PROPOSED HEALTH AND HUMAN SERVICE REDUCTIONS IN SAN FRANCISCO'S FY 2010-11 BUDGET

San Francisco Human Services Network

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I. Background: A Decade of Budget Deficits and Service Reductions

With a troubled economy and huge City and State budget deficits, the last few years have presented tremendous threats to the health and human service safety net. San Francisco has faced significant budget shortfalls in almost every year for the past decade, and the magnitude of the structural deficit continues to grow.

The San Francisco budget is approximately $6.5 billion, but only a small portion of this amount is available to address deficits. About $2.8 billion of the budget represents self-supporting Enterprise Departments, such as the Airport, MUNI, Port and Public Utilities Commission. The remaining $3.7 billion is the General Fund. However, after accounting for mandatory expenditures, only about $1.2 billion of the General Fund is discretionary.

The city has experienced periods of extraordinary revenue growth when it expanded programs and increased employee wages and benefits. When major downturns occurred, both in the recent recession and during the dot com bust earlier in the decade, the city struggled with reduced revenues and structural deficits.

Many areas of San Francisco's budget are protected from cuts because of voter-approved set-asides that lock in a substantial portion of the City's general fund dollars. These funding mandates total about a half billion dollars, and include the Children's Fund, MUNI, libraries, the Public Education Enrichment Fund, the Symphony, open space, and others. Voters also approved a Charter Amendment that requires a minimum level of police staffing, and a ballot measure to protect funding for neighborhood firehouses. The Fire Department measure is not a mandate, but protects their budget because cuts are politically unpalatable. The city has never complied with another voter measure that was meant to protect substance abuse funding and calls for treatment on demand.

Other factors are at play in creating ongoing deficits. Many argue that the city has negotiated overly generous wage and benefit packages with its employee unions. In coming years, the escalating costs of retiree pension and health benefits will require unsustainable payments from the general fund to maintain the city's pension obligations. In addition, several years ago, San Francisco businesses brought a lawsuit challenging the city's tax structure, which led to a settlement reducing corporate taxes by about $40 million a year. The State's budget problems have also created tremendous challenges for local governments.

In each deficit year, the city budget has included more cuts to the health and human service safety net. The San Francisco Human Services Network (HSN), other coalitions, and individual service providers respond each year with advocacy and community organizing efforts directed at the Mayor and the Board of Supervisors. Mayor Newsom has emphasized the preservation of direct services, and the Board of Supervisors has used its ability to restore some cuts at the end of the process through revenue increases and alternative cuts.

The Mayor also has discretion as to whether to expend the funds. In some years, lagging revenues and state cuts have forced the Mayor to make mid-year reductions, which do not require Board approval. The Board's restorations are often the victims of these mid-year cuts.

This overview focuses on San Francisco's budget reductions, which only partially convey the funding picture. Nonprofits also face the loss of State funding as California struggles with a $19 billion deficit. Recent studies show that charitable giving dropped almost 4 percent last year, and philanthropic support has suffered from the impact of the recession on foundation portfolios.

Finally, even nonprofits that have sustained their city contracts have faced the ongoing challenge of flat funding. In the mid-2000's, HSN finally saw progress in our long campaign urging the city to pay cost-of-living-allowances and cost-of-doing-business increases in nonprofit contracts, which could go up by as much as 7% for many organizations. But there will be no increase in FY 2010, for the third straight year. The failure to fund rising salaries, health insurance costs, and business costs erodes nonprofits' capacity and ability to attract and retain high-quality employees, maintain their infrastructure, and provide effective services. In short, the lack of an increase represents an invisible budget cut that impacts organizations, services and clients.

II. The FY 2010-11 Deficit and Budget Process

The City initially projected a $522 million deficit for FY2010, and reduced it to $483 million after implementing some mid-year reductions in December 2009. Putting this in context, the deficit represents over 40% of the City's $1.2 billion discretionary General Fund budget.

In FY2009-10, San Francisco spent $318 million on services provided by community-based organizations. (This category is broader than health and human services, and includes arts, school-based and other programs.) Of this amount, $147 million came from the General Fund. Most of the remaining funds are pass-throughs of federal and state funding, which are not the focus of this overview. However, it's important to recognize that loss of general fund support often means loss of matching funds. For example, the City loses Medicaid (MediCal) funding when its makes cuts to community-based mental health and substance abuse services.

The annual budget process begins when the Mayor issues his instructions to departments in December. This year, he asked departments to submit budgets that reduce their general fund use by 20%, and contingency budgets showing another 10% in reductions. Departments could meet those targets through revenue increases and/or spending cuts.

In most years, proposed departmental budgets are due to the Mayor's Office by late February. Departments that have Commissions will hold public hearings as they develop their budgets. This includes the Departments of Public Health (DPH), Human Services (DHS), Aging and Adult Services (DAAS), and Children, Youth and Families (DCYF), as well as smaller departments such as Juvenile Probation (JPD) and the Department on the Status of Women

(DOSW, which funds domestic violence services).These hearings provide an opportunity to learn about and influence the budget submissions.

This year's process was unusual in three major ways that have made it challenging to gather comprehensive information. First, the Mayor allowed the Department of Public Health to defer its budget submission until May because of several significant potential funding sources (including federal stimulus funds) that would vastly reduce the need to cut. While this was helpful in avoiding an unnecessary panic scenario, it also left nonprofits with a frustrating inability to plan or to organize a strong opposition.

Second, the Mayor went back to departments to request additional cut proposals in late March, especially those health and human service departments that had relied heavily on revenue to avoid reductions. Third, both DPH and DCYF conducted RFP processes for major portions of their services this year, and results only became available in the last few weeks.

