context and following the City's adoption of a balanced budget in the current year, Mayor Gavin Newsom asked the Controller's Office to undertake a review of structural barriers to the achievement of long-term, sustainable balance of the City's budget.

This presentation provides an overview of findings from that effort. In all cases, it is the Controller's hope that the information presented proves helpful to policy-makers – the Mayor and Board of Supervisors – as they work to solve the coming year's budget deficit and establish a more stable financial foundation for the City in the years to come.

# Project Approach

Given the broad focus for the project, the Controller created four working groups, focusing on four specific areas that affect the City budget:

- An analytical review of historical revenue and spending trends, focusing on identifying the fastest growing revenues and expenditures,
- A survey of spending levels on core services in San Francisco compared to our peer California cities and counties,
- A comparison of San Francisco's budget and financial policies versus recommended governmental standards,
- Interviews and discussions with key budget stakeholders concerning the process San Francisco uses to prepare and manage its budget. This was led by consultants from Barbary Coast. A copy of their report is attached.

# Project Approach

Working groups were formed around these four issue areas. These working groups included participation from over 30 finance professionals in the Controller's Office, the Mayor's Budget Office, the Board of Supervisors Budget Analyst, and City departments.

For comparisons to other cities and counties, surveys were conducted of spending levels in 10 cities and counties, including San Jose, Los Angeles, Sacramento, and Alameda County. A list of surveyed jurisdictions is in the appendix of this report. Data from other cities and counties are intended to provide general comparative information.

San Francisco is unique relative to its peer jurisdictions because it is a combined City and County and contains functions that are often organized under special districts in other jurisdictions, and because of its high population density and its high daytime population.

# Project Approach

An independent consultant was charged with conducting anonymous interviews of a broad cross-section of participants in the City's budget process, including representatives from the Mayor's Office, Board of Supervisors members, labor organizations, the business community, non-profit service providers, and other stakeholders.

This report represents a summary of that work. An executive Steering committee has been formed to review these results and determine next steps for this effort.

Section Two.

## Revenue and Spending Trends

- Review of Prior Decade in the City
- Comparisons to Peer Cities and Counties

# Growth During the Past Decade

The General Fund Supported budget has grown from \$2.4 billion to \$4.0 billion during the past ten years. This represents average annual growth of 5%, versus 3% inflation during the same period.

The General Fund has been supported by extraordinary growth in several key General Fund revenues, with revenue volatility driven by property transfer tax and use of prior year fund balance.

Four General Fund departments -- Public Health, Human Services, Police, and Fire – account for 60% of spending growth during this period. Within city agencies, the majority of spending growth has occurred to improve employee wages and benefits.

Comparisons indicate that San Francisco provides a very rich array of services at a greater cost than other surveyed cities and counties in California, and is supported by a robust and diversified revenue base.

# Revenue Growth Drivers

Despite a significant downturn during the early 2000s, the budget has been supported by extraordinary property, business and local tax growth. Growth rates will be significantly lower – and in some cases may actually decline – during the coming three years.

(\$ Millions)

	FY 1998-99	FY 2008-09	FY 2008-09% of Budget	10-Year Change	
				Avg Annual % Change	% of Total Change
Property Taxes (1)	390	1,135	29%	11.3%	48%
Business Taxes (1)	232	395	10%	5.5%	10%
Other Local Taxes (1)	391	606	15%	4.5%	14%
Licenses, Franchises, Fines, Interest & Rent	81	99	2%	1.9%	1%
Intergovernmental Revenue - Federal	137	206	5%	4.1%	4%
Intergovernmental Revenue - State - Hospital	-	92	2%	NA	6%
Intergovernmental Revenue - State - Nonhospital	487	505	13%	0.4%	1%
Charges for Services - Hospital	434	502	13%	1.5%	4%
Charges for Services - Nonhospital	104	201	5%	6.8%	6%
Other Revenues & Financing Sources	0	50	1%	NA	3%
Operating Transfers In - Airport	11	26	1%	9.2%	1%
Operating Transfers In - Other Transfers	48	23	1%	-7.0%	-2%
Unappropriated Fund Balance	79	116	3%	4.0%	2%
<b>Total Sources</b>	<b>2,394</b>	<b>3,957</b>	<b>100%</b>	<b>5.2%</b>	<b>100%</b>
<b>One-Time Sources</b>					
Other Revenues	0	6	0%	31.6%	0%
Other Financing Sources	-	31	1%	NA	2%
Operating Transfers In - Other Transfers	47	20	1%	-8.1%	-2%
Unappropriated Fund Balance	79	116	3%	4.0%	2%
<b>Total One Time Sources</b>	<b>127</b>	<b>174</b>	<b>4%</b>	<b>3.2%</b>	<b>3%</b>
<b>% of Total Revenues That Are One Time</b>	<b>5%</b>	<b>4%</b>			

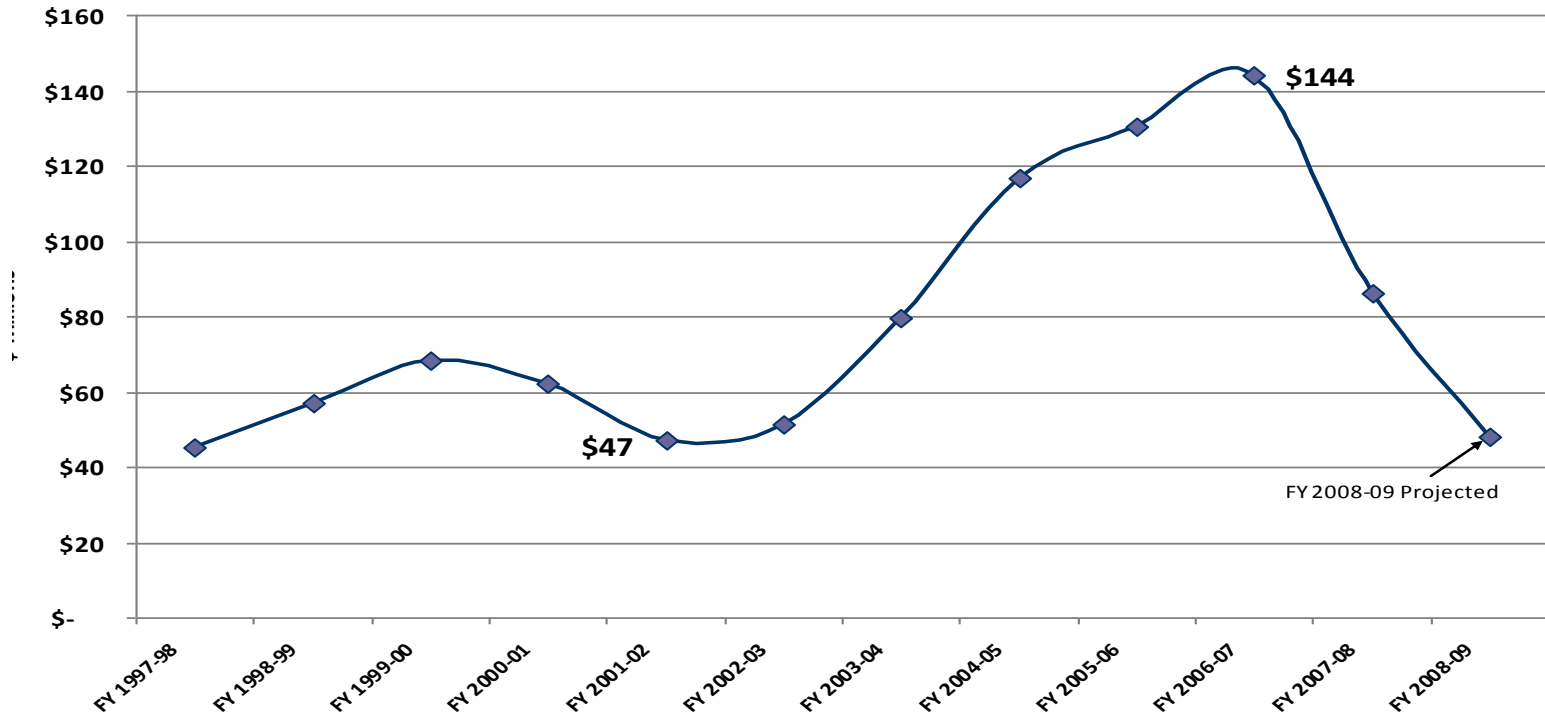
(1) Including mandated set-asides.



# Revenue Growth Drivers

The two most volatile revenue sources for the City's General Fund budget during the past decade have been used as ongoing revenue sources. These include real property transfer tax...

