# City of San Antonio Budget Methodologies Evaluation

## San Antonio City Council "B" Session

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# Agenda

INTRODUCTION OF PROJECT TEAM & PROJECT OVERVIEW

CITY OF SAN ANTONIO CORE SERVICES ANALYSIS

CITY OF SAN ANTONIO CURRENT BUDGET PROCESS

EVALUATION OF ALTERNATIVE BUDGET METHODS

PROPOSED BUDGET PROCESS

# Introduction Of Project Team & Project Overview

# What We Do

## FINANCIAL PLANNING

*Synopsis powered by Synario™*

## FINANCIAL ADVISORY

transaction management & bond pricing | credit strategies | capital planning

## ALTERNATIVE FINANCE

public private partnerships & economic development | developer selection & negotiation | asset & real estate portfolio analysis & monetization | environmental finance | tax credit & incentive policies

## INVESTOR RELATIONS

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investor intelligence & outreach | analytics | customized dashboards

## SPECIALIZED SERVICES

derivatives advisory | treasury management consulting | retirement finance

## CONSULTING

fiscal planning & budgeting | organizational efficiency & effectiveness | policy & program analysis | workforce strategy & negotiation support

# PFM's Management and Budget Consulting (MBC) Team

- MBC is a team of professionals whose mission is to help local government, state government, and non-profit leaders overcome their toughest financial challenges, improve the efficiency of their day-to-day operations, and align their resources to their community's long-term goals.

- We work with our clients to strengthen their finances, improve operating performance, and increase capacity to deliver services effectively.

- We are unique in our ability to view policy and operational issues in a fiscal context, understanding that efficiency needs to be in the service of achieving larger goals. That's why virtually all of our major local government engagements focus on the point of intersection between operations, policy, and budget.

- In just the last three years, our MBC practice has worked with over 80 local governments on a variety of engagements.

- Over the years, PFM has supported the City on a variety of projects, including workforce, collective bargaining, American Rescue Plan Act support.

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# Project Overview

- PFM was engaged by the City of San Antonio to analyze the City's current budget process and identify opportunities to integrate alternative budgeting approaches — such as zero-based budgeting, performance-based budgeting, and outcomes-based budgeting.

- The goal is to establish a more transparent and data-driven budgeting process that provides greater insight for informed decision-making, ultimately improving the quality of critical services and ensuring that investments are more meaningful and impactful for the City.

- The work involved four phases:

  - **Core Services Review**: Identified and assessed the City's core services to ensure alignment with budgeting priorities.

  - **Budget Process Evaluation**: Analyzed the current budget process by reviewing the existing timeline, key steps, and engaging with City staff and leadership to identify strengths and opportunities for improvement.

  - **Budgeting Methods Research**: Researched Zero-Based Budgeting, Performance-Based Budgeting, and Outcomes-Based Budgeting to identify key components of these methodologies that could enhance the City's current process.

  - **Recommendation of Alternative Budgeting Methodology**: For Council consideration to be implemented in FY2027.

- Throughout this process, the PFM team actively collaborated with City leadership and staff to gain additional insight. The PFM team worked closely with Deputy City Manager Maria Villagomez and Budget Director Justina Tate. We also interviewed key department leadership and are working with the City Attorney's Office.

