OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

MEMORANDUM

TO: Mayor London N. Breed
Board of Supervisors

FROM: Ben Rosenfield, Controller
Laura Marshall, Project Manager, City Performance
Joanna Bell, Senior Performance Analyst, City Performance

DATE: May 4, 2022

SUBJECT: **Findings and Recommendations for Addressing Nonprofit Wage Pressures**

EXECUTIVE SUMMARY

The City and County of San Francisco (City) contracts with over 600 nonprofit service providers to deliver $1.2 billion in safety net services to vulnerable residents each year. Nonprofits deliver services supporting some of San Francisco's most pressing issues, many of which, such as homelessness and behavioral health concerns, have been exacerbated by the pandemic.

Nonprofits face extreme inflationary and market pressures, which often exceed contract budget increases. Low wage levels have led to difficulty hiring and high turnover, impacting client services and service provider stability. Gaps in staffing can create unsafe environments for participants and staff. Absent action, these challenges will continue to impact service levels, may create unsafe conditions and are likely to impede the implementation of major adopted enhancements, including for homeless services and childcare programs.

To understand the scale of the issue, the Controller's Office conducted interviews and focus groups to identify trends in wage pressures and how pain points impact nonprofits and the services they deliver. Additionally, we reviewed City contract spending data, data gathered in the Controller's Office FY19-20 analysis of the Minimum Compensation Ordinance (MCO), and wage data provided by the Department of Children, Youth and Their Families and the Supportive Housing Provider Network. The goal is to identify options and recommendations to support the Mayor, the Board of Supervisors, and departments in making targeted and impactful budget decisions in this area as they prepare the City's annual budget.

Summary of Key Findings

- Nonprofit workers earning the lowest wages often perform difficult front-line services necessary for program operations.
    - These include front desk clerks, janitors, peer workers, childcare workers, clerical workers, security, and outreach staff, with positions generally earning less than $20/hr.
    - Low wages lead to high levels of turnover.
- Below-market wages in mid-level positions lead to difficulty hiring and retaining staff.
    - This includes case managers, clinical staff, legal staff such as attorneys, finance staff, maintenance workers and property managers. While these positions may earn up to or above $40/hr, many earn under $25/hr.
- Interviewed service providers report that many of workers in low-wage and mid-level positions are Black, Indigenous, People of Color (BIPOC), raising concerns about equitable pay.
    - Providers also report that many staff members have lived experience that provides skill and expertise for this work, raising concerns that this lived experience is undervalued.
- High turnover, inconsistent staffing and difficulty hiring impacts client services, creates safety concerns, and destabilizes organizations.
    - Hiring and retention issues can lead to delays in turning over housing units for new residents, higher caseloads, decreased client engagement in services, and under-delivering on units of service.
    - Many departments reported underspending on contracts to deliver services due to contractors struggling to hire. This underspending suggests that services are not being delivered, leaving gaps in the social safety net.
- The City's typical levers for addressing wage pressures may not be sufficient.
    - The Cost of Doing Business (CODB) allocation is the easiest to implement as an across-the-board approach, but is often used to address other inflationary pressures (such as rent increases) rather than wages. Operational challenges often delay roll-out of CODB funds, which can delay wage increases for staff or reimbursement for nonprofits.
    - The Minimum Compensation Ordinance (MCO) supports the lowest wage workforce but is difficult to implement, and may not adequately address wage issues among higher-skill positions.
    - Department-specific initiatives can target funding allocations specifically, but are difficult to implement and create parity concerns for the large number of nonprofits funded by multiple departments or by a mix of City and non-City funders.

Recommendations

The following recommendations are explained in more detail in the body of the memo.

1. Wage issues faced by the City's nonprofit contractors are of a magnitude that standard inflationary increases to contracts will not address them. **The City must identify strategies above a standard inflationary CODB**.
2. Needed investments are likely to be significant, and it is unlikely that the City can afford to make investments that solve for these wage constraints in a single budget year. **The City should plan for this need as part of a multi-year strategy**.
3. The current wage pressures experienced by nonprofit contractors represent a complex array of issues that will require multiple, complementary strategies to address. Some may need to be

implemented over several years. However, to address immediate needs, **the City should develop several short-term options that could be delivered simultaneously in the coming budget**, as described below.
   a. Apply a Cost of Living Adjustment (COLA) above the Cost of Doing Business (CODB) allocation.
   b. Develop specific budget allocations to address wage pressures in key service areas with planned expansion, such as homelessness, mental health, and childcare services.
4. **The City should transition from an annual CODB allocation to a process where multi-year contracts include a planned increase (or "embedded escalator") in subsequent years** to ensure nonprofit contractors have stable, planned funding increases to address inflationary pressures in contracts, including for wages.
5. **The City should develop a comprehensive plan to address the ongoing wage pressures faced by nonprofit contractors**, and to make structural overhauls where needed to ensure equitable wage levels for City-funded services. The plan should include gathering wage and demographic data from nonprofit contractors and convening City and nonprofit partners to establish policy priorities and initiatives.

OVERVIEW

The City and County of San Francisco (City) contracts with over 600 nonprofit service providers to deliver $1.2 billion in safety net services to vulnerable residents each year. Nonprofits face extreme inflationary and market pressures and many contract budgets have not kept pace. Low wage levels lead to difficulty hiring and high turnover, which impact client services and the service provider stability.

The Controller's Office has convened a policy group of City grant-making departments and nonprofit providers to discuss issues of nonprofit sustainability. The group identified the need to make immediate investments in nonprofit wages to ensure continuous and safe delivery of essential client services. To understand the scale of the issue, the Controller's Office conducted interviews and focus groups to identify trends in wage pressures and how pain points impact nonprofits and the services they deliver.[1]

The goal of this work is to identify options and recommendations to support the Mayor and Board of Supervisors to make targeted and impactful budget choices on strategies that support nonprofit sustainability.

