

### **City-Funded Nonprofits Need an Ongoing Cost-of-Doing Business Increase**

After several years of budget constraints and economic hardship, the City and County of San Francisco (the City) is now experiencing the fastest economic growth in the country, leading both the state and nation in terms of revenue growth. Bond agencies Moody's, Fitch, and Standard & Poor's have all consistently cited the City's strong financial position and given the highest ratings in the City's history.<sup>1</sup> The Nine-Month Budget Status Report released by the Controller's Office in May stated that the City will have a balance of \$250.7 million by the end of the 2014 fiscal year, despite earlier budget projections of a \$72 million deficit.<sup>2</sup> The Mayor's proposed \$8.6 billion budget reflects this economic rebound, while also acknowledging the affordability crisis faced by low and middle income San Franciscans. The proposed budget includes nearly \$100 million for affordable housing construction, over \$63 million for safety net programs, a 1.5% cost-of-doing-business (CODB) increase for nonprofit contractors, and a \$4.5 million nonprofit rent stabilization fund.<sup>3</sup>

While the Mayor's proposed 1.5% CODB and rent stabilization fund are steps in the right direction, they are simply not enough to make nonprofits whole from years of falling behind. From FY 2008-09 to FY 2011-12, nonprofits received flat funding from the City of San Francisco, despite having to absorb the rising cost of healthcare, rent, and other inflationary increases. Because of these factors, flat funding amounted to a reduction for nonprofits, negatively impacting vital City services, the clients who depend on them and the workers who serve them. Because of low wages, high turnover in the sector negatively impacts both workers and clients. In 2014, the nonprofit sector in Northern California reported a 13% turnover rate for full-time employees and a 17% turnover rate for part-time employees.<sup>4</sup>

### **Other City Contractors Receive Automatic Increases**

In contrast to nonprofit contractors, other City contractors have received annual, built-in CODBs, even during challenging economic times. For example, UCSF, in its contract with the Department of Public Health, received a cumulative 16.4% increase over a five year period, from FY 2008-09 to FY 2012-13.<sup>5</sup> An analysis of individual contracts between for-profit contractors and the City indicates that an annual 3% CODB is comparable to what for-profit contractors already receive from the city – landlords leasing space to the City of San Francisco and their nonprofit contractors receive an average increase of at least 2% – 3% annually, or 10% to 15% over a five year period.<sup>6</sup>

Contract Price Escalation Clauses are included in contract bids for private vendors providing goods and/or services for the City. Vendors may request price increases from the Office of Contract Administration, granted that the price increases are supported by the appropriate Producer Price Increase as published by

---

<sup>1</sup> "Rating Action: Moody's Investors Service has Assigned an Aa3 Rating the City and County of San Francisco's COPs," *Moody's Investors Service*, March 11, 2014; Fitch Rates San Francisco, CA's \$45.5 MM COPs 'AA-,' *Fitch Ratings*, March 5, 2014; "San Francisco City and County's \$210 Million Series 2014A GO Bonds Rated 'AA+'," *Standard and Poor's*, Dec. 30, 2013.

<sup>2</sup> Office of the Controller – FY 2013-12 Nine-Month Budget Status Report

<sup>3</sup> Office of the Mayor – FY 2014-2015 & FY 2015-2016 Proposed Budget

<sup>4</sup> "Fair Pay for Northern California Nonprofits: The 2014 Compensation and Benefits Survey Report" *Nonprofit Compensation Associates*, April 17, 2014.

