

**HSN Membership Meeting
November 19, 2004
Meeting Minutes**

I. City Budget Update – Debbi Lerman

Presentation: Staff presented information on the city budget in preparation for our conversation with Noelle Simmons from the Mayor's Budget Office. With Propositions J and K not passing on November 2nd, Mayor Newsom has proposed to balance the budget through mid-year cuts totaling \$97 million over 18 months, effective January 15th, 2005. Even with these cuts, the City faces a \$130 million shortfall in FY 05-06; the Mayor will issue his budget instructions soon. HSN will meet with Ben Rosenfield before the instructions come out.

The DPH cuts were initially supposed to be \$23.5 million but the Mayor reduced those cuts to \$15.5 million, restoring substance abuse programs to the budget. The Health Commission's final resolution asked the Mayor to reject several cuts for at least six months (Shanti's breast cancer program, NICOS' anti-gambling program, half of the backfilled Ryan White CARE Fund cuts, and DPH managerial social workers) – but this is not binding on the Mayor. Major cuts at the Human Services Agency include the Tenderloin Drop-in Center and the Senior Escort program. DCYF programs also face deep cuts to programs.

Supervisor Sandoval has scheduled a hearing before the Budget Committee for December 2 at 10am on the mid-year cuts. One of his concerns is that the cuts are for 18 months, rather than making six-month cuts and deferring other decisions for the annual budget process.

Discussion and comments:

- DPH's mid-year cuts are the same ones from earlier in the spring that the Board of Supervisors restored. DPH's rationale for mid-year cuts is the same tired rationale, with no new thought or criteria applied by the department.
- The total cuts to health and human services are about \$25 million out of the \$97 million. About \$8 million of this represents nonprofit cuts.
- DPH's mid-year cuts are extremely shortsighted given the money that will be coming in next year through Prop. 63 (Mental Health Services Act).

II. HSN Strategic Planning – Bruce Fisher

Presentation: The HSN Steering Committee will hold a strategic planning retreat on December 15th to discuss HSN's priorities as well as how to improve the organizational structure. Member feedback is necessary to make this retreat as effective as possible. Staff will be sending out a survey next week via email. It will go to the designated main contact of member agencies, and should take about 15 minutes to complete.

Discussion:

Bruce asked members to share some of their perspectives on HSN's role and 2005 priorities:

- The information that HSN provides is crucial and very helpful.

- HSN is similar to a trade association in its structure. This lack of formal structure provides flexibility. HSN should not rush into a more formal structure simply for the sake of doing so. If HSN were to formalize its organizational structure as a 501(c)(3) and/or (c)(4), we would need to be conscious of board development, SB 1262, and other state/federal requirements. This would diminish our staff capacity to focus on advocacy.
- Asked about major issues for 2005, members focused on budget advocacy. The budget is increasingly becoming a year round problem, making it very difficult to keep up with. Wage parity should not get lost amongst other issues; nonprofits need to make progress on it. HSN needs to develop its capacity and leverage with regard to the budget cuts and its ability to influence decisions. HSN cannot continue to stand idly by while City employees get 5-6% COLAs and nonprofits get 0%. Nonprofit contracts cannot stay flat while unions get annual bumps, or we will continue to slip back.
- What happened to the idea of developing an HSN leadership development program for nonprofit managers? Unfortunately, funders turned down grant proposals submitted by the USF Institute for Nonprofit Management. The idea is still on the back burner. An alternative is to develop a partnership effort with CompassPoint; we will meet soon to discuss options.

III. Guest Speaker – John Haskell, Controller’s Office

Presentation: The Controller’s Office has recently come out with a Finance Guide for Nonprofits. The guide should provide a basic formula for organizations to put together the financial systems they need. It is available on the Controller’s website and will be revised periodically. The link is: http://www.sfgov.org/site/uploadedfiles/controller/reports/Finance_Guide_110104.pdf

HSN and others were very helpful in providing feedback in the draft phase. If anyone has comments or suggestions, please feel free to contact the John in the Controller’s Office, as this will be a constant work in progress.

Questions and Comments:

- HSN staff commended John for his availability and his willingness to get feedback in the creation of the guide.
- Who will be training the departments on the guidelines? Monique Zmuda has more knowledge of department trainings, along with a program to assist with funding for training. She is planning to attend January’s HSN member meeting and will be able to provide more answers at that time.

IV. Guest Speaker – Noelle Simmons, Mayor’s Budget Office

Presentation: Noelle Simmons attended in place of Budget Director Ben Rosenfield, who had a schedule conflict. She gave a presentation on the mid-year budget cuts. Noelle told the membership that the original budget passed in July was contingent on Propositions J & K passing, and with their failure, it immediately put the city into a \$25 million deficit for FY 04/05 in addition to \$72 million for FY 05/06. Mayor Newsom chose to make the cuts for 18 months rather than 6 months so that the City would have more time and flexibility to address the deficit.

Major Points:

- The Budget Office believes it would be bad policy to use the entire \$25 million General Fund reserve because it would lower the City's bond rating and leave nothing for true emergencies.
- It is not possible to sugarcoat the fact that services are being cut: 300 positions (200 of which were filled), Tenderloin Self-Help Center, Senior Escort, and case management are examples. For DPH alone, the cuts will total about \$15.5 million.
- The Budget Office currently projects a \$130 million deficit for FY 05/06. Fixed costs are going up quicker than revenue.
- About \$60 million is due to increasing salaries from union contracts.
- About \$50 million is for rising personnel costs from health insurance, workers comp, etc.
- About \$26 million is from other increased operating costs, \$11 million of which is for welfare program cost increases.
- Out of the entire City budget, only \$1.15 billion is truly discretionary. The predicted \$130 million deficit represents about an 11% cut in the budget.
- The Mayor will issue his budget instructions to the departments on December 1st.