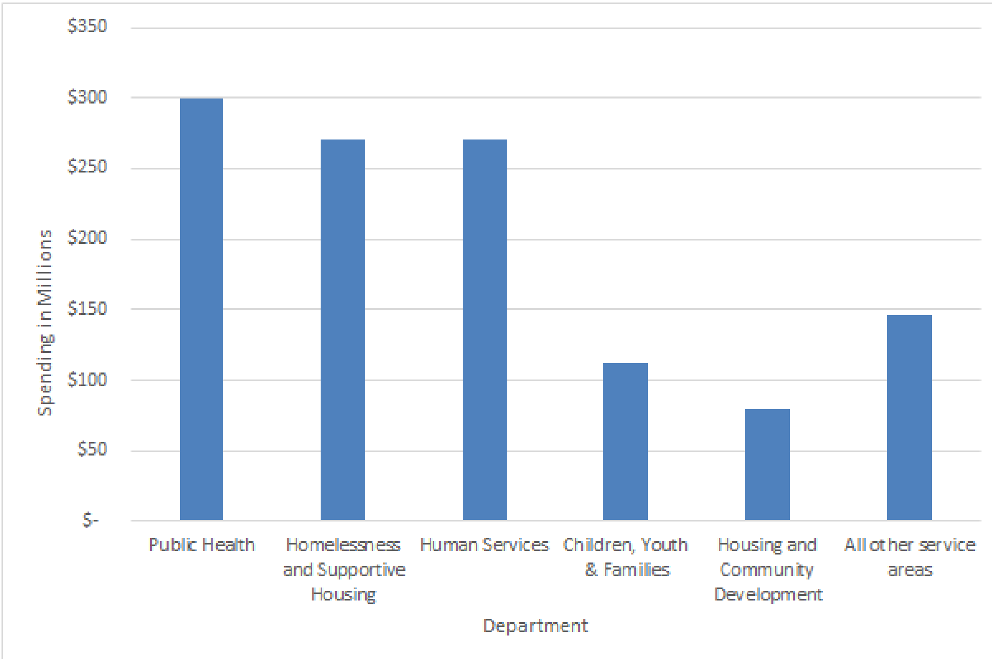
Scale of City Spending on Nonprofit Contracts

In Fiscal Year 2020-2021 (FY20-21), the City made payments to nonprofit service providers totaling $1.2 billion. Three departments represented the highest spending levels in FY20-21: Department of Public Health (DPH), Department of Homelessness and Supportive Housing (HSH), and the Human Services Agency (HSA), comprising over 70% of total spending on nonprofit services. The top five departments shown in Figure 1 below were responsible for nearly 90% of total spending on safety net services delivered by nonprofits.

[1] See Appendix for more on methodology.

While specific data about spending on wages is not available across all contracts, assessing overall spending by service area highlights the scale of the issues, and indicates where targeted approaches may have the most impact.

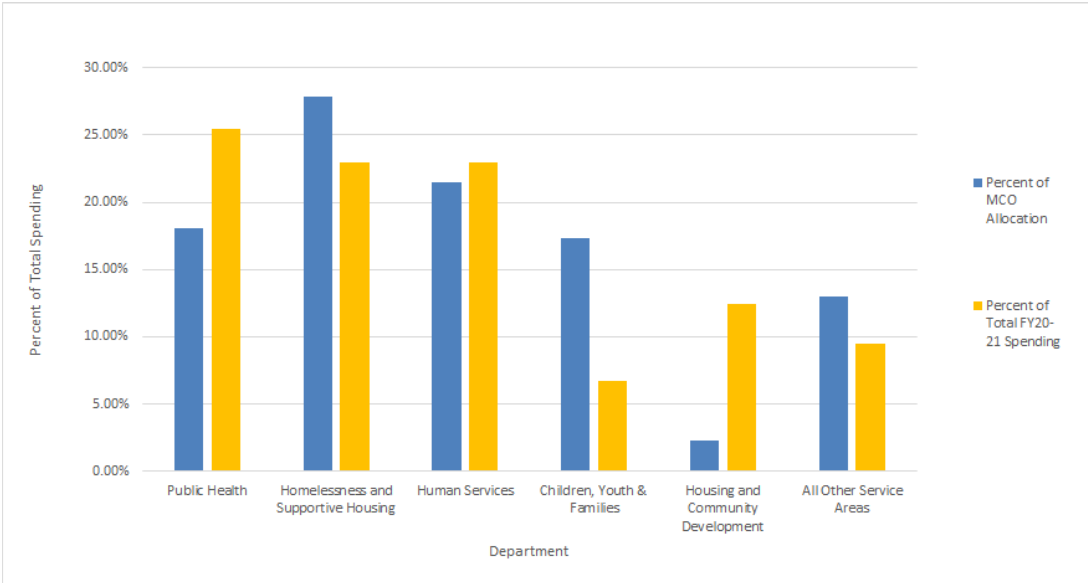
Figure 1: Supplier Payments by Department, FY20-21[2]



In FY19-20, the Controller's Office conducted an application process related to the City's Minimum Compensation Ordinance (MCO).[3] The process allocated funds across departments and nonprofit contracts for the City's lowest wage workers. While this data is now dated and actual salary levels have changed in the three years since that application process, we can use the FY19-20 MCO analysis[4] to estimate how the low-wage workforce is distributed across departments, per Figure 2.