<sup>5</sup> Human Services Network – Cost-of-Doing-Business, Consumer Price Index, and Parity Numbers

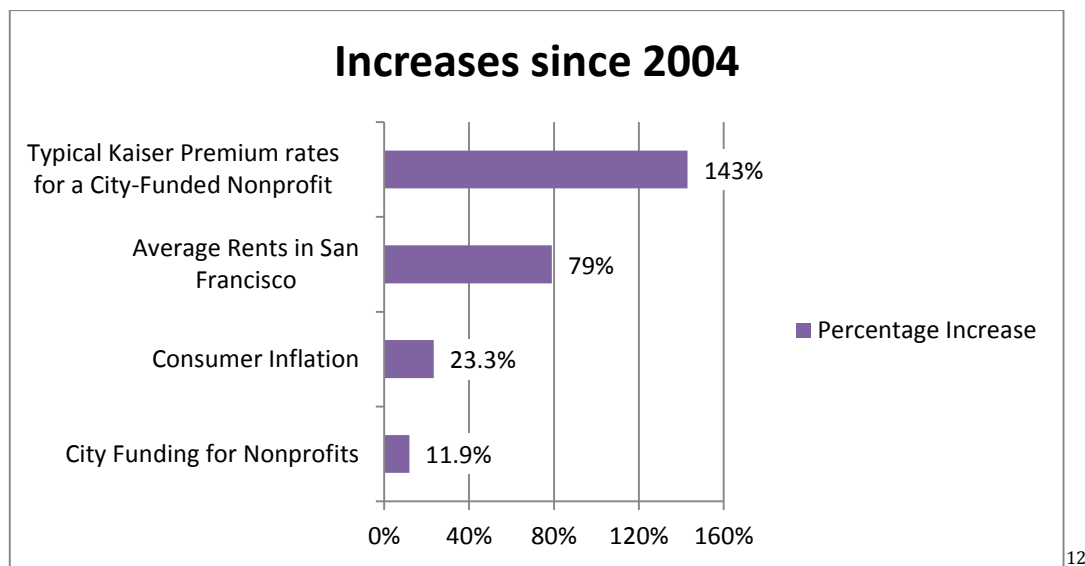
<sup>6</sup> <http://sfgov.legistar.com/Calendar.aspx> - File No. 130384, 130466, 120140, 121006, 121048.

the Bureau of Labor Statistics.<sup>7</sup> Furthermore, construction contracts with the City of San Francisco include an annual cost escalation factor based on the annual increase in McGraw Hill's Construction Cost Index for the San Francisco Bay Area.<sup>8</sup>

### **The Nonprofit Sector Has Been Hit Hard, Nonprofit Workers are Struggling**

Nonprofits have been hit hard by the rising cost of rent, healthcare, and other inflationary increases. Episcopal Community Services is a City-funded nonprofit that provides shelter, supportive housing and employment programs to over 14,000 homeless and low-income people. Over a three year period, from FY 2009-10 to FY 2012-13, the agency experienced a 21% increase in lease payments for shelter facilities, an 8% increase in lease payments on housing sites, and a 129% increase in workers compensation costs.<sup>9</sup> Baker Places, a City-funded nonprofit that provides mental health and substance abuse treatment, experienced an astonishing 151% increase in workers compensation costs over a four year period, from FY10-11 to FY13-14.<sup>10</sup>

Nonprofits have been hit particularly hard by healthcare costs, with Kaiser premium rates increasing as much as 143% over a ten year period for some nonprofit contractors. CPI has increased over 23.3% since 2004, and according to the most recent CPI report for the San Francisco Bay Area, CPI increased 2.8% over the past 12 months.<sup>11</sup> Over the same ten year period, the total increase in funding from the City amounted to less than 12% - hardly enough to keep up with the cost of doing business.



<sup>7</sup> [http://mission.sfgov.org/OCA\\_BID\\_ATTACHMENTS/FA27812.pdf](http://mission.sfgov.org/OCA_BID_ATTACHMENTS/FA27812.pdf)

