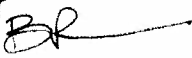




# MEMORANDUM

**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

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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**

	<b>Budgeted GF Revenues</b>	<b>Budgeted PY Fund Balance</b>	<b>Change from PY</b>	<b>GF Fund Balance % of GF Revs</b>
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**

	<b>GF Ending Unassigned Fund Bal</b>	<b>Amount Budgeted in AAO</b>	<b>Prior 5 Year Average</b>	<b>Restricted Amt if Policy Had Been in Place</b>
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.



1 [Administrative Code—Financial Policy Regarding Selected Nonrecurring Revenues]

2  
3 **Ordinance amending the San Francisco Administrative Code by amending**  
4 **Section 10.60 and adding Section 10.61, to adopt a binding financial policy under**  
5 **Charter Section 9.120 providing that Selected Nonrecurring Revenues may only be**  
6 **spent on Nonrecurring Expenditures.**

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

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

11 Section 1. **Binding Financial Policy.** This ordinance is a financial policy adopted  
12 under Charter Section 9.120. As such, it must be adopted as an ordinance approved by the  
13 Mayor and passed by a two-thirds' vote of the Board of Supervisors. The City may not adopt  
14 a budget that the Controller determines is inconsistent with any of the provisions of this  
15 ordinance. Upon a two-thirds' vote, the Board of Supervisors by resolution may suspend, in  
16 whole or in part, this ordinance for the succeeding fiscal year.

17  
18 Section 2. The San Francisco Administrative Code is hereby amended by amending  
19 Section 10.60 and adding Section 10.61, to read as follows:

20 **SEC. 10.60. RESERVE POLICIES.**

21 (a) **Rainy Day Reserve.** To enable the public to find all City reserve policies in one  
22 place, this ordinance includes a summary of the Charter-mandated Rainy Day Reserve. This  
23 summary is intended only for convenience and does not modify or supersede the Charter  
24 provisions.  
25

1           The City maintains a "Rainy Day" or economic stabilization reserve under Charter  
2 Section 9.113.5. In any year when the Controller projects that total General Fund revenues  
3 for the upcoming budget year are going to be more than 5 percent higher than the General  
4 Fund revenues for the current year, the City automatically deposits one-half of the "excess  
5 revenues," meaning the revenues above and beyond the current year plus 5 percent growth,  
6 in the Rainy Day Reserve. The total amount of money in the Rainy Day Reserve may not  
7 exceed 10 percent of the City's actual total General Fund revenues.

8           The City may spend money from the Rainy Day Reserve for any lawful governmental  
9 purpose, but only in years when the Controller projects that total General Fund revenues for  
10 the upcoming year will be less than the current year's total General Fund revenues, i.e., years  
11 when the City expects to take in less money than it had taken in for the current year. In those  
12 years, the City may spend up to half the money in the Rainy Day Reserve, but no more than is  
13 necessary to bring the City's total available General Fund revenues up to the level of the  
14 current year. The City may also spend up to 25 percent of the balance of the Rainy Day  
15 Reserve to help the School District in years when certain conditions are met.

16           **(b) General Reserve.** In addition to the Rainy Day Reserve, the City budget shall  
17 include a General Reserve. The General Reserve is intended to address revenue  
18 weaknesses, expenditure overages, or other programmatic goals not anticipated during the  
19 annual budget process. The Mayor and the Board of Supervisors may, at any time following  
20 adoption of the annual budget, appropriate monies from the General Reserve for any lawful  
21 governmental purpose through passage of a supplemental appropriation ordinance by a  
22 simple majority vote.

23           For purposes of this Section, "regular General Fund revenues" shall mean total  
24 General Fund sources less budgeted fund balances, budgeted uses of reserves, and net  
25 transfers, as determined by the Controller. The City shall fund the General Reserve at no less



1 than two percent of budgeted regular General Fund revenues no later than fiscal year 2016-  
2 2017 according to the following schedule:

3 1. The General Reserve shall be no less than \$25 million in the budget for fiscal  
4 year 2010-11;

5 2. The General Reserve shall be no less than \$25 million in the budget for fiscal  
6 year 2011-12;

7 3. The General Reserve shall be no less than 1.0 percent of budgeted regular  
8 General Fund revenues in fiscal year 2012-13;

9 4. The General Reserve shall be no less than 1.25 percent of budgeted regular  
10 General Fund revenues in the budget for fiscal year 2013-14;

11 5. The General Reserve shall be no less than 1.5 percent of budgeted regular  
12 General Fund revenues in the budget for fiscal year 2014-15;

13 6. The General Reserve shall be no less than 1.75 percent of budgeted regular  
14 General Fund revenues in the budget for fiscal year 2015-16; and,

15 7. The General Reserve shall be no less than 2.0 percent of budgeted regular  
16 General Fund revenues in the budget for fiscal year 2016-17 and in the budget for each fiscal  
17 year thereafter.