[2] An additional 34 departments are represented in the "All other service areas" category.
[3] Learn more about the MCO on the Office of Labor Standards Enforcement website: https://sfgov.org/olse/minimum-compensation-ordinance-mco
[4] See the Controller's Office's final memo documenting allocations by department and nonprofit supplier here: https://sfcontroller.org/sites/default/files/Documents/Auditing/MCO%20Allocation%20Summary%20Memo%20FINAL.pdf

Figure 2: MCO allocations compared to FY20-21 spending, by department[5]

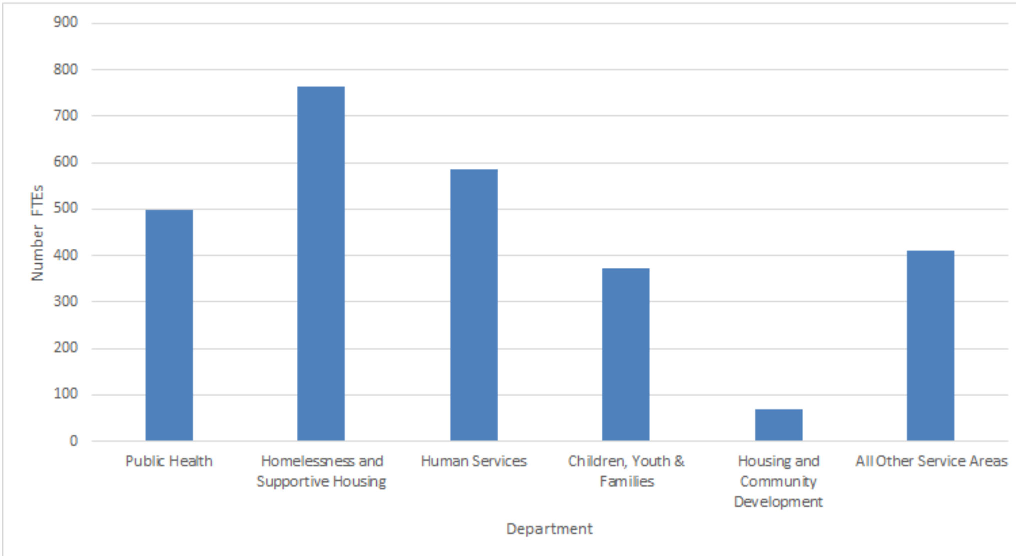


While we do not have data showing the exact amounts of spending on low-wage workers by department, from this data we can reasonably assume that DPH and the Mayor's Office of Housing and Community Development (MOHCD) fund comparatively fewer low-wage workers as a proportion of entire spending, while HSH and the Department of Children, Youth and Their Families (DCYF) fund comparatively more low-wage workers.

The MCO allocation data also shows the total number of full-time equivalent staff (FTEs) impacted by funding allocated for MCO-related wage adjustments in FY19-20. A total of 2,697 FTEs are assumed to have received additional wages through that analysis. Of those FTEs, the breakdown by service area can be seen in Figure 3 below.

[5] In the chart, the "All Other Service Areas" bars include 14 departments in the "percent of MCO allocations" bar and 34 departments in the "percent of FY20-21 spending."

Figure 3: FTEs impacted by MCO wage adjustments in 2019[6]



This data shows the scale of the potential impacts of targeting wage adjustments in specific sectors. The MCO data suggests that HSH has the greatest number of low-wage FTEs who would benefit from future wage adjustments, with almost 800 FTEs assumed to have received MCO-related adjustments in FY19-20. Additionally, this data makes clear that while low-wage workers make up a large proportion of DCYF's total spending, the overall number of low-wage FTEs funded by DCYF remains lower than DPH, HSA and HSH.

SUMMARY FINDINGS AND ANALYSIS

All analysis points to the scale of the need: wage pressures are real, they are burdensome, and they are impacting services. The following sections outline key themes and preliminary findings that speak to:

- The scale and impact of the issue, including sectors where wage pressures are most urgent
- Strategies the City could use to address wage pressures
- Limitations and constraints to addressing wage pressures
- Equity considerations related to nonprofit wages
- Opportunities for further work

Assessing the Scale and Impact of the Issue

Workers earning the lowest wages often perform difficult front-line services.

Nonprofits and departments identified the following roles and positions as being among the lowest paid workforce, typically earning between $17.34/hr (current Minimum Compensation Ordinance threshold) and $20/hr:

[6] "All other service areas" includes the remaining 14 departments that received MCO allocations to distribute to nonprofits

- Front desk staff at Permanent Supportive Housing sites
- Shelter monitors
- Janitors
- Peer advocates
- Peer health promoters
- Residential counselors
- Engagement counselors
- Childcare workers
- After school program staff
- Outreach workers
- Security
- Entry-level clerical workers
- IHSS home health workers

Many of these positions are entry level, but still require difficult work, such as a desk clerk at a housing site needing to deescalate a client in mental health crisis. This category also includes direct service workers who earn an hourly wage over $20/hr but work part-time rather than full-time to limit costs. These workers are also providing valuable direct services, but often make less than $35,000 per year and may not receive benefits.

An analysis of wages across DCYF's contracts for FY21-22 showed that among adult staff (non-youth workers), there were 387 full time equivalent staff (FTEs) earning less than $25/hr. The positions in this category are primarily direct service providers and support staff. These categories include case managers, clinicians, program assistants, student support advocates, academic specialists, etc.

The Controller's Office interviewed members of the Supportive Housing Provider Network (SHPN), which conducted analysis among members to identify wage levels and hiring and retention issues among property management roles. SHPN reports the following:

- Front Desk Clerks among surveyed SHPN providers typically have wages between $16.55/hr and $20/hr. The current vacancy rate is 16% but while positions can be hired quickly, providers report frequent turnover in these roles.
- Janitors among surveyed SHPN providers typically have wages between $16.55/hr and $20/hr, with a vacancy rate of 27%.

