File No. 111001

Committee Item No. 11
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee **Date:** October 26, 2011

Board of Supervisors Meeting **Date** _____

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Completed by: Victor Young **Date:** October 21, 2011
Completed by: Victor Young **Date:** _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

[Administrative Code - Budget Procedures and Reporting Requirements]

Ordinance amending the San Francisco Administrative Code by amending Sections 3.3, 3.4, 3.5, 3.6, 3.20, 22A.6, and 88.4, and by repealing Sections 88.8, and 88.10 to: 1) update budget procedures to accommodate two-year budget cycles and five-year financial planning requirements; and 2) eliminate outdated and duplicative reporting requirements.

NOTE: Additions are *single-underline italics Times New Roman*; deletions are ~~*strike-through italics Times New Roman*~~. Board amendment additions are double-underlined; Board amendment deletions are ~~strikethrough normal~~.

Be it ordained by the People of the City and County of San Francisco:

Section 1. The San Francisco Administrative Code is hereby amended by amending Sections 3.3, 3.4, 3.5, 3.6, and 3.20, and by repealing Section 3.7-1, to read as follows:

SEC. 3.3. BUDGET TIMETABLE.

(a) Each elected and appointing officer, agency, board or commission, shall, not later than the twenty-first day of February of each year, file with the Controller, for check as to form and completeness, copies of his, her or its budget estimate approved in accordance with the provisions of the Charter.

(b) The Controller shall, not later than the first working day of March of each year, consolidate such budget estimates and transmit the same to the Mayor, together with such other material as is required.

(c) The Mayor shall, not later than the first working day of May of each year, transmit to the Board of Supervisors proposed budgets for selected departments, as determined by the Controller, in consultation with the President of the Board of Supervisors and the Mayor's Budget Director. The criteria used by the Controller to determine which budgets will be

submitted to the Board of Supervisors by the first working day of May should include: departments that are not supported by the City's general fund or departments that do not rely on the State's budget submission in May for their revenue sources. ~~*The May 1 deadline shall not apply in 2004.*~~ The Mayor shall, not later than the first working day of June of each year, transmit to the Board of Supervisors the complete City budget, including the remaining departments' budgets and estimates of amounts required to meet bond interest and fixed charges, together with his or her budget message and a draft of the annual appropriation ordinance, prepared by the Controller.

(d) The Controller shall, as provided in Section 9.102 of the Charter, review the estimated revenues and assumptions contained in the Mayor's submission of the budget and provide an opinion regarding the accuracy and reasonableness of the economic assumptions and revenue estimates on or before the fifth working day following submission of the Mayor's budget to the Board. In addition, the Controller may also recommend to the Board such reserves as he or she considers prudent given the proposed resources and expenditures contained in the Mayor's budget.

(e) The Committee of the Board of Supervisors then having jurisdiction over the budget according to the Rules of the Board shall review the budget and recommend an Interim Appropriation and Salary Ordinance which shall reflect the budget transmitted by the Mayor; provided, however, that any funds for equipment, capital improvements, new positions of employment, or any other proposed expenditures may be placed in reserve until released by the Board of Supervisors; and provided, further, that said ordinances shall reflect the rates of compensation established pursuant to Charter Sections A8.403, A8.404, A8.409 and A8.590-1 through A8.590-5.

(f) The Board of Supervisors shall not later than the thirtieth day of June, finally pass the interim appropriation and salary ordinances.

(g) The Board of Supervisors shall not later than the last working day of July, adopt the budget as proposed by the Mayor, or as amended by the Board of Supervisors.

(h) Not later than the last working day of September, the Board of Supervisors shall adopt by ordinance the tax rate for the City and County including amounts required for debt service.

(i) This Section shall not apply to departments entering the second year of a fixed two-year budgetary cycle as provided in Charter Section 9.101(g).

(j) If any date shown *in this Section* falls on a nonbusiness day, the due date shall be the next succeeding business day.

SEC. 3.4. INTRODUCTION AND PUBLICATION OF BUDGET.

The proposed budget and appropriation ordinance for all departments and offices for each ensuing fiscal year, upon transmission to the Board of Supervisors by the Mayor by the first working day in June of each year, shall be deemed to have been regularly introduced and shall be published in a format which allows for the widest possible public understanding of the resources, uses and proposed programs. ~~*For each City neighborhood designated in Chapter 36 of the Administrative Code for which there is an Area Plan prepared by the Planning Department, the budget format shall also include a consolidation of those portions of the budgets of various departments and agencies that relate to implementation of the Area Plan for the ensuing year.*~~

SEC. 3.5. LONG-TERM DEPARTMENTAL AND AGENCY BUDGET PLANNING - SETTING GOALS AND STRATEGIES, DEVELOPING STRATEGIC PLANS.

The policies resulting from this Section are intended to help the Mayor, the Board of Supervisors, the City's boards, commissions, and departments, the Redevelopment Agency and the courts, to develop and effect clear policies that will promote the City's long-term

prosperity. So intended, these policies and documents shall not legally bind the Mayor, the Board of Supervisors, or any board, commission, or department to any specific action or course of action beyond their complying with this Section's requirements.

(a) **Mission and Goals Statements.**

(1) Each department, board, commission and agency shall submit a budget containing documentation which provides the following information:

(i) The overall mission and goals of the department;

(ii) Strategic plans that provide direction towards achieving the department's mission and goals.

(iii) Identification of policy outcome measures that reflect the mission and goals of the department and which can be used to gauge progress towards attaining these goals;

(iv) The specific programs and activities conducted by the department to accomplish its mission and goals and the customers or clients served;

(v) The total cost of carrying out each program or activity;

(vi) The department head shall certify the extent to which the department achieved, exceeded, or failed to meet its missions, goals, productivity and service objectives, during the prior fiscal year.

(b) **Development of Strategic Plan.** Commencing with fiscal year 1998-99, each department, board, commission and agency shall develop and ~~*annually*~~ review a strategic plan which contains at least a three-year forward plan to reflect policy outcomes from the operations of the respective department, board, commission or agency consistent with the then-approved budget. *A City department, board, commission or agency ("department") shall be deemed to have satisfied the requirements of this subsection (b) if it has cooperated with the preparation of the City's most recent Five-Year Financial Plan under Charter Section 9.119 and specifically the preparation of the summary of the department's strategic goals, resources allocated in*

the Plan to meet those goals, and changes in service levels expected given investment levels proposed in the Plan.

The committee of the Board of Supervisors having jurisdiction over the budget may waive any particular requirement of this Section upon the request of the Mayor.

SEC. 3.6. ***FIVE-YEAR FINANCIAL PLAN*** ~~***THREE-YEAR BUDGET PROJECTION***~~**.**

(a) By March 1 of each odd-numbered year, the Mayor shall submit to the Board of Supervisors the five-year financial plan required by Charter Section 9.119. The plan shall include an estimated summary budget or baseline projection for the General Fund of the City and County jointly prepared by the Mayor, the Board's Budget Analyst, and the Controller. By May 1 of each odd-numbered year, the Board of Supervisors shall review, amend, and adopt the five-year financial plan by resolution.

(b) By March 1 of each even-numbered year, the Mayor, the Board's Budget Analyst, and the Controller shall submit to the Board an updated estimated summary budget for the remaining four years of the five-year financial plan. By May 1 of each even-numbered year, the Board of Supervisors may review, amend, and adopt by resolution any revisions to the financial plan for the remaining four years.

