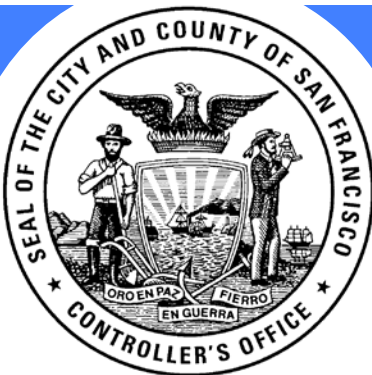


Multi-Year Contracting and Cost of Doing Business

Budget & Finance Committee – October 4, 2023
File# 230483



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller
City Performance Unit

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Background

The City funds **\$1.7 billion** in services delivered by 600+ nonprofit providers annually.

Many years ago, the Mayor and the Board centralized decisions about how to fund inflation across the array of department funders and nonprofit providers.

The Mayor and Board typically determine a **“Cost of Doing Business” (CODB)** allocation as a percent of General Fund contract costs at the end of the annual budget process.

Background

In May 2022, the Controller's Office made the following recommendation as part of analysis into the impacts of inflation on nonprofit service providers:

To ensure nonprofit contractors have stable, planned funding increases to address inflationary pressures in contracts, including for wages, **the City should transition from an annual CODB allocation to a process where a planned increase is budgeted for each year of multi-year contracts.**

Why Change is Needed

By the time the CODB is approved in the City budget (August), many nonprofits have already planned their own budgets for the fiscal year.

Annual variance in CODB amount makes it difficult to plan ahead. Departments create “flat” multi-year budgets that do not acknowledge known changes to contract costs (such as union-negotiated salary changes).

Departments must re-open contracts each year to adjust budgets to account for the CODB adjustment, which can take several months to implement, and can delay a nonprofit’s ability to invoice for increased costs.

Legislation Overview

Instructs City departments to establish **multi-year agreements** when services are expected to continue for more than one year (current practice in many cases, but not all).

Instructs City departments to account for **expected changes to costs** in subsequent years of these multi-year agreements, including accounting for inflation.

Instructs the Controller to establish a practice of accounting for **inflation related to nonprofit agreements within the City's base budget**.

Benefits of the Proposed Changes

Allows departments, Mayor and Board to make **informed choices about costs and impacts of budget changes** throughout the budget process.

Allows departments and nonprofits to **plan ahead for known changes to program costs**. Enhances negotiation between departments and nonprofits regarding costs and services included in agreements.

Creates **contracting efficiencies**; reduces annual burden of contract modifications related to CODB.

Mirrors how certain other costs are treated in the base budget, e.g., adjustments to Civil Service salaries and benefits.

Thank you!

Any questions?