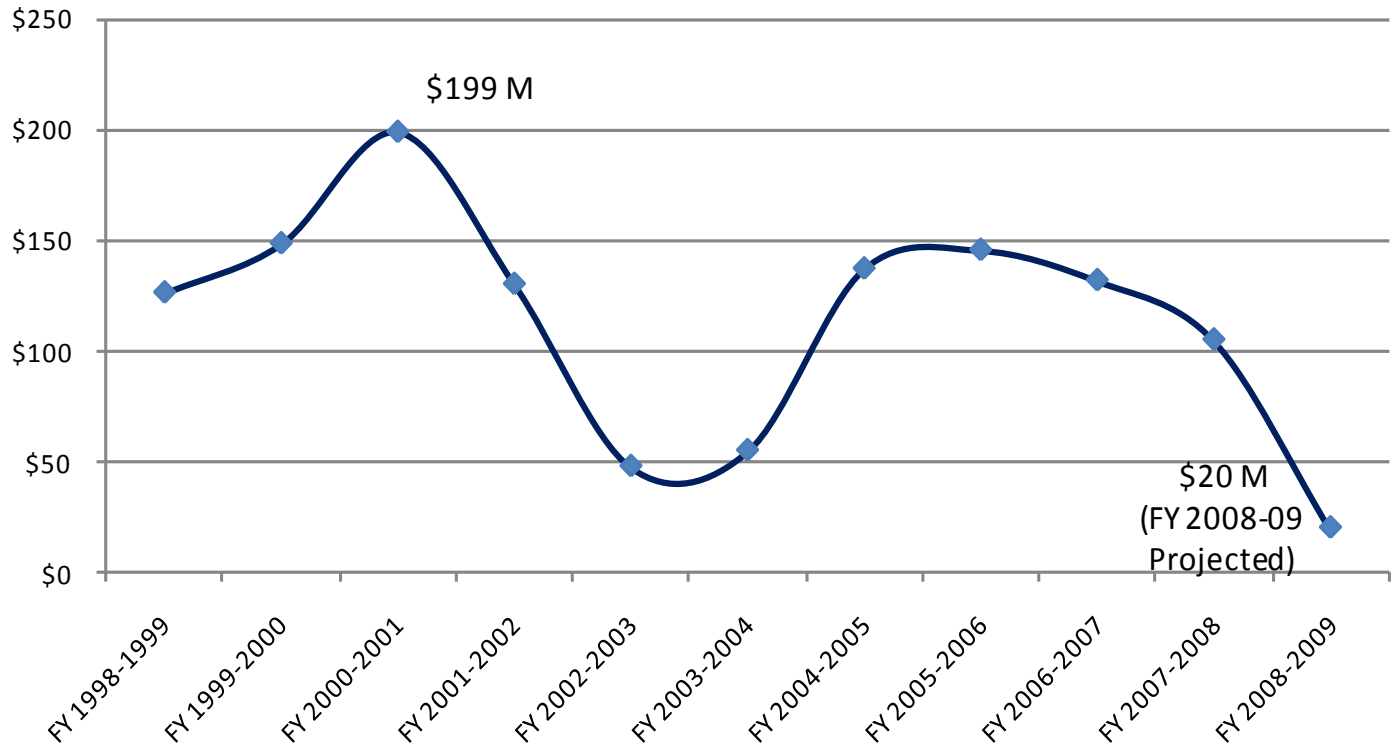
Real Property Transfer Tax (\$ Millions)



# Revenue Growth Drivers

...and the use of prior year fund balance.

Unappropriated Fund Balance Available for Appropriations (\$ Millions)



# Revenue Growth Drivers

As both a city and a county, San Francisco's revenue base is more diversified and therefore more stable than peer cities and counties in California.

Sources of Fund	FY 2008-09		Average California	
	San Francisco's Budget (\$ millions)	% of Total	City	County
Charges for Services	\$ 1,906	29%	37%	10%
Intergovernmental - Federal, State & Other	\$ 1,154	18%	9%	49%
Property Tax	\$ 1,296	20%	7%	18%
Other Local Taxes	\$ 606	9%	26%	3%
Business Taxes	\$ 395	6%	2%	0%
Rents & Concessions	\$ 372	6%	0%	0%
Other Financing Sources	\$ 261	4%	7%	1%
Fines & Forfeitures	\$ 115	2%	1%	2%
Other Revenues	\$ 84	1%	7%	13%
Interest & Investment	\$ 57	1%	3%	2%
Licenses, Permits & Franchises	\$ 40	1%	2%	1%
Recoveries	\$ 13	0%	0%	0%
<b>Total Sources</b>	<b>\$ 6,301</b>	<b>96%</b>	<b>100%</b>	<b>100%</b>
PY Fund Balance	\$ 198	3%	0%	0%
PY Reserve	\$ 33	1%	0%	0%
	<b>\$ 6,531</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



# Revenue Growth Drivers

San Francisco's major tax revenue rates are generally already among the highest in the State, with the exception of the exemption of residential properties from utility users taxes on electricity, natural gas and water.

Jurisdiction	Sales Tax	Utility Users Tax	Hotel Tax	Parking Tax	Real Property Transfer Tax*		
					Rate	Tax on \$500K	Tax on \$5M
San Francisco	8.50%	7.50%	14%	25%	0.5% - 1.5%	\$ 2,500	\$ 75,000
City of Oakland	8.75%	7.50%	11%	10%	\$16.10/\$1,000	\$ 8,050	\$ 80,500
Los Angeles City	8.25%	10.00%	14%	10%	\$5.60/\$1,000	\$ 2,800	\$ 28,000
City of San Jose	8.25%	5%	10%	n/a	\$4.40/\$1,000	\$ 2,200	\$ 22,000
City San Mateo	8.25%	n/a	10%	n/a	\$6.10/\$1,000	\$ 3,050	\$ 30,500
Anaheim	7.75%	n/a	15%	7.75%	\$1.10/\$1,000	\$ 550	\$ 5,500
City of Sacramento	7.75%	7.50%	12%	n/a	\$1.10/\$1,000	\$ 550	\$ 5,500
City of San Diego	7.75%	n/a	10.5%	n/a	\$1.10/\$1,000	\$ 550	\$ 5,500
City of Fresno	7.975%	n/a	12%	n/a	\$1.10/\$1,000	\$ 550	\$ 5,500

\*Real Property Transfer Tax City rates include both County and City portions.



# Revenue Growth Drivers

Jurisdictions	Business Registration	Payroll Tax	Business Tax / Gross Receipts Tax
City/County of San Francisco	Based on the Computed Payroll Expense Tax (CPET), where CPET<\$1=\$25 fee, <\$10K=\$150, \$50K=\$250, +\$50K=\$500	1.5% total payroll expenses	
Alameda County	n/a	n/a	Business License rates range from \$0.10 to \$1.25 per \$1,000 of gross receipts or gross payroll depending on type of business
City of Oakland	n/a	0.12% for typical \$1M gross receipts	0.12% for typical firm with \$1M gross receipts; Ranges from 0.06%-2.40% per \$1,000 of gross receipts depending on type of business
Los Angeles City	n/a	n/a	Ranges from 0.101% to 0.507% per \$1,000 of gross receipts depending on type of business
City San Mateo	n/a	n/a	Ranges from 0.01% - 0.144% of gross receipts for new firms depending on type of business; Ranges from 0.058% - 0.096% of gross receipts for existing firms depending on type of business
Anaheim	n/a	n/a	\$40 for firms with \$10K or less of gross receipts, plus \$0.095 to \$0.19 per \$1,000 of gross receipts or \$60, whichever is greater
City of Sacramento	Professional Business Owner Tax: Ranges from \$75-\$300 depending on no. of years licensed by State of CA, plus \$30 per licensed professional employee	n/a	Business Operation Tax: \$30 for firms with \$10,000 or less of gross payroll, plus \$.0004 for every dollar over \$10,000 up to a maximum of \$5,000
City of San Diego	\$34 for firms with 12 or fewer employees; \$125 plus \$5 per employee for firms with 13 or more employees	n/a	n/a
City of San Jose	\$150 for firms with 8 or fewer employees, plus \$18 per employee up to a maximum of \$25K	n/a	n/a



# Expenditure Growth Drivers in the General Fund

Growth in employee wages and benefits for services that the City provides directly account for 54% of spending growth during this period. Growth in spending on the services the City buys accounts for 25% of the growth.

**GFS+ Budgeted Expenditures (\$ Millions)**

Expenditure Category	FY 1998-99	FY 2008-09	FY 2008-09 % of Budget	10 Year Change	
				Avg Annual % Change	% of Total Change
Salaries	\$ 933	\$ 1,531	39%	5%	38%
Mandatory Fringe Benefits	211	459	12%	8%	16%
<b>Subtotal - Salary and Benefits</b>	<b>1,144</b>	<b>1,990</b>	<b>50%</b>	<b>6%</b>	<b>54%</b>
Professional Services*	330	632	16%	7%	25%
Aid Assistance & Other Support	182	284	7%	5%	5%
Services of Other Depts., Net of Recoveries	20	53	1%	10%	4%
Capital Outlay & Facilities Maintenance	33	51	1%	4%	1%
Debt Service	3	10	0%	13%	1%
Reserves	63	33	1%	-6%	-7%
Other Operating Expenses	486	399	10%	-2%	-34%
<b>Total Operating Expenditures</b>	<b>2,261</b>	<b>3,452</b>	<b>87%</b>	<b>4%</b>	<b>56%</b>
<b>Transfers Out to other Funds</b>	<b>0</b>	<b>46</b>	<b>1%</b>	<b>164%</b>	<b>29%</b>
<b>Baselines and Tax Set-Asides</b>	<b>133</b>	<b>459</b>	<b>12%</b>	<b>13%</b>	<b>15%</b>
<b>Total Uses</b>	<b>\$ 2,394</b>	<b>\$ 3,957</b>	<b>100%</b>	<b>5%</b>	<b>100%</b>

\* Professional Services includes professional service contracts and grants to community and nonprofit organizations.