<sup>8</sup> <http://www.sfoconstruction.com/viewDetail?contractNumber=9249>

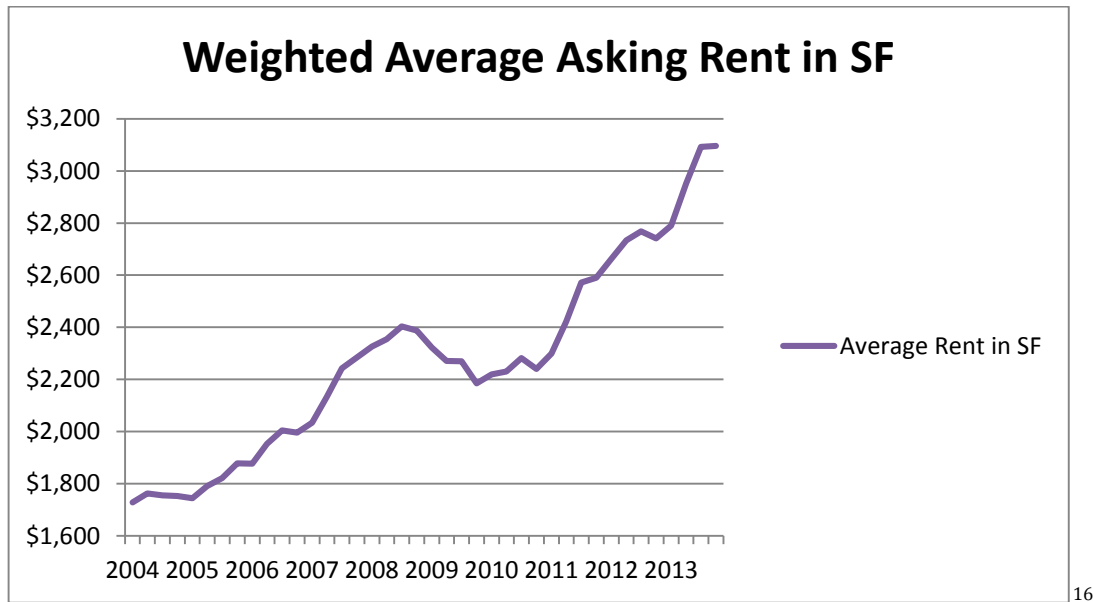
<sup>9</sup> Episcopal Community Services Cost Increases, FY10-FY13. Provided by Episcopal Community Services.

<sup>10</sup> Baker Places Cost Increases, FY11-FY14, FY14 projected by insurance company. Provided by Baker Places.

<sup>11</sup> <http://www.bls.gov/ro9/cpisanf.htm>

<sup>12</sup> Information from Office of Economic Indicators, Bureau of Labor Statistics, a large nonprofit contractor, and HSN's budget history [http://www.sfhhsn.org/issues\\_budget.htm](http://www.sfhhsn.org/issues_budget.htm)

San Francisco has one of the most expensive housing markets in the nation. According to a report released in April, the average rent in the City is 46% of the average household income.<sup>13</sup> For the first quarter of 2014, the median rent in San Francisco was \$3,200 – 8% higher than the previous year.<sup>14</sup> The median price for a single family home in San Francisco was \$928,000 this January, a 24.6% increase from the following year.<sup>15</sup>



Wages for nonprofit workers have been flat for years, driven down by inflationary increases and budget constraints. Under the Minimum Compensation Ordinance, the minimum wage for nonprofit workers servicing City contracts has remained flat since 2008. However, the minimum wage for for-profit contractors is indexed to inflation and increases annually per CPI. The for-profit contractor wage rate increased to \$12.66 an hour in 2014, while the nonprofit remains at \$11.03 an hour. Addressing this inequity would cost less than \$18 million, or 7% of the City's \$250.7 million balance ending this fiscal year 2013-14.

Roughly 47.7% of San Francisco nonprofit workers represented by SEIU Local 1021 live in San Francisco, down from 51% in 2012. The remaining 52.3% live in surrounding Bay Area cities, mostly in Oakland, where the cost of rent has also skyrocketed in recent years.<sup>17</sup>

<sup>13</sup> "Confirmed Again: San Francisco Rent is Too Damn High and Oakland Isn't Much Cheaper," *SF Weekly*, April 17, 2014.

