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FINANCING LOCAL GOVERNMENT  
IN SAN FRANCISCO

BY

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**Financing Local Government in San Francisco**

Charles Marston and Michael Wiseman

Department of Economics  
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## FINANCING LOCAL GOVERNMENT IN SAN FRANCISCO

Charles Marston and Michael Wiseman\*

### I. Introduction

Local governments in the United States have annual budgets and concentrate fiscal planning, to the extent planning occurs, on the short run. But as every mayor with a two-year term knows, in the short run not much can be changed. It is really inertia that governs year-to-year.

It is a mistake to infer that the constraints that preclude instant transformations also prevent meaningful changes over intervals of more reasonable duration. Recent attempts in New York, Seattle, San Francisco and other cities to do "strategic" planning reflect recognition that if policy is to have any effect on urban conditions, a longer perspective, and a political consensus to support long-run policy, must be sought. But many of these efforts seem not to confront the key issues of (a) what the

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objectives of policy-making should be, (b) what term is "long enough", and (c) what the effective constraints on policy-making actually are.

These constraints come in three varieties: political, institutional, and economic. Political constraints grow out of the reality that in a democratically-organized society in which politicians must eventually submit their decisions to the voters. Institutional constraints are limitations upon local action created by law established by governmental authority above that of the city. The economic constraints are consequences of the nature of the local economy. In city politics it often seems to be the economic constraints that are least well understood and appreciated.

This paper studies changes in city finances in San Francisco between 1978 and 1983 with an emphasis on institutional and economic developments. These five years are of interest because they mark a period of substantial changes in both San Francisco's economy and in the institutional environment of local public finance in California.

The environmental changes were initiated by passage of a state-wide tax limitation initiative ("Proposition 13"). This action placed a severely binding cap on local property tax rates. The Proposition 13 disruption was followed in two years by a series of cutbacks in federal programs initiated by the administration of President Ronald Reagan. In addition to reductions in levels of funding, the new administration made significant changes in many programs, especially those related to human services.

The effects of the changes brought about by Proposition 13 and the new administration were complicated for many local governments by the two recessions the country has experienced since 1980. The recessions have generated declines in local government revenues and deterioration in

state revenues that have led to additional reductions in intergovernmental fiscal support. In California such changes were endorsed and stressed by a new and conservative Republican state administration.

It is common to view developments in the local "fisc" to be largely beyond local control. A related perspective is that urban economies are so fragile that even slight perturbations in tax and expenditure policy risk acceleration of urban decline or reversal of positive economic developments. But what is the truth? When we observe the current pattern of expenditures by local governments, are we seeing an outcome determined largely by external constraint, or do we observe a political equilibrium in which politicians have established levels of taxation and revenue collection based on traditional weighing of political costs and benefits? What are the likely consequences of change? The opportunities for strategic policy depend critically on this assessment.

The paper lays a foundation for investigation of policy alternatives by developing a framework for study of revenue and expenditure developments. Much of what follows is accounting, but for San Francisco it is unique in that we attempt to develop a consistent set of accounts reaching back to 1978. These accounts are then used to illustrate the changes that have occurred in revenue sources for the city since 1978 and to identify certain key issues related to the financing of government activities in San Francisco during the coming decade.

We reach the following conclusions:

1. Despite the recession, San Francisco's growth over the recent past has been strong. Over the interval 1978-83 nonresidential private sector output probably grew by about 12%.



2. Growth in output has not been matched by growth in personal income received by the city's residents. Because of the unsatisfactory nature of the data, this conclusion is less certain than (1).
3. Growth in employment during the last decade has been dominated by retail trade, finance, and business services. The changes that have taken place in the structure of the city's economy have increased the sensitivity of local employment to macroeconomic developments.
4. Businesses now pay a larger share of property taxes in San Francisco than was true before passage of Proposition 13. This outcome differs from that forecast by some critics at the time of the initiative's introduction.
5. The share of intergovernmental transfers in total city revenues has declined; the change was particularly pronounced in 1982-83. While the federal share in local sources has declined, the state share has increased, but not by enough to offset wholly the loss in aid from Washington.
6. For San Francisco, the results of the events of the last five years have been to reduce the relative importance of government activity in the economy, to increase the share of local government resources obtained locally, and to reduce the share of city revenues obtained from business taxes.
7. While the output measure developed in the paper is approximate, our results indicate that the city's business tax "burden" probably de-

clined by about eighteen percent in the five years following 1978. As used here, "burden" is the ratio of business taxes to income originating in the private nonresidential business sector.

8. During the coming two years the city has a significant opportunity for reorganization of its tax base.

A note of caution is in order. The accounting exercises that follow will appear trivial to readers familiar with common local government financial reports or the state and local government finances data prepared by the U.S. Department of Commerce. In fact, unraveling revenues for local government operations in San Francisco is a major undertaking, both because the structure of government in the city is so unusual and because until recently San Francisco's bookkeeping system precluded a unitary investigation of revenue sources and, for that matter, uses. These matters are discussed in more detail below.

## II. Background

The development of local revenues is affected by trends in local economy and demography as well as the state and national factors mentioned above. In this section certain aspects of the local economy and the structure of government relevant to evaluation of revenues are described.

**The Economy.** San Francisco is probably not a very good example of anything but San Francisco. Among other distinctive features, San Francisco has California's only combined city and county government. Compared to other old, large cities, the SF economy is disproportionately based on nonmanufacturing, demographic developments in the city are exceptionally

impacted by international migration and homosexual population, and certain institutional factors are unique. A key background fact is that the period 1978-83 includes a boom period for the local private economy. This development was associated with an expansion in population, employment, retail sales, and personal income. The growth in employment ended with the 81-82 recession, but is probably underway again.

Data on population, school enrollments, and welfare dependency in San Francisco are presented in Table 1. As was true for most other older cities, the 1980 census showed San Francisco's population to be smaller than that counted in 1970. However, the 1980/1970 figures mask an apparent turnaround in population trends which began in 1977-1979. (Dating of the turnaround is highly conjectural). Between 1978 and 1983, total population in the city probably grew by about 7 percent.

The turnaround in population growth<sup>1</sup> is attributable in large part to immigration of two groups of people. One consists of homosexuals migrating to the city because of its relatively tolerant attitude toward "alternative life styles". The other is made up of immigrants, principally from southeast Asia and central America. The immigrant group is highly fecund; San Francisco school enrollments, which declined throughout the 1970's, have recently stabilized and actually increased somewhat. Much of this change appears to be due to the presence of children of immigrants.

In general it can be said that the influx of immigrants has enriched the city's labor force and has created great pressure on the lower end of the city's housing supply. At the same time, the combination of the homosexual population and other younger persons with small households has gen-

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<sup>1</sup> As is true for most older cities, San Francisco cannot annex new land area. As a result, any change in population is a change in density. The city covers about 46 square miles.

Table 1:

## DEMOGRAPHIC AND DEPENDENCY TRENDS IN SAN FRANCISCO

Year	Population (1) (thousands)	Proportion Nonwhite (2)	AFDC and GA Recipients (3) (thousands)	Primary and Secondary School Enrollment (4) (thousands)
1940	635	5.1	n.a.	n.a.
1950	775	10.6	n.a.	n.a.
1960	740	18.4	n.a.	n.a.
1970	716	28.6	56	n.a.
1975	669	33.0	64	n.a.
1976	665	34.8*	59	100
1977	663	36.5*	52	98
1978	659	38.3*	48	93
1979	672	40.0*	42	90
1980	679	41.8	42	88
1981	680	42.0*	44*	85
1982	692	43.0*	44	87
1983	706	44.0*	46	n.a.

\* = authors' estimate

## Sources:

1. For census years, U.S. Bureau of the Census, U.S. Census of Population, Characteristics of the Population. For other years, estimated by California Department of Finance.
2. U.S. Census of Population. The 1975 composition estimates are based on tabulations from the 1975 Annual Housing Survey.
3. California State Department of Social Services, Public Welfare in California, various issues. When available, figures are for June. Otherwise, May or July figures appear.
4. Figures supplied by San Francisco Unified School District Attendance Services. These numbers include private schools.

erated pressure on the middle- and upper- ranges of the housing stock.<sup>2</sup> The result has been substantial changes in housing prices across the entire housing spectrum and political pressure for and acceptance of rent

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<sup>2</sup> According to census data, in 1970 the average household in San Francisco contained 2.34 persons. By 1980 this had declined to 2.19.

controls.

