

File No. 151145

Committee Item No. 19

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date January 20, 2016

Board of Supervisors Meeting

Date _____

Cmte Board

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Completed by: Linda Wong Date January 15, 2016
 Completed by: Linda Wong Date _____

1 [Adopting a Fixed Two-Year Budget - Multiple City Departments - FYs 2016-2017 and
2 2017-2018]

3 **Resolution adopting a fixed two-year budgetary cycle for multiple City departments:**
4 **Academy of Sciences; Adult Probation; Airport; Arts Commission; Asian Art Museum;**
5 **Assessor-Recorder; Board of Appeals; Building Inspection; Child Support Services;**
6 **Children and Families Commission; City Attorney; City Planning; Civil Service;**
7 **Controller; County Education; District Attorney; Economic and Workforce**
8 **Development; Elections; Employees' Retirement System; Environment; Ethics; Fine**
9 **Arts Museums; General Services Agency--Administrative Services; General Services**
10 **Agency--Telecommunication and Information Systems; Health Service System; Human**
11 **Resources; Human Rights; Juvenile Probation; Law Library; Mayor; Port; Public**
12 **Library; Public Utilities Commission; Rent Arbitration; Status of Women; Treasurer-Tax**
13 **Collector; Trial Courts; War Memorial; defining terms; and setting deadlines.**

14
15 WHEREAS, Charter, Section 9.101, authorizes the Mayor and Board of Supervisors by
16 resolution to determine in an even-numbered fiscal year that the upcoming budgetary cycle
17 shall be a fixed budgetary cycle for some or all City Departments; and

18 WHEREAS, In a fixed budgetary cycle, the Board of Supervisors does not adopt a new
19 budget for the second fiscal year of the cycle, but may adjust the second-year budget if
20 certain conditions are met; and

21 WHEREAS, Charter, Section 9.101, requires that the resolution declaring that an
22 upcoming budgetary cycle shall be fixed also include a definition of the term "significant
23 increases or decreases in revenues or expenditures" and set deadlines for the Controller to
24 submit a report identifying such increases or decreases and for the Mayor to submit to the
25 Board a proposed amendment to the biennial budget; now, therefore be it

1 RESOLVED, That the upcoming budgetary cycle for these departments: Academy of
2 Sciences; Adult Probation; Airport; Arts Commission; Asian Art Museum; Assessor-Recorder;
3 Board of Appeals; Building Inspection; Child Support Services; Children and Families
4 Commission; City Attorney; City Planning; Civil Service; Controller; County Education; District
5 Attorney; Economic and Workforce Development; Elections; Employees' Retirement System;
6 Environment; Ethics; Fine Arts Museums; General Services Agency—Administrative Services;
7 General Services Agency—Telecommunication and Information Systems; Health Service
8 System; Human Resources; Human Rights; Juvenile Probation; Law Library; Mayor; Port;
9 Public Library; Public Utilities Commission; Rent Arbitration; Status of Women; Treasurer-Tax
10 Collector; Trial Courts; War Memorial; shall be a fixed budgetary cycle in which the biennial
11 budget will remain in effect for the two fiscal years ending June 30, 2017 and June 30, 2018;
12 and, be it

13 FURTHER RESOLVED, That "significant increases or decreases in revenues" in the
14 following funds shall be defined as a greater than five percent increase or decrease between
15 the adopted and projected revenues for the second year of each of these departments'
16 biennial budgets: San Francisco International Airport Funds; Building Inspection Funds; Child
17 Support Services Funds; Children and Families Commission Funds; Environment Funds;
18 Public Library Funds; Port of San Francisco Funds; Public Utilities Commission Funds,
19 including Wastewater, Hetch Hetchy, and Water Department Funds; Rent Arbitration Board
20 Funds; Retirement System Funds; and War Memorial Funds; and, be it

21 FURTHER RESOLVED, That "significant increases or decreases in revenues" in the
22 General Fund shall be defined as a greater than two and one half percent increase or
23 decrease between the adopted and projected revenues for the second year of each of the
24 departments' biennial budgets; and, be it
25