18 Year-end balances in the General Reserve shall be carried forward to subsequent  
19 years. When necessary, the City shall appropriate sufficient funds to the General Reserve in  
20 the Annual Appropriation Ordinance to restore the fund balance to the level this ordinance  
21 requires.

22 (c) **Budget Stabilization Reserve.** The City shall establish a Budget Stabilization  
23 Reserve to augment the Rainy Day Reserve that the City maintains under Charter Section  
24 9.113.5, and to further mitigate the negative effects of significant economic downturns. The  
25

1 Controller shall deposit funds to the Budget Stabilization Reserve as required under this  
2 Section.

3 The City may withdraw funds from the Budget Stabilization Reserve when the  
4 Controller projects that budgeted regular General Fund revenues for the upcoming budget  
5 year will be less than the current year's regular General Fund revenues, or less than the  
6 highest of any of the prior four fiscal years' regular General Fund revenues plus two percent,  
7 for each intervening year. If the Controller determines that either condition is met, the City  
8 may withdraw funds from the Budget Stabilization Reserve according to the following  
9 guidelines:

10 1. The City may not withdraw funds from the Budget Stabilization Reserve in  
11 any given year until it has withdrawn the maximum amount that the Controller determines is  
12 allowable from the Rainy Day Reserve.

13 2. The City may not withdraw funds from the Budget Stabilization Reserve in  
14 any given year in an amount exceeding the remaining shortfall in General Fund regular  
15 revenues, as defined above, after any withdrawals from the Rainy Day Reserve for the benefit  
16 of the City.

17 3. If the Controller determines that a withdrawal trigger for the Budget  
18 Stabilization Reserve was not met in the current fiscal year, but projects that it will be met for  
19 the upcoming fiscal year, the City may withdraw from the Budget Stabilization Reserve up to  
20 30 percent of the combined value of the Budget Stabilization Reserve and Rainy Day Reserve  
21 less monies withdrawn from the Rainy Day Reserve for any lawful governmental purpose in  
22 the upcoming budget year.

23 4. If the Controller determines that a withdrawal trigger for the Budget  
24 Stabilization Reserve was met in the current fiscal year and projects that it will also be met for  
25 the upcoming fiscal year, the City may withdraw from the Budget Stabilization Reserve up to

1 50 percent of the combined value of the Budget Stabilization Reserve and Rainy Day Reserve  
2 less monies withdrawn from the Rainy Day Reserve for any lawful governmental purpose in  
3 the upcoming budget year.

4 5. If the Controller determines that the withdrawal trigger for the Budget  
5 Stabilization Reserve was met in the current and prior fiscal year as well as the upcoming  
6 fiscal year, the Board may withdraw up to the full balance of the Budget Stabilization Reserve  
7 for any lawful governmental purpose in the upcoming budget year.

8 In order to fund the Budget Stabilization Reserve, the Controller shall deposit  
9 75 percent of the following revenue sources to the Budget Stabilization Reserve:

10 1. Real Property Transfer Tax proceeds in excess of the average annual actual  
11 receipts level for the prior five fiscal years, adjusted for any transfer tax rate increases  
12 adopted by the voters during the prior five year period; and,

13 ~~2. Revenues from the sale of land or other fixed assets to the extent the transfer to the~~  
14 ~~Budget Stabilization Reserve does not violate the Charter, state or federal law, and the Controller~~  
15 ~~determines it does not conflict with any previously adopted City policies affecting such sales; and,~~

16 2.3. Ending unassigned General Fund balances in a given fiscal year as  
17 reported in the City's most recent independent annual audit beyond those appropriated as a  
18 source in the subsequent year's budget.

19 At the conclusion of the fiscal year, the Controller shall revise, if necessary, the balance  
20 in the Budget Stabilization Reserve to reflect year-end actual revenue receipts, as stated in  
21 the City's most recent independent annual audit.