~~*Commencing in fiscal year 1998-99, following adoption of the annual budget by the Board of Supervisors the Mayor, Board's Budget Analyst and the Controller shall jointly prepare a three-year estimated summary budget for the City and County incorporating to the extent possible the strategic plans of each department, board, commission or agency developed pursuant to Section 3.5 of this Code.*~~

~~*The Mayor shall review each board, commission, or department's mission and goals statement as part of the preparation of the Mayor's proposed budget for the City and County. The Mayor and Board of Supervisors shall consider the City and County's three-year budget plan when composing the City and County budget for the next fiscal year.*~~

~~*SEC. 3.7-1. REPLACING GRANT-FUNDED POSITIONS.*~~

~~*The Mayor's proposed budget and appropriation ordinance shall include sufficient information to identify all positions that were funded by grants during the previous fiscal year, where the grant has since expired and the department proposes to fund the position or provide the same services with general fund monies for the upcoming fiscal year.*~~

SEC. 3.20. CAPITAL EXPENDITURE PLAN.

By ~~*May 1, 2006, and by*~~ March 1 of each *odd-numbered* ~~*subsequent*~~ year, *beginning with March 1, 2013,* the City Administrator shall ~~*annually*~~ submit to the Mayor and Board of Supervisors a ten-year capital expenditure plan which shall include an assessment of the City's capital infrastructure needs, investments required to meet the needs identified through this assessment, and a plan of finance to fund these investments. By ~~*August 1, 2006, and by*~~ May 1 of *the same* ~~*each subsequent*~~ year, the Mayor and Board of Supervisors shall ~~*annually*~~ review, update, amend, and adopt by resolution the ten-year capital expenditure plan. *The Mayor and Board of Supervisors may update the plan as necessary and appropriate to reflect the City's priorities, resources, and requirements.*

The capital expenditure plan shall include all recommended capital project investments for each year of the plan. The plan shall incorporate all major planned investments to maintain, repair, and improve the condition of the City's capital assets, including but not limited to city streets, sidewalks, parks, and rights-of-way; public transit infrastructure; airport and port; water, sewer, and power utilities; and all City-owned facilities.

The capital expenditure plan shall include a plan of finance for all recommended investments, including proposed uses of General and Enterprise Funds to be spent to meet

these requirements. Additionally, the plan shall recommend the use and timing of long-term debt to fund planned capital expenditures, including General Obligation bond measures.

The capital expenditure plan shall include a summary of operating costs and impacts on City operations that are projected to result from capital investments recommended in the plan. This operations review shall include expected changes in the cost and quality of City service delivery.

The plan shall also include a summary and description of projects deferred from the ten-year capital expenditure plan given non-availability of funding necessary to meet assessed capital needs.

Section 2. The San Francisco Administrative Code is hereby amended by amending Section 22A.6, to read as follows:

SEC. 22A.6. ***INFORMATION AND COMMUNICATION TECHNOLOGY*** ~~***ICT CAPITAL AND***~~ **OPERATING PLAN.**

(1) By ~~*May 1, 2011, and by*~~ March 1 of each *odd-numbered* ~~*subsequent*~~ year, COIT shall submit to the Mayor and Board of Supervisors a five-year *Information and Communication Technology ("*ICT*")* plan which shall include an assessment of the City's enterprise and general fund ICT capital and operating infrastructure, hardware and software needs, an estimate of timelines and investments required to meet the needs identified through this assessment, and recommendations to budget for or otherwise finance the investments.

(2) By ~~*June 1, 2011, and by*~~ May 1 of each *odd-numbered* ~~*subsequent*~~ year, the Mayor and Board of Supervisors shall ~~*annually*~~ review, update, amend, and adopt by resolution the five-year information technology plan and its corresponding budget request. *The Mayor and Board of Supervisors may update the plan as necessary and appropriate* ~~*Each year, the plan will be updated*~~

to reflect the City's priorities, resources, and requirements as reviewed and approved by the COIT.

Section 3. The San Francisco Code Administrative Code is hereby amended by amending Section 88.4, to read as follows:

SEC. 88.4. EFFICIENCY PLANS.

(a) Beginning 2007 and each year thereafter, the head of each department shall prepare and submit to the Mayor and to the Board of Supervisors by February 1st a departmental efficiency plan. Each plan shall address the following elements and each plan shall cover a period of not less than three years forward from the fiscal year in which it is submitted.

1. **Strategic Planning.** This element shall include: a comprehensive mission statement as required by Section 3.5 of the San Francisco Administrative Code; a description of the department's major program areas or operational functions; outcome-related goals and objectives for each; and a discussion of how current resource levels and resource levels requested for the coming fiscal year impact the department's ability to achieve stated objectives.

2. **Customer Service.** This element, which shall satisfy the requirements of Charter Section 16.120, shall include: identification of internal and external customers; defined benchmarks of quality customer service provision; and a discussion of the department's success in meeting stated benchmarks.

3. **Performance Evaluation.** This element shall include: clearly defined performance measurements for each departmental objective; prior fiscal year targets and actual performance for each measure; current fiscal year targets and year to date actual

performance; proposed budget year performance targets; and a discussion of any variance between targets and actual performance.

(b) In developing its efficiency plan, the department shall solicit and consider the views and suggestions of those persons and entities potentially affected by or interested in the plan. Departments are encouraged to conduct town meetings, open houses, or other public forums during the development of the plan to solicit public comments and information.

(c) The Board of Supervisors may, with the concurrence of the Director of the Mayor's Budget Office, excuse a department from particular requirements of this Chapter where compliance would be inappropriate or impractical.

(d) A department may meet the requirements of this Section through annual budget submissions,contributions to the City's Five Year Plan, or in coordination with other planning documents.

Section 4. The San Francisco Code Administrative Code is hereby amended by repealing Sections 88.9 and 88.10, in their entirety.

~~***SEC. 88.9. PILOT PROJECTS.***~~

~~*(a) **Performance Plans and Reports.***~~

~~*1. The Director of the Mayor's Budget Office, after consultation with the head of each department, shall designate not less than six departments to participate in pilot projects in performance measurement for fiscal years 2000-2001 and 2001-2002. This group of six shall reflect a representative range of government functions and capabilities in measuring and reporting program performance. The reports prepared as part of the pilot program shall serve as models for other City departments when this Chapter is fully implemented.*~~

~~*2. Pilot projects in the designated departments shall undertake the preparation of annual performance plans under Section 88.7 and performance evaluation reports under Section 88.8*~~

~~*for one or more of the major functions and operations of the agency. A strategic plan under Section 88.6 shall be used when preparing department performance plans during one or more years of the pilot period.*~~

~~*3. No later than March 1, 2001, the Director of the Mayor's Budget Office shall submit a report to the Mayor and to the Board of Supervisors which shall:*~~

~~*(A) Assess the benefits, costs, and usefulness of the plans and reports prepared by the pilot departments in meeting the purposes of the San Francisco Performance and Review Ordinance of 1999;*~~

~~*(B) Identify any significant difficulties experienced by the pilot department in preparing plans and reports; and*~~

~~*(C) Set forth any recommended changes in the requirements of the provisions of the San Francisco Performance and Review Ordinance of 1999.*~~

~~*(b) **Performance Budgeting.***~~

~~*1. The Director of the Mayor's Budget Office, after consultation with the head of each department shall designate not less than three departments as pilot projects in performance budgeting for fiscal years 2000-2001 and 2001-2002. The departments shall be selected from those previously designated to participate in the pilot program under Section 88.9(a), and shall reflect a representative range of government functions and capabilities in measuring and reporting program performance. The budgets prepared as part of the pilot program shall serve as models for other City departments when this Chapter is fully implemented.*~~

~~*2. Pilot projects in the designated departments shall cover the preparation of performance budgets. Such budgets shall present, for one or more of the major functions and operations of the department, the varying levels of performance, including outcome-related performance, that would result from different budgeted amounts.*~~

~~*3. For the fiscal year 2001-2002, the Director of the Mayor's Budget Office and the Controller shall include the performance budgets of the designated departments as attachments to the proposed budget, as well as the regular budget information for the designated departments.*~~

~~*4. No later than March 1, 2002, the Director of the Mayor's Budget Office shall transmit a report to the Mayor and to the Board of Supervisors on the performance budgeting pilot projects which shall:*~~