Total employment in San Francisco is plotted by year since 1973 in Figure 1.<sup>3</sup> As is evident from the graph, the employment history of the last decade for San Francisco divides into three segments: (1) 1973-1977, a period of moderate but steady growth, (2) 1977-1981, a period of rapid expansion; and (3) 1981-1983, a period of retrenchment. Average growth and unemployment rates for each of these intervals by industry are reported in Table 2 along with total employment and shares for 1981. Overall, employment grew by 20 percent over the decade. Since population grew by at most three percent over the same interval, that both labor force participation and commuting have increased.

Table 2 provides important information about both the character of San Francisco's economy and the direction of its development. 1981 is usefully employed for evaluating the nature of the economy. It is clear from these data that San Francisco's economy is less dependent on manufacturing than is the case for many other older cities. In 1981 11% of private sector jobs (8.9% of all employment) in San Francisco were in manufacturing; the comparable figures for Chicago (Cook County), New York (Manhattan), and Philadelphia are 28%, 19%, and 22% respectively.<sup>4</sup> The small size of the manufacturing sector has served in the past to insulate the city somewhat from employment fluctuations generated by the national business cycle. Thus one could not deduce from figure 2 that the nation experienced a severe recession in 1974-75. On the other hand, the data indicate that the most recent recession has been felt in San Francisco.<sup>5</sup>

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<sup>3</sup> Employment figures used here for figure 1 and table 2 were supplied by the San Francisco office of the California State Employment Development Department.

<sup>4</sup> U.S. Bureau of the Census, County Business Patterns, 1981.

Discussion of this development is deferred until other features of the economy are examined.

Table 2:

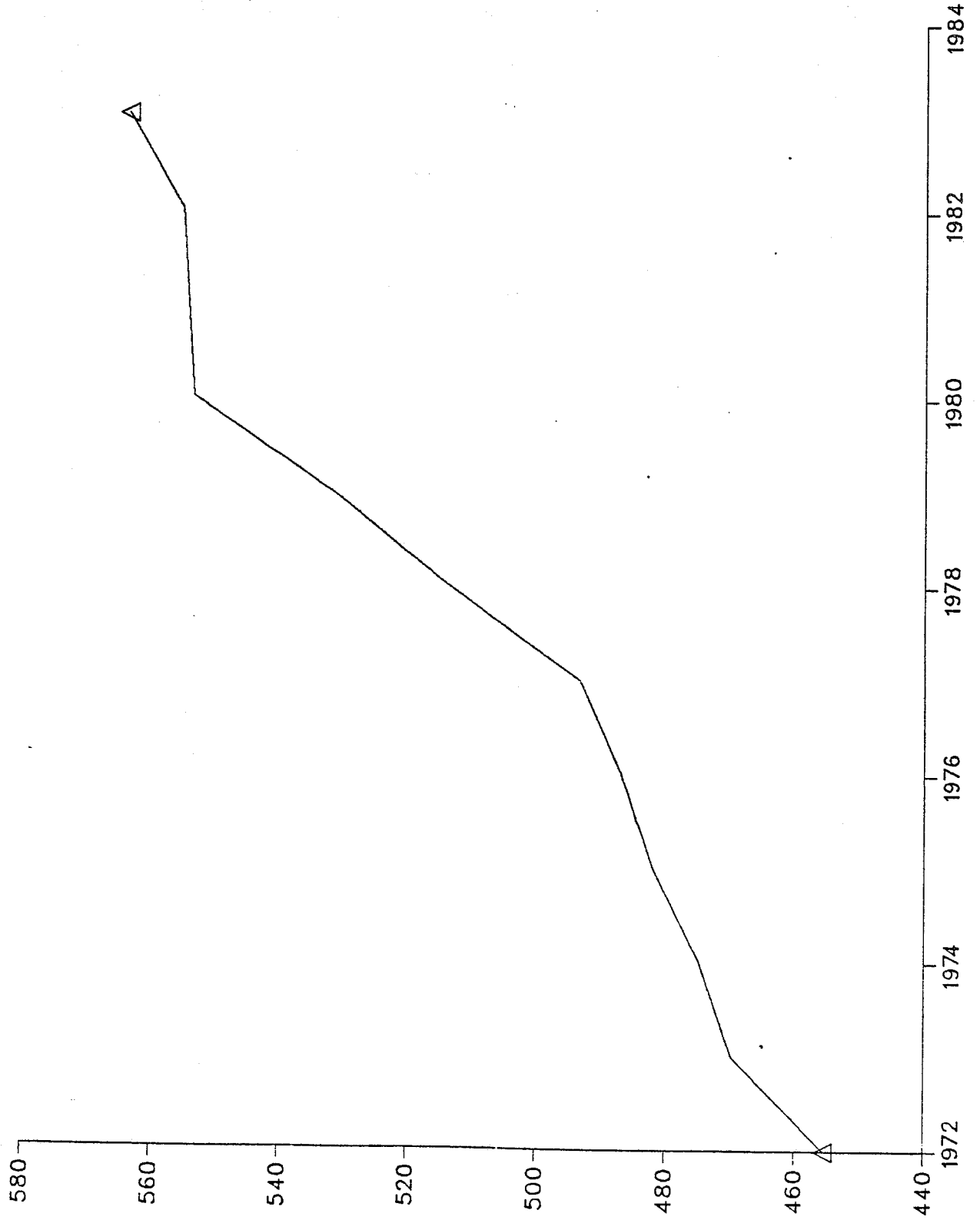
WAGE AND SALARY EMPLOYMENT BY INDUSTRY  
SAN FRANCISCO, 1973-83

Industry	Employment 1981 (thousands)	Share 1981	Average Annual Growth Rate(percent)			Cumulative Growth (%) 1978-83
			1973-1977	1977-1981	1981-1983	
Total, all industries	564.8	1.000	1.2	3.4	-0.1	9.8
Agriculture	0.5	0.00	0.0	13.6	-10.6	0.0
Total, nonagriculture	564.3	1.00	1.2	3.4	-0.1	9.8
Mining	2.5	0.00	22.5	29.1	2.0	188.9
Construction	22.8	0.04	-0.9	5.9	-22.2	-28.1
Manufacturing	50.1	0.09	-1.3	1.6	-2.5	-0.4
Nondurable goods	38.6	0.07	-1.2	1.8	-2.5	-0.5
Durable goods	11.6	0.02	-1.9	1.1	-3.1	-0.9
Transportation and public utilities	54.1	0.10	-2.3	3.1	-3.1	5.4
Wholesale trade	37.2	0.07	0.3	-0.5	-4.7	-8.9
Retail trade	69.3	0.12	2.3	3.9	2.6	15.1
Finance, insurance and real estate	87.9	0.16	2.6	4.8	0.7	14.4
Banking	38.9	0.07	5.0	6.4	n.a.	n.a.
Services	152.9	0.27	3.7	5.8	4.4	28.5
Business services	42.5	0.08	7.4	10.3	1.5	36.0
Government	87.4	0.15	0.6	0.1	-0.7	-3.3
Average unemployment rate (percent)	6.7		8.8	6.7	9.4	9.1

Source: Calculations by authors from data supplied by California State Employment Department. Totals are annual averages of monthly data except for 1982 and 1983, for which December totals were used. Unemployment rates are all annual averages.

<sup>5</sup> The data used to prepare figure 1 and table 2 may exaggerate the relative employment effect of the recent recession. Because of budget cutbacks the California Employment Development department ceased to publish county employment data in 1981. The 1982 and 83 figures are for December only, and they are not seasonally adjusted. This exaggerates the decline in construction employment. On the other hand, the retail trade figures are probably larger than the annual average.