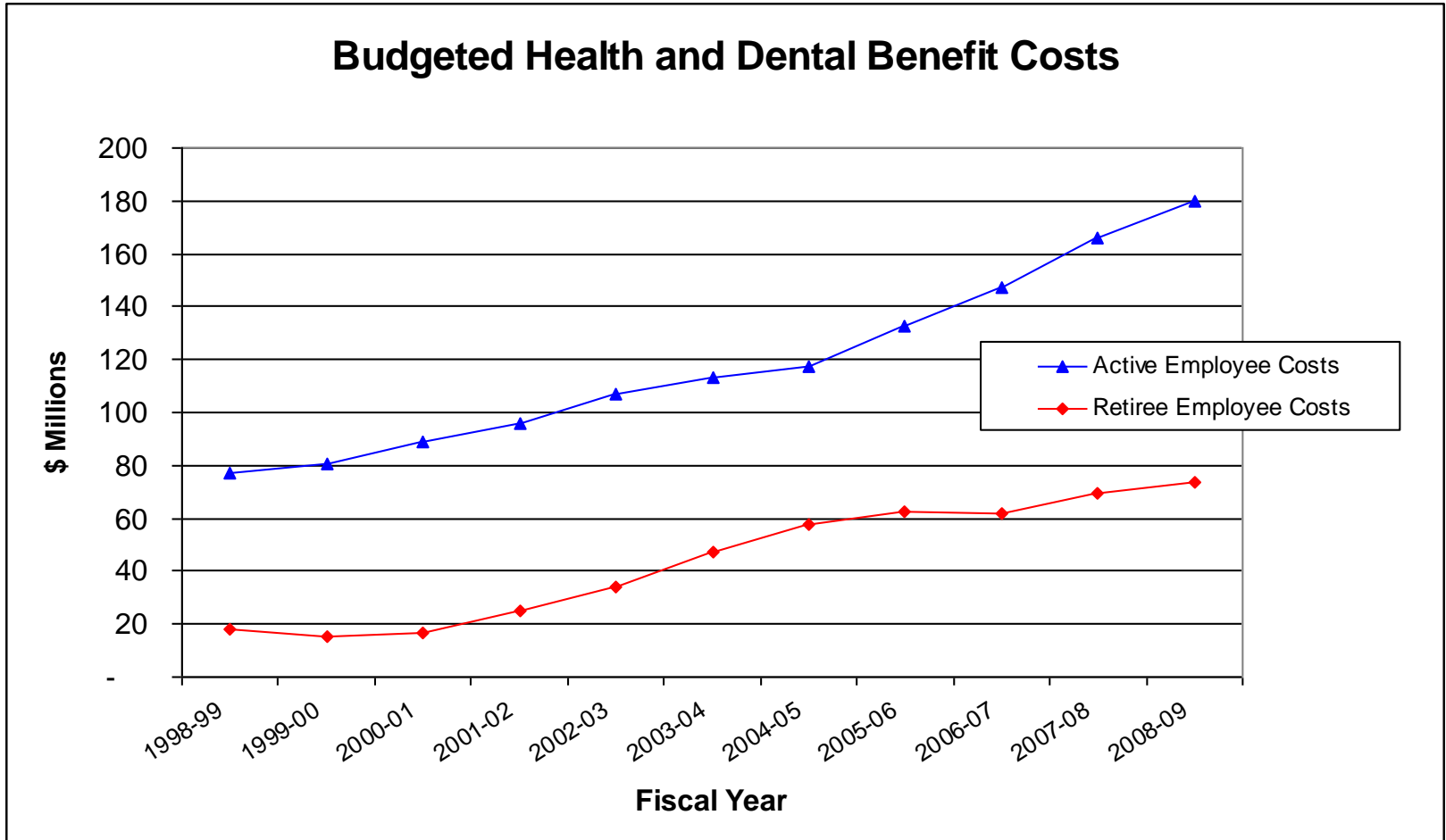


# Expenditure Growth Drivers

All of the growth in employee wage and benefits costs has been driven by employee wages and benefit improvements and not the number of employees, which is largely unchanged from seven years ago.

Active and retired employee health benefit costs – largely driven by processes outside the City's labor negotiation process – have grown at 10% annually, nearly double the rate of overall employee wage and benefit growth.

# Expenditure Growth Drivers



# Employee Wages & Benefits

Cumulative wage increases for non-public safety employees in prior three fiscal years were lower in San Francisco than in surveyed cities and Counties. Increases averaged approximately 8% in San Francisco, whereas wage increases averaged 10% in surveyed cities and counties.

San Francisco's employer health benefit spending per active employee is 22% higher than surveyed peer cities and counties.

San Francisco's employer health benefit spending per retired employee is more than twice the average of our surveyed peers.

San Francisco is the only surveyed jurisdiction that utilizes binding arbitration in non-safety labor contract negotiation.

# Expenditure Growth Drivers

Growth in General Fund Supported spending on four City departments – Public Health, Human Services, Police, and Fire – accounts for 60% of increased spending during this period. Services provided by these departments account for 64% of current General Fund supported spending.

## GFS+ Uses by Department

Department	FY 1998-99		FY 2008-09		10-Year Change	
	Orig. Budget	% of Budget	Orig. Budget	% of Budget	Annual Avg % Change	% of Total Change
Public Health	\$ 844	35%	\$ 1,275	32%	4%	28%
Human Services Agency	364	15%	619	16%	5%	16%
Police	220	9%	371	9%	5%	10%
Fire	149	6%	251	6%	5%	7%
<b>Subtotal</b>	<b>1,578</b>	<b>66%</b>	<b>2,515</b>	<b>64%</b>	<b>5%</b>	<b>60%</b>
All Other Departments	684	29%	937	24%	3%	16%
<b>Total Departmental Uses</b>	<b>2,261</b>	<b>94%</b>	<b>3,452</b>	<b>87%</b>	<b>4%</b>	<b>76%</b>
Transfers Out to other Funds	0	0%	46	1%	164%	3%
Baselines and Tax Set-Asides	133	6%	459	12%	13%	21%
<b>Total Uses</b>	<b>\$ 2,394</b>	<b>100%</b>	<b>\$ 3,957</b>	<b>100%</b>	<b>5%</b>	<b>100%</b>



# Public Health

San Francisco's per capita spending on public health services is more than double the average of our surveyed peer counties. In part, this is due to San Francisco's ability to secure grant and other federal funding.

The City operates two public hospitals – San Francisco General Hospital and Laguna Honda Hospital, a skilled nursing facility (SNF).

- Our office recently conducted a review of the cost per discharge case at San Francisco General Hospital and found it to be comparable to other public hospital systems.
- Laguna Honda is the largest skilled nursing facility in the State. San Mateo operates a small SNF and reports no General Fund investment in its operation, versus San Francisco's \$50M General Fund subsidy. Total costs per bed in San Francisco are 2.5 times higher than at San Mateo's facility.

# Public Health

San Francisco provides a broader array of non-hospital services than other surveyed counties.

- The majority of respondents operate primary care clinics. San Francisco's cost per patient visit is comparable to the survey average, and well below that of Los Angeles County.
- San Francisco is the only surveyed county that has a health department that provides funding in its health department for permanent supportive housing and medical respite services.
- San Francisco spends dramatically more per capita on substance abuse, mental health, maternal & child health, and HIV/AIDS services than our surveyed peers.

# Public Health

	Spending per Capita (per year) Includes all Funds			
Service Area	San Francisco	Los Angeles	Sacramento	San Mateo
Substance Abuse	\$86.66	\$15.13	\$20.42	\$22.94
Housing	\$27.07	\$0.00	\$0.00	n/a
Child & Maternal	\$31.11	\$2.20	\$0.96	\$4.68
Mental Health	\$300.63	\$133.75	\$117.57	\$124.59



# Human Services

San Francisco spends more per capita than other surveyed counties on social services. Total investment levels exceed the average of surveyed peers by a factor of up to 3 times. The extent to which General Fund spending on mandated benefit programs exceeds the amount funded by the State (“overmatch”) varies.

- Child Welfare Programs: San Francisco overmatches by 166% versus an average of 45% among other counties that overmatch.
- In-Home Supportive Services: San Francisco overmatches by 26% versus an average of 14% among other counties that overmatch.
- Food Stamps: San Francisco overmatches by 5% versus an average of 10% among other counties that overmatch.
- Adult Protective Services: San Francisco overmatches by 191% versus an average of 56% among other counties that overmatch.
- CalWORKS: San Francisco does not overmatch but 34% of all counties do.

# Human Services

San Francisco's per capita discretionary General Fund spending is greatest in supportive housing, homeless services, and adult & aging services, when compared with our peers.

San Francisco's maximum monthly general assistance benefit amount paid to indigent adults is \$422 per year, higher than the average of \$313 for all California counties.

San Francisco's in-home support service wages at \$11.54 per year are the second highest in California and only 1 of 2 counties that pay above the maximum reimbursable rate.

# Police

San Francisco is the only surveyed jurisdiction that has a voter-adopted minimum staffing level for its Police Department. San Francisco's costs may be higher due to its high density and larger daytime population.

	Spending per Capita (per year) Includes all Funds	
Category	San Francisco	Average
Adjusted Operating Budget (incl. Administration, Patrol & Investigations)	\$458	\$325
Patrol	\$302	\$180
Investigations	\$78	\$57
Overtime Spending for Patrol & Investigations (as % of Salary Spending)	9.8%	6.2%



# Fire

San Francisco is the only surveyed jurisdiction that has a voter-adopted minimum staffing level for its Fire Department. And because San Francisco firefighters have wage parity with police officers, their pay rates are higher than other jurisdictions.

<b>Category</b>	<b>San Francisco</b>	<b>Average</b>
Fire Suppression Spending per Capita	\$239	\$111
Number of Fire Stations per Square Mile	0.90	0.25
Firefighter Hours per Work Week	48.7	52.0

# Transit - Higher Budget and Usage

San Francisco's MTA provides significantly more trips per service area resident (264 per year) than any other surveyed system, partly due to San Francisco's high transit density.

- Los Angeles County's METRO system is the second highest, at 57 trips per resident.

Passengers per vehicle revenue hour of 70 is nearly double the average of our peers.

MTA's operating budget per resident is \$711, significantly higher than our peers (includes bikes, pedestrians, traffic, and taxis among others, unlike many of our peers).

The portion of the MTA's budget supported by fare revenue, including cable cars, is higher than the average (27% versus 20%).

# Expenditure Growth Drivers

Voter-adopted set-asides and baselines of General Fund revenues have increased during the past decade, and now account for approximately 22% of all General Fund Supported spending.