~~*(A) Assess the feasibility and advisability of including a performance budget as part of the annual budget;*~~

~~*(B) Describe any difficulties encountered by the pilot departments in preparing a performance budget;*~~

~~*(C) Recommend whether legislation requiring performance budgets should be proposed and the general provisions of any legislation; and*~~

~~*(D) Set forth any recommended changes in the other requirements of the San Francisco Performance and Review Ordinance of 1999.*~~

~~*5. After receipt of the report required under subsection (b)(4), the Board of Supervisors may specify that a performance budget be submitted as part of the annual budget.*~~

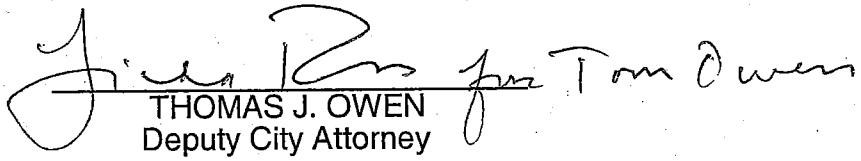
~~***SEC. 88.10. BOARD OF SUPERVISORS' OVERSIGHT AND LEGISLATION.***~~

~~*(a) **In General.** Nothing in this ordinance shall be construed as limiting the ability of the Board of Supervisors to establish, amend, suspend, or annul a performance goal.*~~

~~*(b) **Controller's Report.** No later than July 1st, 2001, the Controller of the City and County of San Francisco shall report to the Board of Supervisors on the implementation of this ordinance, including the prospects for compliance by City departments beyond those participating as pilot projects.*~~

Section 5. **Effective Date.** This ordinance shall become effective 30 days from the date of passage.

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

By: 
THOMAS J. OWEN
Deputy City Attorney

FILE NO. 111001

LEGISLATIVE DIGEST

[Administrative Code—Budget Procedures and Reporting Requirements]

Ordinance amending the San Francisco Administrative Code by amending Sections 3.3, 3.4, 3.5, 3.6, 3.20, 22A.6, and 88.4, and by repealing Sections 88.8 and 88.10, to: 1) update budget procedures to accommodate two-year budget cycles and five-year financial planning requirements; and 2) eliminate outdated and duplicative reporting requirements.

Existing Law

Administrative Code Section 3.5 requires, among other things, that each department prepare along with its annual budget a three-year strategic plan "to reflect policy outcomes from the operations of respective department . . . consistent with the then-approved budget."

Chapter 88 of the Administrative Code requires each department to prepare an annual departmental efficiency plan.

In 2009, the voters amended the City Charter to provide for two-year budgets (Charter § 9.101) and the creation of five-year financial plans (Charter § 9.119) for the City. Section 9.119 requires that the plan include, among other things, "a summary of each department's strategic goals, resources allocated in the plan to meet these goals, and changes in service levels expected given investment levels proposed in the plan."

Amendments to Current Law

The proposal is an ordinance that would amend the Administrative Code and modify the City's budget procedures to further implement the Charter provisions addressing two-year budget cycles and five-year financial plans. The proposal would also update and consolidate some existing reporting requirements for City departments.

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The proposal would:

- Set deadlines and procedures for preparation of the Five-Year Financial Plan, and eliminate superseded provisions regarding three-year budget projections;
- Make additional technical changes to reflect the two-year budget cycle;
- Eliminate the requirement that departments prepare a separate strategic plan where they have provided similar information for inclusion in the Five-Year Financial Plan;
- Give departments additional means of satisfying the requirement that they prepare an annual efficiency plan; and,
- Eliminate outdated provisions of the Administrative Code relating to pilot programs under the Performance and Review Ordinance.

Items 9, 10, 11, 12 Files 11-1000, 11-1099, 11-1001, 11-1009	Departments: Controller, Office of Public Finance

EXECUTIVE SUMMARY

Legislative Objectives

- File 11-0999: The proposed ordinance would amend Section 10.60 and add Section 10.61 to the City's Administrative Code to adopt a binding financial policy that Selected Nonrecurring Revenues may only be expended on Nonrecurring Expenditures.
- File 11-1000: The proposed ordinance would add Section 10.62 to the Administrative Code to adopt a binding financial policy regarding the City's use of Certificates of Participation and Commercial Paper.
- File 11-1001: The proposed ordinance would amend Sections 3.3, 3.4, 3.5, 3.6, 3.20, 22A.6, and 88.4 and repeal Sections 88.8 and 88.10 of the Administrative Code to: (1) update budget procedures to accommodate two-year budget cycles and five year financial planning requirements; and (2) eliminate outdated and duplicative reporting requirements.
- File 11-1009: The proposed resolution would adopt a fixed two-year budget cycle for the Airport, Port, and Public Utilities Commission, defining terms, and setting deadlines.

Key Points

- On November 3, 2009, Proposition A was approved by San Francisco's voters, amending the City's Charter regarding budget and financial policies. Under Proposition A, the Controller may recommend additional financial policies or amendments no later than October 1 of each year.
- Under Charter Section 9.120, Files 11-0999 and 11-1000 are considered binding financial policies which cannot be amended by the Board of Supervisors and which would each require approval by two-thirds' vote of the Board of Supervisors.
- File 11-0999 would restrict Selected Nonrecurring Revenues to be exclusively expended on Nonrecurring Expenditures, in both the Mayor's proposed budget and in the Board of Supervisors reappropriation or "addback" process. While this proposed ordinance provides limited, precise definitions of Selected Nonrecurring Revenues, it provides an open-ended definition of Nonrecurring Expenditures, granting the Controller's Office sole interpretation of whether proposed future expenditures would qualify as Nonrecurring Expenditures. The Board of Supervisors could only override a classification of Nonrecurring Expenditure by a two-thirds vote.
- File 11-1000 adds a Certificate of Participation (COPs) Policy and Commercial Paper Policy to the Administrative Code. These two policies would restrict the types of expenditures on which the City could expend revenue from COPs payable or secured by the City's General Fund (General Fund COPs) and Commercial Paper, and would cap the debt service payable on General Fund COPs and Lease Revenue Bonds to 3.25 percent of General Fund discretionary revenue. The 3.25 percent cap is consistent with the City's Ten Year Capital Plan, previously adopted by the Board of Supervisors.
- File 11-1001 would amend the Administrative Code to (1) coordinate and streamline the City's long-term financial planning procedures; (2) eliminate the required Three Year Budget Financial Plan (Joint Report) and instead incorporate the Joint Report in the new Five Year Financial Plan; (3) remove several redundant departmental reporting requirements; and (4) eliminate outdated Administrative Code language.

- File 11-1009 would switch the budget cycles of the Airport, Port, and Public Utilities Commission from rolling two-year budgets, with annual review, to fixed two-year budgets, with review every two years by the Board of Supervisors, unless there was a change in revenues or expenses greater than five percent in the second year, which would trigger automatic but limited review.
- Under the two proposed Binding Financial Policy ordinances (Files 11-0999 and 11-1000), the Board of Supervisors could not adopt a budget that the Controller determined to be inconsistent with any of the provisions of these proposed ordinances.
- This report is based on Amendments of the Whole submitted by the Controller to the Budget and Legislative Analyst.

Fiscal Impacts

- File 11-0999 would require that Select Nonrecurring Revenues could only be expended on Nonrecurring Expenditures. In the FY 2011-12 budget, as finally approved by the Board of Supervisors, the proposed ordinance would have resulted in $43 million in General Fund revenues being designated as Select Nonrecurring Revenues that could only have been expended on Nonrecurring Expenditures.
- File 11-1000 would restrict the annual debt service on General Fund COPs and Lease Revenue Bonds to 3.25 percent of General Fund discretionary revenues, and would effectively restrict the issuance of any General Fund COPs in Fiscal Years 2012-13, 2013-14, and 2014-15.
- The Controller estimates that Files 11-1001 and 11-1009 could result in various staffing efficiencies but are not anticipated to result in any direct cost savings.