Figure 1  
Employment, San Francisco 1972-1983



As the table indicates, the direction of change for employment in San Francisco has been upward, especially during the period 1977-81. The city's 13.6% cumulative change in nonagricultural employment over this interval was almost as great as the 16.2% employment growth reported for the state as a whole. Note that while most industries posted employment gains over the period 1971-81, over the decade as a whole it was jobs in retail trade, the FIRE sector, and services -- particularly business services -- that expanded most consistently. Finally, expansion in the business, legal, and financial services sector between 1977 and 1981 produced a boom in downtown construction, and this boom is evident in construction employment. Employment in the construction industry fell precipitously during the most recent recession, but this appears to be attributable principally to interest cost effects on residential construction. Despite the recession, the value of non-residential construction permits issued in fiscal 1982 was 57% greater than the year before.<sup>6</sup>

In principle it should be possible to measure the value of the product of San Francisco's economy, that is the value of all goods and services produced for final use (as consumption, investment, or for government) in San Francisco plus the value of all goods and services "exported" to the rest of the state, the nation, and the world. In practice data sufficient for such calculations are not available. However, we believe that a reasonable estimate is that total private sector product out-

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<sup>6</sup> City and County of San Francisco, Comprehensive Annual Financial Report for the Year Ended June 30, 1983 (henceforth (CAFR83)), p. 96. Recall that the construction employment figures for 1981 and 1982 are for December and are not seasonally adjusted.

<sup>7</sup> We have attempted no imputation of the rental value of the services provided annually by San Francisco's housing stock. These rents would be a major factor in any complete product estimate. The exclusion of housing is not quite accomplished, since the employment figures include persons working in residential property management.



side of housing<sup>7</sup> increased by more than 10 percent over the five-year period 1978-83, or on average by about 2.0 percent per year. It is important that the basis for this contention be understood, for later we shall argue by comparing growth of product with growth of city revenues that the city's tax burden on business has significantly declined.

Had the composition of employment not changed, the growth of employment illustrated in table 2 could be taken as prima facie evidence of an increase in product. For this not to follow would imply that productivity in the city declined at a sufficient rate to offset the effect of employment increase on output. There is no evidence to support belief that productivity has declined. Since employment increased in all categories but one, aggregate output must have increased. However, the increase may have been less than the increase in employment, because each category of employment did not increase proportionately. It is possible that employment increased primarily in low-productivity industries.

To adjust for this factor, we created an index of output based on the composition of employment by industry class and national data on product originating by industry. The index uses as weights industry value added per wage and salary worker for 1978, a year for which the output/employment relationship was not affected by recession (as would be true in 1981). Output per worker in cities tends to be higher than elsewhere, and as a result the absolute values of the weights are probably incorrect (and as a result cannot be used to derive an estimate of city product). However, for our purposes it is the relative values that count. Note that these weights are not productivity measures, since not all employees in these industries are classed as wage and salary workers.

The results of our adjustment appear in **Table 3**. Perhaps surprisingly, the adjustment increases, rather than reduces the estimated growth of

product in the non-housing business sector in the city. This occurs because of the strong growth in employment in the FIRE sector. As the data indicate, the ratio of GDP originating to wage and salary workers in FIRE is very high. We conclude that despite the recession there was a lot more going on, at least in an economic sense, in San Francisco in 1983 than was true in 1978. Assuming output grew in proportion to employment, real product of the non-housing business sector rose by more than 10 percent. A modest allowance for productivity increase suggests that output grew by about 12 percent; this is the figure derived from the weighted employment change estimates in table 3. This buoyant economy creates both demand for more governmental services and a base for financing them.

Table 3:

CALCULATION OF OUTPUT-WEIGHTED EMPLOYMENT  
CHANGE IN NON-HOUSING BUSINESS SECTOR, SAN FRANCISCO, 1978-1983

Industry	San Francisco Employment (thousands) 1978	San Francisco Employment (thousands) 1983	Nat'l Gross Dom. Product 1978 (\$billions)	Nat'l Emp. 1978 (thousands)	1978 GDP/ Employee (\$thousands)	Employment Change in San Francisco 1978-83 (%)
<b>Manufacturing:</b>						
Durable	11.0	10.9	316.7	12,274	25,803	-0.9
Nondurable	36.9	36.7	202.0	8,231	24,541	-0.5
Mining	0.9	2.6	52.0	851	61,105	188.9
Construction	19.2	13.8	102.1	4,229	24,143	-28.1
Transportation and Public Utilities	48.2	50.8	193.3	4,923	39,265	5.4
Wholesale and Retail Trade	100.5	106.8	362.3	19,452	18,625	6.3
Finance, Insurance, and Real Estate	77.9	89.1	317.4	4,724	67,189	14.4
Services	129.7	166.7	265.9	16,252	16,361	28.5
<b>Total:</b>	<b>425.7</b>	<b>477.4</b>				
+-----+   Unweighted change in total employment (%)   9.8     Weighted change in total employment (%)   12.0   +-----+						

Source: San Francisco data from table 2. U.S. data from Economic Report of the President, 1983.

What generated the expansion of 1977-81, and what brought it to a halt in 1982-83? Other objectives preclude a thorough discussion here, but most other work points at the obvious: Since 1977 San Francisco's economic growth has been driven by tourism, the expansion of business service employment, and the phenomenal growth of the Bay Area microelectronics industry. Much of the manufacturing employment spawned by the computer revolution is concentrated, of course, in the "Silicon Valley" to the south of the city. But the supporting business, and especially financial, services are located in the city. San Francisco has become a leading corporate management center. The extent to which this development--and the business service and financial sector employment it has spawned--is simply a spinoff from microelectronics is unclear. Whatever the source, evidence<sup>8</sup> suggests that the higher management functions of business enterprise are becoming increasingly spatially concentrated in the U.S., and San Francisco enjoys a role as a point of concentration. Growth in the city's economy has also led to, and been pushed by, the expansion in population already illustrated.<sup>9</sup>

The pronounced response of the city's economy to the most recent recession may reflect the increasingly important role of tourism and microelectronics as determinants of the city's employment pattern. Tourism fell significantly in 1982 as a result of the exceptional relative value of U.S. currency. At the same time 1981 and 82 marked a period of substantial readjustments among technology-based enterprises. The altered pro-

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<sup>8</sup> See, for example, Hilary R. Sheehan, "Intermetropolitan Trends in Administrative Employment", University of California at Berkeley Center for Real Estate and Urban Economics Working Paper 83-59, May 1983.

<sup>9</sup> For a general review of the greater Bay Area economy and San Francisco's position in it, see Pravin Varaiya and Michael Wiseman, "An Overview of the Economy of the San Francisco Bay Area".

fit situation directly affected demand for the business services the city supplies. Both tourism and high tech manufacturing began recovery in 1983. It is perhaps paradoxical that recent structural changes have increased the sensitivity of total employment in the city to macroeconomic factors. As indicated above, for many years the city's economy enjoyed, because of its diversity, relative immunity from business cycle developments.

We have used employment as a proxy for the product side of the San Francisco economy. A different picture seems to appear when income received by residents is considered. The Department of Commerce provides direct estimates of income received by city residents. The most recent available data appear in Table 4. These numbers show little change in aggregate real income or real income per capita between 1977 and 1981 despite the fact that this period was one, as figure 1 shows, of exceptional growth. It is tempting to conclude that most of the gains in product in San Francisco have accrued to outsiders. However, in our opinion the assumptions required to generate the area income data are questionable and, as a result, such results must be viewed with great caution. For example, allocation of wage earnings generated in the city between residents and commuters continues to be done on the basis of the 1970 census.<sup>10</sup>

Subject to the reservations cited above, we believe these data indicate that the San Francisco economy is strong but that an increasing proportion of income generated in the city may be accruing to non-residents. The slowdown in growth between 1981 and 1983 is the result of the recession, exceptional developments in international exchange markets and a period of adjustment for the microelectronics industry. As recovery of

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<sup>10</sup> See U.S. Department of Commerce, Local Area Personal Income, 1976-81 (Washington: U.S. Government Printing Office, 1983). Some adjustment is made for trends in commutation.