After the departments submit their budgets, the Mayor's staff works with the City Controller to produce his proposed budget, which must balance. The Mayor reviews the submissions, and determines which proposals to accept or reject. He also looks at citywide solutions, such as revenues, negotiations with labor unions, and efficiencies.

The Mayor submits his Enterprise Department budget to the Board on May 1, and his General Fund budget on June 1. The Board holds hearings during the month of June, with many opportunities for public comment as well as lobbying. Most hearings take place before the Board's Budget and Finance Committee, which finalizes its restoration list at the end of the month. The budget then moves to the full Board of Supervisors. The Board makes any final changes, frequently negotiating with the Mayor, and passes the budget by the end of July.

If the past few years are any indication, this will not be the end of the story. Economic uncertainties, a delayed state budget, or the failure of hoped-for federal revenues to materialize may result in mid-year reductions again this fall. San Francisco set aside only $30 million in this budget for anticipated state cuts. The Governor's current proposal would reduce San Francisco's budget by over $100 million, but the legislature has rejected most of these proposed cuts in past years, and is likely to fight them again.

III. The Mayor's Proposed General Fund Budget and the Board's Response

Mayor Newsom employed a broad range of strategies to address the $483 million deficit. Public employee union concessions, about 350 worker layoffs, and cuts to managers account for about $125 million. He included most of the 20% budget reductions from department submissions, and negotiated additional reductions in the city's materials and supplies contracts. The budget also relies on federal stimulus funds and other state funds, much of it for health and human services.

In his budget, the Mayor reversed or reduced some of the devastating cuts that departments submitted. These restorations included $2.6 million for after-school, youth leadership and violence prevention programs in DCYF, $558,000 for the Trauma Recovery Center and $6.5 million for community-based mental health and substance abuse services in DPH, and $1 million to the Mayor's Office of Economic and Workforce Development for programs that help train and employ low-income workers.

As a result, budget cuts to safety net services were less draconian than expected, but are still severe. The budget contains about $18 million in city cuts to community-based health and human service organizations.

As usual, the Board is expected to prioritize two areas: restoring cuts opposed by city employee unions (especially SEIU 1021, which represents many of the city's frontline workers), and restoring services for the most vulnerable populations. However, the Mayor's budget includes two very controversial proposals that the Board opposes, and will most certainly look to reverse. These steps could significantly reduce the amount available to restore service cuts.

The budget includes a number of "Prop J" contracts, which involve contracting out services currently provided by city employees. Prop J was a ballot measure that allows the city to contract out services if it saves the city money. The Mayor proposes to save $14 million by contracting out hospital and clinic security, art museum security, jail health services, janitorial services, and others. Labor vigorously opposes these contracts, and the Board is likely to reject them.

The second controversial item is the Mayor's proposal to allow tenancy-in-common owners to convert to condos for a fee. City law currently allows only 200 conversions a year through a lottery. Through a one-time conversion opportunity, the Mayor plans to raise $8 million. The Board will fight this proposal because it encourages real estate speculation and creates an incentive to remove affordable housing from the rental market.

In all, the Board is looking for about $45 million for its budget priorities. The Board's Budget Analyst is reviewing the Mayor's budget, and has found about $15 million in potential savings. These include items such as duplications and budgeted positions that are vacant. The Board will also look for alternative cuts in other departments, and consider new revenue solutions.

Given the magnitude of the deficit, it's uncertain how much money the Board will be able to find. However, the Board was able to restore close to $50 million in last year's budget process – the largest amount ever – when facing a similar deficit.

IV. Health and Human Services Cuts in the Mayor's Proposed FY 2010 Budget

The following is a summary of proposed budget cuts in the most significant departments: the Department of Public Health (DPH), Human Services Agency (HSA), and Department of Children Youth and Families (DCYF). The DPH and HSA cuts are included in the Mayor's proposed budget. The DCYF information is from the department's budget proposal in April. The Mayor restored some of the cuts on June 1, but updated documents are not available for analysis.

Other departments provide small amounts of funding to community-based organizations (CBOs). They include Juvenile Probation, the Sheriff, the District Attorney, the Public Defender and others. The Mayor spared the Department on the Status of Women from cuts this year, preserving all domestic violence services at their current levels.

A. Department of Public Health (DPH)

(1) Overview: In response to the citywide deficit, the Mayor asked DPH to reduce its $344 million general fund budget by $137 million (40%). This request included a baseline 20% cut of $68 million, a 10% contingency cut of $34 million, and an additional request in March for another $35 million. The department addressed $105 million of this request, and the Mayor ultimately withdrew his request for reductions beyond that.

DPH achieved most of its general fund reduction through revenue solutions. About $70 million of these revenues are likely, but still unconfirmed. Should they fail to materialize, it will require devastating cuts later in the year. They are also one-time in nature, which means the department will face a steep revenue drop in FY 2011. These sources are:

- Federal Medical Assistance Percentage (FMAP) Extension: As part of the stimulus funding, the federal government increased the federal share of payments for certain assistance and health programs. The increase is due to expire in December 2010, but most people expect Congress to extend it through the 2010-11 fiscal year.

- Hospital Fee: The State has submitted a plan to impose a hospital fee that would be used to increase federal Medi-Cal payments. Those payments would be matched with federal funds at the enhanced FMAP rate. This plan is awaiting federal approval.

Because of these revenues, DPH achieved its budget target with only $27 million in proposed cuts, of which $9.7 million are non-service related. However, the Mayor rejected some of these proposals, including some of the mental health and substance abuse reductions. His proposed budget cuts about $10 million in services, of which about $7.5 million are provided by CBOs.