This class of workers is critical to addressing wage challenges in nonprofit contracts for a few reasons:

- Some roles in this category are hard to fill due to low wage levels, but nonprofits report that these roles are essential to their operation.
- Even if some positions are not hard to fill, they still experience substantial turnover. Multiple stakeholders mentioned that once entry level staff receive training, they are likely to switch organizations and roles frequently to move to better-paying work, including within the nonprofit sector.
- Stakeholders identified that individuals in these roles have a high degree of client contact which requires specific skills, including lived experience, but this client contact can also lead to significant exposure to trauma in the workplace that can impact performance.
- Stakeholders noted that many workers in these roles either take on second jobs or move out of San Francisco and have long commutes and high travel costs, which also contributes to high turnover.
- Several participants noted that they anecdotally understand that low-wage workers experience episodic homelessness, and are at risk of homelessness even as many work in organizations aimed at addressing this issue.

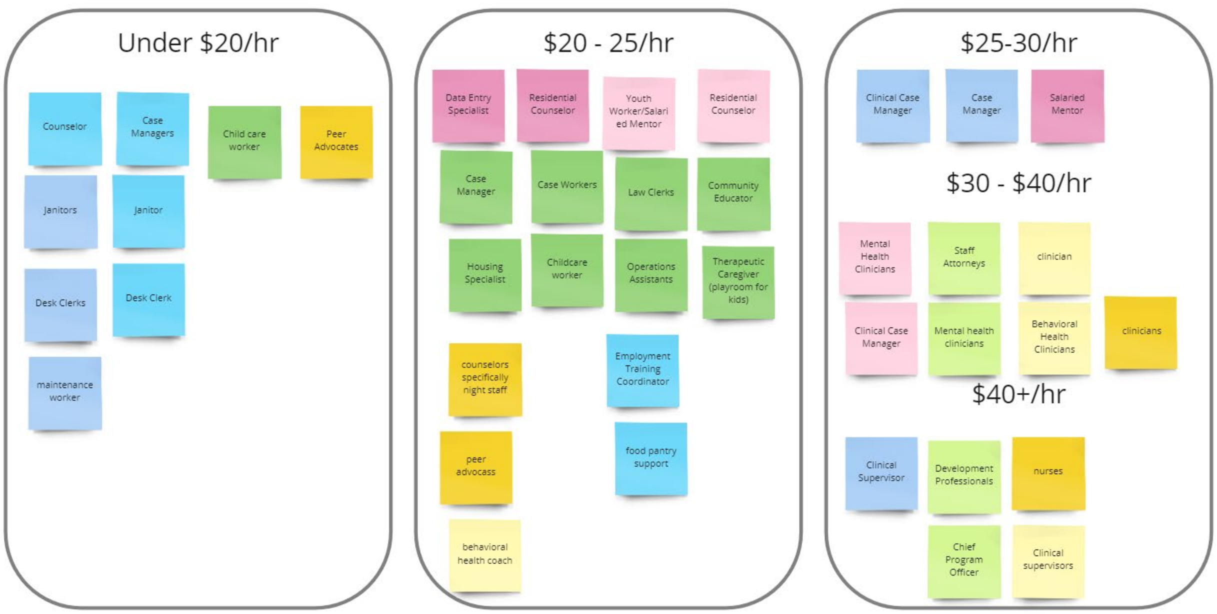
Below-market wages in mid-level positions lead to difficulty hiring and retaining staff.

Nonprofits and departments identified the following types of mid-level positions as being heavily impacted by turnover and difficulty hiring:

- Case managers, with an emphasis on bilingual staff and staff with some training or experience
- Clinical staff in behavioral health settings
- Legal staff, such as attorneys
- Finance and fundraising staff and back-office workers
- Other direct service staff, including meal delivery, program coordinators, etc.
- Maintenance workers
- Property managers

While not necessarily the lowest wage workers in an organization, nonprofits identified that many workers in these mid-level roles are earning less than $25/hr, as seen in Figure 4.

Figure 4. Lowest Wage and Highest-Turnover Positions by Wage Category, from March 9, 2022 Nonprofit Focus Group[7]



For example, this fiscal year, housing providers participated in a study by the Corporation on Supportive Housing on services in supportive housing programs, and this work included a survey among participants about wage levels for case management staff. The study found that current salaries started in the "high teens" per hour, particularly among smaller organizations, and rose to $33/hr for case managers at larger organizations or government-affiliated groups. Just over half of the respondents reported salaries for case managers below $25/hr.

---

[7] See Methodology section for more details on focus group. Bold colors reflect lowest wage positions. Light colors reflect hardest to fill positions. Green represents general social services; pink represents youth-serving organizations; blue represents homelessness/housing/shelter services; yellow represents behavioral heath treatment and/or clinical services.

Additionally, the SHPN survey of property management roles found that, among surveyed SHPN providers, current wages for maintenance workers have a range of $17.34/hr through $35.60/hr, with the large range in salaries due to specialized technical skills. These roles have a 19% vacancy rate. Property managers have a salary range of $26/hr through $42/hr and an 11% vacancy rate among surveyed members.

High turnover and difficulty hiring impacts client services and destabilizes organizations.

High turnover and high vacancy rates make it difficult for providers to meet City contracted service levels. It also results in underspending on contracts which can have negative financial implications for the organization.