Table 4:

TOTAL AND PER CAPITAL PERSONAL INCOME,  
SAN FRANCISCO, 1977-1981

Year	Total Personal Income (\$Millions)	Per capita Personal Income (\$)	Consumer Price Index (1967=100)	Total Personal Income (\$Millions) (\$1967)	Per Capita Personal Income (\$1967)
1977	6,828,134	10,051	180.8	3,776,623	5,559
1978	7,519,141	11,096	197.8	3,801,386	5,610
1979	8,300,906	12,282	214.6	3,868,083	5,723
1980	9,370,811	13,806	247.3	3,789,248	5,583
1981	10,557,392	15,533	279.0	3,784,011	5,567

Source: Income data are from U. S. Department of Commerce, Local Area Personal Income, 1976-1981 (Washington: U. S. Government Printing Office, 1983), p. 36. The consumer price index is for the San Francisco-Oakland Metropolitan Area.

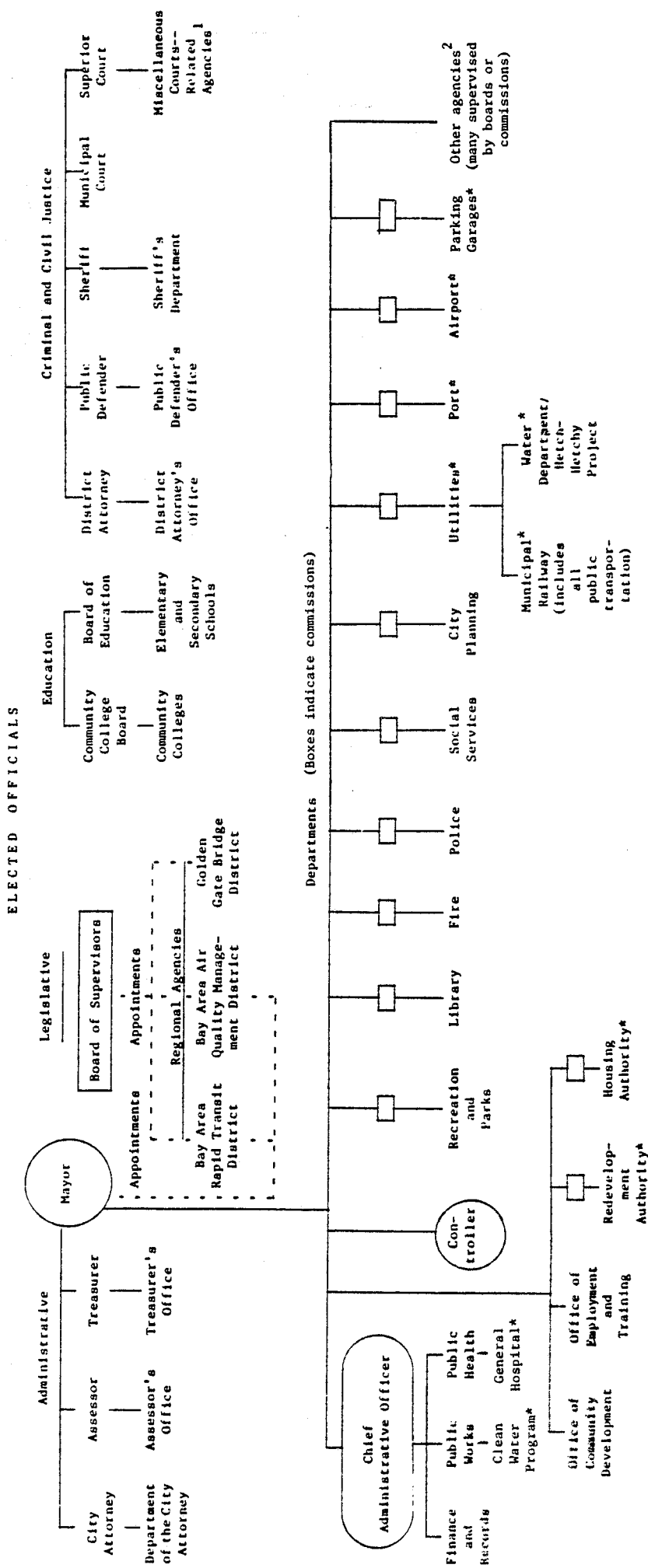
the economy continues and given resumed growth in Silicon Valley, employment in the city should also grow. Both the growth in the economy and the city's changing demography can be expected to generate growing demands for public services.

**The Organization of Local Government.** Despite its idiosyncratic features, San Francisco presents an interesting case for fiscal studies because it has a remarkably unified government, covering a broad range of functions. This offers the opportunity of studying the combined impact of fiscal events that might for other cities be spread across many jurisdictions.

The city's organization is depicted schematically in Figure 2. Note the nominal separation of executive (the mayor's office), the legislative (the Board of Supervisors), and the judicial branches (as represented by the court system). In reality government structure is much more complex than the diagram suggests. In part this is because in addition to the Ma-

Figure 2

SAN FRANCISCO CITY-COUNTY GOVERNMENT ORGANIZATION



\*Enterprise/Authority. The Redevelopment and Housing authorities are not included in the income/outlay accounts.

<sup>1</sup> includes: Law Library; Adult Probation Committee; Juvenile Justice Commission; Board of Medical Examiners; and Grand Jury.

<sup>2</sup> includes: Health Service System; Retirement Board; Board of Permit Appeals; Human Rights Commission; Criminal Justice Council; War Memorial Board; Legislative Representatives; Parking Authority; Civil Service Commission; and Art Commission.

yor and members of the Board of Supervisors, several other officials (the treasurer, the assessor, the district attorney, sheriff, etc.) are elected and as a result enjoy considerable independence. Also, two key managerial positions--that of the Chief Administrative Officer and the Controller--are for practical purposes lifetime appointments.

The city takes care of all the "common municipal functions" including fire and police services, streetcleaning and repair and the like plus what in California are common county services such as provision of welfare and operation of hospitals and libraries. The city operates a multi-mode transit system, an airport, a hydroelectric system in the Sierra Mountains, and numerous parks and museums. The only special jurisdictions directly affecting San Francisco that are not part of the city's government are the Golden Gate Bridge District, the Bay Area Rapid Transit District, and the Bay Area Air Pollution Control District.

Fiscal 1982 was the first year for which the City of San Francisco produced an annual financial statement which conformed to standards set forth by the National Council on Governmental Accounting. Among other things, the NCGA provides guidance on what governmental activities should be included in financial reports. NCGA's "Statement 3" calls for inclusion in a governmental unit's financial report all activities for which that unit has oversight responsibility. "Oversight responsibility" is judged largely on the basis of evidence of financial interdependency. On this basis the operation of the San Francisco School District and the San Francisco Community College District are excluded from the accounts because each has its own governing board and the city bears no direct fiscal responsibility for district affairs. The operation of the San Francisco Housing Authority is also excluded on grounds of absence of financial interdependency, but one suspects that financial intractability is involved



as well. Since the Agency has no taxing power and does not have the power to pledge the general credit or taxing power of the city and county, the San Francisco Redevelopment Agency is also excluded.<sup>11</sup>

The city's accounts are segmented by fund type. The largest is the general fund, which accounts for most revenues and expenditures. Most "common municipal functions" are financed through the general fund. Ear-marked revenues go into special revenue funds, and financing of major capital facilities is handled through capital projects funds. Debt service funds are maintained for retirement of long-term debt obligations.

In general the nuances of accounting will be ignored in this paper except for the special treatment in governmental accounting which is accorded certain proprietary, or enterprise funds. Under NCGA procedures enterprise funds are used to account for operations intended to operate as businesses, selling services at prices intended to cover expenses or for which business-type accounting is appropriate.

San Francisco's accounts include seven major "public service enterprises": the San Francisco International Airport, the San Francisco Port, the San Francisco Hospital Medical Center, the Clean Water Program (a largely federally-funded sewer construction program), the Water Department and Hetch-Hetchy Project (Hetch-Hetchy is the Sierra hydroelectric facility cited above), the Municipal Railway and Municipal Railway Improvement Corporation, and the Parking Garages/Market Corporation which covers a variety of land acquisition and facilities construction

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<sup>11</sup> CAFR83, p. 27. While such conventions may make sense to accountants, they have the unfortunate consequence of excluding from the city's annual accounts important activities over which the city's leadership exerts considerable direct and indirect control. Major Federal sources of capital contributions for the Redevelopment Agency do appear in the accounts, since the grants are made to city government and not to the agency itself.

projects. These accounts will be considered in more detail below.