DPH is also implementing major changes to its system of care through a mega-RFP of its community-based mental health and substance abuse treatment services. The City Charter requires a competitive RFP for services at least every 10 years. DPH was out of compliance, and after some extensions, issued the RFP in 2009. They did not announce the results until recently, but no analysis is available that compares prior services with new services. All applicants above a certain score will receive funding, but the amounts are to be determined through negotiations that have yet to happen. Lower-scoring applicants will not receive funds, and some longstanding programs were completely de-funded. Without more information, we can't yet assess the impacts of these service changes.

(2) Reductions to Community Behavioral Health Services through the new RFP:
Reduction: $5.6 million and an unknown amount of matching Medi-Cal revenue losses.
Funding reductions to 16 organizations awarded contracts under the RFP.
Population: Adults and children with mental health and substance abuse illnesses.
Impacts: 1100 clients.

The DPH mega-RFP originally allocated $116.6 million for mental health and substance abuse services, with specific contract amounts for each program to be determined through negotiations with successful bidders. To address its reduction target, DPH further reduced the RFP by $5.6

million on the largest nonprofits. (DPH proposed to reduce these services by over $12 million, but the Mayor rejected about $6.5 million of the proposed cut in his budget.) The impacts are estimates, pending final contract certifications. Substance abuse is always especially vulnerable to budget cuts because most support is General Fund. The reductions apply to outpatient, residential, and other modalities:

- Reductions to Outpatient Services: The following chart lists the reductions to outpatient services, but does not provide a complete picture. These reductions will be accompanied by the loss of Medi-Cal funds, with the amount depending on which programs are closed. The cut reduces these agencies' collective funding by 7.7%, but represents an astonishing 40% of the city's outpatient mental health and substance abuse services. Almost 1000 patients will lose their individual therapy, wait times for appointments will increase, and some programs will close.

CBHS Reduction Proposal	**Unduplicated Clients (UDC) Impact**	**General Fund Reduction**	**Total FY10-11 Agency Funding after Reduction**
Outpatient			
Unallocated funding from the RFP	N/A	44,892	N/A
Bayview Hunters Point Foundation	80	400,000	4,430,224
Family Services Agency of SF	191	916,000	6,939,195
Horizons Unlimited	20	66,787	1,209,823
Hyde Street	80	260,000	2,355,650
Instituto Familiar de la Raza	36	100,000	2,440,622
Iris Center	109	360,000	409,090
New Leaf	40	135,000	1,215,148
Positive Directions Equals Change	No impact - New in RFP	80,000	730,590
Richmond Area Multi-Services	138	350,000	7,660,351
UC Citywide Case Management and Community Focus	194	1,300,000	7,376,523
Walden House	36	100,000	8,953,737
Westside Community Mental Health Services	55	290,000	9,878,482
Subtotal Outpatient Reductions	**979**	**4,402,679**	**53,599,435**
Reallocation of Funding to Support System of Care - Residential		(280,000)	
Total Outpatient Reductions		**4,122,679**	

- Reductions to other modalities: The rest of the RFP reductions fall on residential, vocational, and peer wellness services. Again, these figures do not reflect Medi-Cal losses.

CBHS Reduction Proposal	**Unduplicated Clients (UDC) Impact**	**General Fund Reduction**	**Total FY10-11 Agency Funding after Reduction**
Residential Services			
Haight Ashbury Free Clinics: Center for Recovery, Drug Court, Western Addition (100% Closure)	28 Beds; 56 UDC	1,157,042	4,207,607
Total Residential Reductions		**1,157,042**	**4,207,607**
Vocational Services			
Community Vocational Enterprise	45	200,000	1,947,285
UCSF Center on Deafness	N/A. New Svc in FY10-11	98,648	365,947
Total Vocational Svc. Reductions		**298,648**	**2,313,232**
Other Modalities			
SF Study Center-Peer Wellness	21	30,000	1,381,060
Total Other Reductions		**30,000**	**1,381,060**

(3) Other DPH budget reductions to community-based organizations:

Community Awareness and Treatment Services (CATS): Reduction: $300,000.
Reprogramming mobile assistance patrol transportation program.
Population: Adults abusing alcohol and drugs.
Impacts: 841 clients, about 10,670 units of service.

CATS operates a fleet of Mobile Assistance Patrol (MAP) vans to assess people at risk on the street, and provide transportation to stabilization or shelter. MAP also transports individuals within the detox and shelter system to essential services. This proposal will reduce the MAP budget by 39%. Transportation services for shelter clients will only be available in the evening. Most daytime services will be eliminated, expect to move clients between emergency departments, community medical respite, and community crisis stabilization programs.

San Francisco AIDS Foundation (SFAF): Reduction: $230,133.
HIV benefit counseling and advocacy.
Population: Low income, uninsured, diagnosed with HIV/AIDS.
Impact: 292 clients, about 3,200 units of service (counseling hours).

The SFAF Client Advocacy and Financial Benefits Counseling program provides information, referral and consultation to help HIV/AIDS patients access available services and benefit entitlement programs.

Baker Places, Catholic Charities, Larkin Street Youth Services, and S.F. AIDS Foundation:
Reduction: $559,360. 10% reduction to HIV/AIDS housing subsidies.
Population: Low income living with HIV/AIDS, including young adults. Impacts: Unknown.

DPH spends $5.6 million to subsidize 641 housing units for people living with HIV/AIDS. Participating nonprofits provide the subsidies to individuals living in either market rate apartments or shared apartments (co-ops) rented by the agencies. Reducing the subsidies would require tenants to pay additional rent, require agencies to subsidize them with unknown impacts on other services those agencies provide, or reduce the number of available units.