- PFM also conducted an internal workshop with PFM staff who have significant experience in implementing various budgeting methods. The session provided valuable insights on what worked well, what didn't, and key considerations for the successful implementation of alternative budgeting approaches.
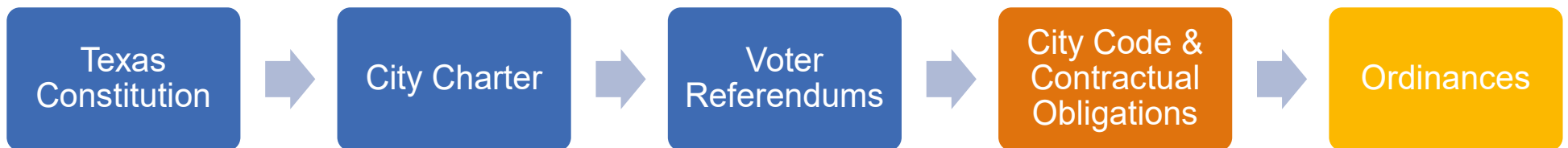
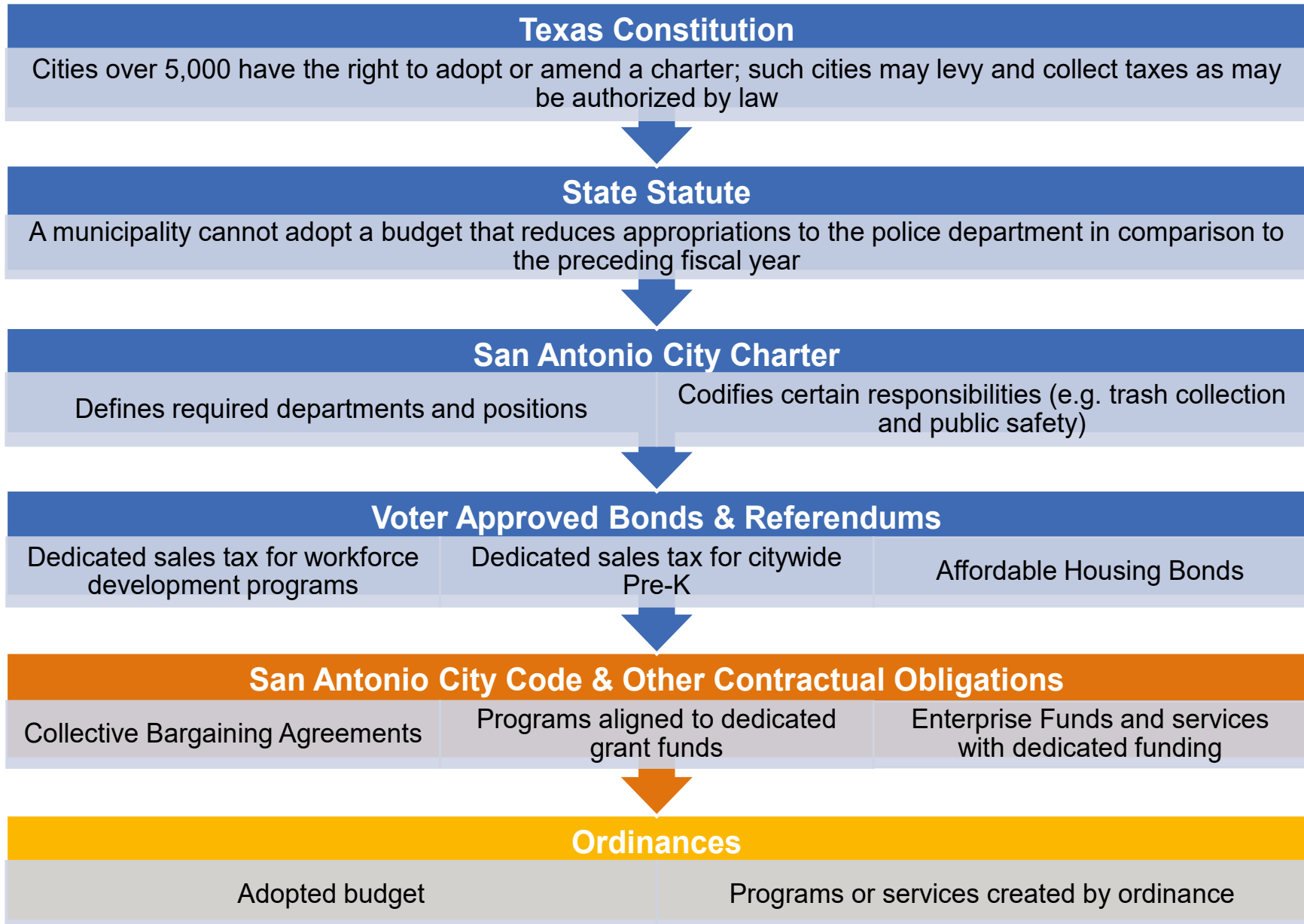# City of San Antonio Core Services Analysis

# Evaluation of Core Services

- As a part of the PFM team's review of the City's current budgeting practices and consideration of other budget methodologies, such as zero-based budgeting (ZBB), the Team worked with City management to define the City's core services.

- For the purposes of our analysis, core services are defined as departments, programs, functions or services that the City is required to provide. These mandated services are outlined in the City's Charter and State Code. The services may also be codified through referendum.

- The graphic below demonstrates the various enabling mechanisms leveraged by the City to authorize services, programs, and personnel.

- The following slides provide additional detail on the nature of each of the below core service mechanisms.

- It is important to note that for the purposes of our analysis, the authorizing frameworks in **blue** (i.e. the Texas Constitution, City Charter, and Voter Referendums) outline the City's most essential mandates with the little to no flexibility.

- Conversely, the City Code and contractual obligations have more flexibility for city administration and council to make changes. While ordinances direct action and fund services, they have the most flexibility and items authorized in this manner would not be considered as core or mandated services for the purposes of ZBB.

| Texas Constitution | → | City Charter | → | Voter Referendums | → | City Code & Contractual Obligations | → | Ordinances |
|---|---|---|---|---|---|---|---|---|

# Hierarchy of Authority for San Antonio

**Texas Constitution**

Cities over 5,000 have the right to adopt or amend a charter; such cities may levy and collect taxes as may be authorized by law

**State Statute**

A municipality cannot adopt a budget that reduces appropriations to the police department in comparison to the preceding fiscal year

**San Antonio City Charter**

| Defines required departments and positions | Codifies certain responsibilities (e.g. trash collection and public safety) |

**Voter Approved Bonds & Referendums**

| Dedicated sales tax for workforce development programs | Dedicated sales tax for citywide Pre-K | Affordable Housing Bonds |

**San Antonio City Code & Other Contractual Obligations**

| Collective Bargaining Agreements | Programs aligned to dedicated grant funds | Enterprise Funds and services with dedicated funding |