Recommendations

- As is noted above, the Controller's definition of Nonrecurring Expenses is open-ended. Therefore, request the Controller to amend File 11-0999 to define Nonrecurring Expenses as the six expenses listed in the proposed ordinance as (1) discretionary funding of reserves; (2) acquisition of capital equipment; (3) capital projects included in the City's capital plans; (4) development of affordable housing; (5) discretionary prepayment of pension, debt, or other long term obligations; or (6) substitution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve by striking "*expenditures or other uses that do not create liability for or expectation of substantial ongoing costs, including, but not limited to*" from Page 7, Lines 8 and 9 of the proposed ordinance. Mr. Rosenfield advises that the Controller disagrees with this recommendation, because it is possible that the Controller will identify additional Nonrecurring Expenditures besides the six included in the proposed ordinance.
- File 11-1009, which proposes changing from the existing rolling two-year budgets for the Port, Airport and PUC, under which the Board of Supervisors reviews such budgets every year, to a fixed two-year budget with reviews by the Board of Supervisors every two years is a policy decision for the Board of Supervisors.
- The trigger threshold for reviewing the second year of a fixed two-year budget (File 11-1009) has been proposed if budget costs or revenues are projected to change more than five percent in the second year. Approval of that five percent trigger threshold amount is a policy matter for the Board of Supervisors.
- Approval of the three proposed ordinances (Files 11-0999, as amended, and Files 11-1000 and 11-1001) and one proposed resolution (File 11-1009, as amended), are policy matters for the Board of Supervisors.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

Based on San Francisco voters approval of Proposition A on November 3, 2009, City Charter Section 9.120(a) provides that the Controller shall propose, and the City shall adopt, long-range financial policies that are consistent with generally recognized principles of public finance, including at a minimum: (1) creation and maintenance of adequate reserves; (2) use of volatile revenues; (3) issuance of debt; and (4) institution of extraordinary financial and budgetary measures to facilitate the City's recovery from earthquakes or other physical calamities. City Charter Section 9.120(a) also provides that the City may not adopt a budget that the Controller determines is inconsistent with one or more of these financial policies.

In accordance with City Charter Section 9.120(b), the Controller is required to recommend an initial set of financial policies to the Mayor no later than March 1, 2010, and may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year. Within 60 days of such recommendations, the Mayor and the Board of Supervisors shall consider the Controller's recommended policies. Approval of individual financial policies requires approval of both the Mayor and two-thirds approval of the Board of Supervisors, as ordinances to be codified in the City's Administrative Code. Charter Section 9.120(c) also provides that by a two-thirds' vote, the Board of Supervisors, by resolution, may suspend, for any reason, in whole or in part, any ordinance containing these financial policies for a succeeding fiscal year.

Background

On March 1, 2010, the Controller recommended the creation of a General Reserve and a Budget Stabilization Reserve, in accordance with Section 9.120 of the City Charter. On April 20, 2010 the Board of Supervisors approved an ordinance amending the City's Administrative Code to create a General Reserve and a Budget Stabilization Reserve and providing rules for deposits to and withdrawals from those Reserves (File 10-0248).

On September 13, 2011, the Controller submitted to the Mayor and the Board of Supervisors two proposed binding financial policy ordinances (Files 11-0999 and 11-1000), an additional proposed ordinance amending the City's Administrative Code (File 11-1001), and a proposed resolution amending the City's two-year budgeting process (File 11-1009). As stated in a September 13, 2011 memorandum from the Controller to the Mayor and the Board of Supervisors, the three proposed ordinances and one proposed resolution are parts of the Controller's "continuing work to implement the budget improvement measures approved by voters in November 2009" (Proposition A Budget Process). The Controller added that the subject three proposed ordinances and one proposed resolution "are intended to improve the City's ability to continue to balance budgets and provide for the long term financial stability of our City." This report is based on Amendments of the Whole submitted by the Controller to the Budget and Legislative Analyst.

DETAILS OF PROPOSED LEGISLATION

Approval of the three proposed ordinances, Files 11-0999, 11-1000, and 11-1001, require a two-thirds vote of the Board of Supervisors. The one proposed resolution, File 11-1009, requires a simple majority vote of the Board of Supervisors.

Under Charter Section 9.120, Files 11-0999 and 11-1000 can be either approved or disapproved by the Board of Supervisors, but these two proposed ordinances are not subject to amendment by the Board of Supervisors. However, according to Mr. Ben Rosenfield, City Controller, the Controller's Office is open to suggested changes from the Board of Supervisors, which the Controller's Office would consider.

In accordance with the Proposition A Budget Process, approved by the Voters in November of 2009, the proposed legislation described below includes various budget improvement measures, including a Nonrecurring Revenue Policy (File 11-0999), a new debt policy (File 11-1000), and updates to the Administrative Code to create biennial schedules for select Citywide planning documents and departmental budget reviews (Files 11-1001 and 11-1009), as further explained on pages 4 through 9 of this report.

File 11-0999

Neither the City's Charter nor Administrative Code currently restricts the uses of nonrecurring revenues and therefore nonrecurring revenues can be expended for recurring expenditures as well as nonrecurring expenditures. The proposed ordinance would amend Section 10.60 and add Section 10.61 of the City's Administrative Code, to adopt a Binding Financial Policy in accordance with Charter Section 9.120, to require that Selected Nonrecurring Revenues may only be expended on Nonrecurring Expenditures. The proposed ordinance defines **Selected Nonrecurring Revenue** as:

1. A prior year-end unassigned General Fund balance in excess of the average of the preceding five years;

2. The General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-asides, or deposits to reserves;

3. Other wise unrestricted revenues from legal judgments and settlements; or

4. Other wise unrestricted revenues from the sale of land or other fixed assets.

The proposed ordinance defines **Nonrecurring Expenses** as expenditures or other uses that do not create a fiscal liability or an expectation of substantial ongoing costs, which would include, but not be limited to:

1. Discr etionary funding of reserves;
2. Ac quisition of capital equipment;
3. Capita l projects included in the City's capital plans;
4. De velopment of affordable housing;
5. Discr etionary prepayment of pension, debt, or other long term obligations; or
6. Subst itution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve.[1]

In accordance with the proposed ordinance, additional types of expenses could be classified as Nonrecurring Expenses by the Controller, and such classifications would not be subject to further Board of Supervisors approval.

Under the proposed ordinance (File 11-0999), as part of the Controller's Opinion on Revenue Estimates required under Charter Section 9.102, the Controller would (a) identify all Selected Nonrecurring Revenues that are included in the Mayor's annual June 1 General Fund budget submission to the Board of Supervisors and (b) certify whether the Selected Nonrecurring Revenues are proposed to pay for Nonrecurring Expenditures. According to the Controller, this certification would be provided to the Board of Supervisors in early June of each year.

The proposed ordinance would not impact recurring revenues, which could continue to be expended on both nonrecurring expenditures and recurring expenditures, subject to Board of Supervisors appropriation approval. Furthermore, in accordance with the proposed ordinance, the proposed restrictions, as requested by the Controller on uses of Selected Nonrecurring Revenues, can be temporarily suspended, for any reason, by a two-thirds vote of the Board of Supervisors.

File 11-1000

The proposed ordinance would add Section 10.62 to the City's Administrative Code to adopt a Binding Financial Policy in accordance with Charter Section 9.120, regarding the City's use of Certificates of Participation (COPs) and Commercial Paper.

[1] According to Mr. Leo Levenson, Director of Budget, Analysis, and Reconciliation for the Controller's Office, if the City budgets Rainy Day Reserve or Budget Stabilization Reserve revenues, but is unable to access those Reserves due to unforeseen receipt of Nonrecurring Revenues, expenditure of the unforeseen Nonrecurring Revenue on those uses for which the Rainy Day Reserve or Budget Stabilization Reserve had been intended would be considered a Nonrecurring Expense under the proposed ordinance (File 11-0999).