Chinatown Community Development Center, Dolores Street Community Services, and Tenderloin Housing Clinic: Reduction: $445,099.
Eliminate DPH general fund support for SRO Housing Collaboratives.
Population: Low-income Single Room Occupancy (SRO) hotel tenants, including families with children living in SROs. Impacts: 1,046 clients, and over 25,000 units of service.

The SRO Collaboratives provide outreach, education and referrals to social and legal services based on a resident's needs, including fire prevention, community stabilization, and health issues. They work in private SRO buildings in Chinatown, North Beach, Central City and the Mission. These services ensure tenants' rights, improve housing conditions, and help them move into affordable housing. This cut represents 40% of their budget. The Department of Building Inspection provides $655,000.

Ark of Refuge: Reduction: $434,738. Closure of Ark House. Population: LGBTQQ homeless young adults. Impacts: 15 clients.

Ark House is a transitional housing program for homeless young adults (age 18-23). The program provides a stable housing environment and support services. The Ark House unexpectedly lost its site in November 2009, but has continued to operate out of several temporary locations with fewer residents. Though the Ark House is working to develop a new site in its own building, DPH moved to eliminate funding due to the budget deficit.

(4) Other DPH cuts to non-CBO services for vulnerable populations:

Community Behavioral Health Services: Reduction: $734,241.
Prioritize mental health services to persons with serious mental illnesses.
Population: Uninsured adults with a non-serious mental illness diagnosis. Impacts: 1,582 clients.

This reduction would impact funding for civil service and CBOs. It's a very troubling proposal that DPH has made several times, but that the Board has never approved. San Francisco is currently the only county that operates under a "single standard of care" policy to provide the same services to uninsured clients as it does to Medi-Cal beneficiaries under State requirements. To meet its budget target, DPH proposes to limit services for uninsured clients to those who are seriously mentally ill. Those with mild depression, anxiety or adjustment disorders would no longer receive mental health treatment.

Other program reductions:

- $214,000 reduction to two HIV prevention programs provided by UCSF through their Women's Specialty Clinic (48 clients) and AIDS Health Project (216 HIV testing counselors).

- Implement a new Primary Care/Behavioral Health Integration model at eleven Community-Oriented Primary Care clinics for a savings of $1.7 million and no client impact.

- Eliminate 3 positions in the city's Health at Home program that serves homebound patients, saving $$476,000 (199 clients).

B. Human Services Agency

Overview: The Human Services Agency (HSA) includes two merged departments: the Department of Human Services (DHS), and the Department of Aging and Adult Services (DAAS). The discretionary general fund budget is $89 million (which excludes expenses such as aid payments, In-Home Supportive Services wages, CalWORKs, and dollars for matching fund requirements). Of this amount, $14.5 million is DAAS, and $74.2 million is DHS. Their original combined budget reduction target was $19 million baseline (20%), and $9.5 million contingency cut (10%). To address the continuing deficit, the Mayor requested another $12.6 million in cut proposals at the end of March.

Like DPH, HSA relied on revenues including federal stimulus funding to avoid significant reductions, as well as administrative reductions and efficiencies. They rejected cuts to agency staff, having already cut 209 positions in the last 18 months. They also rejected an across-the-board approach. HSA budget staff did an admirable job of reaching the target by maximizing revenues and savings, but the Mayor's budget still includes about $4.4 million in service cuts.

Two major sources are projected to provide about $16.3 million:

* In-Home Supportive Services (IHSS) wages: A lawsuit delayed the state's FY09 budget proposal to reduce their share of IHSS wages for home-care workers. This has saved the city $6.7 million in the current year’s budget. If the lawsuit is resolved in the State's favor, the City could ultimately owe the State if the decision is retroactive.

* FMAP: Assuming that Congress will pass the extension, HSA identified $9.6 million in expected revenue for FY10-11. If the extension is not approved, HSA will face significant cuts.

Department of Aging and Adult Services

DAAS currently funds 51 community-based organizations running 34 programs that serve seniors and adults with disabilities. The department made non-service reductions and mandated that contractors implement a time-study program that will increase federal matching funds. The Mayor rejected a proposal to increase the monthly health care premium copay for IHSS home-care workers from $3 to $25. However, all DAAS services are under strain due to rising caseloads, and there are about $2.2 million in nonprofit service cuts.

Reductions to DAAS CBO services:

* Congregate meals, home-delivered meals and nutrition education: DAAS has announced plans to save $515,000 by closing all weekend senior meal sites. Instead, they will give out two cold, bagged meals on Fridays, maintaining the number of meals but reducing their cost and quality. Closing the few weekend meal sites open in the Tenderloin, Visitacion Valley and other low-income areas will deprive vulnerable seniors of their one hot meal of the day, and a safe place to congregate. Savings will come from 11 providers.

* Senior Centers and Activity Centers for Adults with Disabilities: This $294,489 reduction will cut 10.2% across the board to all (over three dozen) centers. DAAS will work with sites to implement this cut with the least harm, and none of the centers will close. However, some may have to close one day per week.

* Alzheimer’s Day Care Resource Centers: This $243,750 cut eliminates day care services for 66 Alzheimer's consumers, along with 1,563 hours of counseling for their families, and 55 hours of community education. It will impact various CBOs.

* Hoarders and Clutterers: DAAS will reduce funding by $100,000 for this Mental Health Association program. It provides support services to 250 consumers, reducing evictions of tenants suffering from compulsive hoarding, and serves as a national model.