**Ordinances**

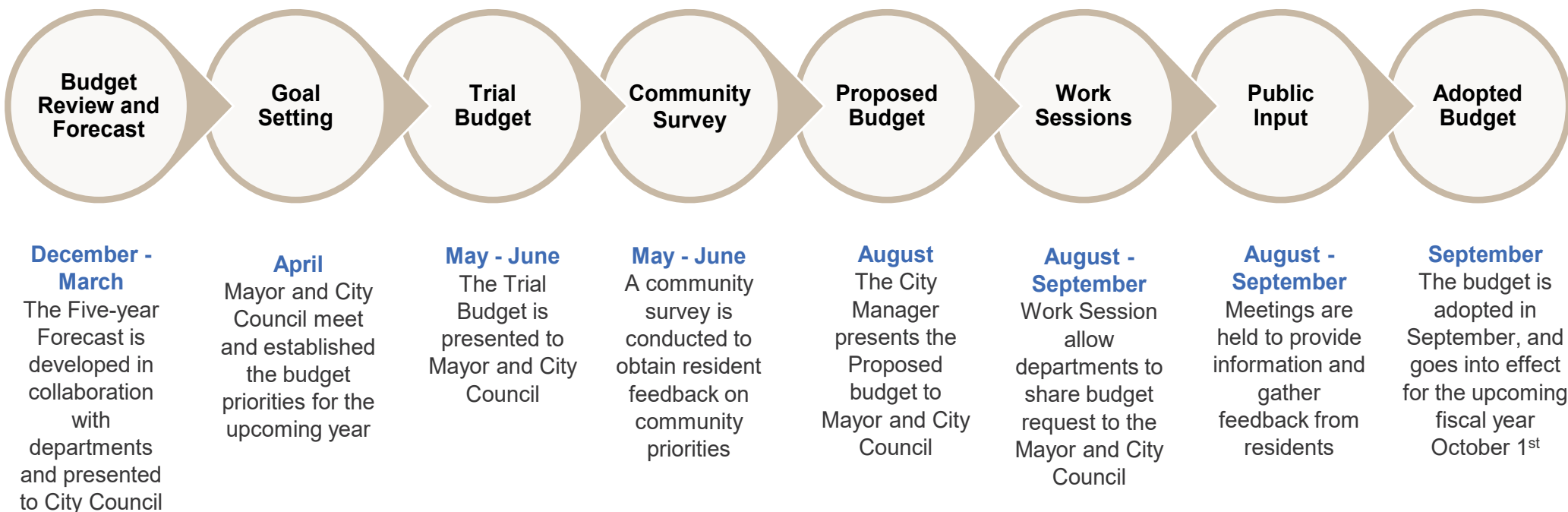| Adopted budget | Programs or services created by ordinance |

# City of San Antonio Current Budget Process

# Current Budget Process and Timeline

- The City's current budget process includes various steps beginning in December with the budget review and development of the City's five-year forecast and ending in September with Council's adoption of the budget.

**Budget Review and Forecast**

**Goal Setting**

**Trial Budget**

**Community Survey**

**Proposed Budget**

**Work Sessions**

**Public Input**

**Adopted Budget**

**December - March**
The Five-year Forecast is developed in collaboration with departments and presented to City Council

**April**
Mayor and City Council meet and established the budget priorities for the upcoming year

**May - June**
The Trial Budget is presented to Mayor and City Council

**May - June**
A community survey is conducted to obtain resident feedback on community priorities

**August**
The City Manager presents the Proposed budget to Mayor and City Council

**August - September**
Work Session allow departments to share budget request to the Mayor and City Council

**August - September**
Meetings are held to provide information and gather feedback from residents

**September**
The budget is adopted in September, and goes into effect for the upcoming fiscal year October 1st

**Note:** The current process timeline is adjusted to accommodate an election year.

# Best Practices in Action

- The City's current budget process incorporates several best practices that promote transparency, fiscal responsibility, and long-term sustainability. This includes practices such as:

  - **Five Year Forecast**: Utilizing financial forecasts to anticipate future revenue and expenditure trends beyond the current fiscal year to make informed decisions and prepare for potential fiscal challenges.

  - **Goal Setting**: Establishing broad goals and priorities for that city to guide the decisions made during the budget process. This will ensure that budget allocations are in alignment with the City's goals and ensure.

  - **Budget Data Gathering**: Relying on comprehensive data around current staffing, revenue, and expenditure levels to inform decision-making.

  - **Community Survey and Public Input**: Involving residents, community groups, and other stakeholders in budget discussions to ensure that the budget captures the current needs, priorities, and concerns of residents.

  - **Performance Management**: Utilizing performance measures helps a city track progress, improve services, and provides data-driven insights into how to effectively meet community goals.

  - **Budget Monitoring**: Continuously assess budget performance to ensure that financial resources are used effectively and that the budget adapts to changing circumstances.

*GFOA Recommended Budget Practices*

# SWOT Analysis – Current Budget Process

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**Strengths**:

- The current process is well established, with clear timelines and provides stability for the budget office and departments.

- The current process integrates numerous best and promising practices and is seen as a model amongst its peers.

- Incorporates input from staff, the Mayor and Council, and residents – ensuring the budget reflects a wide range of needs and objectives.

- The current process provides two major forums for residents to contribute to the development of the budget, which allows for the budget to reflect the needs and desires of residents.

- Departments consider the impacts of major budget changes for communities within the City through the request process.