1 FURTHER RESOLVED, That "significant increases or decreases in expenditures" shall
2 be defined as those expenditure increases or decreases required to address the significant
3 increases or decreases in revenue as defined above; and, be it

4 FURTHER RESOLVED, That no later than May 1, 2017, the Controller will submit to
5 the Mayor and the Board of Supervisors a report stating whether the Controller projects that
6 the funds for the Airport, Building Inspection, Child Support Services, Children and Families
7 Commission, Environment, Public Library, Port, Public Utilities Commission, Rent Arbitration
8 Board, Retirement System, War Memorial, and the General Fund will experience significant
9 increases or decreases in revenues or expenditures, as defined in this Resolution, during the
10 second year of the budgetary cycle, and will update that report as additional information
11 becomes available; and, be it

12 FURTHER RESOLVED, That no later than June 1, 2017, the Mayor will submit to the
13 Board of Supervisors a proposed amendment to the biennial budget responding to the
14 Controller's report.

<p>Item 19 File 15-1145 <i>(Continued from December 2, 2015)</i></p>	<p>Department: Mayor Board of Supervisors</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • The proposed resolution adopts a two-year fixed budget for multiple City departments for FY 2016-17 and FY 2017-18, including: (1) Academy of Sciences; (2) Adult Probation; (3) Airport; (4) Arts Commission; (5) Asian Art Museum; (6) Assessor-Recorder; (7) Board of Appeals; (8) Building Inspection; (9) Child Support Services; (10) Children and Families Commission; (11) City Attorney; (12) City Planning; (13) Civil Service; (14) Controller; (15) County Education; (16) District Attorney; (17) Economic and Workforce Development; (18) Elections; (19) Retirement System; (20) Environment; (21) Ethics; (22) Fine Arts Museums; (23) Administrative Services; (24) Technology; (25) Health Service System; (26) Human Resources; (27) Human Rights; (28) Juvenile Probation; (29) Law Library; (30) Mayor; (31) Port; (32) Public Library; (33) Public Utilities Commission; (34) Rent Arbitration; (35) Status of Women; (36) Treasurer-Tax Collector; (37) Superior Court; and, (38) War Memorial. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • Under City Charter Section 9.101, the Mayor and Board of Supervisors are authorized to determine in an even-numbered fiscal year that the upcoming budget for some or all City departments should be a fixed two-year budget. The Board of Supervisors only reviews the budget in the second year if there are significant changes in revenues or expenditures. 	
<p style="text-align: center;">Policy Consideration</p>	
<ul style="list-style-type: none"> • According to several reports reviewed by the Budget and Legislative Analyst, there are advantages and disadvantages to two-year fixed budgets, but one of the main disadvantages is that it reduces the Board of Supervisors appropriation authority. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • In general, the Budget and Legislative Analyst does not recommend removing any budgetary appropriation authority away from the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 9.101 states that no later than February 1 of any even-numbered fiscal year, the Mayor and the Board of Supervisors by resolution may determine that the upcoming budgetary cycle or cycles for some or all City departments and offices shall be a fixed budgetary cycle or cycles in which the biennial budget will remain in effect for two fiscal years.

BACKGROUND

In November 2009, the voters passed Proposition A, which, among other changes to the budget process, amended the City Charter to adopt rolling two-year budget cycles and allow for the Mayor and the Board of Supervisors to establish fixed two-year budget cycles for some or all departments. Previous to the passage of Proposition A, the City adopted one-year budgets for all departments, except for the Municipal Transportation Agency (MTA).

As shown in Table 1 below, the MTA was the first City department to implement a two-year fixed budget. Following the passage of Proposition A in 2009, the City implemented fixed two-year budget cycles for three enterprise departments: the Airport, Port, and Public Utilities Commission in FY 2012-13 and FY 2013-14. The City subsequently implemented a two-year fixed budget cycle for Child Support Services, the Public Library, and the Retirement System in FY 2014-15 and FY 2015-16.