* Case Management: This service program is currently out for RFP. DAAS will reduce the amount of available funding by $300,000, a 15% reduction. While the specific impact is unknowable, DAAS plans to implement a policy to provide case management only to people below 400% of the federal poverty line. Loss of this one-on-one support will increase the risk of institutionalization and other preventable problems. The cut will also result in the loss of $103,500 in leveraged federal funds.

* Legal services: In the spring, DAAS plans to issue a new RFP for legal services, and will institute a new requirement of a 15% cash match. The department says it's not a service cut, as nonprofits will have to replace the revenue from other sources. However, all current service providers are already contributing about 15% or more from other sources, are skeptical about whether they can increase their private funding in this economic climate, and believe there will be service reductions. Another $200,000 reduction will force nonprofit legal service agencies to lay off at least 3.5 attorneys that would have served about 664 seniors. This cut impacts several

nonprofits: Asian Pacific Islander Legal Outreach (Nihonmachi), Asian Law Caucus Inc., La Raza Centro Legal, and Legal Assistance to the Elderly.

* Naturalization services: Various service providers will lose $200,000 in funding for services that help about 1,410 seniors complete and file naturalization applications and prepare for citizenship tests. Loss of these services can jeopardize seniors' applications for SSI benefits.

* Housing counseling and advocacy: DAAS will cut funding for two programs that support seniors and disabled residents with general housing advocacy (tenant rights and eviction prevention). The cut will eliminate $23,290 for services provided to 80 senior and disabled Chinatown residents by the Chinatown Community Development Center, and $113,747 for 550 consumers at Senior Action Network's program.

* Other CBO service cuts: The budget cuts $22,397 from the Family Service Agency, eliminating funding that supports 5 volunteer senior companions providing 4,714 hours of services at Adult Day Health Programs. New Leaf Services will lose $62,707 for a program that provides support services to 122 volunteer caregivers for homebound LGBT seniors. The Institute on Aging (IOA) will lose $8,511 in funding that provides 543 hours of much-needed respite care to 20 unpaid caregivers of frail elderly and adults with impairments. The budget reduces funding by $70,000 for IOA's forensic center, which provides specialists, outreach and education to consumers in legal cases, including evictions, loss of benefits, and elder abuse.

Department of Human Services

The DHS budget cuts will have significant service impacts, particularly on supportive services for homeless families and single adults.

Reductions to DHS CBO services:

* Standardizing supportive services, $895,000: DHS proposes to standardize the per-unit cost of supportive services that are provided to formerly homeless families and individuals who move into permanent supportive housing. Annual unit costs vary widely among housing sites and populations. For families, current unit costs range from about $700 to $9,000 for services. DHS plans to save $495,000 by limiting payments to $3000 for specialized units, $2000 for Section 8 units, and reducing contract budgets for non-specialized units by half. DHS would also save $400,000 for single adult supportive services by reducing unit costs, which currently range from $2382 to $7872, to a maximum of $2,800.

The proposed reimbursement rates appear to have been set based on the amount the department needed to cut, rather than the actual cost of providing supportive services. This change will have significant impacts on some service providers, who argue that standardization does not take into account the wide variance of projects, service models, and the challenges of the people they serve. Other concerns include risks that tenants won't stabilize or maintain their housing, that programs will be forced to deny applicants who are the most severely impaired and thus most expensive to serve, and that reducing general fund support will make it more difficult to meet federal match requirements.

DHS Supportive Housing Reductions	
Family Supportive Services	**Reduction**
Bernal Heights Neighborhood Center	$5,897
Bridge Housing Corporation	$6,234
Catholic Charities	$112,916
Community Housing Partnership	$12,096
Episcopal Community Services	$129,499
Glide	$94,071
Housing Services Affiliates of Bernal Heights	$58,068
SF Housing Development Corp.	$62,861
Total	**$481,642**
Single Adult Supportive Housing	**Reduction**
Community Awareness and Treatment Services	$162,063
Community Housing Partnership	$73,778
Conard House	$46,420
Episcopal Community Services	$27,591
Glide	$111,584
Tenderloin Health	$14,035
Total	**$435,471**

* Tenderloin Housing Clinic: A $125,000 budget cut will eliminate legal services for 55 clients fighting Ellis Act evictions.

* Compass Family Services: A cut of $94, 521 will eliminate 5 homeless childcare slots.

* Afterschool and Toddler Child Care: DHS reduced funding by $105,966 for afterschool services that the Department of Children Youth and Families RFPed this spring.

* Arriba Juntos and others for workforce development: DHS reduced job training services for homeless adults at Arriba Juntos, cutting $88,113. They also eliminated $102,213 in funding for Individual Referral Training Vouchers in Welfare to Work programs, affecting multiple service providers.

* SF LGBT Center and Transgender Law Center: DHS eliminated funding for a comprehensive transgender employment initiative, for a savings of $239,498. Transgender people experience unemployment and poverty at a much higher rate than the general population. This is the only program of its kind in the nation.

Reductions to DHS non-CBO services:

* Family rental subsidy program, $400,000 in FY09 and $264,000 in FY10: The Board of Supervisors established this program to prevent evictions, and recently extended the subsidy to five years, but funding has been insufficient to meet demand. DHS has suspended new enrollments to reduce future costs. The program has a long waiting list, and the cut will lead to longer stays in the family shelter system. It will affect approximately 43 families.

* County Adult Assistance Program sanctions, $83,333 in FY09 and $500,000 in FY10: Clients in San Francisco's welfare system can receive additional benefits if they enroll in the Personal Assisted Employment Services (PAES) program. If clients are sanctioned by PAES for noncompliance, they can apply immediately for General Assistance. DHS proposes that sanctioned clients should not be allowed to enroll until they have served the full 30-day sanction. However, there is concern that clients would be unable to pay rent and would lose housing, just because of a minor sanction like missing a meeting. DHS agreed to look at other programs that might be able to prevent loss of housing, but it's not clear whether there are alternatives.