- Relies heavily on data to review existing revenue and expenditure trends, around with forecasts to help plan for potential budget challenges.

# SWOT Analysis – Current Budget Process

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## Weaknesses

- It can be difficult to justify changes to budget allocations not associated with changes to priorities.

- Programs and services may continue to grow without an analysis of whether the intended goal of the program has been completed.

# SWOT Analysis – Current Budget Process

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## Opportunities

- General willingness from Mayor and City Staff (departments and budget team) to try new strategies that may improve processes and outcomes.

- May be capacity to build in additional opportunities for the City Manager to provide insight to the Mayor and Council before priorities are set to make more informed budget decisions.

- There is an opportunity to incorporate more robust data and performance metrics into the budget process, improving how departments can justify budget requests and demonstrate the benefits of their programs.

- A more flexible and adaptable budget process could better account for future growth, emerging needs, and evolving priorities, making the City more resilient to unforeseen challenges.

# SWOT Analysis – Current Budget Process

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### Threats

- Given the City's limited resources and the absence of clearly defined outcomes, the current budgeting process may struggle to meet the community's needs. Without a clear emphasis on intended results, this approach risks exacerbating existing challenges and may lead to inefficiencies or unmet priorities within essential services.

- Without a method to evaluate whether services are aligned and optimally provided, the city may continue to fund fragmented or overlapping services, which reduces the overall effectiveness of service delivery.

- The current incremental budgeting method tends to focus on short-term adjustments, which can limit the ability to plan for long-term goals or address emerging issues.

- An inconsistent understanding of core and ideal service levels may justify or demand higher levels of investment despite attempts to identify efficiencies and savings.

# Evaluation of Alternative Budget Methods

# Comparing Budgeting Methodologies

| Method | Approach |
|---|---|
| Incremental Budgeting | Departments use the prior year's budget as a baseline and make small, incremental adjustments for factors like population growth, demand changes, inflation, or other predictable costs. |
| Zero-Based Budgeting | Requires departments to justify each expenditure from scratch each budget cycle. They break the organization into units, create and rank decision packages, and central budget authorities make the final allocations. |
| Performance-Based Budgeting | Budget allocations are based on the outcomes and performance departments experience, rather than historical spending patterns. Departments establish specific performance measures that are aligned with broader city priorities such as reducing crime, improving traffic, or boosting the local economy. |
| Outcomes- Based Budgeting | Budget allocations are determined based on expected outcomes or impacts for programs or services. Departments organize the budget by services and align the goals of the services to the City's priorities. |
| Priority-Based Budgeting | Budget allocations are based on the priority of programs and services. Departments rank services according to their importance and alignment with organizational goals, and funding is distributed based on these priorities. |
| Target-Based Budgeting | Departments receive a target budget for core services and submit options for supplemental services, varying in effort and cost. Central budget authorities review and select which supplemental services to fund. |

# Comparing Budgeting Methodologies

| Method | Pros | Cons |
|---|---|---|
| Incremental Budgeting | Simplest form of budgeting, is flexible in accommodating changing administrations and political priorities, provides easy to understand line-item information. | More difficult for the average reader to understand, can be slow to adapt to changing conditions for local governments, does not provide as much transparency into program success or ROI. |
| Zero-Based Budgeting | Allows for greater flexibility in prioritizing certain services that can maximize impact, requires additional reviews of service levels which creates a more critical approach to budgeting, increases transparency due to the use of performance measures to track performance levels. | Very time-consuming process requiring dedicated staff time across departments to identify, develop and rank decision packages; decision packages can be influenced by a manager's preference for certain programs; financial accounting software must be set up to support revenues and expenditures of programs (vs. Line-items) |
| Performance-Based Budgeting | Provides greater accountability for local taxpayers around where their dollars are being spent, requires the quantification of specific goals which allows residents and officials to see relationships between funding and performance. | Relies on a set of performance measures that are not always agreed on or uniform across departments, once inputs and outputs have been defined there is less flexibility than other budget methods. |

# Comparing Budgeting Methodologies

| Method | Pros | Cons |
|--------|------|------|
| Outcomes- Based Budgeting | Provides greater transparency by showcasing specific budget allocations and the measurable outcomes those allocations provide, removes frustrations in line-item budgeting by defining clear outcomes that are measurable for priority services. | Requires strong buy-in across the City to ensure each department is working equally to meet priority outcomes, can be difficult for departments to agree on outcome expectations and for leadership to fully understand department capacity to provide services when setting outcomes. |
| Priority-Based Budgeting | Prioritizes programs and services over departments which gives a broader look into spending, encourages fiscal responsibility by challenging historical spending patterns, shows how personnel are impacted by different programs. | Department leadership must ensure there is citywide buy-in with the established priorities for the process to be most effective. |
| Target-Based Budgeting | Provides individual departments with independence in drafting budgets for core services within funding targets, helps to control spending growth in local governments by setting targets below available revenues, provides clear forecasts for future revenues. | Process of setting specific department funding targets can be somewhat arbitrary, departments can sometimes stretch the definition of "core services" to fund certain programs, reliance on future forecasts can produce issues if forecasts are incorrect. |