Table 1: Implementation of Fixed Two-Year Budget Cycles

Department	1st Two-Year Fixed Budget
Municipal Transportation Agency	FY 2008-09 & 2009-10
Airport	FY 2012-13 & 2013-14
Port	FY 2012-13 & 2013-14
Public Utilities Commission	FY 2012-13 & 2013-14
Child Support Services	FY 2014-15 & 2015-16
Public Library	FY 2014-15 & 2015-16
Retirement System	FY 2014-15 & 2015-16

DETAILS OF PROPOSED LEGISLATION

The proposed resolution expands the two-year fixed budget cycle from seven departments to 39, including 25 departments that receive General Fund support as shown in Table 2 below. In all, the resolution would place \$377.6 million in General Fund support and \$2.4 billion in overall funds into a fixed two-year budget cycle.

**Table 2: FY 2016-17 General Fund Support in New Departments
Proposed for Two-Year Fixed Budget**

Department	FY 2016-17 General Fund Support
District Attorney	\$46,779,572
GSA- City Administrator	43,183,060
Juvenile Probation	35,368,183
Superior Court	31,232,757
Economic & Workforce Development	25,973,700
Treasurer/Tax Collector	24,431,883
Assessor/Recorder	19,028,332
Mayor	19,269,306
Adult Probation	17,549,597
Fine Arts Museum	15,560,242
Human Resources	14,887,246
Elections	13,206,118
City Attorney	12,905,153
Controller	10,929,462
Asian Art Museum	9,617,919
Arts Commission	9,721,933
Status of Women	6,415,560
Academy of Sciences	5,408,021
Ethics Commission	4,640,260
GSA- Technology	3,766,057
Human Rights Commission	2,509,244
City Planning	2,603,268
Law Library	1,642,927
Civil Service Commission	832,490
County Education Office	116,000
Environment	0
Board of Appeals	0
Building Inspection	0
Children & Families Commission	0
Health Service System	0
Rent Arbitration Board	0
War Memorial	0
Total	\$377,578,290

Source: FY 2015-16 and FY 2016-17 Annual Appropriation Ordinance

According to the proposed resolution, the budgets of the departments on the two-year fixed budget may be adjusted for the following significant increases or decreases in revenues and expenditures:

- More than 5 percent revenue increase or decrease in the budgets of the Airport, Building Inspection, Child Support Services, Children and Families Commission, Environment, Public Library, Port, Public Utilities Commission, Rent Arbitration Board, Retirement, and War Memorial;
- More than 2.5 percent revenue increase or decrease in the General Fund; and
- Increase or decrease in expenditures due to the revenue increases or decreases noted above.

The proposed resolution requires (a) the Controller to submit a report on significant increases or decreases in revenues or expenditures to the Board of Supervisors by May 1, 2017; and (b) the Mayor to submit proposed budget amendments responding to the Controller's report to the Board of Supervisors by June 1, 2017. The proposed budget amendments are subject to Board of Supervisors appropriation approval.

POLICY CONSIDERATION

Comparison of Two-Year Fixed and Two-Year Rolling Budgets

Except for the seven City departments shown in Table 1 above that have fixed two-year budgets, City departments have two-year rolling budgets. Under two-year rolling budgets, the Board of Supervisors has annual appropriation authority. The Board of Supervisors has appropriation authority over each year of the two-year rolling budget in the first fiscal year, and retains appropriation authority over the second year of the two-year rolling budget in the following fiscal year.¹ Under two-year fixed budgets, the Board of Supervisors only has appropriation authority every other year.

According to several reports reviewed by the Budget and Legislative Analyst, there are advantages and disadvantages to two-year fixed budgets, but one of the main disadvantages is that it reduces the Board of Supervisors appropriation authority. The budget approval process is one of the Board of Supervisors main tools under the Charter to set City policy.²

RECOMMENDATION

In general, the Budget and Legislative Analyst does not recommend removing any budgetary appropriation authority away from the Board of Supervisors.