Member Questions and Comments:

- One member felt that the city cannot cost cut their way out of a budget deficit; the City, the Mayor, and the Board of Supervisors need to be more business-friendly. Another disagreed, saying business doesn't pay its fair share of taxes.
- The City must acknowledge that nonprofits have the same increasing costs as the City. The City budget should reflect those cost increases.
- Does the Budget Office study the long-term costs of the budget cuts? Noelle: The Budget Office does cost/benefit analysis, and while it tries to acknowledge the impacts, decisions often come down to short-term savings. Prop. 63 provides some good news on the horizon.
- Noelle noted that the Mayor is considering consolidating departments, including the Office of Housing with Redevelopment, and the Departments of Planning and Building Inspection.
- The city needs to get input from nonprofits much earlier in the process so that the sector's creativity can be used to help solve the budget deficit.
- Will the budget instructions have guidelines outlining the process for input to the departments? Are there specific expectations about getting input in the budget process? Recently departments have become less and less open about the development of their budgets.
- The figure for FY 05/06 projected deficit is misleading. It assumes that nonprofit contracts are flat. If we are really going to fix this problem, then we have to be realistic about what the amount is from the beginning. Given increasing nonprofit costs, (cost of living adjustments and costs of doing business), the actual number is probably closer to \$160 million.
- Noelle: The city is viewing the contracts as flat, and increasing costs have not been factored into the instructions as of yet, but Noelle will bring these concerns to Ben and the Mayor.
- Is the city considering standardizing or capping indirect costs in nonprofit contracts? Noelle: The Budget office began this conversation with departments last year but decided that it needed more discussion and input.

- The City should not cut current programs in their efforts to create new programs in underserved communities. In addition, the city should consider providing technical assistance to existing nonprofits if they are struggling or are underutilized.
- We should preserve direct services as best we can but the City should also compare the direct services that are provided, e.g. the City v. nonprofits. The costs involved for both vary greatly but departments never compare them.
- Noelle: Departments are asked to really put thought into their budgets and truly prioritize, not just cut a percent. The Mayor wants to move to performance based budgeting but no one is sure what that looks like.
- HSN encourages the Mayor and the Budget office to stand strong on the proposed Fire Dept. cuts despite the union's public campaign.

V. Contract Reform Update – **Debbi Lerman**

Presentation: Naomi Little, Director of the Office of Contract Administration, released a progress report on October 13th on the implementation of the Nonprofit Contracting Task Force recommendations. (Email debbilerman@sfhnsn.org if you would like a copy.) There has been some progress within departments, but some objectives have been ignored. Much of the cross-departmental standardization has not occurred. The primary responsibility for this lies with OCA, and the delay is at least partially due to Naomi replacing Judith Blackwell, who represented OCA on the task force. One of the major recommendations still needed is a grievance/appeals process. Supervisor Maxwell plans to introduce a request for a public hearing on the progress report, to be scheduled in December before the City Services Committee.

Another contract-related update is an initiative by the Controller's office to increase the number of nonprofit audits. This is both a matter of timeliness as last year's Prop C (City Services Auditor) funding kicks in, and response to the recent events surrounding the Sunset Recreation Center. Agencies may be selected for audit if they have federal pass-through funds over \$500,000, if they face complex monitoring issues, or if there are issues of potential fraud or mismanagement; they will also conduct random audits. Audits will be both compliance and performance based, including fiscal and Prop Q audits (prohibition on the use of City funds for political activity). Monique Zmuda of the Controller's Office will present more information about the audit plan at an upcoming member meeting.

Questions and Comments:

- One member had a recent Prop. Q audit and it was not that bad. As long as nonprofits follow procedures and document the time and money spent to show no use of City funds, there shouldn't be a problem with it.
- Alliance for Justice provides training for nonprofits around political activities and lobbying. They just opened an office in Oakland and will be a resource for HSN members.

VI. Announcements

- **Election Presentation by David Binder** - December 1st, 6 pm to 8 pm. Coleman Advocates for Youth. 459 Vienna Street. Food and refreshments provided.

ATTENDEES AT HSN GENERAL MEMBERSHIP MEETING
NOVEMBER 19, 2004

Michael Medema, CHP-SF
Kim Watts, Catholic Charities CYO
Belinda Lyons, MHA-SF
Ken Bukowski, DCYF
Margi Dunlap, International Institute of SF
Judy Siff, Goodwill Industries
Sumi Imamoto, Bernal Heights Neighborhood Center
Patrick Hoctel, SF IHSS Public Authority
Bill Hirsh, AIDS Legal Referral Panel
Sandra Santana-Mora, Edgewood Center
Salvador Menjivar, Hamilton Family Center
Nancy Brundy, Institute on Aging
Erica Kisch, Compass
Genny Price, Larkin Street Youth
Lucy Runkel, JVS
Darryl Inaba, HAFC
Jim Illig, Project Open Hand
Dodie Fernandez, BVHP Mental Health Services
Ken Reggio, ECS
Kavoos G. Bassiri, RAMS, Inc.
Margy Baran, IHSS Consortium
Jon Osaki, JCYC
Meghan Connolly, Lighthouse for the Visually Impaired
Karen Patterson Matthews, BVHP Foundation
Eve Meyer, SF Suicide
Wayne Hayes, CHD
Mauricio Vela, Coleman Advocates
Maria Sn, Vietnamese Youth Dev. Center
Nick Footracer, Children's Council of SF
Michelle Tolle, Progress Foundation
Bruce Fisher, Huckleberry Youth Programs
Steve Fields, Progress Foundation

Debbi Lerman, HSN
Quintin Mecke, HSN