

MEMORANDUM

TO: Regional Steering Committee on Homelessness and Housing

FROM: HomeBase

RE: State and County Budget Update

DATE: July 24, 2008

Background

It is no secret that this fiscal year will be challenging for many homeless service providers in California. The state budget process has been slow and contested, a suffering housing market has produced less property tax revenues than in previous years, and rising food and energy costs have left fewer private citizens feeling financially secure enough to donate to programs. This memo is meant to highlight some of the budget cuts that homeless service providers may be facing in this fiscal year, how individual communities are handling the budget process, and to stimulate conversation about what can be done to make best use of the resources available during tough times.

A Small Disclaimer - While writing this memo over the course of several weeks many budgets were subject to change, thus any corrections on inaccurate or outdated information are welcome.

Status

Proposed California State Budget

As of writing this, California is running on the 2007-2008 fiscal year budget while the new proposed budget awaits approval. The constitutional budget deadline is June 15th but is rarely met by the state legislature. This is largely because any fiscally-related issue is constitutionally required to be passed by a two-thirds majority in the State Assembly and Senate. When the budgets from the Assembly and Senate differ, the leaders of each house meet in the Budget Conference Committee to work out those differences. California is one of only three states that have a supermajority requirement, and several service providers and their clients who receive funding at the beginning of the fiscal year sometimes suffer as a result.

This year continued the late budget trend. On July 8, the Budget Conference Committee came to agreement between the Assembly and Senate Budget Committees' spending plans. In January, the Governor had proposed an across-the-board 10% cut, including cuts to health and human services. Although most of the Governor's proposed cuts have been since been rejected, some benefits and services for homeless individuals will still be

reduced this fiscal year. The following are highlights from this year's state budget process:

Income

SSI/SSP –

The Governor's May budget revision proposed suspension of the October 2008 and June 2009 state Cost of Living Adjustments (COLAs) for SSI recipients, while approving the federal COLA. These cuts would reduce grants to vulnerable Californians by \$323.5 million from June 2008–July 2009¹ and affect nearly fifty thousand people in San Francisco alone.² The Governor also proposed suspension of the January federal COLA, which was rejected by both houses. Thus, the federal COLA will still “pass through” to SSI recipients in January 2009.

As in the past, the state COLA is a common target for budget cuts because the cost of living does not normally rise drastically from year to year. This gives the appearance that the cuts are relatively minor. However, 2008-2009 will be the fifteenth year in the last eighteen without a state COLA. To put this in perspective, the \$723 a month that a family of three currently receives from SSI is just \$29 more than a family of three would have received in 1989.³

CalWORKS -

The Governor's proposal to suspend the October COLA for CalWORKS recipients has been approved, putting \$121.5 million back for the general fund.⁴ As the costs of food and energy continue to rise, a freeze in individual benefits will likely bring new clients to homeless services providers who are already finding themselves stretched to capacity.

\$40 million in Pay-for-Performance incentive funds have also been eliminated and replaced with \$10 million for county-provided employment services.

TANF -

The Governor proposed using federal TANF block grant funds instead of state funds for the Cal Grant program and three others. The Assembly and Senate initially rejected but conceded to the grant transfers in Conference Committee.

1 ANALYSIS OF THE 2008-09 BUDGET BILL: HEALTH AND SOCIAL SERVICES. LEGISLATIVE ANALYSTS OFFICE, *available at* http://www.lao.ca.gov/analysis_2008/health_ss/hss_anl08012.aspx

² CALIFORNIA BUDGET PROJECT, THE GOVERNOR'S REVISED BUDGET WOULD WITHOLD STATE COLAS FOR MORE THAN 1 MILLION SSI/SSP RECIPIENTS ACROSS CALIFORNIA (2008), *available at* www.cbpp.org/pdfs/2008/080529_SSISSPRecipients.pdf

³ Telephone Interview with Mike Harold, Advocate, Western Center of Law and Poverty, (July 14, 2008).