22 There shall be no minimum fund balance for the Budget Stabilization Reserve.  
23 Notwithstanding the above, the Controller shall not make deposit to the Budget Stabilization  
24 Reserve, including deposits from the revenue sources identified above, if the combined fund  
25 balances of the Budget Stabilization Reserve and the Rainy Day Reserve equal or exceed

1 10 percent of actual regular General Fund revenues, as stated in the City's most recent  
2 independent annual audit.

3 The Controller shall not make deposits to the Budget Stabilization Reserve in years in  
4 which the Controller determines that the City is eligible to make withdrawals from the Budget  
5 Stabilization Reserve.

6 In the event that monies are deposited into the Rainy Day Reserve for any given year,  
7 any amount which would otherwise be deposited into the Budget Stabilization Reserve shall  
8 be reduced by the amount of the deposit to the Rainy Day Reserve.

9 The City, by a resolution of the Board of Supervisors adopted by a two-thirds' vote,  
10 may temporarily suspend the provisions of this subsection (c) for the current or upcoming  
11 budget year. The Board of Supervisors may suspend these provisions following a natural  
12 disaster that has caused the Mayor or the Governor to declare an emergency, or for any other  
13 purpose.

14 (d) **Annual Reporting on Reserves.** The Controller shall submit to the Mayor and the  
15 Board of Supervisors an annual report on the status of the General Reserve, the Rainy Day  
16 Reserve, and the Budget Stabilization Reserve.

17  
18 **SEC. 10.61. USE OF SELECTED NONRECURRING REVENUES.**

19 **(a) Nonrecurring Revenues.** *For purposes of this Section, "Selected Nonrecurring Revenues"*  
20 *shall mean:*

21 **(1) A General Fund prior year-end unassigned fund balance in excess of the average of**  
22 **the preceding five years;**

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

1 (3) Otherwise unrestricted revenues from legal judgments and settlements; and

2 (4) Otherwise unrestricted revenues from the sale of land or other fixed assets.

3 (b) Nonrecurring Expenditures. The City may only spend Selected Nonrecurring Revenues on  
4 Nonrecurring Expenditures. For purposes of this Section, "Nonrecurring Expenditures" shall mean  
5 expenditures or other uses that do not create liability for or expectation of substantial ongoing costs,  
6 including, but not limited to:

7 (1) Discretionary funding of reserves;

8 (2) Acquisition of capital equipment;

9 (3) Capital projects included in the City's capital plans;

10 (4) Development of affordable housing; or,

11 (5) Discretionary prepayment of pension, debt, or other long term obligations.

12 Provided, however, that the City may appropriate Selected Nonrecurring Revenues to fund recurring  
13 expenditures, such as operating expenses for a program or routine maintenance for a facility, through  
14 an ordinance approved by the Mayor and passed by a two-thirds' vote of the Board of Supervisors.

15 Upon the request of the Mayor or a member of the Board of Supervisors, the Controller shall  
16 certify whether the proposed use of a Selected Nonrecurring Revenue would be a Nonrecurring  
17 Expenditure, and his or her determination shall be final.

18 (c) Implementation. The Mayor shall identify all Selected Nonrecurring Revenues and their  
19 proposed uses in his or her June 1 budget submission. As part of the Controller's Opinion on Revenue  
20 Estimates required under Charter Section 9.102, the Controller shall identify all Selected Nonrecurring  
21 Revenues included in the Mayor's budget submission and certify whether the proposed uses of those  
22 revenues constitute Nonrecurring Expenditures.

23 (d) Temporary Suspension. The City, by a resolution of the Board of Supervisors adopted by a  
24 two-thirds' vote, may temporarily suspend the provisions of subsection (b) for the current or upcoming

1 budget year. The Board of Supervisors may suspend these provisions following a natural disaster that  
2 has caused the Mayor or the Governor to declare an emergency, or for any other purpose.

3  
4 **Section 3. Effective Date; Operative Date.**

5 (a) This ordinance shall become effective 30 days from the date of passage.

6 (b) Subsection (c) of Section 10.61 will become operative on June 1, 2011;  
7 subsections (a), (b), and (d) shall become operative on July 1, 2011.