<b>Baselines and Tax Set-Asides</b>	<b>1998-99 Budget (\$Millions)</b>	<b>% of 1998-99 Budget (GFS Funds)</b>	<b>2008-09 Budget (\$Millions)</b>	<b>% of 2008-09 Budget (GFS Funds)</b>
MTA (Baseline & Parking Tax)	70	3%	248	6%
Police Minimum Staffing	132	6%	240	4%
Fire Minimum Staffing	n/a	n/a	185	3%
Children's Services (Baseline & Property Tax)	72	3%	140	4%
Library (Baseline & Property Tax)	42	2%	83	2%
Open Space Fund Property Tax	15	1%	36	1%
Public Education Baseline & Enhancement	0	0%	35	1%
Human Services Homeless Care Fund	n/a	n/a	14	0%
City Service Auditor (CSA) Baseline	n/a	n/a	12	0%
Expenditures from Hotel Tax Set-Aside	44	1%	53	1%
Municipal Symphony Baseline	1	0%	2	0%
Cable Franchise Tax Allocation	0	0%	2	0%
Neighborhood Beautification Business Tax	1	0%	1	0%
<b>TOTAL</b>	<b>\$376</b>	<b>15%</b>	<b>\$1,049</b>	<b>22%</b>



# Expenditure Growth Drivers

The City's discretionary spending ability within the General Fund is limited by charter mandated programs, federal and state requirements, fringe benefits, and debt, reducing discretionary spending capacity to only 28% as follows:

(\$ Millions)	<b>FY 2008-09 Original Budget</b>
Revenue Driven Baselines and Tax Set-Asides	\$ 459
Expenditure Baselines	590
Federal, State, & Health Dedicated Funding	1,353
Fringe Benefits	419
Debt Service and Lease Revenue	32
<b>Total Non-Discretionary</b>	<b>\$ 2,853</b>
 Total General Fund Supported + Budget	 \$ 3,957
% Non-Discretionary	72%
 % Discretionary Spending Capacity	 28%



Section Three.

## Financial Policies and Processes

- Review of Financial Policies
- Review of Budget & Planning Processes

# Financial Process and Policies

Given San Francisco's revenue and expenditure practices and patterns shown in previous tables, the Controller's Office examined the City's financial policies and budgeting process to determine what improvements can be instituted to slow the growth of structural deficits for the coming years.

Revenue growth from the prior year has been significantly reduced, and will likely decline further over the next 3 years, requiring more prudent fiscal practices to balance future budgets.

As shown in previous slides, expenditure growth in 4 primary areas of public health, human services, police and fire services has been funded with unsustainable growth from few taxes.

# Financial Process and Policies: Summary Findings

Long-term financial plans and financial policies should be put in place to ensure that financial resources are available to meet the City's long-term commitments, including multi-year labor contracts and programmatic requirements.

Comments were provided through interviews, forums, and discussions with finance professionals, department heads, and policy makers. They noted that the budget process is hampered by a lack of communication among policy makers and insufficient long-range planning.

The City's budget process can be improved through increased collaboration between the Mayor and the Board of Supervisors, and by using a priority-setting process at the outset of the budget cycle.

# Financial Policies

The City already employs numerous best-practice financial policies in the area of budget development, cash handling, and fees and charges. In addition, the City has a rainy day reserve for use in economic downturns.

However, in order to correct structural imbalances in the City's budget, enhancements to current policies would improve forecasting, capital planning, cash management, and employee benefit administration.

# Financial Policy Enhancements

The City's financial integrity could be enhanced by adopting policies to:

- Increase the General Fund reserve for contingencies, emergencies, and infrastructure
- Replenish reserves using prior-year fund-balance
- Restrict the use of one-time funding for ongoing operations
- Restrict new set-asides until existing unfunded liabilities are funded
- Restrict partial use of volatile revenue sources for one-time use

# Financial Policy Enhancements

The City's financial integrity could be enhanced by adopting policies to:

- Require that annualized MOU labor costs be funded with revenues identified in the 3-year projections
- Maximize property tax increment allocations to redevelopment agency
- Standardize asset capitalization among departments
- Establish limits and capacity on debt
- Require excess health service reserves to be credited to subsequent years' rates

# Budget Process Feedback

Stakeholders in the budget process including Mayor's Office, Board of Supervisors, department heads, finance directors, business community, labor, service providers, and advocates provided valuable feedback about improving the budget process.

Stakeholders recommended budget process improvements in the areas of prioritization, timing, long-term financial planning, and educating the public about the City's budget.

# Budget Process Feedback

Department's budget plans would be improved with increased policy direction and more time to develop and approve budget proposals.

The City's does not align its decision to approve multi-year labor agreements and benefit changes with the budget process, and does not identify a source of funds beyond the first year of labor MOUs to pay for salary and benefit increases.

# Budget Process Feedback

Performance Management is not well integrated into the budget planning process.

The Board of Supervisors does not consistently and effectively utilize time prior to the Mayor's budget submission to review proposed budgets, consider alternative budget proposals, and evaluate programmatic enhancement.

# Budget Process Feedback

The Board's addback process enables the Board to influence funding decisions, but funding decisions can be improved by allowing more analysis of program restoration or enhancement proposals.

The public's knowledge and input would be enhanced with increased outreach to a wider spectrum of the public in order to educate them about budget trade-offs and to obtain public opinion about priorities and budget options.

# Multi-Year Planning and Budgeting

The City could better manage its financial position if it developed longer term financial plans and policies to insure adequate reserves and identified sources of revenue to support ongoing expenditures.

The City's budget process currently focuses on a one-year horizon. With a multi-year forecast, the City could expand the budget process to a multi-year period. A two-year budget could integrate priority setting into the budget process, reinforce long-term fiscal health, improve long range planning, encourage policy-oriented budget processes, and strengthen performance management.

With sound budget planning, the City can overcome difficulties of multi-year budgeting, which include projecting multi-year revenues and expenditures, reducing flexibility of changing priorities, resistance to change, and determining the year in which multi-year budgeting should begin.

# Summary of Financial Policy and Budget Process Recommendations

The City should adopt financial policies to increase and replenish reserves, identify revenues to support multi-year expenditures, limit use of one-time funds for ongoing operations, set debt parameters, and maximize the use of health and retirement contributions.

The City should adopt long-term financial plans addressing projected revenues to meet the long-term operating and capital needs of the City.

# Summary of Budget Process and Financial Policy Recommendations

The Mayor and the Board of Supervisors should increase communication and collaboration, and develop a process to prioritize funding decisions at the start of the budget process.

The Mayor and Board of Supervisors should provide departments with more policy direction and time to develop their budget plans.

The Board of Supervisors should consider budget proposals and funding priorities prior to the Mayor's submission of the budget to the Board.

The Mayor and the Board of Supervisors should approve labor agreements together with the budget, and should identify revenues to support increased costs to wages and benefits.

# Summary of Budget Process and Financial Policy Recommendations

Performance Management should be better integrated into budget planning.

The Board's addback process should require that program restorations and enhancement be reviewed and analyzed by department staff and the Board's budget analyst.

The Mayor and the Board should outreach to the general public regarding budget priorities.

The City should adopt a two year budget consistent with the City's financial plan.

Section Four.  
Next Steps



# Next Steps

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Present the report and recommendations to the Mayor and the Board of Supervisors for their consideration.

Provide assistance to the Mayor and the Board to implement recommendations adopted by policy makers.

# Appendices.



# Surveyed Cities & Counties

We gathered information on peer cities and counties by conducting a peer survey, and by performing independent research for the following cities and counties:

## Cities

Los Angeles  
Oakland  
San Diego  
Fresno  
Sacramento  
San Jose

## Counties

Los Angeles  
Alameda  
San Diego  
San Mateo  
Sacramento  
Orange

# Additional Comparative Reviews

Other survey information was gathered from the following benchmark reviews, prepared independent of this effort.

- National Transit Database
- A Review of the San Francisco Fire-EMS System (San Francisco Controller's Office, 2004)
- Major Cities Chief Financial Management Survey (Louisville Police Department, 2008)
- United States Census Bureau (Population & Square Mileage Data, 2007, American Community Survey, 2007)
- Performance and Efficiency Review of the Department of Public Health (San Francisco Controller's Office, 2008)
- California County Survey of General Assistance Program Benefits (County -Welfare Directors Association of California, 2008)
- California County Administrative Allocations and Comparison to Actual Spending (County Welfare Directors Association of California, FY07-08)

# Additional Comparative Reviews

Other survey information was gathered from the following benchmark reviews, prepared independent of this effort.