¹ For example, for City departments with two-year rolling budgets the Board of Supervisors reviewed the FY 2015-16 and FY 2016-17 budgets in June 2015 and the Board of Supervisors will review the FY 2016-17 and FY 2017-18 budgets in June 2016.

² According to the Government Finance Officers Association report, "An Elected Official's Guide to Multi-Year Budgeting", November 2006, legislative bodies may perceive a loss of budgetary control and oversight when two-year budgets are implemented.

Item 36 File 15-1145	Department: Mayor Board of Supervisors
EXECUTIVE SUMMARY	
Legislative Objectives	
<ul style="list-style-type: none"> • The proposed resolution adopts a two-year fixed budget for multiple City departments for FY 2016-17 and FY 2017-18, including: (1) Academy of Sciences; (2) Adult Probation; (3) Airport; (4) Arts Commission; (5) Asian Art Museum; (6) Assessor-Recorder; (7) Board of Appeals; (8) Building Inspection; (9) Child Support Services; (10) Children and Families Commission; (11) City Attorney; (12) City Planning; (13) Civil Service; (14) Controller; (15) County Education; (16) District Attorney; (17) Economic and Workforce Development; (18) Elections; (19) Retirement System; (20) Environment; (21) Ethics; (22) Fine Arts Museums; (23) Administrative Services; (24) Technology; (25) Health Service System; (26) Human Resources; (27) Human Rights; (28) Juvenile Probation; (29) Law Library; (30) Mayor; (31) Port; (32) Public Library; (33) Public Utilities Commission; (34) Rent Arbitration; (35) Status of Women; (36) Treasurer-Tax Collector; (37) Superior Court; and, (38) War Memorial. 	
Key Points	
<ul style="list-style-type: none"> • Under City Charter Section 9.101, the Mayor and Board of Supervisors are authorized to determine in an even-numbered fiscal year that the upcoming budget for some or all City departments should be a fixed two-year budget. The Board of Supervisors only reviews the budget in the second year if there are significant changes in revenues or expenditures. 	
Policy Consideration	
<ul style="list-style-type: none"> • According to several reports reviewed by the Budget and Legislative Analyst, there are advantages and disadvantages to two-year fixed budgets, but one of the main disadvantages is that it reduces the Board of Supervisors appropriation authority. • The resolution does not have specific criteria for determining which City departments' two-year budgets will be fixed. The Board of Supervisors should amend the proposed resolution to set criteria. 	
Recommendations	
<ul style="list-style-type: none"> • The Board of Supervisors should amend the proposed resolution to set criteria defining which City departments should continue to be two-year rolling budgets rather than two-year fixed budgets. This criteria should include that all City departments that receive \$10,000,000 or more in annual General Fund support and provide services to the public should continue to be reviewed annually as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget. Implementation of this recommendation would result in the following departments continuing to be reviewed annually by the Board of Supervisors: Adult Probation, District Attorney, Superior Court, Juvenile Probation, Office of Economic and Workforce Development, Treasurer/Tax Collector, Assessor/Recorder, Mayor, Fine Arts Museum, and Elections. This would include: District Attorney, Adult Probation, Superior Court, Juvenile Probation, Office of Economic and Workforce Development, Treasurer/Tax Collector, Assessor/Recorder, Mayor, Fine Arts Museums, and Elections. • Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 9.101 states that no later than February 1 of any even-numbered fiscal year, the Mayor and the Board of Supervisors by resolution may determine that the upcoming budgetary cycle or cycles for some or all City departments and offices shall be a fixed budgetary cycle or cycles in which the biennial budget will remain in effect for two fiscal years.

BACKGROUND

In November 2009, the voters passed Proposition A, which, among other changes to the budget process, amended the City Charter to adopt rolling two-year budget cycles and allow for the Mayor and the Board of Supervisors to establish fixed two-year budget cycles for some or all departments. Previous to the passage of Proposition A, the City adopted one-year budgets for all departments, except for the Municipal Transportation Agency (MTA).