8  
9  
10 APPROVED AS TO FORM:  
11 DENNIS J. HERRERA, City Attorney

12 By:   
13 THOMAS J. OWEN  
14 Deputy City Attorney

**LEGISLATIVE DIGEST**

[Administrative Code—Financial Policy Regarding Selected Nonrecurring Revenues]

**Ordinance amending the San Francisco Administrative Code by amending Section 10.60 and adding Section 10.61, to adopt a binding financial policy under Charter Section 9.120 providing that Selected Nonrecurring Revenues may only be spent on Nonrecurring Expenditures.**

**Existing Law**

Current law generally does not limit how the City may spend otherwise-unrestricted revenues based on whether the revenues are of a recurring or non-recurring nature. Charter Section 9.113.5 ("the Rainy Day Reserve") does limit the appropriation and spending of certain "excess revenues," defined as General Fund revenues that exceed the prior year's level by more than five percent. Administrative Code Section 10.60 also makes it binding City policy to deposit 75 percent of revenues from the sale of land or other fixed assets in the City's Budget Stabilization Reserve.

**Amendments to Current Law**

The proposal is an ordinance that would amend the Administrative Code to provide that the City could only spend Selected Nonrecurring Revenues on Nonrecurring Expenditures.

" Selected Nonrecurring Revenues " would consist of:

- A General Fund prior year-end unassigned fund balance in excess of the average of the preceding five years;
- 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;
- Otherwise unrestricted revenues from legal judgments and settlements; and,
- Otherwise unrestricted revenues from the sale of land or other fixed assets.

"Nonrecurring Expenditures" would mean "expenditures or other uses that do not create liability for or expectation of substantial ongoing costs." Examples of Nonrecurring Expenditures would include:

- Discretionary funding of reserves;
- Acquisition of capital equipment;
- Capital projects included in the City's capital plans;
- Development of affordable housing; or,
- Discretionary prepayment of pension, debt, or other long term obligations.

The Controller would certify whether the proposed uses of Selected Nonrecurring Revenues were Nonrecurring Expenditures, and his or her determination would be final. But the City could use Selected Nonrecurring Revenues for ordinary operating expenses if that use was authorized by an ordinance approved by the Mayor and passed by a two-thirds' vote of the Board of Supervisors. The City could also suspend the requirements of the policy for the current or upcoming fiscal year by a resolution adopted by a two-thirds' vote of the Board of Supervisors.

The proposal would also amend the provisions of Administrative Code Section 10.60 addressing the deposit of a portion of the proceeds of land sales into the Budget Stabilization Reserve to make those revenues subject to the new policy instead.

#### Background Information

Proposition A, adopted by the voters in November 2009, added Section 9.120 to the City Charter. Section 9.120 requires the Controller to propose, and the Mayor and the Board of Supervisors to adopt, long-range financial policies for the City. The policies must be in the form of ordinances approved by the Mayor and passed by a two-thirds' vote of the Board of Supervisors. The proposal would be such an ordinance.

The City may not adopt a budget that the Controller determines is inconsistent with any of the provisions of such an ordinance. Upon a two-thirds' vote, the Board of Supervisors by resolution may suspend, in whole or in part, a financial policy ordinance, including the proposal, for the succeeding fiscal year.



1 [Administrative Code—Certificates of Participation and Commercial Paper Debt Policies]

2  
3 **Ordinance adding Section 10.62 to the San Francisco Administrative Code to adopt a**  
4 **binding financial policy under Charter Section 9.120**

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

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

9 Section 1. **Binding Financial Policy.** This ordinance reflects a financial policy  
10 adopted under Charter Section 9.120. As such, it must be adopted as an ordinance approved  
11 by the Mayor and passed by a two-thirds' vote of the Board of Supervisors. The City may not  
12 adopt a budget that the Controller determines is inconsistent with any of the provisions of this  
13 ordinance. Upon a two-thirds' vote, the Board of Supervisors by resolution may suspend, in  
14 whole or in part, this ordinance for the succeeding fiscal year.

15  
16 Section 2. The San Francisco Administrative Code is hereby amended by adding  
17 Section 10.62, to read as follows:

18 **SEC. 10.62. CERTIFICATES OF PARTICIPATION; COMMERCIAL PAPER.**

19 (a) This Policy shall govern the authorization of Certificates of Participation ("COPs") that  
20 may be caused to be executed and delivered by the City in connection with the financing of capital  
21 projects. This Policy also governs the issuance of commercial paper from time to time by the  
22 Controller's Office of Public Finance. This Policy supplements the Controller's Office of Public  
23 Finance's Debt Policy of the City and County of San Francisco ("Debt Policy"), which document is on  
24 file for informational purposes with the Clerk of the Board.