- California Economic Self-Sufficiency Standard (Insight Center of Community Development)
- California Public Agencies Survey of Public Pension Benefits (San Francisco Department of Human Resources, 2007)
- GASB Practice and Solution Survey of California Public Agencies' Retiree Health Insurance Liability (San Francisco Department of Human Resources, 2007)
- Survey of California County IHSS Public Authorities Regarding Wages, Benefits and MOU Provisions (County Survey of California Association of Public Authorities for IHSS, 2008)
- Jurisdiction Websites:
  - Cities: Los Angeles, Oakland & San Diego
  - Counties: Alameda, Sacramento, Los Angeles, Orange & San Mateo

# Additional Sources

## Government Finance Officers Association:

- Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting (1998)
- GFOA Recommended Practices from Website
  - Government Budgeting and Fiscal Policy
  - Economic Development and Capital Planning
  - Accounting, Auditing, and Financial Reporting
  - Cash Management
  - Government Debt Management
  - Retirement and Benefits Administration

# Attachments

Barbary Coast Report:

Controller's Office Budget Improvement Project:

Stakeholder Input Report

December 22, 2008



CONTROLLER'S OFFICE BUDGET IMPROVEMENT PROCESS  
**STAKEHOLDER INPUT REPORT**

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DECEMBER 22, 2008

Submitted to

**THE OFFICE OF THE CONTROLLER  
CITY AND COUNTY OF SAN FRANCISCO**

Prepared by



**BARBARY COAST CONSULTING**

## INTRODUCTION AND PROCESS

As part of the Controller's Office Budget Improvement Process, Barbary Coast Consulting provided assistance with the review of the process and policies the City uses to plan for, prepare, modify, and adopt its annual budget. To ensure that it received the broadest possible feedback, the Controller's Office requested that Barbary Coast Consulting conduct individual interviews with key stakeholders (including department heads, finance directors, and elected officials). In addition, Barbary Coast Consulting held three large-group forums that focused on the business, labor, and advocate communities. Lastly, a written survey was distributed to interested individuals who were unable to participate in either of the aforementioned portions of the process. Over the course of two months, we spoke with the following individuals:

### Department Heads

- Jeff Adachi, Public Defender
- Margaret Brodtkin, Department of Children, Youth, and their Families
- Micki Callahan, Department of Human Resources
- Angela Calvillo, Clerk of the Board
- Nani Coloretti, Mayor's Budget Office
- Chief Joanne Hayes White, San Francisco Fire Department
- Dr. Mitch Katz, Department of Public Health
- Assistant Chief Jim Lynch, San Francisco Police Department
- Deputy Chief Gary Massetani, San Francisco Fire Department

### Finance Directors

- Phil Arnold, Department of Human Services
- Kenneth Bukowski, San Francisco Police Department
- Julia Dawson, San Francisco Fire Department
- Ben Kutnick, San Francisco International Airport
- Doug Legg, Department of Public Works
- Gregg Sass, Department of Public Health

### Elected Officials

- Supervisor Michela Alioto-Pier
- Supervisor Carmen Chu
- Supervisor Chris Daly
- Supervisor Bevan Dufty
- Supervisor Sean Elsbernd
- Supervisor Sophie Maxwell

In addition, the following organizations and their representatives gave input through our three group forums:

### Community Based Organizations and Advocates

- Sherilyn Adams, Larkin Street Youth Services
- Linda Asato, WuYee Children's Services
- Vanessa Avila
- Kavoos Bassiri, Richmond Area Multi-Services



- Maria Bermudez, Mission Neighborhood Center
- Chelsea Boilard, Coleman Advocates
- Nancy Brundy, Institute on Aging
- Priscilla Chen-Ok, WuYee Children's Services
- Patty Clement, Catholic Charities
- Chuck Collins, YMCA
- Steve Fields, Progress Foundation
- Gina Fromer, YMCA
- Elizabeth Hewson, Community Housing Partnership
- Alecia Hopper, Mental Health Association of San Francisco
- Jackie Jenks, Central City Hospitality House
- Richard Jimenez, Walden House
- James Keys, Senior Action Network
- Julie Leadbetter, Mission Neighborhood Health Center
- NTanya Lee, Coleman Advocates
- Debbi Lerman, Human Services Network
- Ramiro Maldonado, Walden House
- Dan Macallair, Center on Juvenile and Criminal Justice
- Katie McCall, Women's Community Clinic
- Jacob Moody, Bayview Hunters Point Foundation
- Lorne Needle, United Way of San Francisco
- David Pilpel
- Gloria Romero, Mission Neighborhood Center
- Ellie Rossiter, Parents for Public Schools
- Andrew Russo, San Francisco Family Support Network
- Bryce Skolfield, Children's Council of San Francisco
- Mike Smith, AIDS Emergency Fund
- Beverly Upton, San Francisco Domestic Violence Consortium
- Jonathan Vernick, Baker Places
- Calvin Welch, Council of Community Housing Organizations
- Carla Wilson, Quan Yin Healing Arts Center
- Candace Wong, Low Income Investment Fund

### Business Community

- Erick Arguello, Lower 24th Street Merchants
- Rob Black, San Francisco Chamber of Commerce
- Ken Cleaveland, Building Owners and Managers Association of San Francisco
- Janet Clyde, Small Business Commission
- Steve Falk, San Francisco Chamber of Commerce
- Jean Fraser
- Bob Gamble, Former Budget Director
- Jim Lazarus, San Francisco Chamber of Commerce
- John Legnitto, Sunset Scavenger
- John Madden, Former Deputy Controller
- Al Norman, Bayview Merchants Association
- Egon Terplan, San Francisco Planning & Urban Research Association

### Labor Organizations

- Mary Fitzgerald, Municipal Executives' Association
- Martin Gran, Employee Relations Division, San Francisco Human Services Department
- Eileen Hirst, Municipal Executives' Association
- Frank Kelly, San Francisco Fire Fighters Local 798
- Tom O'Connor, San Francisco Fire Fighters Local 798



■ Rebecca Rhine, Municipal Executives' Association

■ Mike Theriault, San Francisco Building and Construction Trades Council

The following report aggregates the feedback that Barbary Coast Consulting received from stakeholders, highlighting the broad themes heard throughout the process and providing specifics as they relate to departments, elected officials, labor negotiations, multi-year budgeting, expenditures and revenues, and the public's role in the process. In order to preserve confidentiality, specific quotes that are included in this report are not attributed directly to the speaker.

## **BROAD THEMES**

In response to the question of what is working well with the budget process, many people commented that the City of San Francisco's best resource is its staff. While several people observed that there were smart people working across the City, all of whom have good ideas, the Controller's Office was singled out for having a particularly competent staff that is able to remain independent. One interviewee commented that they were top-notch "across the board. Anything you ask for is coming back straight and accurate. They do a very, very good job of being independent."

Many people also remarked on the accessibility of good budget data, especially the six- and nine-month reports, the three-year forecasting plan, and the capital plan. While none of these reports were cited as perfect, the general sense was that we should be relying more on these financial reports, particularly those that incorporate a long-term focus, and that we should better utilize the hard data contained in these reports to generate wide-spread agreement on the facts.

There also was agreement that despite the many perceived flaws in the budget process, at the end of the day, the budget does get balanced and city services are provided. Despite what can be a painful process, there is always an end-product that keeps the City functioning. As one interviewee noted, "Last year the process was difficult, but the outcomes weren't so bad." Departments feel as though they have sufficient staff to complete their role in the budget process, and there was consensus that the public input process is sufficient.

In response to what does not work well with the budget, Barbary Coast Consulting frequently heard that the political forces on the budget make for an extremely challenging process. There is the sense that there is not enough leadership from policymakers around the budget, and that it has been particularly difficult in recent years. The lack of communication between the executive and



legislative branches was frequently cited as a problem, with one person commenting that in the past, “The Mayor and the Board of Supervisors have communicated more about the details of the budget. Even though we went through difficult years under every one of the last four mayors, there used to be some sense that the City’s electeds could communicate, and had a sense of shared responsibility about the budget.” There is the widespread belief that the City’s leadership is unwilling to have the difficult conversations necessary about how to balance the budget and determine policy priorities in troubling economic times to achieve consensus, so “everyone wages their own little battles,” and the budget process suffers.

Many people felt that the City’s budget has devolved into a “game” or a “dance,” with everyone playing a role – and that once you’ve learned to play the game, you can get most of what you need from the budget. Respondents mentioned that departments realize that cuts come in many stages, and that they need to prepare for these cuts early in the process and identify what they are willing to give up. One interviewee noted that proposed programmatic reductions often result in advocates applying public pressure that increases political (and financial) support for the program in question. Many department heads and finance directors discussed the disincentives to coming in under budget; the excess money might be reallocated to other departments and they would be expected to make the same unilateral mid-year cuts as other, less fiscally responsible departments.

Finally, there was the sense that the City budget has simply grown too large, that the expenses have so radically outpaced revenues that there needs to be a coordinated effort to engage in long-term financial planning. This was echoed by nearly all of the stakeholders interviewed by Barbary Coast Consulting, though there was doubt that substantive long-term planning would actually be possible, or would have any positive impact on the political pressures that make the budget process so difficult.

## DEPARTMENTS

**Resources.** There was a general consensus among departments that they had sufficient personnel resources to complete the budgetary process. There were complaints about the current budgeting software, and anticipation that the new system will be a better tool for budgeting.

**Departmental Autonomy.** Barbary Coast Consulting had many discussions about the appropriate level of departmental autonomy in developing their budgets. Some respondents believed that department heads should have near-complete control of their budget, effectively acting like CEOs of their departments. Benefits of this model include the fact that most departments have a high level of institutional memory, and possess the specific knowledge



required to effectively run the City's more specialized departments. One person commented that department heads are hired because of their expertise, and that, "If we don't allow them to set their own priorities, it's not as good for the city as a whole. Departments should be given the leeway to set their own process." This is not to say that there should be no direction from City Hall; most people recommended that there "should be a combination of a clearly articulated policy priorities and deliverables, and then the department should have the flexibility to determine how best to meet those goals." Many departments felt like they already have this model in place, citing effective communication and the ability to articulate priorities as factors that allow them to remain in greater control over their budget.

Barbary Coast Consulting also heard feedback that expressed the opposite view: the Mayor should provide more information and guidance about where, specifically, the departments should allocate their funding. Those who advocated for this approach worried about department heads who do not consistently meet their goals, stating that there needs to be ample oversight to ensure that the departments remain functional in the face of weak leadership. One respondent commented that while a department head might have a particular area of expertise that makes them good at their job, this doesn't necessarily mean they have a "budget mind," and the Mayor's Budget Office is well-suited to help them through (and hold them accountable to) the budget process.

There also was the belief that there is value in forcing departments to justify their spending. "Some department heads are stuck in their ways. There should be more control in the Mayor's Office because they need information as to what is going on. The departments need to have their decisions questioned." There was agreement that this discussion was primarily aimed at budget enhancements; departments should not have to constantly advocate for baseline expenditures, but should be held to a higher level of scrutiny when proposing new programs. More direction from the Mayor is perceived to minimize surprises down the line, particularly during mid-year cuts, and that additional direction also helps with job protection.