As shown in Table 1 below, the MTA was the first City department to implement a two-year fixed budget. Following the passage of Proposition A in 2009, the City implemented fixed two-year budget cycles for three enterprise departments: the Airport, Port, and Public Utilities Commission in FY 2012-13 and FY 2013-14. The City subsequently implemented a two-year fixed budget cycle for Child Support Services, the Public Library, and the Retirement System in FY 2014-15 and FY 2015-16.

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Child Support Services	FY 2014-15 & 2015-16
Public Library	FY 2014-15 & 2015-16
Retirement System	FY 2014-15 & 2015-16

DETAILS OF PROPOSED LEGISLATION

The proposed resolution expands the two-year fixed budget cycle from seven departments to 39, including 25 departments that receive General Fund support as shown in Table 2 below. In all, the resolution would place \$377.6 million in General Fund support and \$2.4 billion in overall funds into a fixed two-year budget cycle.

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Civil Service Commission	832,490
County Education Office	116,000
Environment	0
Board of Appeals	0
Building Inspection	0
Children & Families Commission	0
Health Service System	0
Rent Arbitration Board	0
War Memorial	0
Total	\$377,578,290

Source: FY 2015-16 and FY 2016-17 Annual Appropriation Ordinance

According to the proposed resolution, the budgets of the departments on the two-year fixed budget may be adjusted for the following significant increases or decreases in revenues and expenditures:

- More than 5 percent revenue increase or decrease in the budgets of the Airport, Building Inspection, Child Support Services, Children and Families Commission, Environment, Public Library, Port, Public Utilities Commission, Rent Arbitration Board, Retirement, and War Memorial;
- More than 2.5 percent revenue increase or decrease in the General Fund; and
- Increase or decrease in expenditures due to the revenue increases or decreases noted above.

The proposed resolution requires (a) the Controller to submit a report on significant increases or decreases in revenues or expenditures to the Board of Supervisors by May 1, 2017; and (b) the Mayor to submit proposed budget amendments responding to the Controller's report to the Board of Supervisors by June 1, 2017. The proposed budget amendments are subject to Board of Supervisors appropriation approval.

POLICY CONSIDERATION

Comparison of Two-Year Fixed and Two-Year Rolling Budgets

Except for the seven City departments shown in Table 1 above that have fixed two-year budgets, City departments have two-year rolling budgets. Under two-year rolling budgets, the Board of Supervisors has annual appropriation authority. The Board of Supervisors has appropriation authority over each year of the two-year rolling budget in the first fiscal year, and retains appropriation authority over the second year of the two-year rolling budget in the following fiscal year.¹ Under two-year fixed budgets, the Board of Supervisors only has appropriation authority every other year.

According to several reports reviewed by the Budget and Legislative Analyst, there are advantages and disadvantages to two-year fixed budgets, but one of the main disadvantages is that it reduces the Board of Supervisors appropriation authority.

Advantages

Proponents of fixed two-year budget cycles argue that it would result in greater stability for City services, encourage long-term financial planning, and increase funding reliability to City departments and contractors.² While some of these advantages exist in the current system of rolling two-year budgets, in which City departments can plan for expenditures in the second year, proponents consider the fixed two-year budget to give greater funding reliability.

¹ For example, for City departments with two-year rolling budgets the Board of Supervisors reviewed the FY 2015-16 and FY 2016-17 budgets in June 2015 and the Board of Supervisors will review the FY 2016-17 and FY 2017-18 budgets in June 2016.