* Closure of the 150 Otis Street Shelter, $163,000: The shelter will close on June 30, and the building will be converted to permanent supportive housing for homeless veterans. The system will lose 59 shelter spaces for homeless men and women operating nightly, 7 PM to 7 AM.

* Working Family Credit, $600,000 in FY09 and $900,000 in FY10: As an incentive for low-income families to apply for the federal Earned Income Tax Credit, the City offers its own Working Family Credit. This will now be available only to first-time filers.

C. Department of Children, Youth and Families (DCYF)

(1) Overview: The Department of Children, Youth and Families budget process differs from DPH and HSA. DCYF issues a competitive RFP every three years to determine its CBO funding, with annual adjustments depending on changes in available funding. The three-year cycle includes a Community Needs Assessment in year one, a Children's Services Allocation Plan in year two, and an RFP in year three.

All funding for the coming year was determined through the new funding cycle for FY 2010-13. The department achieved its budget reduction targets by decreasing the amount available for RFP, rather than cutting programs that had already been funded.

The new RFP was guided by two policy goals: that children and youth should be ready to learn, and that they will succeed in school. Due to the deficit, DCYF deemphasized its two other major policy goals this year: that children and youth are healthy, and that they contribute to the growth, vitality and development of San Francisco. Within those goals, DCYF focused on preserving direct services, and targeting those youth with the greatest needs. Some service providers have expressed concern about the RFP results, and feel that DCYF has reduced its traditional support for CBOs in order to route funds to the cash-strapped schools and parks.

The difference between the amount requested and the amount awarded in the most recent RFP demonstrates the magnitude of unmet need. In the RFP for Out of School Time, Youth Leadership and Development, and Beacon Centers, DCYF received 623 applications asking for $72 million in support, and awarded 263 programs a total of about $20 million.

DCYF also differs in that a portion of its budget comes from a special funding set-aside, approved by San Francisco voters in 1991 (and reauthorized in 2000). DCYF draws 64% of its budget from the Children's Fund, which receives 3 cents of every $100 of assessed property value in San Francisco. Another 30% comes from the General Fund, and the remaining 6% from state and federal grants. The department uses 66% of these funds to provide direct grants to CBOs. Another 26% is work-ordered to other departments to fund compatible activities. (For example, funds go to DPH to provide mental health services in school wellness centers.) Only 8% goes for administration and operations.

Because of the current drop in property values, the Children's Fund was reduced from $47.2 in FY09 to $40.5 million in FY10 – a loss of $6.7 million (14.2%). The Mayor also imposed the 20% budget cut on the General Fund, reducing DCYF's share from $23.8 million in FY09 to $19.1 million in FY10 – a $4.7 million reduction. A DCYF reduction of this magnitude is unprecedented, and the Mayor withdrew his request for another 10% contingency cut.

This left DCYF with an $11.4 million cut. The Mayor also issued a list of restorations when he released his budget, adding another $2.6 million in funding for particular programs that had lost significant funds.

The summary below looks at information from the department's February budget proposal, but the Mayor restored some of those cuts. The total DCYF budget reduction is about $8 million, and the reduction in grants to community-based organizations is $6 million. Most programs received less money than previously, and some experienced significant drops or even lost their funding entirely.

For a number of reasons, it has been difficult to obtain clear information on the DCYF cuts. The department has not produced documents that explain the cuts in detail, and the impacts are not well known because of the RFP. In addition, many DCYF programs are jointly funded with other departments. Even now, there is confusion in the community about the allocation of funds.

The Board of Supervisors has requested that the City Controller review and analyze the DCYF RFP results. The review will look at the impact of the cuts by neighborhood, population, and with a historical comparison of funding. The report should be available approximately June 25.

(2) <u>Reductions to DCYF CBOs</u>: Because of the RFP process, it's most helpful to examine reductions in service areas rather than looking at the funding cuts to hundreds of individual organizations and programs. The figures below reflect DCYF's February budget proposal to the Mayor, which are the last detailed documents available. At this point, it is still impossible to determine the specific impacts from each program on particular populations, age groups, neighborhoods, etc.

However, it's worth noting that DCYF completely de-funded 42 nonprofits in this RFP. Many of them are longstanding programs with years of proven track records, and many serve those "greatest need" populations that DCYF prioritized. The department's response is that they simply didn't have enough money for everybody, and that they didn't want to implement a more across-the-board approach that would harm the quality of all programs.

DCYF characterizes its programs as falling into six investment areas: three core areas (Early Care and Education, Out of School Time, and Youth Leadership Empowerment and Development); two targeted areas (Violence Prevention and Intervention, and Family Support); and other Citywide initiatives.

<u>Early Care and Education (ECE)</u>: This area focuses on providing quality childcare, and was reduced by $1.2 million, or 9.4%. About 2500 children, ages 0-5, received services in FY08. The funding is a joint venture with HSA and First 5 San Francisco, and will be RFPed in FY11. Some grants will be reduced (quality improvement grants, early childcare mental health inclusion, early literacy and others), and family childcare providers will lose their health benefits.

<u>Out of School Time (OST)</u>: DCYF is restructuring OST to increase the leveraging of other public funds. This area funds after school and summer programs for children age 5-14. It will see a 20% reduction of $3.12 million, with an estimated loss of 350 free and/or subsidized after-school slots. The largest reduction is a 70% cut to specialized providers who provide enrichment opportunities or extracurricular classes. Afterschool literacy programs were cut 60% or $700,000, and the Beacon Centers (partnerships with CBOs to operate youth and family centers in public schools) were reduced by 20% or $620,000.