There was a marked difference between elected and appointed department heads on the issue of autonomy, with elected officials tending towards arguing for more departmental control than their appointed counterparts. Other stakeholders we spoke to were conflicted over how much budgetary autonomy departments should exert. The prevalent opinion was that the Mayor's Budget Office should allow the departments more autonomy when preparing their budgets, but also engage in more frequent consultation with department heads. It is thought that this would capitalize on the expertise of each entity, leading to a smoother budget process.

**Performance Measures.** Most of the department heads with whom Barbary Coast Consulting spoke expressed dissatisfaction about the use of performance measures in crafting their budgets.



They did not feel that the performance measures were useful because they do not necessarily measure what is internally important to the department. Departments felt frustration about the measures they were asked to keep. “They are very different than the ones we’re interested in,” commented one department leader. Departments with more control over the determination of their performance measures found them internally helpful, but there was a widespread feeling that they are not used to influence policy decisions or make funding determinations. One respondent commented that, “They are a pretty good picture of the department’s progress, but are not tied to the budgeting process. They have been superficially tied together.”

There was the sense that performance measures could be better used for accountability (“We need to have indicators that hold us accountable. These should be a part of the budget priorities – it would help us measure our performance, advocate for funding and better make cuts when we need to.”) and that these measurements could even be used to identify programmatic overlap between departments. Interviewees commented that performance measures could “show us where we agree and overlap on issues, and would also increase the transparency of the process for the public,” and help eliminate “crosscutting agencies that run at the same time, leading to inefficiencies.” The counter-argument was that one simply cannot compare across departments, and just because a program does not measure as highly as another does not mean that it deserves to be under-funded or cut.

The general consensus was that performance measures do not evaluate the appropriate metrics, are generally unhelpful (especially as they relate to budgeting), do not correspond with internally-driven assessments, and create extra work for departments. This is especially frustrating because of the belief that these measures are under-utilized by policymakers when determining the budget.

**Commissions.** There is a divergence of opinion about the involvement of commissions across the departments that have them. There is the sense that they are brought in to deal with bad news (examples include the recent budget cuts) but that their buy-in is important because they are the first point of contact, especially for the public. Many respondents suggested that the commissions would be the ideal place for incorporating increased public feedback, because they meet at the outset of the process and could help include public concerns into the creation of the budget.

## **ELECTED OFFICIALS**

**Board of Supervisors.** There is a lot of frustration both among and directed at members of the Board of Supervisors. This is primarily due to the lack of over-arching policy priorities or Board ownership of the budget, as well as the onerous feedback process associated with the Budget and



Finance Committee. As one Supervisor said while summing up the budget process, “We go through a jamboree process of cuts, the Budget Analyst is pressuring for more cuts, the Controller finds a one-time revenue source, and then, like a good sitcom, everyone calls it a day.”

Resources. Most of the Board Members interviewed for this project did not feel like they have adequate resources to meaningfully participate in the budget process. Members noted that the lack of staff and expertise available to them meant that they are forced to rely on the Budget Analyst’s staff, and are primary reasons for the imbalance of fiscal power between the Mayor and the Board of Supervisors.

Budget and Finance Committee. Board Members who do not sit on the Budget and Finance Committee (“Budget Committee”) are minimally involved in the budget process, which leads to a lack of institutional memory and very little knowledge of or buy-in to the final product, as well as an over-reliance of the Board on the Budget Analyst’s recommendations. It was suggested that the term of service on the Budget Committee be fixed at two-years, and that all Board members should be required to serve on the Budget Committee at least once. There was the feeling that Board Members not assigned to the Budget Committee should make more of an effort to be involved with the budget process.

There also was debate about the size of the Budget Committee. Some Supervisors felt the increased size of five members was helpful because it created more flexibility in scheduling and more access for input from the public. However, some Board Members disagreed about whether or not the public’s increased access actually resulted in any real changes, and that a three-member Budget Committee led to a smoother and more streamlined process.

Education. It was suggested, both by outsiders and by Supervisors, that each Board Member should have to undergo a budget training process similar to the Sunshine Ordinance training they have to complete on a yearly basis. Those who support this mandatory education believe that it will help increase buy-in, as well as equalize the role of all the Supervisors, including those who neither sit on the Budget Committee nor have a history of working with the budget. Those who do not support educational seminars believe that it is the responsibility of each Supervisor to educate him or herself on the duties of the office, and that those who make this effort deserve the influence and access that results.

Length of the Budget Review Process. There was considerable sentiment expressed regarding the length of time that the Board has with the budget. The sense from outside the Board is that they should have more control over the budget, and that this could be accomplished by giving them more time, perhaps submitting the entire City’s budget for Board



consideration as early as May 1 so there is more time for review. Some Board members agree with this proposal, but others feel like it would not help the situation; the Mayor retains the authority to change the budget even when it's under review by the Board, so there would just be more technical amendments and last-minute changes under this system, and it would not significantly increase Board influence. There also were concerns about not having the data from the nine-month report numbers during the review, and that the amount of information to process is so significant that a few more weeks would not make any meaningful difference.

Board Accountability. Several respondents expressed the opinion that the Board of Supervisors does not feel a sense of accountability for the budget because their involvement comes too late in the process. Because the document is considered by most to be a mayoral document, many interviewed believe that the Board sometimes divests itself of the responsibility of having to make hard choices when faced with limited resources. This was even echoed by some members of the Board, with one Supervisor noting that, "The budget is the Mayor's responsibility. We are the legislators, so the budget is not as much our responsibility." Because they enter the process so late in the game, it is perceived that there are no real incentives to adhere to fiscal responsibility or "good government" principles. One suggestion was to bring the Board into the process in the beginning, perhaps through a legislative change that gives the Board more of a role in the submission process. Another suggestion was to increase the Board's role in the mid-year cuts if they exceed a certain threshold. Both ideas were presented with the goal of increasing the Board's accountability for the budget process as a whole, and expanding their role in how the City prioritizes its spending. One respondent said, "There is no accountability because we have not had the hard conversations of what to spend – and what to cut – in tough financial times."

District Elections. There were concerns that district elections detract from focusing the budget on city-wide issues, increases district-specific spending, and leads to clashes between the Board and the Mayor. One respondent commented that, "People should represent the entire city. District elections get the city onto too small a track." This feedback was echoed by department heads, finance directors, and outside advocates.

Budget Analyst. The perception is that the Board's Budget Analyst is a knowledgeable and necessary player in the budget, but is often too narrowly focused, and does not pay enough attention to policy issues or big-picture considerations. There is an understanding that the Board needs to retain its ability to cut portions of the budget, but the ensuing cuts are widely perceived to be too minute and too focused on "the little things." Complaints



included that the Budget Analyst “does not put enough consideration into policy or big-picture, strategic thinking,” which reflects “too narrow a view, combing through line-by-line.” Some respondents suggested that these cuts tend to focus on low-hanging fruit because the Budget Analyst does not have enough time with the budget to do a more detailed analysis of policy options, and by increasing the Board’s – and therefore the Budget Analyst’s – time with the budget, the analysis would be more focused on policy and broad-based goals.

The Budget Analyst did receive praise for his reports (“he does a good 3-10 page summary of the overall budget, and his recommendations are laid out well”), and one respondent commented that the “Budget Analyst’s work has been helpful. He is extremely good at finding money. Three or four years ago we started having him look at policy, which has been helpful.”

**Mayor’s Office.** Barbary Coast Consulting heard significant frustration about the executive branch’s role in the process. Some of this may be tied to the challenges of the current budgetary cycle, but the criticisms were fairly widespread. Respondents expressed the view that because the Mayor has a much wider constituency than his colleagues on the Board, he or she can rely on broad mandates that do not provide the necessarily specific levels of guidance to either the departments or the public.

Resources. Similar to the Board of Supervisors, the Mayor’s Budget Office does not feel like they have sufficient resources to satisfactorily lead the budget process. They have seven analysts who cover all the City departments, and the relatively short duration of the analysts’ tenure prevents the development of specialized knowledge and institutional memory. Some departments concur, expressing the opinion that turn-over at the Mayor’s Budget Office is too frequent, and that the most recent group of analysts is too focused on public policy issues at the expense of accounting expertise. One suggestion was to “institute a two-year mandatory tenure for the Mayor’s Budget Analysts to help create institutional memory and make our lives easier.”

More Specifics. A frequent theme throughout Barbary Coast Consulting’s conversations was that the executive branch needed to provide more clarity on specific policy objectives and budgetary priorities. One respondent noted that, “At times, the Mayor governs in broad strokes, without specifics.” The general sense is that more focused budgetary guidance (about what to fund, what to cut, etc.) would streamline both the departmental budgeting process as well as the review by the executive branch. This greater specificity should not come at the expense of broad policy directives; rather, “The Mayor’s Office should give



personal input as to what is useful, as well as direction as to where we are spending our money.” Without specific directions, departments are unsure about what will be accepted from their budget, what will be rejected, and how to properly plan for cuts.

A few respondents thought that the current Mayor is particularly budget-savvy, and that he spends the time necessary to fully understand the trade-offs, thinks about them in a very linear fashion, and always approaches the budget with a good government goal in mind.

**Communication.** There was near-unanimous agreement that the communication channels between the current slate of elected officials is in need of improvement. Concerns also were expressed about communication between elected officials and the departments.