# San Antonio's Current Budget Approach

- San Antonio currently utilizes components of multiple budgeting methodologies in its' existing budget process:

  o Fiscal year revenue budgets are developed by city departments as part of the Five-Year Forecast. Departments develop projections based on historical trends, economic conditions, and contract terms.

  o Fiscal year expense budget drafts are built by setting a base budget, which updates personnel expenses, removes one-time investments, and adds in the second year of improvements. Additional adjustments are made as needed, similar to **incremental budgeting.**

  o As part of the departmental Comprehensive Budget Review process, City budget and department staff work together to review each line item in the budget for effectiveness and efficiencies, similar to **zero-based** budgeting.

  o As part of the FY2025 budget process, San Antonio budget staff requested departments submit three programs for reductions, with a focus on "programs that are not efficient or have a lower demand for service or programs that can be re-aligned to create efficiencies," similar to **performance-based** and **outcomes-based** budgeting.

  o Each year as part of the budget process, the Mayor and City Council hold a Budget Goal Setting Session, developing a list of key priorities that are utilized to develop a trial budget during budget deliberations, similar to **priority-based** budgeting.

- Because San Antonio currently uses components of various budgeting methodologies, PFM believes the City will be successful in implementing a hybrid budgeting approach that contains many of these components that have already been deemed a success for San Antonio.

# Takeaways

- While there is no one size fits all approach to budgeting, there are specific considerations San Antonio should keep in mind when comparing various budgeting methodologies.

- Many of the budgeting methods that differ from incremental budgeting can be very time intensive for budget and department staff – San Antonio should ensure strong procedures are set to support staff through any new, and extended, budget process.

- Budgeting methodologies that rely on programs and services rather than traditional line-items must be supported by an accounting system that can accurately capture this different kind of information.

- City leadership should emphasize to departments that program and service redundancies should be studied, with a particular emphasis on ways departments can shift service responsibilities around to reduce redundancies and save additional funds.

- City leadership should ensure all departments with independent budget document responsibility has the staff capacity necessary to take on additional analysis responsibilities during the future budget process.

- Ultimately using a combination of zero-based, performance-based and outcomes-based budget methodologies will allow San Antonio leaders to make better informed and strategic decisions on annual budget allocations.

# Proposed Budget Process

# The Need for a Hybrid Approach

- A hybrid approach will help the City be more efficient, transparent, and strategic in how it allocates resources to meet its goals.

- By combining components of zero-based, performance-based, target-based, and outcomes-based budgeting – while maintaining aspects of the current budget process that are effective – the City will be able to make more informed, data-driven decisions.

- This approach ensures that resources are allocated based on the current priorities of the Mayor, Council, and departments, while also evaluating the effectiveness and impact of programs.

- By integrating performance metrics and outcome assessments, the City will be able to identify which services are delivering the most value, whether existing programs are still needed, and where improvements can be made.

- A hybrid approach holds departments accountable for their performance, while also providing the Mayor and City Council with the necessary data to make evidence-based decisions.

- This creates a system that is both flexible and results-oriented, ensuring that the City can adjust its focus as circumstances change and new priorities emerge.

**Alignment with Goals**

**Transparency and Accountability**

**Enhanced Efficiency**

**Strategic Allocations**

**Improved Decision-making**

# Key Elements of Current Budget System to Integrate

## Budget Forecasting

Continue developing a five-year forecast.

## Goal and Priority Setting

Continue the process of establishing goals and priorities for the City

## Community Engagement

Continue gathering community input around goals and priorities.

## Performance Measures

Continue utilizing performance measures.

## Budget Transparency

Continue ensuring all residents, staff, and stakeholders understand how funds are allocated.

## Utilize Data

Continue to utilize data to inform decisions.

# Preliminary Recommendations

## *Hybrid Budget Process*

A hybrid approach that strategically implements more outcomes-based budget practices and creates the structure for deeper goal setting so that City leadership can provide greater clarity to departments at the front end on which services, programs or priorities need to be reduced.

*Maintain elements of community engagement, multi-year forecasting, and priority-based budgeting already in practice.*

*Deploy longer council goal setting sessions to define priorities and outcomes for the next two to four years.*

*Instead of using across the board ZBB, create a defined criteria for programs and services that are poised for ZBB.*

*Implement comprehensive budget reviews for departments on a rolling basis (a set of departments each year) to ensure all services are reviewed for efficiency and effectiveness.*

*Deploy more rigorous training and standards on performance measurement setting and tracking.*

# Proposed Budget Timeline

- The following slides outline the reimagined budget process, which introduces two distinct cycles:

**Transitional Budget Process**
*(Year One -  to be repeated every five years)*

The transitional budget process is an expanded process occurring once every five years and is designed to support the development of longer-term goals and strategic priorities. It aligns with the four-year election and council term cycles, allowing for a comprehensive reset of budget priorities. The additional steps in this process are intended to frame long-term goals and outcomes to inform broader (multi-year) budget planning.

During Year One of the cycle, departments are grouped and prioritized for an in-depth comprehensive budget review that would take place each year of the four-year cycle.