During interviews, stakeholders shared many examples of the negative impacts, including:

- One nonprofit respondent reported a 90-day delay in launching a new program due to hiring constraints, while another reported having to restructure contracts to reduce the number of staff overall and redistribute salaries to existing positions to ensure retention of those staff.
- Vacancies mean staff must take on large and burdensome caseloads, e.g., a property manager overseeing multiple buildings, or case managers having double the caseload. According to multiple respondents, vacancy-related workload issues lead to burnout among remaining staff and contributes to additional turnover.
- SHPN reported that vacancies among property management roles at housing sites such as janitors, maintenance staff and site managers lead to delays in turning over vacant units, which impacts their ability to meet City housing goals.
- The recruitment and training to bring entry-level workers up to speed is a cost and time burden on nonprofits that compounds if those workers leave their positions after a short period of time.
- Many departments reported underspending on contracts to deliver services due to contractors struggling to hire. This underspending suggests that services are not being delivered, leaving gaps in the social safety net.
- According to one housing provider, desk clerks or case managers who do not have relationships with clients or adequate training can create high-risk environments, as they may not have the training or experience needed to deescalate violence or a client in crisis. According to the provider, this can lead to an overreliance by staff on 911, police, or other emergency services.
- Nonprofits report client engagement with services decreases when there is high turnover; clients report not wanting to build relationships with staff who may leave after a few months. One nonprofit housing provider reported a 40% annual turnover rate, leading to a long-standing client having up to 10 different case managers during their stay.

These challenges also highlight a key point that several department representatives mentioned: the conversation of raising nonprofit wages is often confounded by the assumption that raising wages means that fewer programs and positions will be funded and lead to more limited services and fewer clients served. Department stakeholders were clear that that this is not true: services are not currently being delivered at the anticipated rates because of job vacancies. If raising wages leads to higher job occupancy rates, then the quality *and* quantity of services may actually increase.

Nonprofits struggle to match wages with government and private sector jobs.

Department and nonprofit stakeholders mentioned competition with City and private sector wages as a key factor in high turnover and high vacancy.

- **Government**
  - For example, a City Health Worker II, which may be comparable to an entry-level case manager role in many nonprofits (no minimum education; 1 year of prior experience), has a starting salary of $30.29/hr, and can expect regular wage increases each year. Most nonprofits interviewed reported entry level case managers in their organizations earning less than $25/hr, and many less than $20/hr. Additionally, providers report that some roles may have higher education requirements than those for City Health Workers.
  - Some stakeholders mentioned that entry level staff will work at a nonprofit to gain the experience needed to qualify for a City role, and this leads to a feeling of "competition" with City programs.
  - Some service providers said they used to be able to compete with City jobs by offering increased flexibility and benefits like vacation time. However, with the current high vacancy rates these levels of flexibility are no longer feasible.
- **Private Sector**
  - The for-profit Minimum Compensation Ordinance (MCO) threshold is currently $18.55/hr, and slated to increase to $19.15/hr on July 1, 2022, as compared to the nonprofit MCO threshold, which is currently $17.34/hr.
  - Retail and customer service positions are also now being posted at up to $24/hr for entry level work that is in many cases less demanding than the direct service work required of nonprofit workers. Many service providers now feel they are now competing with these jobs for workers.
  - According to nonprofit interviewees, while this has always been a problem across the sector, the COVID pandemic has made working in direct service roles less appealing to potential hires. Retail and customer service positions in for-profit companies are often seen as less difficult and less taxing than direct service work for the same wage.

The Census Bureau reports on Quarterly Workforce Indicators,[8] including monthly earnings and annual growth in earnings among "stable" employees, those who worked a full quarter. Nonprofits are generally classified within the "Social Assistance" sector. According to the most recent trend data available for San Francisco (first quarter [Q1] of 2019 through Q2 of 2021), monthly stable earnings for the Social Assistance positions was $2,310. This is the lowest reported monthly stable earnings among the 61 sectors included in the report,[9] and well below the median reported monthly stable earnings of $6,762. This sector saw a 7% annual growth in stable earnings over the two-year period, which is aligned to the median of 8% across all sectors.[10]

[8] https://www.census.gov/data/developers/data-sets/qwi.html
[9] The list includes every industry with at least 500 employees in the city of San Francisco.
[10] Among the 61 sectors listed, 13 saw an annual decline in stable earnings. The average annual growth in stable earnings was 17%.

There are 13 sectors listed with 2019 stable monthly earnings of less than $4,000 (approximately comparable to a $25/hr job). These include Food Service and Drinking Places, Gasoline Stations, General Merchandise Stores, Clothing and Clothing Accessories Stores and Miscellaneous Store Retailers, among others. The average annual growth in stable earnings across these lowest-wage sectors was 14% between 2019 and 2021, with three sectors seeing a decrease and others seeing increases in wages up to 57% (Food Manufacturing). See Figure 5 for an excerpt, and the Appendix for the complete list of sectors.

Figure 5. Excerpted list of monthly stable earnings by sector in San Francisco

Sector	2019Q1 stable monthly earnings	Annual growth in stable earnings, 2019Q1 - 2021Q1
Social Assistance	$2,310	7%
Food Services and Drinking Places	$2,765	-4%
Gasoline Stations	$2,768	30%
Sporting Goods, Hobby, Musical Instrument, and Book Stores	$2,902	18%
Food and Beverage Stores	$2,983	37%
Amusement, Gambling, and Recreation Industries	$3,030	4%
Private Households	$3,035	17%
Personal and Laundry Services	$3,077	3%
Apparel Manufacturing	$3,207	19%
Miscellaneous Store Retailers	$3,563	8%
General Merchandise Stores	$3,747	-4%
Food Manufacturing	$3,775	57%
Clothing and Clothing Accessories Stores	$3,902	-13%

This data indicates two key findings:

- Nonprofit workers are among the lowest paid workforce in San Francisco.
- Some other low wage sectors have seen significant wage growth recently, creating a further competitive disadvantage for nonprofits seeking to recruit and retain employees, particularly entry level staff.