⁴ SUMMARY OVERVIEW BUDGET CONFERENCE COMMITTEE REPORT., PROPOSED 2008-09 BUDGET (AB 17810). SENATE BUDGET AND FISCAL REVIEW COMMITTEE, *available at* <http://www.sen.ca.gov/budget/2008conf/BudgetConfRpt200809.pdf>

Housing

The Budget continues the implementation of Proposition 1C, reflecting a decrease of \$202 million, from \$973 million in 2007-08 to \$771 million in 2008-09. The following table reflects three-year expenditures and positions for the Department of Housing and Community Development (DHCD):

Department of Housing and Community Development Expenditures⁵

Fund/Program	Actual 2006-07	Estimate 2007-08	Proposed 2008-09
Emergency Housing and Assistance Fund	\$-9,080,000	\$46,558,000	\$25,645,000
Self - Help Housing Fund	\$63,846,000 (-\$434,852,000 after funding provided by Affordable Homeless Account)	\$255,068,000	\$55,158,000
Financial Assistance Program	\$598,104,000	\$1,252,972,000	\$976,201,000
Total Expenditures (All Funds)	\$643,931,000	\$1,303,515,000	\$1,057,032,000

Services

Medi-Cal –

Almost all of the proposed 10% cut to Medi-Cal fee-for-service providers has been restored, to take effect on September 1, 2008. ⁶ However, the revised budget has increased the renewal requirements for children enrolled in Medi-Cal from once annually to twice. While this may not be a drastic change, it is expected to result in a “significant” number of children temporarily losing coverage and increase administrative costs for

⁵ Dept of Housing & Community Development 3-Yr Expenditures & Positions, *available at* <http://www.ebudget.ca.gov/StateAgencyBudgets/2000/2240/spr.html>

⁶ SENATE BUDGET AND FISCAL REVIEW COMMITTEE, *supra* at 5.

county and city governments.⁷ It is important to educate the public of this change so that children who currently receive Medi-Cal can continue to do so uninterrupted.

Institutional Medi-Cal providers are also in jeopardy of losing funding should the state budget approval process drag on much longer. In previous years housing providers for disabled persons could obtain a short-term loan until state funds became available, however a strained credit market has made this option less viable. The state and federal government both have a \$1 billion reserve for Medi-Cal reimbursement payments when the budget is not finalized, but the reserve fund is expected to be depleted around July 24th. Meanwhile, a proposed measure to increase the funds is currently stalled in the state Legislature.”⁸

In-Home Supportive Services (IHSS) Program -

All of the Governor’s proposed reductions and caps on funding IHSS have been rejected.

California Methamphetamine Initiative (CMI) -

The new budget adopts a \$1 million General Fund reduction to the CMI.

Food Assistance Programs

The proposed state budget creates a \$40 per month supplemental food stamp benefit for non-CalWORKs families. However, full implementation of this new benefit is linked to the creation of a CalWORKs pre-assistance program or a similar program.

Mental Health

The new budget contains a \$5.1 million reduction for the Department of Mental Health staff and administrative costs. These funds were not provided because of “salary savings from vacant positions.”⁹

Lastly, funding for counties to cover increases in basic operating costs of several human services programs has been eliminated. The programs will continue to be funded based on the 2000-2001 operating costs.

Decreased Property Tax Revenues

The current housing market has had a variable effect on the Bay Area counties. Under Article 13A of California’s Constitution (enacted as Proposition 13 by voters in 1978), a

⁷ CHILDREN’S DEFENSE FUND CALIFORNIA., THE GOVERNOR’S MAY REVISE FAILS TO PROTECT AND INVEST CALIFORNIA CHILDREN: BUDGET PROPOSAL SEVERELY CUTS ESSENTIAL CHILDREN’S SERVICES, *available at* <http://www.cdfca.org/files/CDFMayRevisebackgrounderFINAL52208.pdf>

⁸ Sandy Kleffman, *Stalemate impacts homes for disabled*, Contra Costa Times, July 11, 2008.

⁹ CALIFORNIA BUDGET PROJECT, HOW DO THE BUDGETS COMPARE? A COMPARISON OF THE GOVERNOR’S REVISED BUDGET PROPOSAL AND LEGISLATIVE SPENDING PLANS, (2008) *available at* http://www.cbp.org/documents/080613_BudgetComparisonSide-by-Side.pdf

property's value cannot be assessed at more than 2 percent annually from the time the property was purchased, while state property taxes are fixed at 1 percent. This generally means counties with newer housing developments and/or a large volume of property sales have a higher expected revenue stream from property taxes than counties with lower assessed properties.