25  
Mayor Lee, Supervisor Farrell, Supervisor Chiu,  
Office of the Controller  
**BOARD OF SUPERVISORS**



1           **(b) Certificates of Participation.**

2           (1) The City may cause the execution and delivery of COPs for, without limitation, (i)  
3 the acquisition or improvement of existing facilities and/or construction of new facilities that result in  
4 immediate or future savings in payments currently made or to be made by the City's General Fund, (ii)  
5 to leverage grant and other monies to reduce operating costs of the City, (iii) for the construction,  
6 improvement or acquisition of facilities to address legal mandates or (iv) the construction,  
7 improvement or acquisition of facilities for critical public health and safety needs. Notwithstanding  
8 anything contained in this ordinance, COPs may not be used to finance operating costs of the City.

9           (2) The Director of Public Finance shall identify specific revenue sources within the  
10 General Fund (e.g., transient occupancy taxes, tobacco settlement receipts, etc) as internal repayment  
11 sources for COPs, to ensure that prudent repayment schedules are placed on the General Fund.

12           (3) The City may use COPs and other lease financing debt as funding sources for  
13 capital projects provided the annual debt service cost of such outstanding indebtedness does not  
14 exceed 3.25 percent of General Fund discretionary revenues.

15           **(c) Commercial Paper Program.**

16           (1) The Director of Public Finance may issue tax-exempt and taxable commercial paper  
17 notes to provide interim funds to finance the acquisition, construction, and rehabilitation of capital  
18 improvements and capital equipment. Commercial paper notes shall not be issued for any project  
19 unless that project and financing plan therefor shall have received prior approval from the Board of  
20 Supervisors and the Mayor.

21           (2) The Director of Public Finance shall provide a written report to the Board of  
22 Supervisors twelve months following the initial issuance of commercial paper notes and annually  
23 thereafter until no commercial paper note remain outstanding describing (i) the notes issued since  
24 commencement of the Commercial Paper Program and since the date of the last report; (ii)  
25 summarizing the current status of projects financed with commercial paper; and (iii) identifying the



1 long term plan of finance with respect any general obligation bonds, COPs or other long term  
2 obligation to refund such commercial paper notes.

3 (d) Exceptions from the Policy.

4 (1) The Board of Supervisors, by a resolution adopted by a two-thirds' vote, may  
5 temporarily suspend the provisions of this Section 10.62 for the current or upcoming budget year, and  
6 may suspend its provisions for individual transactions.

7 (2) The failure of the City to comply with any provision of this Policy shall not affect the  
8 authorization or the validity or enforceability of any COPs or other long term obligation that are  
9 otherwise issued in accordance with law.

10 (3) The Policy shall only apply to indebtedness secured by the City's General Fund and  
11 does not apply to other departments or enterprises of the City, including the Airport Commission, the  
12 Mayor's Office of Housing, the Municipal Transportation Authority, the Port Commission, or the  
13 Public Utilities Commission.

14  
15 **Section 3. Effective Date; Operative Date.**

16 (1) This ordinance shall become effective 30 days from the date of passage.

17 (2) This ordinance shall become operative on July 1, 2012.

18  
19  
20 APPROVED AS TO FORM:  
21 DENNIS J. HERRERA, City Attorney

22 By:

23   
24 MARK D. BLAKE  
25 Deputy City Attorney

Mayor Lee, Supervisor Farrell, Supervisor Chiu,  
Office of the Controller  
BOARD OF SUPERVISORS



1 [Administrative Code—Budget Procedures and Reporting Requirements]

2  
3 **Ordinance amending the San Francisco Administrative Code by amending**  
4 **Sections 3.3, 3.4, 3.5, 3.6, 3.20, 22A.6, and 88.4, and by repealing Sections 88.8 and**  
5 **88.10, to: 1) update budget procedures to accommodate two-year budget cycles and**  
6 **five-year financial planning requirements; and 2) eliminate outdated and duplicative**  
7 **reporting requirements.**

8 NOTE: Additions are single-underline italics Times New Roman;  
9 deletions are ~~strike-through italics Times New Roman~~.  
10 Board amendment additions are double-underlined;  
11 Board amendment deletions are ~~strike-through normal~~.