Strategies to Address Wage Pressures

There is significant complexity within the nonprofit sector. The City's typical policy levers may not be sufficient.

When asked about pain points related to nonprofit wages, responses from all nonprofit and department representatives varied widely, showing that while there is alignment on certain themes, a single approach is unlikely to effectively address wage challenges for all organizations. A traditional across-the-board approach does not have enough nuance to truly address the pain points, while an approach that uses department-specific interventions has its own drawbacks.

The City typically uses an array of levers when attempting to address inflationary pressures on contracts:

- **Minimum Compensation Ordinance (MCO)** allocations to address lowest-wage workers
- **Cost of Doing Business (CODB)** allocations to address general inflationary pressures, including wages
- **Department-specific wage initiatives** to target wage increases using knowledge of specific pain points within their contract portfolios

Each of these levers has benefits and challenges, addressed in the subsections below. While the City may need to employ all these options in the coming year, new strategies are also needed to effectively target the current wage pressures faced by the nonprofit sector.

The MCO can target increases toward the lowest wage workers, but issues of wage compaction and parity persist.

The MCO is designed to target wage increases toward the lowest-wage workers in an organization. The City's FY19-20 MCO allocations included funding for "direct costs" of the MCO, meaning the cost to bring workers below the MCO wage up to the threshold, as well as "compaction costs" for workers already at or just above the MCO wage. The FY19-20 MCO analysis considered compaction for workers earning up to $22/hr, a policy choice based on the amount of funding available.

- **Benefits of the MCO:**
    - According to several sources, raising wages among these lowest wage positions across the sector is the clearest way to apply an equity lens to the wage pressures faced by nonprofits.
    - The annual amount needed to fund "direct costs" is relatively low across the City's nonprofit portfolio (the Controller's Office estimated direct costs to total $1.4 million for FY21-22[11]), though this amount accounts for a marginal increase in wages across the sector. However, the degree of compaction funded (e.g., up to what wage level) is a policy choice for the Mayor and the Board of Supervisors. As such, if there is a specific policy priority to raise the lowest wages (e.g., those under $20/hr or under $25/hr), the compaction component of the MCO could serve as a vehicle for allocating funds for this purpose.
- **Challenges:**
    - The MCO data from 2019 is three years old, and new data collection would delay allocation of funds that are urgently needed. Interviewees noted that some nonprofits with low-wage workforces did not apply in 2019 despite being eligible, meaning using old allocation methods continues to exclude those grantees.
    - The MCO wage threshold applies to all contractors receiving $50,000 or more from the City regardless of the City's funding source, but federal and state sources may not adequately address the direct and compaction costs associated with this local ordinance, leaving the General Fund or other local sources to cover all costs for these programs.

[11] https://openbook.sfgov.org/webreports/details3.aspx?id=2931

- Setting a "compaction level" (e.g., up to $22/hr) may limit nonprofits from using an MCO allocation where they are having the most difficulty, such as among more senior or specialized workers earning $30/hr or more.
- Though the MCO in intended to create uniformity in minimum wages across the sector, interviewees identified that departments may not always implement it in the same way, creating variance in funding for similar or shared positions.

The Cost of Doing Business (CODB) allocation may not be sufficient to address all inflationary pressures nonprofits face and is used for more than just wages.

The CODB is typically applied as a percentage of each contract's General Fund budget, and historically has been set annually through the City's budget process to address various inflationary pressures, including wages, within nonprofit contracts.

- **Benefits:**
  - Both nonprofit and department interviewees noted that the CODB is the "easiest" and most flexible solution to supporting nonprofits adjust their costs as it can be universally applied.
  - The CODB can also support other inflationary pressures, such as increases in rent, insurance or other costs. While many nonprofits choose to apply the CODB to salaries, it allows flexibility for nonprofits to apply the increase where it is needed most.
  - The CODB is not limited to lowest-wage employees, meaning it can be used to support wages for more senior or specialized workers earning $30/hr or more.
  - The amount of the CODB is a policy choice for the Mayor and the Board of Supervisors established through the City's annual budget, and so can be adjusted to address the present issues.
- **Challenges:**
  - Some of the stakeholders interviewed noted that nonprofits must make difficult choices with limited revenue, and may not always apply the CODB to wages, even if low wages are impacting service delivery. A more directive approach to allocations (such as employing a "cost of living adjustment" directed toward wages) may be needed if the City wants to make a specific investment toward increasing wage levels.
  - Across the board adjustments across the entire nonprofit sector would not target limited funds to specific issues in particular agencies or service areas that are most acute.
  - The CODB is calculated as a percentage of General Fund contract values, and so additional funding is needed to support blended contracts that heavily rely on non-General Fund sources to ensure parity.
  - While the CODB has broad across-the-board reach, the need to spread funds across the $1 billion nonprofit portfolio means that the increase is ultimately spread too thin to be truly impactful, according to many of the interviewed stakeholders.

In addition to the challenges associated with using the CODB to address wage pressures, City and nonprofit stakeholders shared operational constraints associated with CODB allocations.

- By the time the CODB is approved in the City's budget (August), many nonprofits have already planned budgets for the fiscal year. Annual variance in the CODB amount makes it difficult to plan ahead for salary increases for staff.
- The current process of annual allocations creates an administrative burden, as each contract budget must be modified and approved with the new amount, which can take months to finalize.
- Nonprofits typically do not have the ability to invoice for CODB funding until the contract has been modified, which can be months into the fiscal year. These contracting processes may require nonprofits to expend funds with reimbursement delayed for several months or delay expending funds (e.g., delay wage increases for employees).