**The FIRM System.** The comprehensive nature of local government in San Francisco would appear to offer the opportunity for strong, centralized administration, but this option is largely foreclosed by the citizenry in the current charter, which distributes power very widely. Until the recent past, there have been few attempts at centralized management and little demand for the kind of information necessary for that kind of city administration.

An attempt at change was introduced by then Mayor George Moscone in 1976. Surprisingly, the vehicle for this innovation was an accounting system, FIRM. "FIRM" stands for Financial Information Resources Management. FIRM has three components: (1) a budget preparation system, (2) a performance reporting system, and (3) FAMIS -- an account/general ledger program. Implementation of the major features of this system has been a major political accomplishment. When the project is finished, FIRM will permit, for the first time in San Francisco, a clear comparison between budgeted and actual departmental expenditures on a timely basis.

Development of FIRM as a management information system can have important political consequences. San Francisco is a facts-scarce town. For example, before FAMIS it was very difficult to obtain within a reasonable period of time information on actual compared to budgeted expenditures for most departments. There were no reliable figures on total employment. Expenditures from many federal grants were handled completely off budget. The Controller's Report itself was generally late in publication and was, at least to outsiders, very difficult to understand. The new system could provide a dynamic city administration with a valuable tool for both planning and fiscal control.

While the political implications of FIRM are significant, the imme-

mediate consequence of interest here is that the new accounting framework offers an opportunity to study composition of revenues. In the next section we develop a general account for the city.

### III. The San Francisco Accounts, 1978-1983

In this section we compare recent revenue structure for San Francisco with that which existed prior to passage of Proposition 13. Our procedure is to develop our accounting conventions for 1982, the first year with a complete FAMIS-produced financial report, and then to extend our conventions forward to 1983 and backwards to 1978. The move backward is by far the more difficult.

Throughout this exercise we will make various simplifying assumptions of the type economists love but accountants loath. Where these are made, we have been careful to leave an "audit trail" suitable for review, correction, or replication by others.

The procedure is as follows. We first define a basic account or income/outlay statement for the city which is constructed with data for 1982. This account is used to describe the composition of revenues for that year and to calculate the share of direct taxes on business in all city revenues. This account is then replicated for 1983.

In addition to development of FAMIS, many changes have occurred in San Francisco's accounting procedures since 1978. One important change is that both the General Hospital and the "Clean Water" sewer system have been converted from accounting under the General Fund to accounting under an enterprise account. In our work it was not possible to create an enterprise account for the hospitals or the new sewage treatment system for 1978. Accordingly, for purposes of comparison with 1982 and 1983, we have

reconstituted the 1982 and 1983 general accounts to include the sewer system and the hospitals. Once this is accomplished, it is possible to explore the revenue alterations which have occurred since 1978.

**The Accounting Framework.** The typical governmental accounting document includes pages and pages of revenue and expenditure statements. Such complexity is appropriate for financial control and oversight, but it is too great for the ends sought here. Accordingly, for this paper only a single income and outlay account is developed, with income from all sources on the left side and outlays (uses) on the right. The balancing item is the deficit or surplus, and this appears as a use.

This account covers flows of money. As an aside, it should be noted that implicitly there exists a city balance sheet as well, with assets on the left-hand side and liabilities on the right. When the city runs a surplus on current account, that is in the income/outlay statement described above, the surplus shows up as an addition to assets and net worth on the balance sheet--or would, if such a thing existed. A deficit, of course, has the opposite effect. The questions we address here concern the income statement; other matters of current policy interest such as the burden of the unfunded local government pension obligations and the deterioration of the local government capital stock involve the balance sheet. The absence of the data necessary to prepare a complete city balance sheet will cause us below to include among current expenditures some capital outlays.

In constructing an income and outlay account, we begin with San Francisco's general government functions. The following conventions are adopted:

1. We include as revenues all sources for general, special revenue, capital projects, service, and expendable trust funds.

2. We include as expenditures the "general fund" categories of current expenditures, capital outlays, and debt service payments.
3. Like San Francisco, we have followed the "modified accrual" bases of accounting. This means that expenditures are counted when liabilities are incurred and resources are counted when available.<sup>12</sup>
4. With the exception of the General Hospital and the sewer system, we exclude enterprise transactions from the general account, but we include net subsidies to enterprises as an outlay and net operating transfers to the general fund from enterprises as a source. State and Federal grants to enterprises are treated as a revenue source for the combined account. A balancing outlay item is included for the "pass through".
5. In addition to enterprise transfers, we partition sources between those which are derived from local sources and monies obtained from state and federal sources. Local sources include the property tax, the business payroll and receipt tax, and "other" revenues derived from user charges and a multitude of other sources. State and federal categories include grants and "subventions", the latter being, in San Francisco's conventions, those revenues such as cigarette taxes which are by law shared among levels of government on the basis of some formula.

We included grants to enterprises as a source for local government because not to do so would lead to underappreciation of the role of federal government outlays as an external resource for San Francisco's government. In the absence of such funds, it can be argued, the required enterprise subsidies would be much greater or the return payments from profitable enterprise would be less.<sup>13</sup>

An alternative to this approach would have been to integrate enterprise activities into the accounts, treating enterprise receipts as sources and enterprise expenditures as outlays. As noted earlier, this is done with the General Hospital below in order to permit revenue comparisons between 1978 and recent years. At this point we believe it better

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<sup>12</sup> This is, of course, an incomplete definition. See CAFR83, p. 12.

<sup>13</sup> But the reader should recall that even with this adjustment our "sources" do not include all federal largesse to the city. In addition to grants to the schools and housing authority, the city benefits from federal and state assistance to the Bay Area Rapid Transit and Golden Gate Transit districts plus the air and water pollution control authorities.

as far as possible to keep the enterprise accounts separate, both because of the quasi-business character of most of the enterprises and because separation serves to isolate (in an imperfect way) the extent of public subsidy to and receipts from these sectors. Also, separation of the enterprises improves the comparability of San Francisco's accounts with those of other cities.

**The Results: Fiscal 1982.** The aggregated general and special funds income and outlay account for San Francisco for Fiscal 1982 appears in **Table 5**. This account does not include the sewer system or hospitals. This account is constructed from the Comprehensive Annual Financial Report of the city's controller for fiscal year 1982 plus information provided by the offices of the county assessor and controller. Steps followed in deriving the table are presented in appendix A. We have placed the sources side of the account at the top of the table and the uses on the bottom.

Since we are fundamentally concerned here with changes over time and not where the city was in any particular year, we use this table to establish certain parameters only. The first matter of concern is the distribution of sources across the four major categories of property taxes, other local sources, operating transfers from enterprises, and state/federal grants and subventions. Basically the story is that in fiscal 1982 state and federal sources accounted for about two-fifths of San Francisco's revenues, property taxes accounted for a little under one-fifth, and other sources, including taxes on businesses and transfers from the enterprises accounted for the rest. Total revenues including grants to the enterprises came to over \$1 billion. We are interested in how these shares have changed over time.

We have calculated for each of the seven enterprises net operating

Table 5:

CITY AND COUNTY OF SAN FRANCISCO  
 INCOME AND OUTLAY ACCOUNT, 1982  
 (Incorporates adjustments; see notes)  
 (\$thousands)

<u>Sources of income:</u>	Share (Category)	Amount	Total	Share (Total)
Property taxes (share):			204,227	0.185
Business	0.382	78,029		
Residential	0.567	115,895		
Other	0.050	10,303		
Other local sources:	0.370		408,150	0.370
Business taxes	0.253	103,104		
Other	0.747	305,046		
Operating transfers from enterprises:	0.022		24,768	0.022
Grants and subventions:			466,986	
State	0.471	219,969		0.199
Federal	0.529	247,018		0.224
Total Sources:			1,104,131	1.000
 <u>Uses of income:</u>				
Current expenditures, including capital outlays and debt service:			800,644	
Operating transfers to enterprises:			97,785	
State and federal grants to enterprises:			153,689	
Total Outlays:			1,052,118	
Excess of Sources over Outlays:			52,013	

Source: Calculations by authors. See appendix A for sources and methods.

subsidy received from the general fund. The \$25 million "operating transfers from enterprises" figure in the table is the sum of transfers from all enterprises producing a net positive return to the general fund. These included in 1982 the airport, the Water Department (including the

Hetch-Hetchy hydroelectric project), the sewer system, and the city's parking garages. Those enterprises accounting for the substantial net transfers out--almost \$100 million--were the local transit system and the general hospital.