**Regular Budget Process**
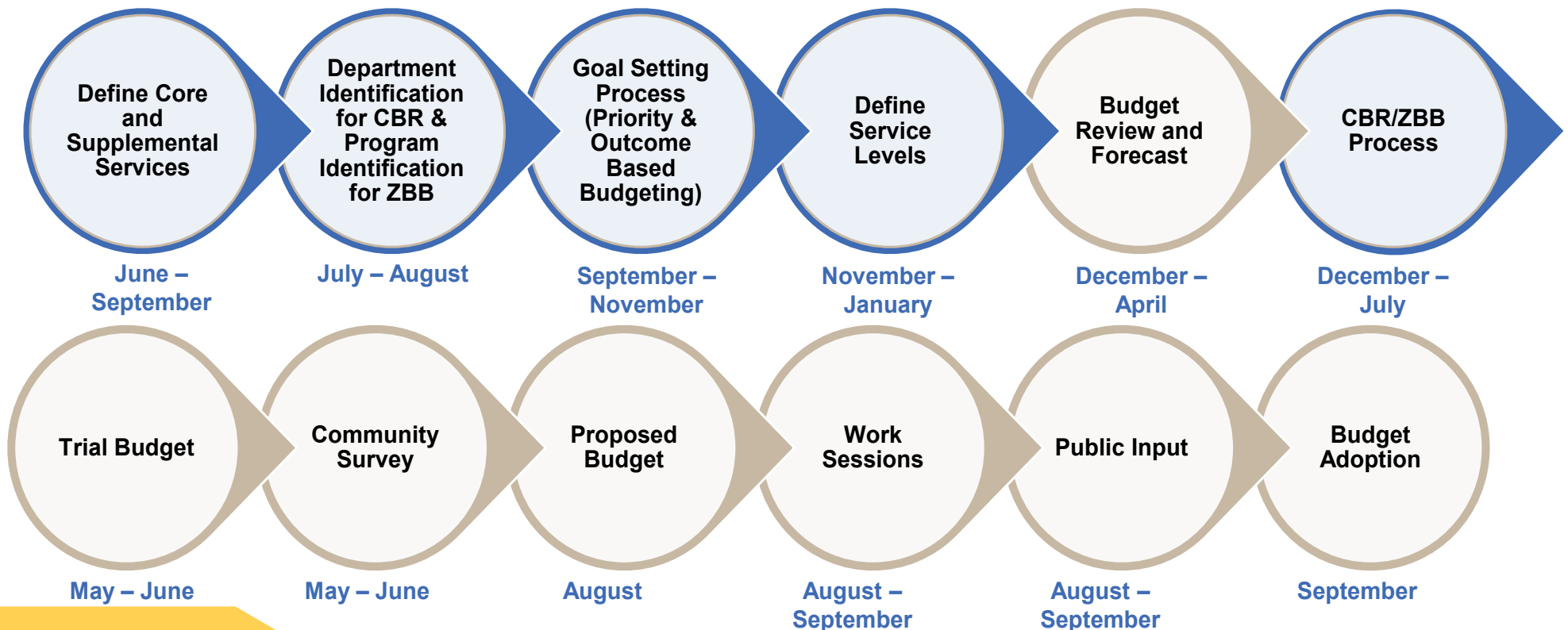*(To be repeated annually in years Two, Three and Four)*

In the years between transitional cycles, the regular budget process takes place. This shorter cycle focuses on reevaluating the goals and outcomes of the transitional budget year and making targeted adjustments to the transitional year. Identifying new annual priorities along with making adjustments for current year budget realities will also be the focus for non-transition budget years.

Each year a new set of two to five departments are subject to a comprehensive budget review.