Department-specific wage initiatives can directly address pain points, but may cause issues when nonprofits are funded by multiple departments.

In general, feedback from nonprofit and department staff interviewed for this analysis spoke to the need for flexible approaches that allows departments to use their knowledge of their grantee portfolios to allocate funds where there is the greatest need, while also giving nonprofit providers flexibility to fix the wage problems they are seeing in their organizations without significant restrictions or pre-determination about where wage-related funds should be applied. Department staff interviewed for this analysis shared two types of department-specific wage initiatives:

- **Specialized Programming:** Departments may have a key role in funding a highly specialized service, and discussions and decisions about addressing wages may be best offered by the department itself rather than Citywide. For example:
  - The Human Services Agency (HSA) operates two large contracts related to In-Home Supportive Services (IHSS), including a contract with the IHSS Public Authority funding approximately 20,000 independent providers, as well as one with Homebridge funding approximately $30 million in services. These are highly specialized programs with complex labor negotiations typically managed in consultation with HSA executives.
- **Establishing Specific Funding Criteria:** Departments may have conducted contract reviews and developed internal policy priorities for enhanced funding levels, e.g., to better fund services that are critical to fulfilling a department's mission. For example:
  - HSH previously engaged the Controller's Office to analyze shelter contract funding models, and as a result of the analysis, allocated additional funding to specific shelter operators to raise wages to be more in line with other shelter programs.

Each department negotiates with providers on wages, including through multi-year procurements, and these are also times when departments may engage with individual nonprofits on wage increases. Department-specific initiatives may mean that nonprofits receive differing amounts of support, and some may not receive an increase if they do not meet the criteria.

- **Benefits:**
  - Nonprofit and department stakeholders noted that each agency has unique concerns and needs and more nuanced strategies at the department and nonprofit level (rather than across-the-board) are better suited to addressing these needs.
  - Department staff that manage contracts report that they have the best idea where the pain points are greatest among their portfolios.

- Challenges:
    - In FY20-21, 296 nonprofit suppliers (47% of all nonprofit suppliers) received funding from more than one department, often for similar services. Department-specific initiatives mean a portion of the City-funded workers may receive a pay increase, while other City-funded workers may not.
        - For example, in FY20-21, HSH offered an incentive payment for front-line workers across several of its programs. According to both HSH and several nonprofits, these funds were difficult for nonprofits to deploy to staff since only HSH provided the funding. In one case, a nonprofit used its reserves to pay for incentives for staff in similar roles funded by other City departments (e.g., HSA), while in another case, a nonprofit shared that they were unable to provide the incentive to staff due to the parity issues they faced.
    - Department-specific initiatives require research and individualized negotiations with nonprofits. This adds burden to both department and nonprofit staff, and at least one department reported having insufficient staff capacity and lack of structured contract management systems to allow them to conduct the level of work and negotiations needed for such an initiative.

Limitations to the City's Role in Addressing Wage Pressures

The City cannot mandate wage levels, but recommended salary baselines or floors for certain positions could help target increases.

Numerous City and nonprofit staff indicated that it is generally inappropriate for City department staff to specify wages for positions funded by the City. In one case, DCYF attempted to establish a wage for a key position in a certain program to support recruitment and retention for the role as well as parity with the same position at other nonprofits. This created numerous downstream impacts for the nonprofit service provider, including a large pay gap between the highest and lowest funded position at the organization.

Interviews with stakeholders identified numerous constraints that adds complexity to implementation of wage increases within nonprofit organizations:

- Among nonprofits that participated in the focus group, five indicated that their staff are unionized, and wages are established through labor negotiations.
- Additionally, seven participants indicated that their organization uses pre-established wage bands, and raising wages for one group of workers would mean re-working the wage structure for the entire organization.
- Six participants noted that in addition to cross-departmental services, they also have services funded by non-City sources, such as positions outside of San Francisco. These organizations could not raise wages across City-funded contracts without also raising wages for non-City-funded workers, but may not receive the funding to do so.
- Nonprofits have established wage ranges that make sense for the organizational hierarchy, and changes to components of the organizational structure can destabilize the nonprofit.

While mandating wages levels for City-funded positions is not recommended, departments and nonprofits interviewed identified the option of setting floors or baselines for key positions, with actual adoption of that floor or baseline at the discretion of the nonprofit service provider. See Opportunities for Further Work section below for more on this topic.

Mixed funding sources create operational constraints.

Special allocations may be needed to smooth wage adjustments across blended contracts. Most departments that were interviewed have contracts with blended funding sources, including with State and Federal dollars. In many cases, the department blends funding on the backend, meaning nonprofits may be doing similar services but have varying funding sources for them based on department discretion. For parity, departments must then use General Fund dollars to make increases across grantees regardless of funding source, but this is not always feasible. For example, HIV programming at the Department of Public Health (DPH) is heavily funded by federal sources, and there are insufficient General Fund dollars to subsidize the level of wage increases provided to other contracts in the portfolio.

Interviews also identified numerous other operational challenges.

- Fringe costs are also increasing, but some departments have a cap on nonprofit fringe (e.g., 20%) whereas City employee fringe rates are typically budgeted at 40% or more.
- Indirect rates, typically capped at 15% of the total contract value, are typically used to fund back-office staff. Many of these back-office positions are also difficult to fill, such as payroll clerks, finance staff, development staff, etc. The amount of the CODB that can be applied to this small share of the contract is not substantial enough to fund true wage increases for these positions, which are essential for the operation of the organization.
- Legacy contracts may be more difficult to fix. Some departments have long-standing contracts with nonprofit providers for key services, such as housing programs. Wage rates were set for these programs many years ago and are often far below the norm for newer services. To truly address the wage issues in these contracts could require re-procurement or other significant increases to those contracts.