<u>Youth Leadership, Empowerment and Development (Y-LEaD)</u>: This investment area for youth age 13-24 will see reductions in four categories:

- Specialized teen programs (formerly part of OST) will be cut by about $976,000 or 19.7%.
- Youth Workforce Development programs will receive an 18.4% cut of over $1.7 million, at a time when youth jobs have become much more difficult to find. These programs served almost 4500 youth in FY08.
- Wellness programs, which include Wellness Centers in schools, will be cut by 7.6% or over $292,000. These programs served over 7,100 youth in FY08. Grant reductions translate to the potential loss of behavioral health services for 220 middle and high school students. Four Wellness sites will be reduced by 15-25%.
- Youth Empowerment programs, which include youth-led philanthropy and youth organizing, will face a small 3% cut of $30,405, with no significant impacts.

<u>Violence Prevention and Intervention (VPI)</u>: The first targeted DCYF initiative employs a number of strategies, including alternative education, case management, support services, detention alternatives, detention-based services, diversion, outreach, crisis response, and young women's services. DCYF will reduce its investment by 5% or about $397,000.

However, VPI is a system-wide initiative with joint funding by DCYF, DPH, Juvenile Probation, and a blend of state and federal funds through the Mayor's Office of Community Investment.

State funds have been reduced by about $1.6 million. In total, citywide youth violence prevention programs are facing a cut of $2.4 million out of a total budget of $10 million, and providers have been meeting with the city to determine how to implement reductions.

Family Support (FS): This targeted initiative funds neighborhood-based Family Resource Centers, and other grants for family support programs. In FY08, 3005 children and 3375 parents were served. Funding for Family Resource Centers will be reduced by about $730,000 or 15%.

Other citywide investments: DCYF will reduce its Transitional Age Youth Initiative, which provides services to at risk and foster care youth age 16-24, by 70% or $260,000. There are no reductions to Education Partnerships with schools, or to Citywide Health and Wellness Investments that provide funds for youth to enroll in the Healthy Kids insurance program. Finally, a number of Systems Support and Development programs will lose $1.785 million, 97.5% of their funding. These programs include DCYF training and capacity building programs for nonprofits, their anchor institutions and community convener programs, their Safety Network funding, and a reduction in funding for their online resource guide, sfkids.org.

V. Impacts of Health and Human Services Budget Cuts

On both the local and state level, health and human services are a disproportionate target for budget cuts because they are disproportionately funded by unrestricted general fund dollars. At the same time, we're facing an economic recession, elevated caseloads, and 12.7% unemployment.

Not only will cuts have a devastating impact on services for our most vulnerable residents, but the cuts themselves will further harm the economy and the city's budget in the longer term. Investing in services reduces the need for and cost of future services by preventing poverty, hospitalizations, crime and incarceration, homelessness, and substance abuse. Community-based nonprofits provide effective services, generate revenue from other sources, save the City money, employ thousands of people, and stimulate the economy.

The broad impacts of these proposed budget cuts include:

Program closures and reductions: Nonprofits face deep budget cuts, and many have been defunded through the DCYF and DPH RFPs. For the third year in a row, the lack of a cost-of-doing-business increase to pay for rising costs will bring the de facto cut even higher. This level of cuts cannot be sustained without program closures and reductions, and the gradual erosion of funding over many years is taking its toll even on those without major budget cuts.

Impact on specialized services: Many of these nonprofits provide services that are unduplicated anywhere else in the system, particularly services that are language or culturally specific, or that work with especially difficult client demographics. As funding shrinks, services for the most challenging populations will decline.

Number of clients losing their services: With the loss of over $20 million in CBO services, thousands of consumers will lose services. The numbers are shocking.

Impact on city services: A broad question is the ultimate cost when the sudden loss of services leaves thousands of vulnerable people with no place to turn. The likely result is that the loss of treatment, preventive care, and other services will lead to a dramatic increase in city expenditures for the hospital, jails, police and other institutions. For example, the deep substance abuse cuts will mean that the cost of dealing with chronic inebriates will rise in the form of emergency room visits, ambulance use, incarceration, and homelessness.

Impact on future nonprofit revenue generation: An HSN study shows that nonprofits raise approximately $1.50 for every city dollar received. Many nonprofits report that these budget cuts will impact their ability to leverage private funding and resources, and to draw down state and federal dollars. For example, the reductions in DPH will cost the city millions of dollars in MediCal funds. Reductions in service quality will also impact fundraising ability.

Nonprofit staff layoffs: While the media often reports widely on city employee layoffs, hundreds of nonprofit workers stand to lose their jobs. Many of these layoffs will be front line workers with low wages and no savings. In fact, nonprofits often hire former program participants, and have a high degree of cultural and demographic correlation between staff and clients. Many will have a difficult time finding new employment in this challenging economy. The sector has already faced deep job losses. Recently, a quick HSN survey with 48 responses revealed that 35 of those organizations lost 442 positions in the past year.

Nonprofit wages and benefits: Along with the lack of any city increase for rising business costs, nonprofits have not received any funding from the city for COLAs in three years. Nonprofit wages remain flat, leading to difficulty in recruiting and retaining staff, threatening service quality. At the same time, the disparity in wage rates between comparable nonprofit and City human service employees makes our sector a prime recruiting ground for City programs, and maintains an ethically questionable division between workers paid from the same funding source. This is true even for those nonprofits represented by labor unions – often the same union that represents city employees. While public sector labor agreements must be reflected in the city budget, funding for nonprofit employees is an afterthought if there are any funds left over after everything else is funded.