The final step in creating a reference point for analysis of changes over time is to modify the basic income/outlay account to include the general hospital and the sewer system. Since our focus in this paper is on revenues and not expenditures, from here on only the sources side of accounts will be presented. The adjusted account appears in Table 6.

Comparison of tables 5 and 6 indicates that addition of the hospital and sewer system raises the "other local sources" share of revenues because of sewer service charges and the hospital's user fees.<sup>14</sup> For clarification and later reference, we have segmented federal and state grants between amounts accruing to enterprises and amounts accruing to general government.

As is well known, identifying "business taxes" raises thorny questions of incidence and interpretation. For this paper we have identified as business taxes the sum of the share of property taxes paid by businesses plus all other business taxes. We do not include property taxes

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<sup>14</sup> "User fees" for the hospital include Medicare and Medicaid payments. Some would argue that these "in kind" transfers should be counted as intergovernmental assistance in the same way we have treated AFDC. These programs account for about 5/6 of the hospital's general fund revenues. Essentially the same logic could be applied to food stamps, which are also not included. In a later paper we intend to investigate the transfer issue in more detail. It is clearly important for understanding the county's overall response to Proposition 13 and the aftermath, since this segment of the budget is largely beyond the city's control.

<sup>15</sup> The payroll and gross receipts taxes are separate entities. Businesses are required to compute liabilities under each and then pay to the the greater of the two. In practice most revenues are derived from the payroll tax, which amounts to 1.5% of payroll expense attributable to activities in San Francisco.



Table 6:

CITY AND COUNTY OF SAN FRANCISCO  
 INCOME ACCOUNT, 1982  
 (Includes General Hospital Medical Center  
 and Clean Water Program)  
 (\$thousands)

Sources of income:	Share (Category)	Amount	Total	Share (Total)
Property taxes:			204,227	0.167
Business	0.382	78,029		
Residential	0.567	115,895		
Other	0.050	10,303		
Other local sources:			525,754	0.430
Business taxes	0.196	103,104		
Other	0.580	305,046		
Hospital revenues	0.131	68,949		
Sewer system revenues	0.093	48,655		
Operating transfers from enterprises:			24,591	0.020
Grants and subventions:			466,986	
State	0.471	219,969		0.180
Federal	0.529	247,018		0.202
		Total Sources:	1,221,558	1.000
				Business taxes share in all sources: 0.148
				Business share in all local sources: 0.240

Source: Calculations by authors. See appendix A for sources.

paid for rental housing. In 1982 about 31 percent of current "other" business tax collections was attributable to the city's payroll and gross receipts tax.<sup>15</sup> The remainder was accounted for by license charges and other fees. Revenues received from business taxes account for 14% of all sources and 23% of locally-derived revenues.

This completes construction of a revenue sources statement for the city. The next step is to replicate the work for subsequent and past

years.

**The Results: Fiscal 1978-1983.** Table 7 presents the same information derived for fiscal 1982 above for the fiscal 1978 and fiscal 1983. The data for 1982 are repeated from table 6. The accounts include the hospital and sewer system.

Table 7:

CITY AND COUNTY OF SAN FRANCISCO  
 INCOME ACCOUNTS, 1978, 1982, 1983  
 (Includes General Hospital Medical Center and Clean Water Program)  
 (\$thousands)

Sources of income:	Share in category		Share in total		Total amount (\$ thousands)	
	1978	1982	1983	1978	1982	1983
Property taxes:						
Business	0.38	0.38	0.41	0.31	0.17	0.18
Residential	0.56	0.57	0.54			
Other	0.06	0.05	0.05			
Other local sources:						
Business taxes	0.17	0.20	0.17	0.30	0.43	0.45
Other, including Gen. Hospital	0.83	0.80	0.83			
Operating transfers from enterprises:				0.00	0.02	0.02
Grants and subventions:						
State	0.41	0.47	0.51	0.16	0.18	0.18
Federal	0.59	0.53	0.49	0.23	0.20	0.17
Totals:				1.00	1.00	1.00
				0.17	0.15	0.15
				0.27	0.24	0.23
				2,000	24,591	21,268
				309,880	466,986	443,867
				805,650	1,221,558	1,269,509

Business taxes share in all sources: 0.17 0.15 0.15  
 Business share in all local sources: 0.27 0.24 0.23

Source: Calculations by authors. See text and appendices A and B for sources and methodology.

Since we began the paper by asserting that things do not change much from year-to-year, we are not surprised that the numbers do not change much between 1982 and 1983. The principal difference is that sources are up by about 4%. Increases in property taxes and revenues from other local sources have offset declines in operating transfers from enterprises and intergovernmental grants. The increase in property taxes is attributable to very strong demand for San Francisco real estate, especially business property, and the frequency of property turnover--a necessary condition for adjustment of assessed value to market value under Proposition 13.

Table 7 includes our piece de resistance, the results for fiscal 1978. Derivation of these numbers is detailed in appendix B. It is the changes that have occurred since 1978 that reveal consequences of the range of external and internal developments that have affected the city's revenue structure.

Among other things, the following changes in the city's financial structure are apparent in the table. First, as is reasonably expected, the share of property taxes in total revenues was much higher in 1978 than was the case five years later. However, the shift in the composition of the property tax base toward business appears to be a relatively recent phenomenon. The shift of the composition of the property tax roll toward business since 1978 is opposite the trend anticipated by some critics of Proposition 13.<sup>16</sup> Second, as a result of changes in Washington, the importance of federal grants and subventions in the city's revenues has declined. The change is significant -- from 39 to 35 percent of total sources, with three-fourths of the jump occurring in 1983. While the federal share in local sources has declined, the state share has increased,

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<sup>16</sup> It is possible that rent control has restrained the growth in residential property values.

but not by enough to wholly offset the loss in aid from Washington. On balance, the importance of grants-in-aid from the state and federal governments was less in fiscal years 1982 and 83 than was true in 1978. This decline occurred despite the fact that San Francisco's politicians, aided by effective representation in Washington, are good at grant-getting.

The third development in San Francisco's fiscal affairs involves business taxation. By our reckoning the share of business property and payroll taxes in all locally-derived revenues has declined from 25% in 1978 to 22% in 1983. At the same time, the share of business taxes in all sources has stayed constant. This means that, when compared to all local taxes, the relative burden of business in San Francisco's taxation has declined substantially since 1978.

Table 7 has revealed several important changes in the city's finances. Before comparing these developments to growth in the economy overall, however, it is useful to reflect on two developments that are disguised at this level of aggregation. The first is the alteration in the composition of business taxes. In fiscal 1978, 67 percent of business taxes were derived from the property tax. By fiscal 1983 this proportion was 46 percent. While the ultimate incidence of the property tax is a matter of controversy, we believe that this shift must on balance, when compared to the consequences of an equal amount of business taxes shared between property and other taxes in 1978 proportion, reduce employment. This change in employment occurs both due to substitution of capital for labor and flight of firms to surrounding areas which do not have the payroll tax. Firms likely to respond, of course, are precisely those engaged in labor-intensive activities.

The size of this employment effect is uncertain. In absolute terms it may have been offset by the employment-generating effects of the modest

relative decline (compared to other Bay Area locations) of San Francisco's business taxes as a result of Proposition 13<sup>17</sup> But such consequences must be considered in evaluation of alternatives for future revenue collections.

#### IV. The Burden of Government in San Francisco, 1978-1983

To this point our discussion has been carried out wholly in terms of nominal dollar figures and revenue shares. We now turn to the implications of our figures for assessing the relation between the city's taxes and other revenues and its economic base. To do this we must deflate our current dollar figures to adjust for inflation--a particularly significant problem over the period 1978-83. This requires choice of a deflator, for which there are three candidates: (1) the consumer price index, (2) the state and local government purchases deflator from the national income accounts, or (3) the GNP deflator itself. Since we wish to compare resources collected to the general level of economic activity, we choose the GNP deflator.