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

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

15 **SEC. 3.3. BUDGET TIMETABLE.**

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

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

23 (c) The Mayor shall, not later than the first working day of May of each year, transmit  
24 to the Board of Supervisors proposed budgets for selected departments, as determined by the  
25 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

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

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

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

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



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

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

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

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

#### 11 **SEC. 3.4. INTRODUCTION AND PUBLICATION OF BUDGET.**

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

#### 21 **SEC. 3.5. LONG-TERM DEPARTMENTAL AND AGENCY BUDGET PLANNING -** 22 **SETTING GOALS AND STRATEGIES, DEVELOPING STRATEGIC PLANS.**

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

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

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

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

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

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

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

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

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

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

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

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

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

5  
6 **SEC. 3.6. FIVE-YEAR FINANCIAL PLAN THREE-YEAR BUDGET PROJECTION.**

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

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

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

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

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

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

7  
8 **SEC. 3.20. CAPITAL EXPENDITURE PLAN.**

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

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

23 The capital expenditure plan shall include a plan of finance for all recommended  
24 investments, including proposed uses of General and Enterprise Funds to be spent to meet  
25

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

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

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

10  
11 Section 2. The San Francisco Administrative Code is hereby amended by amending  
12 Section 22A.6, to read as follows:

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

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

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

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

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

6 **SEC. 88.4. EFFICIENCY PLANS.**

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

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

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

22 3. **Performance Evaluation.** This element shall include: clearly defined  
23 performance measurements for each departmental objective; prior fiscal year targets and  
24 actual performance for each measure; current fiscal year targets and year to date actual  
25

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

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

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

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

13  
14 Section 4. The San Francisco Code Administrative Code is hereby amended by  
15 repealing Sections 88.9 and 88.10, in their entirety.

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

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

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

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

1 ~~for one or more of the major functions and operations of the agency. A strategic plan under Section~~  
2 ~~88.6 shall be used when preparing department performance plans during one or more years of the pilot~~  
3 ~~period.~~

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

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

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

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

13 ~~(b) Performance Budgeting.~~

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

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



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

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

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

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

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

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

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

17  
18 ~~**SEC. 88.10. BOARD OF SUPERVISORS' OVERSIGHT AND LEGISLATION.**~~

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

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

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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

**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 to 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; and,
- 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.

1 [Adopting a Fixed Two-Year Budget for Port, Airport, and PUC]  
2

3 **Resolution adopting a fixed two-year budgetary cycle for the Airport, the Port, and the**  
4 **Public Utilities Commission, defining terms, and setting deadlines.**  
5

6 WHEREAS, In November 2009, the voters of San Francisco approved Proposition A, a  
7 Charter amendment providing for a two-year budget cycle; and,

8 WHEREAS, In Ordinance No. 21-10, the Board of Supervisors designated the Port,  
9 the Airport, and the Public Utilities Commission for early implementation of the two-year  
10 budget requirement; and,

11 WHEREAS, The Port Commission, the Airport Commission, and the Public Utilities  
12 Commission adopted two-year budgets for their respective departments for the fiscal years  
13 ending June 30, 2011 and June 30, 2012 and the fiscal years ending June 30, 2012 and June  
14 30, 2013; and,

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

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

22 WHEREAS, Section 9.101 of the Charter of the City and County of San Francisco  
23 requires that the resolution declaring that an upcoming budgetary cycle shall be fixed also  
24 include a definition of the term "significant increases or decreases in revenues or  
25 expenditures" and set deadlines for the Controller to submit a report identifying such

1 increases or decreases and for the Mayor to submit to the Board a proposed amendment to  
2 the biennial budget; now, therefore be it

3           RESOLVED, That the upcoming budgetary cycle for the Port Commission, the Airport  
4 Commission, and the Public Utilities Commission shall be a fixed budgetary cycle in which the  
5 biennial budget will remain in effect for the two fiscal years ending June 30, 2013 and  
6 June 30, 2014; and,

7           RESOLVED, That significant increases or decreases in revenues or expenditures shall  
8 be defined as a greater than five percent difference between the projected and the adopted  
9 budget for operating or capital expenditures or revenues for the second year of the  
10 department's biennial budget; and,

11           FURTHER RESOLVED, That no later than March 1, 2013, the Controller will submit to  
12 the Mayor and the Board of Supervisors a report stating whether the Controller projects that  
13 the Port Commission, the Airport Commission, or the Public Utilities Commission will  
14 experience significant increases or decreases in revenues or expenditures, as defined in this  
15 Resolution, during the second year of the budgetary cycle, and will update that report as  
16 additional information becomes available; and,

17           FURTHER RESOLVED, That no later than June 1, 2013, the Mayor will submit to the  
18 Board of Supervisors a proposed budget amendment responding to the Controller's report.  
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