Certificates of Participation (COPs)

Under the proposed ordinance, use of COPs payable or secured by the City's General Fund would be restricted to:

1. The acquisition or improvement of existing facilities or construction of new facilities that result in immediate or future savings in expenditures currently made or to be made by the City's General Fund;

2. The leveraging of grant and other monies to reduce operating costs of the City;

3. The construction, improvement, or acquisition of facilities to address legal mandates; or

4. The construction, improvement, or acquisition of facilities for critical public health and safety needs.[2]

The proposed ordinance would require the Director of Public Finance to identify specific revenue sources within the General Fund to be used to repay the debt service costs, including the principal, on COPs payable or secured by the City's General Fund (General Fund COPs). According to Director of Public Finance, Ms. Nadia Sesay, such General Fund revenue sources could include new taxes or fees that could pay for the debt service of the proposed General Fund COPs. For example, if the City was proposing to issue General Fund COPs to help construct a City office building that would have private subtenants, the lease revenues from those subtenants would be a new General Fund revenue source. Under the proposed ordinance, the Director of Public Finance would also be required to ensure that the General Fund COPs repayment schedules were appropriate and otherwise prudent.

The proposed ordinance also restricts the total amount of General Fund COPs that the City can issue. Under the proposed ordinance, the annual debt service cost of any General Fund COPs, plus the annual debt service cost of any General Fund Lease Revenue Bonds, cannot exceed 3.25 percent of General Fund discretionary revenues.[3] The 3.25 percent cap is consistent with the City's Ten Year Capital Plan, previously adopted by the Board of Supervisors.

As shown in the Attachment, provided by the Office of Public Finance, General Fund discretionary revenues total $2,074,070,000 in the FY 2011-12 budget year, 3.25 percent of which would be $67,407,275. The Attachment also shows that the annual debt service for the City's authorized and issued General Fund COPs and Lease Revenue Bonds is equal to $60,092,560 or 2.90 percent of General Fund discretionary revenues. The City has authorized, but has not issued, an additional $4,067,575 in General Fund COPs and Lease Revenue Bonds, or 0.20 percent of General Fund Discretionary Revenues. Combined, the City has authorized

[2] According to Mr. Rosenfield, whether a project would address the City's "critical public health and safety needs" would be determined by the Board of Supervisors, as is the case under current, non-codified practices.

[3] "General Fund discretionary revenues" is defined in the proposed amended ordinance (File 11-1000) according to the definition provided in City Charter Sections 8A.105 and 16.109, meaning "revenues received by the City which are unrestricted and may be used at the option of the Mayor and the Board of Supervisors for any lawful City purpose."

3.10 percent of the General Fund discretionary revenues, or 0.15 percent less than the 3.25 percent cap proposed under File 11-1000.

As is also shown in the Attachment, the City's authorized General Fund COPs and General Fund Lease Revenue Bonds would be equivalent to the proposed cap of 3.25 percent of General Fund discretionary revenues for each of the forthcoming three fiscal years: FY 2012-13, 2013-14, and 2014-15, such that no additional General Fund COPs or Lease Revenue Bonds could be authorized for those three fiscal years

Commercial Paper

Under the proposed ordinance, the Director of Public Finance may, subject to Board of Supervisors approval, issue tax-exempt and taxable Commercial Paper to provide interim funds to finance the acquisition, construction, and rehabilitation of capital improvements and capital equipment. The proposed ordinance requires the Director of Public Finance to provide the Board of Supervisors with a written report 12 months following the initial issuance of Commercial Paper and annually thereafter, until no commercial paper remain outstanding. These written reports would describe (1) any Commercial Paper issued since commencement of the Commercial Paper Program, (2) the status of projects financed with Commercial Paper, and (3) the long term plans to redeem such Commercial Paper to be replaced by General Obligation (GO) bonds, COPs, or other long term obligations.

Exceptions to the General Fund COPs and Commercial Paper Policy

The proposed ordinance permits the Board of Supervisors, by a two-thirds vote, to suspend the proposed new General Fund COPs and Commercial Paper requirements for a current or upcoming budget year, or for an individual transaction. In addition, the proposed ordinance only applies to COPs or Commercial Paper secured with the City's General Fund, and does not apply to other City departments, including the Airport, Mayor's Office of Housing, the Municipal Transportation Authority, the Port Commission, or the Public Utilities Commission.

File 11-1001

The proposed ordinance would amend Sections 3.3, 3.4, 3.5, 3.6, 3.20, 22A.6, and 88.4, and repeal Sections 88.8 and 88.10 of the City's Administrative Code to: (1) update budget procedures to accommodate two-year budget cycles and five year financial planning requirements; and (2) eliminate outdated and duplicative reporting requirements.

According to Mr. Rosenfield, the proposed changes would (1) coordinate and streamline the City's long-term financial planning processes; (2) eliminate the current Three Year Budget Projection (the Controller, Mayor and Budget and Legislative Analyst's Joint Report) and incorporate the Joint Report with the new Five Year Financial Plan; (3) remove several redundant departmental reporting requirements and (4) eliminate outdated Administrative Code language. The changes are summarized in Table 1, below.

Table 1. Summary of Administrative Code Amendments Under File 11-1001

Administrative Code Section	Proposed Amendment
Section 3.3	Delete an outdated sentence from Section 3.3(d) and add new language to Section 3.3(h) to allow departments to enter into the second year of a fixed two-year budgetary cycle.
Section 3.4	Delete outdated budget requirements pertaining to Area Plans designated by the Planning Department.
Section 3.5	Add new language that exempts a department, board, commission or agency (department) from developing a strategic plan if that department cooperated with the preparation of the City's most recent Five Year Financial Plan.
Section 3.6	Replace Three-Year Budget Projection in whole with a new Section 3.6 Five-Year Financial Plan, requiring a new Plan every other year, with Plan updates in alternate years: • In odd-numbered years, the Mayor would submit to the Board of Supervisors a new Five-Year Financial Plan, as required under City Charter Section 9.119, including an estimated summary budget or baseline projection for the General Fund jointly prepared by the Mayor, the Budget and Legislative Analyst, and the Controller, subject to review, amendment, and adoption by the Board of Supervisors; and • In even-numbered years, the Mayor, the Budget and Legislative Analyst, and the Controller would submit an updated estimated summary budget for the remaining four years of the five-year financial plan, with any revisions to the five-year financial plan subject to review, amendment, and adoption by the Board of Supervisors.
Section 3.7	Remove section "Replacing Grant-Funded Positions" in whole, as technical improvements to the City's Budgeting System have made these changes transparent and reporting therefore unnecessary.
Section 3.20	Change the schedule of the Ten Year Capital Expenditure Plan from every year to every odd-numbered year, to allow the Mayor and Board of Supervisors to update the plan as necessary to reflect the City's priorities, resources and requirements.
Section 22A.6	Amend to rename the "ICT Capital and Operating Plan" the "Information and Communication Technology Operating Plan," and change the schedule of the Plan from every year to every odd-numbered year, to allow the Mayor and Board of Supervisors to update the plan as necessary and appropriate.
Section 88.9	Remove outdated section "Pilot Projects" in whole, as it was concluded in 2004.
Section 88.10	Remove outdated section "Board of Supervisors' Oversight and Legislation" in whole, as it pertains to the outdated Section 88.10 "Pilot Projects" proposed for removal.

File 11-1009

The proposed resolution would adopt a fixed two-year budgetary cycle for the Airport, the Port, and the Public Utilities Commission (PUC), defining terms, and setting deadlines. Proposition A specified that the normal procedure for two-year budgeting would be a rolling two-year budget that would be adopted by the Board of Supervisors annually. The City implemented such rolling two-year budgets for the Airport, Port, and PUC during the FY 2010-11 budget cycle, such that the Board of Supervisors approved both the FY 2010-11 and the FY 2011-12 budgets for these Enterprise Departments. Similarly, in July of 2011, the Board of Supervisors approved both the FY 2011-12 and the FY 2012-13 budgets for the Airport, Port, and PUC.