Table 8 shows the changes (in 1983 dollars) between 1978 and 1983 in total income, total income from local sources, and total income from business taxes for the city.

According to these data, over the past five years resources collected by city government have increased by about 8.3 percent in real terms.

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<sup>17</sup> For fiscal 1971-78, San Francisco's property tax rate was \$2.95 per \$100 of assessed valuation. The average tax rate for other counties in the SMSA plus Santa Clara county to the south was \$2.59 per \$100 of assessed valuation (at full market value). After Proposition 13, these differentials were reduced. See California State Board of Equalization, Annual Report, 1977-78 (Sacramento: California State Board of Equalization, 1978), p. A-19.

Table 8:

REAL REVENUE CHANGE, SAN FRANCISCO  
(Includes General Hospital and Clean Water Program)

Fiscal Year	Total Income, 1983\$	Local Sources Revenues, 1983\$ (Incl. bus. tax)	Business Taxes, 1983\$	Other Local Revs., 1983\$
1978	1,172,418	721,467	195,224	526,243
1982	1,284,410	793,396	190,452	602,944
1983	1,269,509	825,642	193,630	632,012
% Change, 1978-83	8.3	14.4	-0.8	20.1
% Change, 1982-83	-1.2	4.1	1.7	4.8

Source: Calculated from data in tables 5-7. Deflator is implicit GNP deflator. Fiscal year values are arithmetic averages of annual data.

Since it is likely that real output in the county grew by more than this (our estimate, presented earlier, was that output had probably grown by about 12 percent), these numbers imply that the ratio of city income from all sources to output has declined. This decline is attributable to reductions in intergovernmental transfers, for revenues from local sources are up by over 14% in the same period, 4.1% in 1982-83 alone.

Our data indicate that business taxes declined in real terms by .8% between 1978 and 1983, while revenues from other local sources increased by 20 percent. Between 1982 and 1983 business taxes went up, but not by as much as revenues from other sources. The consequence is a continuing decline in the business share of the local tax burden. For San Francisco, the results of the events of the last five years have been to reduce the relative importance of government activity in the economy, to increase the share of local government resources obtained locally, and to reduce the

share of city revenues derived from business taxes. While our output measure is approximate, it appears that the city's business tax "burden" -- meaning the ratio of business taxes to income originating in the private nonresidential business sector -- has declined by around 18 percent. Again, the lack of precision in this statement results from uncertainty about how much output has actually grown.

Returning to the question of latitude posed at the beginning of the paper, it is obviously wrong to view developments in local finance in San Francisco since 1978 as wholly the consequence of external constraints. The city has moved aggressively to replace revenues lost as a result of Proposition 13. This appears to be in keeping with voter preferences: while in 1978 votes in California as a whole approved Proposition 13 by a margin of almost 2 to 1, in San Francisco the initiative was defeated by a narrow (5%) margin. The following year a majority voted to change the city charter to permit enterprise surpluses to be transferred to the general fund as a step toward replacement of revenues lost because of the "taxpayers' revolt". While President Reagan carried the state in 1980 on a platform emphasizing cutbacks in government, a majority of San Franciscans voted for reelection of Jimmy Carter. In 1980, the electorate raised the payroll tax from 1.1 to 1.5% and, in subsequent court action (*San Francisco v. Farrell*) the city managed both successfully to defend the increase and to curtail severely the applicability of that amendment's requirements that tax increases be passed by a 2/3 majority. The administration that has presided over most of this remains securely in office. We conclude that these outcomes are in substantial part the result of political choice among alternatives in a response to real voter preferences.

This is not to say that demand does not exist for more services and



greater taxation. Suppose for a moment that an expansion of the level of government activity is contemplated. What opportunities exist? Here both institutional and economic constraints are involved. Regarding institutions, one recent development promises the city even greater latitude in determining its fiscal future than was obtained as a result of Farrell. Proposition 13 limits local property taxes to 1% of assessed value of properties unless the rate in excess of 1% is levied to retire debt incurred prior to the passage of the amendment. In a recent case involving the City of San Gabriel (Carman v. Alvord) the Supreme Court of California interpreted this override provision to permit increases in property taxes to cover other types of long-term obligations, in particular payments made to retirees under unfunded city pension plans. According to the Legislative Analyst, in 1982-83 the city had approximately \$150 million in such obligations that could be shifted to a property tax override, raising property tax rates by about 62 percent and increasing local revenues as defined for table 7 by 18 percent.<sup>18</sup> Exploitation of this option was postponed by the Legislature in July of 1983 in special legislation designed apparently to prevent local tax increases until after the November 1984 election. Assuming that the option will be restored in 1985 (and the city has the leg-

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<sup>18</sup> See The 1983-84 Budget: Perspectives and Issues, Report of the Legislative Analyst to the Joint Legislative Budget Committee, 1983, p. 170.

<sup>19</sup> The Legislature's actions reflected both the confusion over what was and was not allowed by the Carman decision and the specter of another Howard Jarvis initiative on the horizon. "Jarvis IV", as it is known, has qualified for the November ballot. This new constitutional amendment would close the loopholes in Proposition 13 created by the Farrell and Carman decision plus reduce property taxes further. The consequences of passage would be devastating in an environment not shielded by the existence of state revenue surpluses like those available in 1978. The new initiative contains so many structural flaws, however, that passage will be difficult assuming that opposition is mobilized by the state's political leadership.

islative power to help assure that this occurs), the city will be in a position to alter virtually its entire tax structure.<sup>19</sup>

Given the opportunity, how should the city exploit it? Here the economic constraints cited at the beginning of the paper are relevant. Whatever change in financing structure is contemplated, it is important to minimize the perverse consequences for economic development. Development of a tax package for the city is beyond the scope of this paper (the problem will be considered in a separate paper). However, our work to this point suggests that any expansion of revenues should probably come from property taxes because of the negative effect of the payroll tax on employment. At the same time it appears that some of the city's other fees have been excessively increased. It may be possible for the city to expand its property taxes and to minimize the consequences of such changes for homeowners and renters by manipulation of other fees and taxes. The ultimate consequences of any tax reorganization depend on the way in which the money collected is used.

These results have political implications which lie beyond the scope of this paper and the boundaries of our competence as non-residents of San Francisco. Nonetheless, we conclude with a personal observation. San Francisco is obviously currently enjoying a period of extraordinary economic growth fostered by what will probably someday be termed the second industrial revolution. A great number of businesses and individuals are exploiting the city's unique locational and environmental advantages for enormous gain, gains which we believe create substantial social benefits as well as the obvious private ones. The challenge to local government in San Francisco is to develop ways of preserving the advantages that generate this surplus and assuring that citizens of that city reap a reasonable share of the benefits. In general local governments cannot redistribute

income. But some redistribution can occur through taxation and the provision of public services. In San Francisco this has yet to occur.

## Appendices

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We are grateful for the tolerant assistance given us in this effort by many San Franciscans. Among many others, acknowledgement is certainly due (List omitted pending draft review). The errors that remain in this paper are present despite the efforts of these kind people, not because of them.

### APPENDIX A: PREPARING THE ACCOUNTS FOR FISCAL 1982 AND 1983

The revenue and expenditure tables presented in the text are based on data from a number of sources. In this appendix we outline procedures for preparing tables 5 and 6 and the related data for 1983 that appear in table 7. Detailed data and spreadsheets for these calculations are available from the authors.

#### Fiscal 1982

The basic source for all accounting for fiscal 1982 in this paper is City and County of San Francisco, California, Comprehensive Annual Financial Report for the Year Ended June 30, 1982, cited as CAFR82. Below, the procedure used to derive a general account excluding all enterprises is outlined and then the method of inclusion of the General Hospital account is described.

Preparation of Table 5. Development of the figures in our Table 5 begins with page 6 of CAFR82. This is the basic income/outlay statement for the city. To get from this table to table 4 of our paper, the following adjustments were performed:

1. The distinctions among general, special revenue, capital projects, debt service, and expendable trust funds were ignored and revenues and expenditures from all five items were aggregated; this corresponds to the "memorandum only" totals presented in CAFR.

