

HSN UPDATE, 12-9-05

- (1) HSN CALENDAR
- (2) MAYOR'S BUDGET INSTRUCTIONS
- (3) CITY BUDGET PROCESS
- (4) SAVE THE DATE: CAN POLICY DAYS 3/21-22

(1) HSN CALENDAR

HSN GENERAL MEMBER MEETING

Friday, December 16, 9:30-11:30am

LightHouse for the Blind and Visually Impaired, 214 Van Ness

We invite HSN's members, as well as nonprofits that are interested in joining HSN, to our final member meeting of 2006. Our special guest will be Board of Supervisors President Aaron Peskin.

HSN PUBLIC POLICY COMMITTEE

Wednesday, January 4, 10am

Progress Foundation, 368 Fell Street

This meeting is open to all current paid members of HSN.

(2) MAYOR'S BUDGET INSTRUCTIONS

The Mayor's Budget Office released its budget instructions to departments on December 6. The document includes an overview of the projected deficit and provides instructions to City departments for preparation of their budget submissions. The full document is on-line at: http://www.sfgov.org/site/controller_index.asp?id=1826.

Budget Overview: The City's financial outlook for FY 06-07 has improved, but current projections still show a *projected shortfall of \$80 million*.

The document projects a net growth of \$121 million over budgeted revenues for FY 05-06. At a budget briefing on December 8, Mayor's Budget Director Noelle Simmons reported that revenues are up in all categories, especially those related to real estate. Some of these funds are already allocated, with \$36m going to mandated baselines (such as the Children's Fund and libraries), and another \$29m to the Rainy Day Fund. This leaves a surplus of \$56m.

The overview projects \$136m in increased costs, of which \$12m relates to rising non-personnel expenses. Projected personnel cost increases include \$50m to reflect wage increases approved in the current fiscal year, \$20m for health and dental, \$21m increase in the City's share of employee pension costs, and \$34m under the City's agreement with labor to resume picking up the employee's share of the pension on July 1, 2006.

The net result is the projected \$80 million shortfall. Notably, this estimate assumes no wage increases for the approximately 40 labor MOUs that are open for negotiation this spring, nor

does it assume any nonprofit COLAs or cost increases. Any wage increases will lead to a larger deficit. Each 1% COLA for general fund departments would increase the deficit by about \$10m.

Even though the City projects a deficit, the Rainy Day Fund requirements will kick in for the first time because the trigger is revenue growth over 5%. The City is projecting growth of \$150 million over FY 04-05, which is 6.7% of total general fund revenues. Thus 1.7% of total GF revenue, or \$39m is subject to the Fund requirements. Of this amount, 50% (or \$19m) must go to the Rainy Day Fund, and 25% (or \$10m) is restricted to capital and one-time expenditures; the City can use the final \$10m for discretionary expenses. (The triggers to use the Rainy Day Fund are also complex, and require a decrease in revenues from the previous year or from the trend line of averages over the past several years.)

Budget Instructions: The Mayor issued the following instructions to General Fund departments:

(1) Achieve financial targets:

(A) General Fund departments should absorb half the cost of the mandatory employee retirement contribution within their base budgets. (This refers to the \$34m employee share.) The specific dollar amount of the cut varies by department depending on their share of the cost. Departments must use ongoing expenditure reductions (rather than one-time solutions) to meet this goal.

(B) General Fund departments must propose an additional 3% cut to ongoing expenditures, and propose a similar amount in one-time uses. The Mayor's Office will decide which one-time use proposals to fund.

(C) Additional reduction targets may be necessary.

(2) As in past years, the Mayor instructed departments to prioritize direct services.

(3) *Consider cost pressures affecting community-based partners.*

For the second time, Mayor Newsom has included a specific instruction telling departments to take account of nonprofit cost increases. We appreciate the Mayor's acknowledgement of the challenges nonprofits face.

Last year, the instructions simply told departments to consider nonprofit costs. This year's wording is more specific in telling departments to take account of actual cost increases. But in light of the shortfall, the instructions promise no funding increases, but instead tell departments that they may need to reallocate funds to preserve priority services. For example, a department may determine that one nonprofit needs a 1% COLA to maintain its programs, that another needs 5%, and that they will need to cut elsewhere to fund those increases.

The exact wording of this instruction is:

“Many of the same increases affecting City departments are also affecting the network of local nonprofits that the City relies upon to deliver direct services. In developing their budgets, City

departments should take account of actual cost increases impacting their contractors. The projected General Fund shortfall does not assume that community-based organizations will receive a cost-of-living adjustment in FY 2006-07. Therefore, departments may find it necessary to reallocate funds within their base budgets in order to supplement funding for contracts with those nonprofit agencies that would otherwise be unable to continue service delivery.”

(3) CITY BUDGET PROCESS

Key dates in this year’s budget process:

December 13: The Board will announce who will sit on the 2006 Budget Committee. Typically, the Budget and Finance Committee expands from three to five members during the budget process. We have heard that Chris Daly will serve as this year’s Budget Chair.

January 10: Governor’s budget released. This first look at the State budget will give the City some indication of how the state’s fiscal outlook will impact local funding. Recent projections indicate that the State has a \$4 billion funding shortfall, but that revenues are \$5 billion over projections. This may be the first time in several years that the State isn’t facing a deficit, but California still faces a structural deficit in future years.

February 21: Departments baseline budgets due to the Controller’s Office.

March: The Controller, Mayor’s Budget Director and Board’s Budget Analyst will issue the Joint Report, which will update the City’s financial overview and provide a more accurate figure for the projected deficit.

May 1: Mayor submits proposed Enterprise (non-General Fund) department budgets to the Board.

May: Governor releases his May Revise budget.

June 1: Mayor sends his proposed General Fund budget to the Board.

June: Board of Supervisors Budget Committee hearings.

July: Budget goes to the full Board.

(4) SAVE THE DATE: CAN POLICY DAYS 3/21-22

WHOS ON FIRST: GOVERNMENT, BUSINESS OR NONPROFITS?
California Association of Nonprofits (CAN) Policy Days

Tuesday & Wednesday, March 21 & 22, 2006
Sacramento Community & Convention Center

For more information, see <http://www.canonprofits.org/>.

In the wake of ...

- * The never-ending budget crisis at all levels of government
- * The widening gaps between rich and poor
- * The escalating demands for recordkeeping and regulation
- * The fierce competition for scarce resources
- * The constant threat of natural disaster.

Join CAN in March as they examine our society's responsibility, and nonprofits' critical role, in securing our communities, protecting our environment, building our many cultures, and feeding, sheltering, educating and caring for all Californians.

CAN Policy Days brings together nonprofit, government, business and philanthropy leaders in Sacramento to:

- * Be part of the dialogue about keeping California's communities healthy, prosperous, and safe.
- * Hear about CAN's newest initiative, Ensuring Nonprofit Integrity, that will boost the credibility of California's nonprofits.
- * Join in cutting-edge discussions about reducing red tape, restructuring programs, paying for nonprofit services, and activating our advocacy rights.
- * Learn about the latest changes in laws and policies that impact nonprofits.
- * Get exposed to some of the states most exciting thinkers and policymakers.
- * PLUS! Meet your elected officials and celebrate nonprofit public policy achievements.