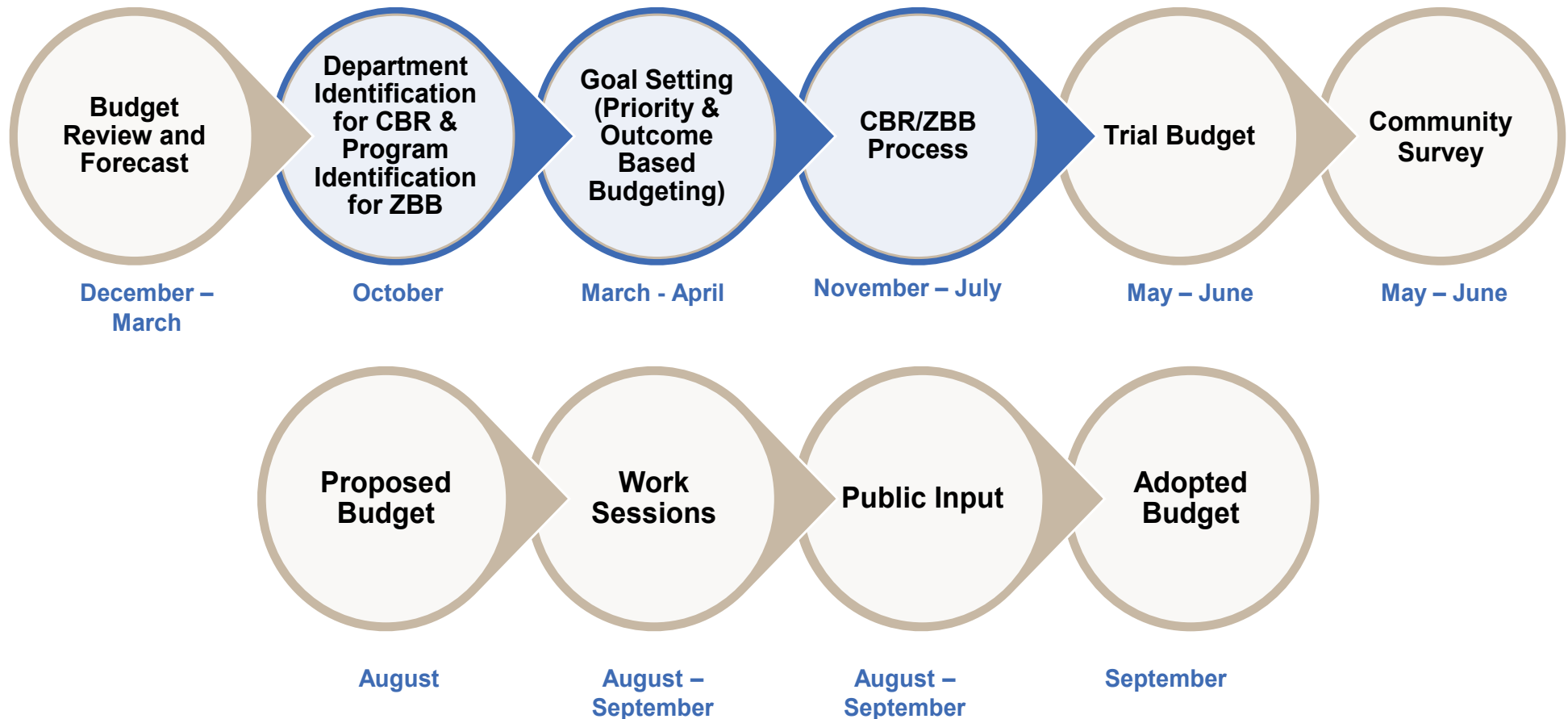# The New Budget Process – Transitional Year (Year One)

- The following graphic introduces the reimagined process for the transitional year (year one), which incorporate additional steps to the existing budget process to allow for a more through review of programs and services and for Council to have more time to define priorities and outcomes. This new process incorporates aspects of zero-based, target-based budgeting, and priority-based budgeting.

- The steps outlined in blue indicate new steps within the budget process. Steps outlined in tan are already existing parts of the budget process.

  - While the goal setting process exists in the current budget process, the new process adds additional time and steps to identify priorities and outcomes, and to identify programs to undergo the ZBB process.

  - The goal setting process during the transitional year will also be informed by existing public input channels.

| Define Core and Supplemental Services | Department Identification for CBR & Program Identification for ZBB | Goal Setting Process (Priority & Outcome Based Budgeting) | Define Service Levels | Budget Review and Forecast | CBR/ZBB Process |
|---|---|---|---|---|---|
| June – September | July – August | September – November | November – January | December – April | December – July |

| Trial Budget | Community Survey | Proposed Budget | Work Sessions | Public Input | Budget Adoption |
|---|---|---|---|---|---|
| May – June | May – June | August | August – September | August – September | September |

# The New Budget Process – Regular Budget Years (Years Two, Three and Four)

● The following graphic introduces the reimagined process for the regular budget years taking place during years two, three and four. This process still incorporates additional steps from the current budget process that will allow for the City to have time to reaffirm priorities and outcomes while also identifying services and programs to undergo ZBB.

| Budget Review and Forecast | Department Identification for CBR & Program Identification for ZBB | Goal Setting (Priority & Outcome Based Budgeting) | CBR/ZBB Process | Trial Budget | Community Survey |
|---|---|---|---|---|---|
| December – March | October | March - April | November – July | May – June | May – June |

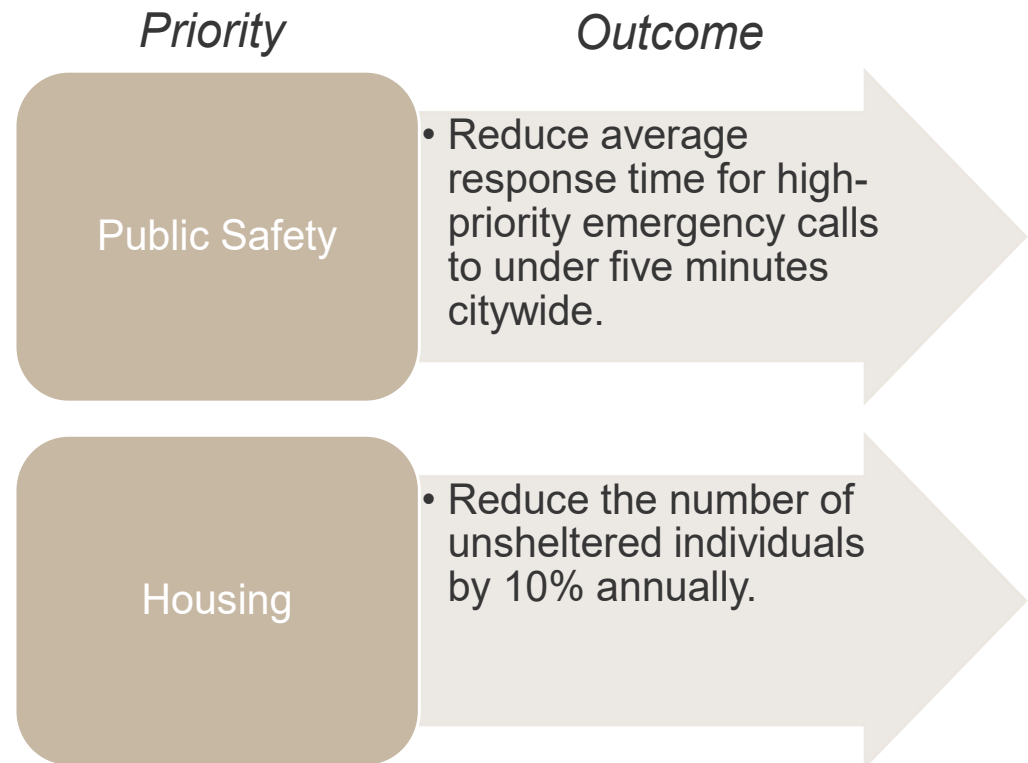| Proposed Budget | Work Sessions | Public Input | Adopted Budget |
|---|---|---|---|
| August | August – September | August – September | September |