Furthermore, city law requires that nonprofit employees working on city contracts must receive health insurance. HSN supported the passage of this law, but nonprofits are finding it difficult to remain in compliance when benefits increase by double digits annually, and the city does not increase their funding to pay for it.

VI. Budget Forecast

Every April, the city releases a Three-Year Budget Projection for General Fund Supported Operations. This "Joint Report" is issued by the Controller's Office, Mayor's Office, and Board of Supervisors Budget Analyst. This year's report projects deficits of $483 million in FY2010, $712 million in FY2011, and $787 million in FY2012. The last two amounts will decrease to the extent the city adopts ongoing rather than one-time budget solutions in the earlier years.

For the most part, the Joint Report takes a cautious approach in its underlying assumptions, which are reassessed regularly. Some of the key assumptions in this report include:

- Economic downturn continuing through 2010, followed by slow recovery.
- A preliminary assumption that the city will lose $58 million in state funding.
- Congress will extend FMAP funds through June 2011.
- Closed labor agreements do not change, and open labor agreements receive inflationary increases. (Most unions have made two-year concessions for FY10 and FY11.)
- All city contractors receive a 2.9% cost-of-doing-business increase. (There is no increase.)
- Assumes the 10-year Capital Plan will be fully funded in 2010.

Based on the Mayor's proposed budget, the projected deficit for FY2011 now stands at about $400 million. Many of the savings are ongoing, including concessions made by labor and the decision not to provide an increase to contractors. However, his budget assumes that only $30 million in state funding will be lost – an estimate that is probably too low.

The most substantial uncertainties in the budget are the outcome of the state budget process, and potential new revenue proposals. Based on the uncertainly in the state budget, mid-year reductions are again likely this fall, especially with health and human services – which will also be the target of many of the state cuts.

The budget beyond FY2010 will be further exacerbated by the assumption that federal stimulus dollars for FMAP enhancement will no longer be available after June 2011. These funds have been largely responsible for protecting health and human services from devastating cuts in FY09 and FY10. If the city doesn't find alternative revenue sources, DPH and HSA will face a cliff in their funding for FY2011-12.

Other factors that will affect the longterm funding perspective include the pace of economic recovery, the city's rising obligations for retiree health benefits and pensions, and the eventual efforts by unions to recoup the wage concessions they made during hard times.

<u>Revenues</u>: Community-based organizations, labor unions, the Board and the Mayor are all looking at new revenue sources. Many of the discussions focus on the November ballot, which won't provide help balancing this year's budget. Ideas on the table include:

- Hotel Fairness Initiative: A petition drive is underway for a November ballot measure that would increase the city’s hotel tax by 2%. It would also close a loophole that online reservation systems are using to avoid paying the tax. It could raise $35-50 million a year.
- Payroll and business taxes: The Board of Supervisors is considering a ballot measure that would reform the existing business tax. It could include a more progressive payroll tax and a tax on commercial rental property.
- Transfer tax: Another possible measure would increase the transfer tax on high-end property sales in order to generate funding for affordable housing.
- The Board is looking at a new alcohol impact fee, which would not require voter approval and could generate $25-30 million. The funds would be dedicated to services that are impacted by the use of alcohol, such as health and police.

The Mayor's largest revenue proposal, to generate $8 million from condo conversions, is unlikely to gain the Board's approval. He does support closing the hotel tax loophole, but has not taken a position on the 2% increase.

Budget and policy reforms: Ultimately, budget reform is necessary to secure the longterm sustainability of both city and nonprofit health and human services. Some pieces have already been put in place. In 2009, San Francisco voters approved a ballot measure to implement two-year budgets, five-year financial planning, and annual consideration of new fiscal policies. The city already has a Rainy Day Fund, and this year approved a gradual increase in the city's annual general fund reserve, and the creation of a new Budget Stabilization Reserve. These steps will decrease funding in the short term as the economy recovers, but lead to less volatility that should provide more stable funding for CBO services. In particular, HSN is hopeful that the longterm planning efforts will lead to budgeting that is based on needs, outcomes and policies, as opposed to the current system of budgeting decisions based on the availability (or lack thereof) of funds.

The city has also undertaken efforts to review its partnership with community-based nonprofits. In 2009, the Mayor called together a San Francisco Community-Based Organizations Task Force led by San Francisco Foundation CEO Sandra Hernandez and City Attorney Dennis Herrera. Their final report addresses the value of nonprofits, and the challenges and opportunities before us. In addition, the Department of Public Health conducted a Community Stakeholder Engagement Process, issuing a report that focuses on improving outcomes, building capacity and exploring innovative efficiencies. The most immediate result of these reports has been a citywide focus on mergers and consolidations, shared administrative and operational functions by small nonprofits, and encouraging large and small nonprofits to partner in RFP applications. Longer term, the review of proposals is ongoing, led by DPH with the full participation of nonprofits.

From the perspective of the San Francisco Human Services Network and our nonprofit members, our prospects for the future will depend on our ability to respond to the fiscal and policy challenges of these difficult times. With funding consistently reduced over the past decade, and with government capacity to meet critical human service needs stretched thin, those of us who depend on government for funding will need to figure out how to address the needs of our community.

In order to do that, nonprofits will need to engage with the public and philanthropic sectors to make crucial policy decisions about our vision for what our service delivery system should look like, and how to overcome the barriers impeding that vision. We need to figure out collectively how to grow and maintain funding for vital services. In doing so, we need to come to terms with longstanding issues about our partnership with the city, including healthy wages and benefits for the employees in our sector, and adequate funding for the services we provide.