City Charter Section 9.101(g) allows the City to switch from a rolling two-year budget cycle to a fixed two-year budget cycle, for some or all departments, subject to a two-thirds approval by the Board of Supervisors.

Under the proposed resolution, in May of 2012 the Mayor would submit two-year budgets for the Airport, Port, and PUC to the Board of Supervisors for fiscal years FY 2012-13 and 2013-14. Following appropriation approval by the Board of Supervisors in May of 2012, the budget would be fixed for two years, and the next two-year budget review for the Airport, Port, and PUC by the Board of Supervisors would occur in May of 2014.

According to the proposed resolution, if revenues or expenses in the second budget year change by more than five percent for the Airport, Port or PUC, the Controller would notify the Mayor and the Board of Supervisors prior to March 1 of the first year of the two-year budget cycle. In such an event, the Board of Supervisors would not conduct a full budget review, but instead would be requested to consider any revisions to that specific department's budget due to the revenue or expense change, similar to a supplemental appropriation request.

FISCAL IMPACTS

File 11-0999

The proposed ordinance would codify and therefore restrict the expenditure of Selected Nonrecurring Revenues only for Nonrecurring Expenditures, resulting in a limitation on the Board of Supervisors options for reappropriating savings achieved by the Board of Supervisors in the Board's annual budget review. According to Mr. Rosenfield, the proposed restriction would have resulted in a restriction on the Board of Supervisors reappropriation of revenues at least two times in the previous ten years: in the FY 2007-08 budget, when $16 million would have been met the definition of Select Nonrecurring Revenue, and in the FY 2011-12 budget, when $43 million would have met the definition of Select Nonrecurring Revenue.

In his September 13, 2011 memorandum to the Mayor and the Board of Supervisors, Mr. Rosenfield proposed the Non-Recurring Revenues Policy based on best practices issued by the Government Financial Officers Association in order to prevent "key services from being disrupted if nonrecurring revenues used to fund a program do not recur in subsequent fiscal years."

File 11-1000

The proposed ordinance would codify and therefore restrict the types of uses for which the City could debt finance Certificates of Participation payable or secured by the City's General Fund (General Fund COPs) and Commercial Paper. Furthermore, under the proposed ordinance, the annual debt service cost of any General Fund COPs, plus the annual debt service cost of any General Fund Lease Revenue Bonds, could not exceed 3.25 percent of General Fund discretionary revenues, or the equivalent of $67,407,275 in FY 2011-12. According to Ms. Sesay, the City's annual debt service costs of COPs plus the annual debt service cost of General Fund Lease Revenue Bonds has not previously exceeded 3.25 percent of General Fund discretionary revenues, although as shown in the Attachment, the City is projected to be at the 3.25 percent limit in Fiscal Years 2012-13, 2013-14, and 2014-15. Therefore, if the proposed ordinance is approved, the City could not authorize any additional General Fund COPs, or any General Fund Lease Revenue Bonds, until FY 2015-16.

File 11-1001

According to Mr. Rosenfield, the proposed ordinance would improve efficiency in the use of City staff in various departments for analysis and reporting of budget projections to the Mayor and Board of Supervisors by consolidating the Three Year Budget Projection into the Five Year Financial Plan, and changing the schedule of the Five Year Financial Plan from every year to every two years on the odd numbered years, with updates provided on the alternate even numbered years. In addition, (a) the Ten Year Capital Plan and the Information and Communication Technology Operating Plan would be updated every other year, instead of every year, and (b) departments that participate in the preparation of the Five Year Financial Plans no longer would be required to prepare strategic plans, resulting in further City staff efficiencies. However, approval of the proposed ordinance is not anticipated to result in any direct cost savings to the City.

File 11-1009

By adopting fixed two-year budgets in even-number years, the proposed resolution would allow for a savings of staff hours in odd-numbered years from the Airport, Port, and PUC, as well as the Mayor, Controller, Board of Supervisors, and Budget and Legislative Analyst that would otherwise be involved in the annual budget review of the Airport, Port, and PUC budgets. However, approval of the proposed resolution is not anticipated to result in any direct cost savings for these City departments.

POLICY CONSIDERATIONS

File 11-0999 Would Restrict the Board of Supervisors Discretion during the Reappropriation or "Add-Back" Process of the Annual Budget Review

File 11-0999 would restrict the Board of Supervisors reappropriation of savings achieved by the Board during the annual budget review process for "add-backs" and restorations: Under the proposed ordinance, any savings that are identified by the Controller to be Selected Nonrecurring Revenues during the Board's annual budget review process could only be reappropriated to

Nonrecurring Expenditures, such as capital expenditures or one-time purchases of equipment, and could not be reappropriated for Recurring Expenditures.

File 11-0999 Provides the Controller With an Open-Ended Definition of Nonrecurring Expenditures

The proposed ordinance (File 11-0999) provides a limited, precise definition of Selected Nonrecurring Revenues. However, the proposed ordinance provides an open-ended definition of Nonrecurring Expenditures, leaving the Controller room to interpret proposed future expenditures that would qualify as Nonrecurring Expenditures. In addition, the proposed ordinance does not provide the Board of Supervisors with an opportunity to dispute the Controller's interpretation of what is, and what is not, a Nonrecurring Expenditure. The only recourse available to the Board of Supervisors, in the event that the Board of Supervisors wished to object to the Controller's classification of certain Nonrecurring Expenditures, would be to make a one-time suspension of the provisions of File 11-0999 by a two-thirds vote of the Board of Supervisors.

In order to remove the open-ended definition of Nonrecurring Expenditures from the proposed ordinance (File 11-0999), the Budget and Legislative Analyst recommends that the Board of Supervisors request the Controller to amend File 11-0999 to exclusively define Nonrecurring Expenses as the six expenses – (1) discretionary funding of reserves; (2) acquisition of capital equipment; (3) capital projects included in the City's capital plans; (4) development of affordable housing; (5) discretionary prepayment of pension, debt, or other long term obligations; or (6) substitution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve – by striking "expenditures or other uses that do not create liability for or expectation of substantial ongoing costs, including, but not limited to" from Page 7, Lines 8 and 9 of the proposed ordinance.

Changes in Two-Year Budgets and the Five Percent Proposed in File 11-1009 Are Policy Considerations for the Board of Supervisors

File 11-1009 would switch the budget cycles of the Airport, Port, and Public Utilities Commission from the current rolling two-year budgets, with annual reviews by the Board of Supervisors, to fixed two-year budgets, with review every two years by the Board of Supervisors, unless there was a change in revenues or expenses greater than five percent in the second year, which would trigger automatic but significantly more limited budget reviews by the Board of Supervisors. According to Mr. Rosenfield, this more limited budget review of the second year, were it to be triggered, would take the form of a supplemental appropriation, rather than a full annual budget review. These proposed changes from (a) annual review of the Airport's, Port's, and PUC's two-year budgets to a biennial review of those budgets, and (b) the specified five percent trigger for limited review of the second year of the two-year budget, are policy considerations for the Board of Supervisors.