*Between the Board and the Mayor.* Respondents largely shared the belief that communication is completely lacking between the current Board of Supervisors and the Mayor. Some respondents believed that this was the result of competing personalities, while others believed that the Mayor did not do enough to reach out to and communicate with members of the Board. Others thought that the district election structure was more to blame, and the lack of open communication channels has been institutionalized. Regardless of the source of the communication gap, there was widespread agreement that there needs to be significantly more communication, and that it needs to happen both at the beginning of the budget process and also during the mid-year cuts. Most of the respondents thought that the Mayor was in a better position to initiate this communication; he has more information about the budget, the budget is ultimately under his control, and he has city-wide concerns in mind.

*Between the Mayor and Departments.* In regards to cuts, there was generalized frustration that there were too many requests from the Mayor’s Office that did not have specific guidance or ideas to support them. The result is a frustrating back-and-forth where the Mayor’s Office asks for cuts, the department proposes suggestions, the Mayor’s Office rejects them, and everyone is back at square one with no concrete solutions. In some cases, respondents felt this was exacerbated when proposals included cuts to programs that were perceived to be the Mayor’s favorites, noting that, “All our suggestions are rebuffed because they’re his programs.” Interviewees also expressed a desire that the first cut should be the biggest, instead of ever-increasing cuts throughout the year.

*Between the Board and Departments.* Board Members are frustrated by the relative lack of information available to individual Supervisors as compared to the Mayor, particularly in regard to the information the Mayor’s Budget Office receives from the departments. The



feeling is that while the Board can reach out to departments, the burden is on them to ask for the information, and there is no institutional flow of information between the Board and the departments. One Supervisor commented that, “There is good communication between departments and the Board, though this isn’t an institutional process, it’s an individual member of the Board reaching out to departments. We should figure out a way to institutionalize that communication and relationship.” There were comments that some of this information is provided to the Board’s Budget Analyst and available in his reports, but that these reports are under-read and under-utilized. There were several comments about how the imbalance of information favors the Mayor, including that, “We don’t get the raw data of what the departments want to cut, and we don’t have the resources to do our own budget work.” Institutionalizing a communication protocol between the Board and departments would help alleviate this problem.

Independent Third Party. In order to help mitigate the institutional factors that hamper communication, many respondents suggested creating a non-partisan third party with expanded control over the budget. The Controller’s Office was suggested as an appropriate place to expand control, perhaps even giving them final decision-making power over financial matters during times of conflict. Respondents also discussed creating a Chief Administrative Officer position that would “perform a valuable function by helping determine the broader priorities and could work with both the Mayor and the Board.” Respondents from the business community forum also revisited the idea of a deputy mayor system in which deputy mayors would oversee a related group of departments, provide budget advice, and facilitate communication. There were mixed reactions about whether or not this would work; having been tried before, there was a sense that this is not feasible, and that other elected officials, departments, and the public would still want access to the Mayor rather than any deputy.

**Policy Priorities.** Few respondents believed that the budget is an accurate reflection of the City’s policy priorities. There was the sense that policy is simply not taken into account when crafting the budget, with one respondent noting that, “Public policy is absent from the budget process. We should be discussing policy and trade-offs at the beginning of the process, and more of these discussions should be happening at the Board.” Respondents suggested that the Board submit a policy document to the Mayor at the beginning of the process so that the Board’s priorities could be incorporated into the budget before the add-back process. Other respondents proposed a jointly-authored document that synthesized both the Mayor and the Board’s policy priorities; however, there was general consensus that this was probably unrealistic. There was widespread agreement that any policy document needs to take into account the real-time economic situation and clearly identify how the priorities would shift in a worst-case scenario. Participants in the



community stakeholders forum strongly advocated for setting aside time to create a long-term plan and identify policy priorities before the City is mired in the minutiae of the budget.

Another suggestion to increase the focus on policy and to further involve the Board was to have each Supervisor provide budget consultation in the policy area where he or she is an expert. The Supervisors could participate in departmental forums, provide oversight, and facilitate communication between key stakeholders. The Mayor's Office is currently holding a similar set of cross-departmental, policy-focused meetings; involving Supervisors could help generate long-term thinking and create additional buy-in from the Board.

Others, while acknowledging the problem, do not believe the lack of policy direction is at the root of the budget's structural problems. Respondents noted that past attempts to establish priorities have failed because, "No one wants to make the hard choices about money, Memorandums of Understanding ("MOUs"), uniformed departments, or the size of City departments." There also were concerns that a unified budget planning document, like the one described above, would never be used and would not be reflected in the budget decisions; proponents suggest that even if it is not actively used, it requires the authors to think long-term about the budget and "helps them listen in a different way."

## **LABOR NEGOTIATIONS**

Barbary Coast Consulting received feedback from multiple stakeholders that MOUs and the timing of labor negotiations are negatively impacting the City's budget process. Department heads were particularly frustrated that they MOUs do not reflect available resources, and are not timed to correspond to budget discussions. There was widespread agreement that the negotiations should match the funds that are available; comments ranged from "increases to labor costs cannot exceed revenue forecasts," and "the contracts should reflect the current and predicted economic situation," to "the labor contracts lock in negotiated rates without secured revenue to fund wage increases." Participants in the community stakeholders forum were particularly vocal that labor contracts should be more transparent and more closely linked to the budget cycle, advocating for a multi-year budget that better matched the negotiation cycle. Members of the labor community noted that multi-year negotiations were important because they could not sit at the table all year, and that these negotiations needed to happen in private, but acknowledged that the labor negotiations do happen outside of the budget process.

Suggestions include timing labor MOUs to better coordinate with the budget process, perhaps considering a multi-year budget cycle to better accommodate negotiations. It was noted that the



labor contracts are frequently timed to the election cycle rather than the budget, but that there is a pervasive need to “better align labor negotiations on multi-year cycle.” Many departments feel like they are forced into a corner by the labor agreements, expressing that, “It is very frustrating to learn, after going through this whole process, that there is no money because everything is going to labor.” The business community also suggested that the labor contracts should be flexible, and open to negotiation during certain periods of economic decline.

Respondents also suggested that one solution is to amend the Charter to give the Board a role in labor contracts that goes beyond the current “advise and consent.” Many respondents complained that MOUs never get voted down, and that City workers are “overpaid” as a result. There also was the sense from the community organizations that the burden of service has largely fallen to them, but that they are held to a different standard, with one participant noting that, “Our needs and labor’s needs should be folded in to the same process, and we should receive similar revenues from the City.”

## **PUBLIC FEEDBACK**

The efficacy of the public feedback process depends on where you are sitting at the table; many of the elected officials and department representatives felt that the public has ample opportunities for feedback, and that their suggestions are heard, even if they are not necessarily implemented. There was a sense from this group that the public in question is largely the “professional public,” or advocates and organizations who have institutionalized themselves in the budget process through frequent attendance at Board meetings, regular and effective lobbying of Board Members, and active outreach to department heads and budget officials. Barbary Coast Consulting frequently heard that budgetary benefits are awarded to members of the professional public that can draw the largest crowds with the loudest voices.

Many people expressed frustration that only a segment of the public participates in the budget feedback process, and wanted to discuss options for more broad-based outreach efforts to a greater segment of San Franciscans that included a significant amount of education. As one Supervisor commented, “We talk to all of the constituents *except* the 85% of the city who don’t testify and aren’t plugged into the process.” In order to generate more broad-based participation in the budget process and reach a wider spectrum of the public, many respondents suggested neighborhood meetings, similar to the Mayor’s *SFListens* program or the Board’s efforts to hold public hearings in the community. There were mixed opinions about whether or not this would actually be productive or helpful; one Supervisor cited the off-site meetings in 2003 as an example of the efforts to bring in more people to the process, noting that, “They were logistically



burdensome to the Clerk's Office. I suppose they were good, but I'm not sure the benefits outweighed the costs." There also was the sense that the feedback gathered at these meetings is not necessarily reflected in budget priorities. The meetings are perceived to be helpful in educating the public about budget concerns, but they do not necessarily impact the final decisions. Stronger proponents of these meetings believe that the city is at a critical juncture and now is that time to undertake aggressive outreach, both to educate the public about trade-offs and to galvanize public opinion around budget issues. Hope was expressed that this could both help the budget process now and also have long-term ramifications at the voting booth. "People are more aware than ever before about the budget and economy. People can talk about the bailout and taxation and their opinions so the time is ripe for us to do the same things. If we do the education and talk about earmarks they will understand set-asides better."

Members of community advocacy groups, as well as a few of the department heads, believe that there is no institutionalized mechanism for serious public feedback, and that their comments and concerns are not being heard at City Hall. Most feel that the legislative branch is more receptive to public input than the executive branch, but there is the pervasive opinion that, "We don't feel like our feedback is going anywhere. We're not heard. We need more transparency and opportunity for public input."

## **MULTI-YEAR BUDGETING**

**Two-year budget cycle.** Respondents were very much split on whether or not a two-year budget cycle is a good idea, with a slight majority in favor of moving in that direction. Those in favor, including a significant number from the community stakeholders forum, believe that it will provide the City with much-needed long-term planning, and that everyone would not be constantly mired in a budget process that has become a year-round burden. One proponent commented that a two-year budget "would force the City to plan and allow the departments to focus on what they should be doing," and that it would be better aligned with labor negotiations. Supporters believed that this would provide a structural solution to the lack of planning and policy that is reflected in the current budget process. It would also add a structural impediment to the one-time fixes that have characterized recent budget cycles, allowing the City to have the necessary conversations about trade-offs and priorities. One respondent commented that, "Multi-year budgeting is a way to plan for long-range planning. I know that part of strategic planning means having stability and prosperity, but the process is so time-consuming that we don't need to do it every year. And the one-time fix approach lets us defer the hard discussions."