2. All expenditures were aggregated to a single figure.
3. The treatment of operating transfers to and from enterprise accounts was restructured. Using the data presented in "Public Enterprise Funds: Combining Statement of Revenues, Expenses, and Changes in Retained Earnings, Year Ended June 30 1982", p. 49 of the CAFR82, we calculated net transfers for each of the enterprise accounts. The total of positive net transfers to enterprises was entered on the expenditure side of the account; the total of positive net transfers from enterprises was entered on the sources or revenues side of the account.
4. Our objectives required separate enumeration of federal and state grants and subventions. For grants and subventions to the general fund this separation was performed using unpublished accounts data provided by the Controller's office. The CAFR includes data that allow partitioning the Special Revenue Funds grants and subventions between federal and state sources (see p. 34). All grants and subventions for the capital projects and debt service funds were assumed to come from state sources on the basis of information provided by the Controller's Office. Grants and subventions received in the Expendable Trust fund were assumed to come from federal sources. \$3.1 million of funds from local sources appearing in the grants and subventions totals were reallocated to "other local sources" in the income-outlay account and deleted entirely from grants and subventions.
5. As discussed in the text, grants and subventions received by enterprises are included in our accounts as sources for general government. We added to the appropriate federal or state grants category operating and capital contributions received by enterprises from federal or state government. Operating contributions were taken from CAFR82 page 49. Capital contributions are from CAFR82 page 50. The source of operating contributions is identified in CAFR82. The source of capital contributions was provided by the Controller's Office and/or accountants for the enterprises. A balancing item for grants "passthrough" was added to the expenditure side.
6. Business taxes reported in CAFR82 were reduced by \$16.4 million to account for taxes actually collected in fiscal 1981 but held in trust pending outcome of a lawsuit challenging the legality of an increase in the business tax passed by voters in 1980 (CAFR82, p.25).
7. Property tax collections were attributed to business, residential, and other categories based on the composition of the property assessment rolls. Data on assessments by category were provided by the County Assessor's Office. These allocations are approximate, since no adjustment is made for differences among property types in the extent of arrearage, etc.
8. The four-way classification of sources was created by aggregating all income other than property taxes, adjusted grants and subventions, and operating transfers from enterprises to the "other local sources" category. This was then subdivided between the total reported in CAFR for business taxes (adjusted for 1981 collections cited above) and the residual "other" category.

The General Hospital and Sewer Program Adjustment. For reasons discussed in the text, it was necessary to adjust the income and outlay statement created by the steps outlined above to include the General Hospital and "Clean Water" Sewer Program. Under conventions in effect for fiscal 1982, records for the General Hospital were maintained as an enterprise account. To include general hospital revenues as income the following steps were taken:

1. The sum of "operating revenues" plus "Other net contributions" from the "Combining Statement of Revenues, Expenses and Changes in Retained Earnings" for the General Hospital Medical Center (CAFR82, p. 49) were added to "Other Local Sources" in table 5.
2. The total outlay by the General Hospital Medical Center on "Services provided by other departments" was subtracted from the "other local sources" total.

Similarly, to include sewer program revenues as income we added the sum of operating and non-operating revenues for the Clean Water Program (CAFR, p. 49) to "other local sources" in our account. The result of these adjustments is table 6 from the text.

### Fiscal 1983

Procedures followed for preparation of the fiscal 1983 accounts were basically similar to those utilized for fiscal 1982. Therefore these notes summarize principally the revised sources and exceptions. The basic source is City and County of San Francisco, California, Comprehensive Annual Financial Report for the Year Ended June 30, 1983, henceforth cited as CAFR83. The basic income/outlay statement for fiscal 1983 appears on page six of CAFR83. From this point the following features of development of table 6 differ from those followed for table 5:

1. Operating transfers to enterprises in fiscal 1983 include in our account \$21 million in capital transfer from the General Fund to the Municipal railway.
2. \$5 million in funds from local sources were moved from the "grants and subventions" category to "other local sources". Other grants and subventions were again subdivided between federal and state on the basis of information provided by the Controller's Office. Again, all grants and subventions to the Capital Projects and Debt Service funds were assumed to be from the state; grants and subventions accruing to the Expendable Trust funds were assumed to be federal.
3. Again, for fiscal 1983 grants and subventions received by enterprises are included in our accounts as sources for general government. Grants and subventions for operating expenses are from CAFR83 p. 63. Capital grants are from page 64. Capital grants were assumed to come from state and federal sources in the same proportions as were applied for fiscal 1982.

4. Again, for fiscal 1983 the general hospital and sewer enterprise accounts were merged in the general funds income and outlay account with an adjustment for interdepartmental purchases.

## APPENDIX B: PREPARING THE ACCOUNTS FOR FISCAL 1978

Preparation of the account for fiscal 1978 presented the most significant challenge of this research. As discussed in the text, prior to implementation of the FIRM system, the accounts for San Francisco were not maintained in a format consistent with commonly accepted standards for municipal financial reporting. As a result development of a consistent set of reports appropriate for analysis of fiscal developments over time or for comparison with other municipalities was extremely difficult.

The City did publish an Annual Report of the Controller in 1978. This document includes, along with audits of basic fund accounts, a combined statements of revenues and expenditures. The figures used in the text are derived from the statement of revenues from ARC78, p. 3. The following procedure was used for the derivation.

1. The revenue account was reorganized into the four-way classification introduced for fiscal 1982. The components were subdivided as follows:
  - a. "Property Taxes and Penalties" total was used for Property Taxes.
  - b. "Cash transferred from utility funds" was used for net transfers from enterprises. The amount, \$2 million, was wholly attributable to the airport.
  - c. Reported revenue sharing and other subventions and grants-in-aid were subdivided between state and federal categories. Many of the fund items included in the original report incorporated both federal and state funds; in each case the Controller's accounts were examined and separate totals identified for each source. These data are available on request from the authors.
  - d. All other revenues were classed as "other sources"
2. The City-County accounts for Fiscal 1978 include the school and community college districts and the San Francisco General Hospital. It was not possible to develop separate accounts for the General Hospital Medical Center or for the sewer system for fiscal 1978. Instead, for comparability the General Hospital and sewer system were added to the accounts for Fiscal 1982 and 83. The following adjustments were made to the revenues table to eliminate the schools:
  - a. It was assumed that property taxes reported in the 1978 SFUSC and SFCC controllers' reports were correct and that these amounts are included in the City-County Property tax figure. It is assumed that all "local sources" tax money reported in the SFCC Controller's was property taxes. Total property taxes for education came to \$138 million in fiscal 1978.

- b. All school items were deducted from the grants and subventions totals.
  - c. School purchases from other city departments could not be determined. However, given exclusion of schools from the accounts, such purposes are legitimate inclusions in the "other sources" category, where equivalent purchases appear in the accounts for fiscal years 1982 and 1983.
3. A particularly serious problem was posed by over \$92 million in what the Controller termed "expenditures of special state and federal grants not included in above", where "above" is the revenue and expenditure accounts (see ARC78, p. 4). These totals included all expenditures for major federal block grant programs, including expenditures under the Comprehensive Employment and Training Act and the Community Development Block Grant programs. Accounting for these items was completely omitted from the Controller's report. To include these totals we examined the accounts for each program. While a relatively complete enumeration of grants and grant outlays was accomplished, we did not obtain complete information on allocation between local government and the schools. In the absence of alternatives, the following procedure was adopted. Al Sakara, a member of the staff of the Controller's office, determined that from the \$92 million, \$17.5 million went to the San Francisco Unified School District and \$5 million went to the San Francisco Community Colleges. A general review of the special grants money indicated that, overall, approximately 92% was from federal sources. These proportions were the basis of our allocations.
4. While for fiscal 1978 separate accounts were not maintained for the general hospital or the sewer system, accounts were published in ARC78 for the Water Department and Hetch-Hetchy Project, the Municipal Railway, the Airport, and the Port. Federal grants and subventions to each of these agencies were included as grants and subvention sources in the accounts in the paper. Amounts for each entry were determined from the enterprise audits published in the Controller's Report.
5. Property tax revenues were subdivided by source following the same convention used for fiscal years 1982 and 1983.



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