# Priorities and Outcomes

- The transition to the new budget process will require the Mayor and City Council to develop clearly defined priorities and outcomes to ensure that spending aligns with the most relevant community needs.

  - The priorities will define what issues or services to focus on.

  - The outcomes will define what success will look like. Outcomes will center around results

- Outcomes should directly support the broader strategic priorities of the City and be used to determine the levels of funding allocated to a program.

- Outcomes should also consider what is achievable given the available resources.

## Example Priority and Outcome

| Priority | Outcome |
|----------|---------|
| Public Safety | • Reduce average response time for high-priority emergency calls to under five minutes citywide. |
| Housing | • Reduce the number of unsheltered individuals by 10% annually. |

# Budget Process Roles by Stakeholder

| Residents | Mayor and City Council | City Manager | Budget Team | Departments |
|---|---|---|---|---|
| • Provide input around City goals and priorities through the community survey<br><br>• Provide input through townhall events on the Proposed Budget | • Set citywide goals and priorities<br><br>• Define desired outcomes<br><br>• Select service levels for all supplemental services that align with budget targets<br><br>• Define areas of investment, along with spending and revenue goals<br><br>• Adopt budget | • Facilitate Council discussion for identification of desired outcomes<br><br>• Identify programs poised for ZBB<br><br>• Review and confirm departments for CBR review<br><br>• Adjust the budget to align with desired outcomes set by Mayor and City Council<br><br>• Present the proposed budget to City Council | • Budget review and five-year forecast<br><br>• Assist in identifying programs to go under ZBB review<br><br>• Developing Trial and Proposed Budgets for review<br><br>• Prioritize departments for CBR review | • Provide strategic plan information and updates around existing services<br><br>• Provide subject matter expertise around current initiatives and programs for Goal Setting<br><br>• Develop service level packages under ZBB for City Council<br><br>• Participate in CBR progress<br><br>• Present budget requests |

# SWOT Analysis – New Budget Process

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**Strengths**:

- Provides departments, Mayor, and Council with a longer view of priorities for better alignment and decision-making.

- Ability for the Mayor and Council to determine desired program outcomes and establish expectations around service level.

- Uses a tiered approach to help City council make informed decisions around service prioritization.

- Provides departments with additional opportunities to share their subject matter expertise on the services they provide, along with insights into how residents are experiencing these services.

- Utilizes strategic plans, performance data, and financial forecasts to enable the Mayor and City Council and departments to make more informed, data-driven decisions.

- Offers a systematic approach for evaluating departments through the CBR process along with individual programs and services through targeted ZBB.

# SWOT Analysis – New Budget Process

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## Weaknesses

- The process places a significant burden on the Mayor and City Council to make difficult decisions about which services to prioritize and fund. This could lead to political challenges or disagreements around priorities.

- While the ZBB process will be limited to select programs, it will still require time and effort from department staff to review supplemental services and develop decision packages.

- Limiting ZBB to only supplemental services may cause departments to overlook inefficiencies in mandatory services.

- Implementing this new process with additional steps could overwhelm departments and City Council members.

# SWOT Analysis – New Budget Process



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## Opportunities

- The tiered service levels of the decision packages give the City more flexibility with programs to allow for services to be scaled up or down depending on funding availability and community need. This ensures resources are used effectively, even in the face of budget constraints.

- This budget process increases the collaboration between the budget team, Mayor, City Council, and departments to develop more informed budget decisions.

- The process can help identify duplicated services across departments, improving the efficiency of supplemental services and eliminating redundancies.

- May allow the budget team earlier opportunities to share budget targets and constraints to departments and the Mayor and Council. This in turn may cut down on back and forth between the budget team and departments to set the initial proposed budget.

# SWOT Analysis – New Budget Process

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## Threats

- There may be external pressure from various stakeholders who have a vested interest in specific services (longstanding community partners, vocal residents, businesses, etc.).

- There may be potential backlash from residents if certain supplemental services that they have grown to enjoy or even depend on are cut as a result of ZBB.

# Thank you!

pfm