Under File 11-1001, the Five-Year Financial Plan Would Replace and Include the Three-Year Budget Projection (the Joint Report)

The proposed ordinance (File 11-1001) would replace Administrative Code Section 3.6 Three Year Budget Projection with a new Section 3.6 Five Year Financial Plan. The Controller and Mayor issued the first Five Year Financial Plan in June of 2011. According to Mr. Rosenfield, the proposed Administrative Code changes would incorporate the Three Year Budget Projection, including an estimated summary budget or baseline projection for the General Fund, jointly prepared by the Mayor, the Budget and Legislative Analyst, and the Controller, into the Five Year Financial Plan. As is noted in Table 1 above, in even-numbered years, the Mayor, the Budget and Legislative Analyst, and the Controller would submit an updated estimated summary budget for the remaining four years of the five-year financial plan, with any revisions to the five-year financial plan subject to review, amendment, and adoption by the Board of Supervisors. Therefore, under the proposed ordinance, the Board of Supervisors would continue to receive the fiscal projections provided in the Three Year Budget Projection, within the Five Year Financial Plan submitted to the Board of Supervisors in odd-numbered years and within the Five Year Financial Plan updated estimated summary budget presented to the Board of Supervisors in even-numbered years.

RECOMMENDATIONS

1. As is noted above, the Controller's definition of Nonrecurring Expenses is open-ended. Therefore, request the Controller to amend File 11-0999 to define Nonrecurring Expenses as the six expenses listed in the proposed ordinance as (1) discretionary funding of reserves; (2) acquisition of capital equipment; (3) capital projects included in the City's capital plans; (4) development of affordable housing; (5) discretionary prepayment of pension, debt, or other long term obligations; or (6) substitution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve by striking "*expenditures or other uses that do not create liability for or expectation of substantial ongoing costs, including, but not limited to*" from Page 7, Lines 8 and 9 of the proposed ordinance. Mr. Rosenfield advises that the Controller disagrees with this recommendation, because it is possible that the Controller will identify additional Nonrecurring Expenditures besides the six included in the proposed ordinance.

2. File 11-1009, which proposes changing from the existing rolling two-year budgets for the Port, Airport and PUC, under which the Board of Supervisors reviews such budgets every year, to a fixed two-year budget with reviews by the Board of Supervisors every two years is a policy decision for the Board of Supervisors.

3. The trigger threshold for reviewing the second year of a fixed two-year budget (File 11-1009) has been proposed if budget costs or revenues are projected to change more than five percent in the second year. Approval of that five percent trigger threshold amount is a policy matter for the Board of Supervisors.

4. Approval of the three proposed ordinances (Files 11-0999, as amended, and Files 11-1000 and 11-1001) and one proposed resolution (File 11-1009, as amended), are policy matters for the Board of Supervisors.

Harvey M. Rose

cc: Supervisor Chu
Supervisor Mirkarimi
Supervisor Kim
President Chiu
Supervisor Avalos
Supervisor Campos
Supervisor Cohen
Supervisor Elsbernd
Supervisor Farrell
Supervisor Mar
Supervisor Wiener
Clerk of the Board
Cheryl Adams
Controller
Rick Wilson

City and County of San Francisco
General Fund Debt and Other Long-Term Lease Obligations
Lease Payment Schedule (as of October 2011)

Fiscal Year	Authorized & Issued Lease Payment	% of GF	Authorized & Unissued Lease Payment	% of GF	Total % of GF	% of GF Dedicated to Lease Payments	GF Disc Total (5-Yr Plan, 4.5% thereafter)
FY 11-12	60,092,560	2.90%	4,067,575	0.20%	3.09%	3.25%	2,074,070,000
FY 12-13	65,089,428	2.99%	5,517,150	0.25%	3.25%	3.25%	2,174,760,000
FY 13-14	67,824,211	3.01%	5,514,700	0.24%	3.25%	3.25%	2,256,930,000
FY 14-15	62,205,731	2.66%	13,771,488	0.59%	3.25%	3.25%	2,338,330,000
FY 15-16	57,330,520	2.37%	18,991,750	0.78%	3.15%	3.25%	2,423,790,000
FY 16-17	53,509,382	2.11%	18,994,463	0.75%	2.86%	3.25%	2,532,860,550
FY 17-18	50,972,942	1.93%	18,994,888	0.72%	2.64%	3.25%	2,646,839,275
FY 18-19	32,134,294	1.16%	18,996,238	0.69%	1.85%	3.25%	2,765,947,042
FY 19-20	33,901,080	1.17%	18,991,650	0.66%	1.83%	3.25%	2,890,414,659
FY 20-21	34,017,185	1.13%	18,989,175	0.63%	1.75%	3.25%	3,020,483,319
FY 21-22	31,724,168	1.01%	18,996,488	0.60%	1.61%	3.25%	3,156,405,068
FY 22-23	29,226,901	0.89%	18,995,775	0.58%	1.46%	3.25%	3,298,443,296
FY 23-24	29,422,789	0.85%	18,994,875	0.55%	1.40%	3.25%	3,446,873,244
FY 24-25	24,402,461	0.68%	18,996,138	0.53%	1.20%	3.25%	3,601,982,540
FY 25-26	24,468,669	0.65%	18,991,425	0.50%	1.15%	3.25%	3,764,071,755
FY 26-27	24,515,886	0.62%	18,992,925	0.48%	1.11%	3.25%	3,933,454,984
FY 27-28	24,738,278	0.60%	18,997,175	0.46%	1.06%	3.25%	4,110,460,458
FY 28-29	24,749,658	0.58%	18,995,525	0.44%	1.02%	3.25%	4,295,431,179
FY 29-30	24,931,394	0.56%	18,994,163	0.42%	0.98%	3.25%	4,488,725,582
FY 30-31	14,006,610	0.30%	15,094,313	0.32%	0.62%	3.25%	4,690,718,233
FY 31-32	14,008,113	0.29%	13,481,775	0.28%	0.56%	3.25%	4,901,800,553
FY 32-33	14,009,650	0.27%	13,479,613	0.26%	0.54%	3.25%	5,122,381,578
FY 33-34	14,010,600	0.26%	13,480,938	0.25%	0.51%	3.25%	5,352,888,749

Prepared by Controller's Office of Public Finance

ATTACHMENT

MEMORANDUM

TO: Edwin L. Lee, Mayor
Members, Board of Supervisors

FROM: Ben Rosenfield, Controller

DATE: September 13, 2011

SUBJECT: Controller's Proposed Financial Policies and Recommended Financial Planning Changes

As part of our continuing work to implement the budget improvement measures approved by voters in November 2009, I am pleased to submit a financial policy relating to use of selected nonrecurring revenues, a debt policy that formalizes existing guidelines related to issuance of Certificates of Participation (COPs) and commercial paper, a resolution authorizing enterprises to enter into a fixed two-year budget cycle, and proposed Administrative Code changes to streamline the financial planning process. These proposed measures are intended to improve the City's ability to continue to balance budgets and provide for the long term financial stability of our City.

1. Non-Recurring Revenues Policy

The proposed non-recurring revenue policy would restrict the ability of the Mayor and the Board of Supervisors to spend selected non-recurring revenues on ongoing expenses. This policy addresses revenues from the sale of land or other assets, the prepayment of long-term leases, concessions or contracts, and unassigned prior year fund balance in excess of the prior five-year average. These selected non-recurring can then only be spent on one-time uses that will not create ongoing obligations of the City. One-time expenditures include items such as discretionary deposits to reserves, acquisition of equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary pre-payment of pension, debt, or other long-term obligations.

This proposed policy is based upon recommended best practices issued by the Government Financial Officers Association, which recommends that jurisdictions "adopt a policy(s) discouraging the use of one-time revenues for ongoing expenditures." Since jurisdictions cannot rely on one-time revenues in future budget cycles, key services may be disrupted if nonrecurring revenues used to fund a program do not recur in subsequent fiscal years. To avoid this disruption, recurring programs should be funded by recurring revenues, while nonrecurring or volatile revenues should be used in ways that do not create ongoing obligations.

This proposal builds on the volatile revenue policy adopted by the Mayor and Board of Supervisors in May 2010. That important legislation created the Budget Stabilization Reserve and established that certain volatile revenues be used to fund the reserve, including 75% of real

property transfer tax in excess of the prior five year average and ending unassigned General Fund balances in excess of those appropriated as a source in the subsequent year's budget.