² "Proposition A – Budget Process", SPUR Voter Guide 2009

Proponents of fixed two-year budget cycles also point to time saved by staff and elected officials in the second year of the budget cycle that was formerly devoted to processing essentially repetitive base budget amounts on an annual basis.³

Disadvantages

One of the main disadvantages of the fixed two-year budget cycle is that it reduces the Board of Supervisors' budgetary authority. The budget approval process is one of the Board of Supervisors main tools under the Charter to set City policy.⁴

Other disadvantages of the fixed two-year budget include difficulties in forecasting revenues and expenditures, and in incorporating economic and environmental changes.⁵

The resolution does not have specific criteria for determining which City departments' two-year budgets will be fixed and which will be rolling budgets

According to Ms. Kate Howard, Mayor's Budget Director, the process for selecting departments for two-year fixed budget cycles was based on each department's size, level of revenue stability, and functions. According to Ms. Howard, the criteria for selecting departments to be on a two-year fixed budget included (1) smaller City departments and departments with less revenue fluctuation and (2) departments with functions determined to be "administrative", primarily providing services to other City departments.

Departments with significant public health, welfare, and safety functions were specifically excluded from the two-year fixed cycle. Eleven General Fund departments that would remain on a two-year rolling budget cycle include Public Health, Police, Human Services, Fire, Sheriff, Public Works, Recreation and Park, Emergency Management, Children Youth and their Families, Public Defender, and the Board of Supervisors.

The Board of Supervisors should amend the proposed resolution to set criteria defining which City departments should continue to be two-year rolling budgets rather than two-year fixed budgets. This criteria should include that all City departments that receive \$10,000,000 or more in annual General Fund support and provide services to the public should continue to be reviewed annually as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget. Implementation of this recommendation would result in the following departments continuing to be reviewed annually by the Board of Supervisors as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget: Adult Probation, District Attorney, Superior Court, Juvenile Probation, Office of Economic and Workforce Development, Treasurer/Tax Collector, Assessor/Recorder, Mayor, Fine Arts Museums, and Elections.

³ "Analysis of a Prospective Conversion to a Biennial Budget Process", Report to Milwaukee County Board of Supervisors, December 2002

⁴ According to the Government Finance Officers Association report, "An Elected Official's Guide to Multi-Year Budgeting", November 2006, legislative bodies may perceive a loss of budgetary control and oversight when two-year budgets are implemented.

⁵ Government Finance Officers Association report, "An Elected Official's Guide to Multi-Year Budgeting", November 2006

RECOMMENDATIONS

1. The Board of Supervisors should amend the proposed resolution to set criteria defining which City departments should continue to be two-year rolling budgets rather than two-year fixed budgets. This criteria should include that all City departments that receive \$10,000,000 or more in annual General Fund support and provide services to the public should continue to be reviewed annually as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget. Implementation of this recommendation would result in the following departments continuing to be reviewed annually by the Board of Supervisors as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget: Adult Probation, District Attorney, Superior Court, Juvenile Probation, Office of Economic and Workforce Development, Treasurer/Tax Collector, Assessor/Recorder, Mayor, Fine Arts Museums, and Elections.
2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *for* Mayor Edwin M. Lee *NE*
RE: Adopting a Fixed Two-Year Budget in Multiple City Departments, Fiscal Years 2016-17 and 2017-18
DATE: November 3, 2015

Attached for introduction to the Board of Supervisors is a resolution adopting a fixed two-year budgetary cycle for multiple City departments: Academy of Sciences; Adult Probation; Airport; Arts Commission; Asian Art Museum; Assessor-Recorder; Board of Appeals; Building Inspection; Child Support Services; Children and Families Commission; City Attorney; City Planning; Civil Service; Controller; County Education; District Attorney; Economic and Workforce Development; Elections; Employees' Retirement System; Environment; Ethics; Fine Arts Museums; General Services Agency – Administrative Services; General Services Agency – Telecommunication and Information Systems; Health Service System; Human Resources; Human Rights; Juvenile Probation; Law Library; Mayor; Port; Public Library; Public Utilities Commission; Rent Arbitration; Status of Women; Treasurer-Tax Collector; Trial Courts; War Memorial; defining terms; and setting deadlines.

Please note that this legislation is co-sponsored by Supervisors Farrell, Tang, and Mar.

Should you have any questions, please contact Nicole Elliott (415) 554-7940.

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RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
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