<sup>14</sup> "Are You Sitting Down? SF's Median Rent Rate is \$3,200/Month," *Curbed SF*, April 14, 2014.

<sup>15</sup> "San Francisco Retains its Position as one of the Most Expensive Housing Markets in the Nation," *San Francisco Association of Realtors*, February 11, 2014.

<sup>16</sup> Office of Economic Analysis: Economic Barometer, Residential Real Estate <http://sfbarometer.weebly.com/>

<sup>17</sup> "Rent Prices Soar in Oakland," *East Bay Express*, December 19, 2012.

### The City Can Afford an Ongoing Nonprofit CODB Increase

According to the Controller's FY 2013-14 Budget Status Report, the City will have a balance of \$250.7 million by the end of the 2014 fiscal year. This additional money is largely the result of higher than projected revenue growth and expenditure savings, including \$24 million more-than-projected property tax revenue and \$34 million more-than-projected local tax revenue.

The estimated cost of an additional 1.5% CODB is \$6.8 million annually – only 2.7% of the current reserve. Furthermore, the City has routinely underestimated revenues, overestimated expenditures, and failed to include revenue-generating options and cost-saving measures in its budget projections. In fact, the City's Comprehensive Annual Financial Reports (CAFR) show that the City routinely overestimates expenditures by approximately \$30 to \$130 million annually (or between 0.8% and 4% of General Fund revenues).

2010-11	2010-11 Final Budget Projections	2010-11 Audited Actuals	2010-11 Variance Positive (Negative)	2010-11 % Final Budget vs. Audited Actuals
<b>Budget Category</b>				
Total General Fund Revenues	\$2,891,867	\$3,052,178	\$160,311	5.54%
Total General Fund Appropriations	\$3,019,986	\$2,936,332	-\$83,654	-2.77%
Total General Fund Sources Less Current Uses	-\$128,119	\$115,846	\$234,965	
<b>2011-12</b>	<b>2011-12 Final Budget Projections</b>	<b>2011-12 Audited Actuals</b>	<b>2011-12 Variance Positive (Negative)</b>	<b>2011-12 % Final Budget vs. Audited Actuals</b>
<b>Budget Category</b>				
Total General Fund Revenues	\$3,095,173	\$3,270,390	\$175,217	5.66%
Total General Fund Appropriations	\$3,265,509	\$3,141,179	-\$124,330	-3.81%
Total General Fund Sources Less Current Uses	-\$170,336	\$129,211	\$299,547	
<b>2012-13</b>	<b>2012-13 Final Budget Projections</b>	<b>2012-13 Audited Actuals</b>	<b>2012-13 Variance Positive (Negative)</b>	<b>2012-13 % Final Budget vs. Audited Actuals</b>
<b>Budget Category</b>				
Total General Fund Revenues	\$3,436,699	\$3,554,513	\$117,814	3.43%
Total General Fund Appropriations	\$3,466,060	\$3,436,973	-\$29,087	-0.84%
Total General Fund Sources Less Current Uses	-\$29,361	\$117,540	\$146,901	

18

Even during the four year period that nonprofits received flat funding, the City's Three-Year Budget Projection and Five-Year Financial Plan Updates consistently projected that contracts with nonprofits would increase with CPI. The most recent report again estimated that contracts with Community-Based Organizations will rise by CPI increases of 2.2%, 2.4% and 2.4% for FY 2015-16, FY 2016-17 and FY 2017-18<sup>19</sup>. Nonetheless, the CODB was consistently removed from the Mayor's proposed budget until last year, FY 2013-14. It's time for the City to make good on its obligation to fund nonprofit services by providing an ongoing CODB increase to nonprofit contractors.

<sup>18</sup> FY 2011-12, FY 2012-12, FY 2012-13 CAFRs

<sup>19</sup> Five Year Financial Plan Update for General Fund Supported Operations: FY 2014-15 through FY 2017-18 – Joint Report by the Controller's Office, Mayor's Office, and Board of Supervisors' Budget and Legislative Analyst.