In Contra Costa County, high property tax revenue expectations have created a serious budget issue. 30 percent of the 274,400 single-family homes have been reduced in value,¹⁰ and further declines are expected in the next year. This means there will be a \$12.7 million shortfall in property taxes in the county, contributing to the projected 4% decline in revenues for FY 2008-09 general fund and 2.4% reduction in the county's Employment and Human Services department.¹¹ According to a county official in the Administrations Office, Contra Costa's budget is expected to be revised in August to reflect the enacted state budget cuts.¹²

Alameda County faces similar concerns, which is why the County Board of Supervisors voted unanimously on July 15 to place a measure on the November ballot which would raise the property transfer tax. This tax is paid at the time of closing of a real estate transaction and would rise from \$5.40 per \$1,000 to \$12 per \$1,000.¹³ The proposed measure has been criticized for punishing new buyers while established and likely wealthier homeowners continue to enjoy low tax rates.

Alameda officials have decided to take this route because 90% of their discretionary spending in the general fund comes from property taxes. The county will enact a net reduction of \$15.0 million in public services and \$12.5 million in Health Care, specifically cutting the Fiscal Management Reward Program.

San Francisco Budget

The City/County of San Francisco faces a \$338 million budget deficit as city legislators are in the process of approving its budget for this fiscal year. Mayor Gavin Newsom had proposed drastic cuts to services in the city—an estimated \$20 million from 150 community-based nonprofit organizations.¹⁴ Fortunately, the Board of Supervisors restored almost all of the funding in response to public criticism. Among the restorations are the following:¹⁵

¹⁰ Daniel Borenstein, *Property tax revenue drop hitting many cities hard*, Contra Costa Times, July 19, 2008.

¹¹ Contra Costa County FY 2008-09 Recommended Budget *available at* <http://www.co.contra-costa.ca.us/FY%202008-09%20RECOMMENDED%20BUDGET%20for%20web.pdf>

¹² Telephone Interview with Lisa Driscoll, Finance Director, Contra Costa County, (July 22, 2008).

¹³ *Realtors condemn transfer tax increase*, Alameda Journal, July 21, 2008, *available at* http://www.contracostatimes.com/alameda/ci_9949568

¹⁴ SAN FRANCISCO HUMAN SERVICES NETWORK. IMPACT OF HEALTH AND HUMAN SERVICES BUDGET CUTS (2008), *available at* http://www.sfhsn.org/documents/hsn_iss_budg_impacts_06-09-08.pdf

¹⁵ Wyatt Buchanan, *Supes panel restores some S.F. budget cuts*, S.F. CHRON., June 28, 2008.

- Drop-in center for homeless people - \$397,446
- Family rental subsidies - \$335,000
- Methadone treatment - \$1,102,204
- Domestic violence programs - \$277,000
- Foster services - \$4,155,200
- Services for immigrants- \$329,243
- AIDS services - \$808,122

The current proposed budget with the funding restorations has received preliminary approval and will go through a final vote by the Board of Supervisors on July 29th.

Sacramento County

Sacramento County's Department of Mental Health is facing a \$5 million cut this year due to reduced sales and property taxes. The Department's budget to third-party acute care providers has been cut by nearly 30 percent, from \$4.3 million to \$3.1. The Department Director seems optimistic that alternative funding can be found, but at the moment it stands that nearly 75 percent of county cuts will be in safety net programs.¹⁶

Marin County

The Center for Volunteer and Nonprofit Leadership conducted a thorough study of the nonprofit landscape in Marin County. They found that the county is experiencing an overall growth in nonprofit organizations, but funding amounts from the County will decrease this year due to state budget cuts. According to a Marin County staff member, "County government agencies do not have the revenues from the Federal or State governments to meet the growing needs or escalating costs at the local level."¹⁷

In addition, several programs in Marin that relied on the Marin Community Foundation (MCF) are facing funding reductions as MCF realigns its grants towards environmental and transportation projects. Other funding sources have also recently altered their funding strategies as a result of new leadership, market changes or companies' national charitable agendas. Organizations are concerned about their future levels of funding and competition for available funds is tough.¹⁸

What We Can Do

Service providers in San Francisco came dangerously close to facing dramatic cuts this fiscal year, while many in other counties are less fortunate. Many would agree that the annual process of fighting against budget cuts considerably affects service providers'

¹⁶ Ed Fletcher, *County budget cuts squeeze mental health providers*, Sacramento Bee, July 7, 2008.