Under existing policy, extraordinary prior year unassigned general fund balance can still be used for operating expenses in a subsequent budget, as long as it was anticipated early enough to be included in the adopted budget. This source is one of the most volatile General Fund sources of revenue. According to table 1 below, the budgeted use of unassigned fund balance has ranged from $26 Million to $159 Million, or 1% to 5% of budgeted General Fund revenues in the last ten years.

Table 1. Budgeted General Fund Balance as % of Revenues

	Budgeted GF Revenues	Budgeted PY Fund Balance	Change from PY	GF Fund Balance % of GF Revs
FY 2002-2003	2,366	120		5%
FY 2003-2004	2,245	47	(73)	2%
FY 2004-2005	2,336	26	(21)	1%
FY 2005-2006	2,453	116	90	5%
FY 2006-2007	2,665	99	(16)	4%
FY 2007-2008	2,922	119	19	4%
FY 2008-2009	3,054	82	(37)	3%
FY 2009-2010	3,052	94	13	3%
FY 2010-2011	2,967	80	(15)	3%
FY 2011-2012	3,262	159	79	5%

The proposed policy does not suggest eliminating prior year fund balance as a source of operating expenditures, since it is a reasonable expectation that some fund balance will be available. Instead, the proposal is to cap the amount eligible to be budgeted for operating expenses at the prior five year average, while any surplus unassigned fund balance must be dedicated to reserves or one-time uses.

Table 2 shows that if this policy had been in place, it would have been triggered twice—in the FY 2007-08 budget, when $16 million of the $119 million in appropriated fund balance would have to have been designated for one-time uses, and in the current FY 2011-12 budget, when $43 million would have had to be so designated.

Under the provisions of Charter Section 9.120, if approved by the Mayor and adopted by a two-thirds majority of the Board of Supervisors, this new financial policy would become an official City policy and could only be suspended on a temporary basis by a future two-thirds majority vote of the Board of Supervisors.

Table 2. Policy Impacts if in Place during Prior Ten Years

	GF Ending Unassigned Fund Bal	Amount Budgeted in AAO	Prior 5 Year Average	Restricted Amt if Policy Had Been in Place
FY 2002-03	$ 130	$ 120	$ 147	$ -
FY 2003-04	48	47	146	-
FY 2004-05	55	26	130	-
FY 2005-06	137	116	116	-
FY 2006-07	146	99	114	-
FY 2007-08	132	119	103	16
FY 2008-09	105	82	104	-
FY 2009-10	95	94	115	-
FY 2010-11	105	80	123	-
FY 2011-12	TBD	159	117	43

The proposed policy also addresses prepayment of long-term leases, concessions or contracts, by making it clear that these nonrecurring revenues should also not be used as a source for expenditure obligations that are ongoing. This is to prevent the use of such hypothetical actions as using substantial up-front payments from the lease-back of City buildings or other assets as a temporary budget-balancing measure which would leave the City budget in a more desperate deficit situation the following year.

2. Debt Management Policy

The City's Debt Policy was first prepared by the Controller's Office of Public Finance and lodged with the Clerk of the Board of Supervisors in April 2004. The Debt Policy has been updated from time to time, and was most recently revised and updated as of September 2011. In keeping with past practice, the Debt Policy will be filed with the Clerk of the Board of Supervisors. The Debt Policy establishes policies and procedures for financings under the jurisdiction of the Controller's Office of Public Finance and the Finance Corporation of the City, and pertains to obligations payable from the general fund of the City. The Debt Policy is intended to ensure that the City adheres to sound debt issuance and management practices to preserve and enhance the credit quality of its portfolio and achieve the most advantageous cost of borrowing while at the same time balancing prudent level of risks.

The proposed policy is intended to formalize certain aspects of the Debt Policy relating to COPs and Commercial Paper. The purpose of the proposed policy is to establish specific guidelines for the authorization and management of COPs and other long-term lease obligations. The proposed policy also covers the City's newly established Commercial Paper program.

The conditions under which COPs can be issued includes, but is not limited, to finance the acquisition or improvement of existing facilities and/or construction of new facilities that result in immediate or future savings in payments currently made or to be made by the City's general fund. For example, COPs may be used to provide funds to execute a lease purchase option for a facility

whereby future savings accrue to the general fund during the period for which the COPs and the lease would be outstanding. COPs also are appropriate for projects which will be matched with grant and other additional moneys, reduce operating costs to the City, address critical and urgent seismic and other public safety hazards for which no other sources are practically available, or provide for the delivery of services mandated by law. Additionally, the City would be required to identify specific revenue solutions as internal repayment sources for COPs and other voter approved lease revenue bonds.

The proposed policy establishes a constraint of 3.25% of general fund discretionary revenues with respect to the payment of debt service payments for COPs and other long-term lease obligations.

With respect to the Commercial Paper program, the proposed policy affirms the policy of requiring the Board of Supervisors and Mayor approval of the project and project financings for projects to be eligible to participate in the Commercial Paper Program. The policy also requires written report annually to the Mayor and the Board of Supervisors on use and performance of the Commercial Paper Program.

3. Administrative Code Revisions Coordinating Budget Timelines and Reporting

The accompanying package of Administrative Code revisions regarding budget timelines and reporting is intended to achieve the following:

a. Coordinate and streamline the long-term planning process by shifting the 10-year Capital Plan and the Information and Communication Technology Plan onto the same biennial schedule as the Five Year Financial Plan. This is intended to reduce administrative workload and make the plans more useful by ensuring that they include consistent data and assumptions.

   The legislation includes other provisions intended to clean up obsolete portions of the Administrative Code and ensure that references to the budget cycle reflect current and proposed practices.

b. Harmonize the current "Three Year Budget Projection Report" requirement (also known as the "Joint Report" with the new Five Year Financial Plan, incorporating the projection report into the Five Year Financial Plan in years when the Five Year Plan is being updated, and in the off-years, turning the projection report into an update of the prior year's Five Year Financial Plan baseline projection.

c. Remove overlapping departmental reporting requirements and clarifying that various code-required planning activities can be met through the Five Year Financial Plan and other planning documents.

4. Resolution Approving Fixed Two-Year Budgets for Select Enterprise Departments and Establishing Guidelines Governing Adjustments

This proposed resolution would place the San Francisco Public Utilities Commission, San Francisco Airport and Port of San Francisco on a fixed two-year budget cycle in place of their

current rolling two-year budgets. The resolution would also establish that these budgets would be re-opened for the second year if capital or operating revenues or expenditures are projected to increase or decrease by more than five percent from budget estimates.

In November 2009, voters passed Proposition A, which amended the Charter to provide for a rolling two-year budget cycle, requiring departments to prepare two-year budgets that must be updated and resubmitted annually for Board review and approval. The Proposition also provided that by resolution, the Mayor and Board could move to a fixed two-year budgetary cycle for some or all City Departments at any time. The resolution must specify triggers for re-opening the second year of the two-year budget.

Early implementation of the rolling two-year budgets began with the FY 2010-11 budget year by the San Francisco Public Utilities Commission, San Francisco Airport and the Port of San Francisco. This proposed resolution would allow these enterprise departments to move a fixed two-year budget cycle with their upcoming budget submissions for the two years beginning July 1, 2012. The purposes of this resolution are to:

a. Reduce the administrative burdens involved in the current budget process for these Enterprise agencies, while maintaining the Board's oversight and policy-setting role when circumstances change during the course of the two year budget cycle.

b. Serve as a limited pilot to allow procedures to be developed for fixed two-year budgeting with a limited number of Departments.

c. Give the Mayor and Board more information to help judge whether to move forward with a fixed two year budget cycle for other departments.

Conclusion

Taken together, these proposed financial policies, administrative code amendment language, and fixed enterprise two-year budget resolution are intended to promote sustainable budget practices while preserving the Mayor's and Board of Supervisors policy-setting and oversight roles.