Opponents of the two-year budget cycle were concerned about feasibility. Many cited this year as an example of how difficult it is to accurately predict economic conditions, and feared that it would end up being a two-year budget in name only because so much work would have to be done at the one-year mark. One interviewee cited the recent string of budget cuts as a reason not to move to an even longer cycle. “People do not want to make hard decisions until they are forced to. The Mayor and his office won’t make a decision so far out. Even an annual budget transforms into a much shorter forecast. In the past eight years, there was only one year where mid-year cuts did not occur.” This echoed many comments that claimed people are unwilling to make decisions that far into the future, and that elected officials especially prefer immediate results over long-term planning. One respondent even suggested that a two-year cycle would only work if the Board was not in session during the second year. There was concern about when to begin the cycle (either with the incoming Supervisors or an incoming Mayor), but only a few respondents believed this issue was insurmountable.

Regardless of the level of support, many respondents viewed the Municipal Transportation Agency as an interesting test-case of whether or not a multi-year budget can work in San Francisco’s political environment.

**Long range forecasting.** Most respondents agreed that the City would benefit from more long-term thinking in regards to the budget. Suggestions included requiring departments to include a long-term strategic plan when they submit their budgets, or to utilize the Controller’s Office three-year report more effectively. One respondent noted, “The Controller does a three-year outlook, and we need to incorporate those numbers more, make it a bigger part of the process.” Another interviewee suggested using the federal government as a model, creating a five-year baseline where you have to identify revenue sources for any new proposals. Projects could be evaluated on an annual basis, but the general funding and spending requirements need to be long-term and matched. There was general agreement with the concept that new programs need to be introduced with pre-identified revenue sources.

Many people cited the Capital Plan as a step in the right direction because it gets the City thinking long-term and establishes a clear list of priorities. One person commented that because it was created with long-term goals but is updated yearly, it is “a good living document, and we need to look at the budget document the same way.” Some respondents agreed, but noted that this was much easier to do with capital projects than with personnel, set asides, MOUs, and other budgetary constraints.



There was agreement across the board that the long-term planning needed to happen with input from all key stakeholders, and that it needed to happen irrespective of political forces. “We need to have a template of where we are going, shifting trends and a practice. This needs to transcend beyond timelines for the Mayor and the Board, and create a process that isn’t hostage to political cycles. If we plan where we want to be in five years, that gives us a template or road map for budgeting decisions.”

## **ADD-BACK PROCESS**

There was a lot of disagreement over the effectiveness of the add-back process. The majority of people believed that add-backs are not an effective way for the legislative branch to assert their influence over the budget. A primary concern was that the Board does not have enough time between when they make the cuts and when they reassign the funds to accurately evaluate the programs, receive input from the departments, and engage the public. The result pits department against department and generates frustration among community groups; one respondent commented that if the departments worked together to create cross-departmental programmatic solutions, the add-back process would probably work. Opponents of the add-back process, especially at the departmental level, expressed frustration that the funds were often earmarked for programs that may not be the most effective or respond to the department’s greatest needs, and that the Board should leave these kinds of funding decisions to department heads who are thought to have a much higher level of expertise. There was also the suggestion that the add-back process does not mean anything because the Mayor can request that the Department does not spend the money allocated by the Board.

Other critiques included that the process is too influenced by labor, and that the process is not transparent enough. There also was concern that add-backs are not allowed to be allocated to a specific agency, and the Board in the past has attempted to break this rule. “The problem isn’t the add-back system, the problem is the method of executing the add-backs. They shouldn’t go to a particular nonprofit or contractor, but the department can’t really choose to not spend the money without facing difficulties going forward.”

On the other hand, some respondents believed that add-backs are a necessary part of the process because they are the Board’s primary point of influence in the budget process, noting that, “The add-back process gives the Board control; without it, they would only be able to add and not cut.” Another benefit that was mentioned is that it forces departments to justify their spending decisions to multiple audiences, theoretically leading to a more robust and responsive budget. Supervisors also value their ability to bring money to their districts, with one commenting that, “I



would not want to eliminate the add-back process – we know better than the departments what needs to happen in the district.”

There was also a subset of people who are resigned to the add-back process, who acknowledge its imperfections, but believe that it is democracy at work and not a significant enough amount of money to worry about; that the real budget constraints are in the MOUs and set asides.

Concern was expressed about the accountability of some of the Community Based Organizations (CBOs) that are funded through the add-back process. Criticisms included that the organizations that are able to provide the most testimony and mobilize the greatest number of stakeholders are more likely to receive add-backs. One Supervisor noted that, “It all happens at such a rapid rate that it’s hard to look at the CBOs in an efficient way to see if they are fulfilling their responsibility, or if they really need more money.” In order to solve this problem, one respondent suggested a two-month delay between the cuts and the process of adding back, in order to give the Board (and perhaps the Board Analyst) the opportunity to more closely examine funding possibilities and alternatives.

One suggestion to help streamline the process and reduce the inter-departmental tensions was to provide a lump sum to the Board (either Board-wide or by district) that they could allocate as they saw fit. However, doubt was expressed about the Board’s ability to limit their purview in this manner, regardless of the amount allocated. Respondents also acknowledged that the ability to cut is just as important as the ability to add, and the Board should not (or would not) give that up. Another respondent suggested creating a shared add-back between the Mayor and the Board so at least there wouldn’t be two stages of cuts, but there was very little support that this idea was feasible.

## **SET-ASIDES**

A majority of those interviewed believe that set-asides, taken collectively, are a real burden on the budgetary process. There is the sense that there is no real evaluation of trade-offs on the part of the voter. “The voters have layered this on. We have not weighed issues against one another, we haven’t asked people to make a decision about trade-offs.” The fear is that set-asides handcuff the budget and, especially during difficult economic times, do not allow the flexibility needed to address the most pressing problems and fund priorities. Suggestions included some sort of ranked ballot that asked voters to prioritize the set-asides against each other, mass education about the problems presented by this type of legislation, or a more frequent sunset provision that would allow the public to regularly evaluate set-asides in light of changing priorities. The business



community in particular was adamant that there needed to be more flexibility in the set-asides, suggesting that we “make them easier to break if we need the money in bad years,” and that we should establish a credit so that set asides could be “set aside” during particularly difficult budget years. It was also suggested that we repeal all set-asides, or mandate that all new set-asides have to be directly linked to established revenue streams.

Some respondents expressed the opposing view, noting that it’s hard to argue against set-asides because the departments that have them are more financially solvent than those that do not. The community organizations were particularly passionate about the set-aside process, arguing that we should not be concerned with voter set-asides when other financial commitments (like debt service and labor) are even bigger financial drains. Others commented because the overall size of the budget has increased, there is ample room for set-asides, and that they are a way for the city as a whole to express its priorities.

## **ONE-TIME REVENUES**

When asked about how the City should spend its one-time revenues (higher than usual property transfer taxes, grants, etc.), the vast majority of interviewees responded with one word: capital. There was the overwhelming opinion that using one-time revenues to fund ongoing expenses resulted in long-term structural deficits, and that the City should apply these types of revenue sources to one-time expenditures. There was an acknowledgement that this is particularly difficult during depressed economic times because the money is needed to balance the budget and/or preserve programs and jobs; one respondent noted that while it would be ideal to allocate one-time revenues to one-time expenditures, it “is difficult to do, especially when we’re simultaneously cutting programs.” Proponents of spending one-time revenues on capital expenditures noted that capital improvements frequently have the added benefit of creating jobs.

Some respondents questioned the value of putting one-time revenues into capital, especially if there is no money to maintain or operate the infrastructure on an ongoing basis. These respondents tended to think that the City should not pre-assign these funds because we need to maintain flexibility, and “if you don’t program the less restrictive money in a certain way, you get more flexibility with budgeting.” One specific suggestion was to cover 80% of the total budget with ongoing revenue sources; the remaining 20% would rely on these more volatile sources.

Another related, and frequent, comment was that the City needs to address the lack of an adequate reserve budget, and large one-time revenues could be redirected to either the rainy day fund or a more accessible reserve.



## CONCLUSION

Barbary Coast Consulting was struck by the openness and honesty with which respondents approached their conversations about the budget. For many, the budget process is viewed as having significant challenges: the goals are not clearly defined, communication and collaboration are not prevalent, and the City is significantly constrained in its annual budget negotiations by set-asides, MOUs, and the add-back process. The solutions are not as obvious, and respondents expressed conflicting opinions about how to improve what they believe to be a flawed process. However, two common themes did emerge.

The first area of agreement was that the vast majority of respondents would be willing to participate in a priority setting process at the outset of the budget cycle. Board Members and the Mayor's Budget Office expressed that this could be helpful both in identifying policy priorities as well as facilitating a long-term, holistic perspective about the budget. Both department heads and finance directors agreed, stating that a planning process would be helpful in providing them with more insight about where to allocate their funds, and eliminate some of the contention inherent in the current back-and-forth negotiations. The three forum groups (business, community, and labor) agreed that it would be helpful to have an institutionalized planning process that ensures all key stakeholders are on the same page, while also providing interested groups with information and direction about where the City is headed. The community groups were particularly vocal about such a process, advocating for long-term planning that would allow them organizational stability and increased access to City Hall. There was generalized consensus that this planning process should occur at the outset of the budget cycle in order to create a long-term focus and set the tone for the upcoming year.

The second commonality was a near-universal agreement that communication around budget issues has to be improved. Recognizing that, a majority of respondents indicated that they would be willing to increase their communication with relevant parties during the budget process. Suggestions included cross-departmental meetings, institutionalized conversations between Supervisors and departmental leadership, additional community outreach and education to the general public, and increased communication between CBOs, elected officials, and their contracting departments. Members of the business community offered to play a role in facilitating this communication between key stakeholders, and respondents frequently suggested that the City should establish an independent organization (or expand the role of the Controller's Office) to focus on improving communication channels. Regardless of the specific suggestion, the respondents' willingness to expand their role in the budget process indicated a widespread desire to work together to identify substantive, long-range solutions to the significant challenges currently facing the City's budget.