¹⁷ CENTER FOR VOLUNTEER AND NON PROFIT LEADERSHIP, MARIN COUNTY NONPROFIT LANDSCAPE STUDY – EXECUTIVE SUMMARY, available at <http://cvnl.org/resources/documents/survey08/SurveyFull.pdf>

¹⁸ Id.

ability to care for the homeless community. Both homeless individuals and service employees alike feel the pinch of a slowing economy.

That is why in an effort to help alleviate future budget concerns, several revenue measures have been proposed to the Board of Supervisors' Government Audit & Oversight committee for the November ballot. The first measure would add to the city's general fund by increasing property tax rates on properties that exceed \$5 million. The second would close a loophole in the City's Business Payroll Tax, affecting businesses with over \$250,000 in payroll.¹⁹

An obstacle that these measures face is political pressure from the Association of Realtors, the Chamber of Commerce, and larger business owners. Similar, failed measures in previous years faced strong negative ad campaigns that contributed to their defeat. This year could be different; expected high voter turnout may create an excellent political opening. Looking forward, effective lobbying and solidarity on the part of service providers will be essential to pass measures that will help them stay in the business of helping people.²⁰

According to the Marin study, there is a difference in opinion among the community on how much collaboration should exist among non-profit organizations. Some believe the resources spent starting an organization could be better used to support existing organizations, arguing that there is likely already an organization that is serving the same need.²¹ Other programs may find that their clients can still have access to a discontinued service if they send a smaller number of staff or resources to a nearby provider of the same service. It is especially important to consider efficiency in light of the tough fiscal years ahead of us.

For example, San Francisco Mayor Newsom has advocated for a "Mobile Homeless Connect": a roving, multi-service team intended to be a "one stop shop" for homeless persons. There are differing opinions concerning the practicality and effectiveness of this service, but regardless it is important to highlight that in difficult years it is worthwhile to consider creative ways services may be administered more effectively.

Focus Questions

Is your program facing budget cuts this year?

What cost-effective measures can we take to maximize the use of funds?

What legislation (if any) is being considered in your county to alleviate future budget concerns?

¹⁹ Cecilia M. Vega, *Supes readying tax hikes for November ballot*, S.F. CHRON., July 21, 2008.

²⁰ Paul Hogarth, *Revenue Measures: We Can't Afford to Screw it Up*. BeyondChron, July 15, 2008.

²¹ CENTER FOR VOLUNTEER AND NON PROFIT LEADERSHIP, *supra* at 15.

***Federal Budget²²**

On July 9th, the Senate Transportation-HUD Appropriations Subcommittee approved budget legislation for 2009. HUD will receive \$42.4 billion, or \$4.73 over the 2008 budget and \$3.3 billion more than the President's request. The budget includes:

- \$3.889 billion for Community Development Block Grants (\$889 million above the President's request)
- \$500 million increase over the President's request to Section 8 Tenant-Based Housing so that needy tenants can stay in their homes.
- \$75 million for the HUD-VASH voucher program and \$10 million for a demo project to examine ways to prevent veterans from becoming homeless.
- \$100 million for the Hope IV program, which was not requested for any funding by the President. The Hope program replaces out-dated public housing with new mixed-income housing.
- \$32.77 billion for public and Indian Housing, or \$2.614 billion above fiscal year 2008.
- \$650 million for the Native American Housing Block Grant (NAHASDA)

For further information, please contact Danielle Wildkress, Staff Lawyer, via email at danielle@homebaseccc.org or by phone at (415) 788-7961 ext. 301

²² Press Release, U.S. Senate Committee on Appropriations, Senate Transportation-HUD Appropriations Subcommittee Clears Fiscal 2009 Legislation, (July 9, 2008), *available at* <http://appropriations.senate.gov/transportation.cfm>