Structured Citywide data about nonprofit wages is limited, making it difficult to identify issues and develop targeted solutions.

In most cases, City departments use cost reimbursement budget templates for nonprofit grant agreements. These templates specify wages and FTEs of key positions funded through that contract. However, just one department, DCYF, uses a contract management database that allows for structured data to be extracted regarding those positions, wages and FTEs.

A thorough review of nonprofit wages funded through City contracts would require opening each contract and manually extracting wage information. The $1.2 billion in spending in FY20-21 occurred across approximately 3,000 active contracts. This gap in structured data limits the City's ability to spot issues among shared positions, and to appropriately target strategies to address those issues.

Beyond a gap in structured data about City-funded positions, the City does regularly gather information from nonprofits about non-City sources of funding, which can lead to gaps in understanding the impacts of City funding strategies.

APPLYING AN EQUITY LENS TO NONPROFIT WAGES

Equity is a key consideration when identifying strategies to address wage pressures. Through the interviews, respondents explored three overlapping lenses to use when addressing equity.

Equity Lens: Populations Served

- Are organizations that serve specific populations receiving equitable access to any funds distributed to mitigate wage pressures?
- Both HSA and HSH reported comparing demographic data of clients served by an organization to employee wage levels at that agency as a tool in prioritizing nonprofits to receive wage adjustments in the past.

Equity Lens: Nonprofit Workforce

- Does the workforce delivering services represent the community they serve and our diverse city, and are the staff compensated equitably in comparison to other organizations?
- The demographics of a City-funded organization's workforce is also a key equity consideration that ties in closely with population served. When distributing funding to address wage pressures, the demographics of the workers who receive that funding should be a measure of equitable distribution.
- Though there is very little City data on demographics of the City-funded workforce, gathering such data should be a key area of future work. Anecdotally, providers report that BIPOC individuals make up a large portion of their low-wage workforce, raising concerns about equitable pay. Providers also report that many staff members have lived experience that provides skill and expertise for this work, raising concerns that this lived experience is undervalued.
- A sexual orientation and gender identity (SOGI) lens may also be needed, as some providers suggest that BIPOC women make up large portions of specific workforces, such as in the childcare sector.

Equity Lens: Nonprofit Leadership

- Are organizations led by people of color and/or people representing the communities served receiving equitable employee compensation through grant agreements?
- Understanding who has founded and runs organizations that are funded by the City is also an important equity lens. Many stakeholders mentioned that it is more challenging for smaller organizations to apply for and manage City contracts. However, people of color are more likely to be represented in the leadership of smaller organizations. Understanding the organizations' leadership demographics and using that to evaluate funding distribution helps understand how resources can be equitably divided.
- Recent research on the demographics of nonprofit management and boards has found that a racial leadership gap persists across the nonprofit sector.[12] Some providers noted that smaller nonprofits are more likely to have BIPOC leadership. While limited data exists on the correlation between a nonprofit's financial size and leadership demographics, one national source reports

[12] "Race to Lead Series," Building Movement Project. https://racetolead.org/

that while BIPOC men represent about 10% of executive directors across all sizes of organizations (from below $500,000 to above $8.5 million), both BIPOC and White women are less likely to be executive directors at the largest organizations (those over $2 million).[13]

Strategies to increase equity may include both wage and non-wage initiatives

Through interviews with nonprofits and department staff, participants identified the following strategies to support equitable pay levels across nonprofits:

- Providing premium pay for staff with language capabilities
- Providing premium pay for staff with strong community knowledge/community ties
- Providing professional development opportunities and mentoring to support career advancement
- Reducing the pay gap between the lowest-wage workers and leadership
- Increasing support for smaller organizations navigating procurement processes
- Developing pathways to leadership within organizations for the target populations and people with lived experience
- Integrating equity considerations into evaluative criteria for City funding, including:
  - Provision of bilingual/bicultural/lived experience differentials
  - Requirements for resident voice to be included in programming (through board membership, advisory groups, etc.)
  - Criteria evaluating to what extent an agency's leaderships reflects the populations served
- Housing support for nonprofit workers with a minimum of 5-10 years of experience working in nonprofits in San Francisco

OPPORTUNITIES FOR FURTHER WORK ON WAGES

Through interviews, stakeholders mentioned concepts or ideas that cannot be implemented immediately, but merit further consideration as long-term strategies to address nonprofit wages.

Surveying, data collection and analysis

Most departments do not have structured data on wages for contracted positions; contract budgets are often saved as PDFs in a file system. This makes it difficult to do any robust analysis of the City's impact on nonprofit wages and the true costs of the services that the City funds. Many stakeholders suggested expanding data collection, e.g., via a nonprofit survey, so that the City and nonprofits have a clearer picture of wages and costs at the nonprofit level and across departments. Some ideas include:

- Surveying to gather full agency financial data, including other funding sources, and wage levels across funding sources and positions.
- Surveying to gather demographic information about the nonprofit workforce and leadership, and conducting equity analyses about wage levels across service types and service populations.
- Targeted work with organizations who are consistently underspending on contracts in order to get a fuller picture of what their challenges are.

---

[13] The Center for Effective Philanthropy. https://cep.org/reflecting-on-leadership-diversity-in-todays-nonprofit-sector/

- Analyzing wage structures across each department's portfolio.
- Analyzing job titles and categorization of job classifications in order to better target wage recommendations.
- Establishing benchmarks for wage levels among specific job classifications to inform nonprofits and departments about market standards.

Creating Citywide wage floors or baselines

Wage floors or baselines were proposed by numerous groups, and are being implemented in some key areas already. For example:

- The Corporation for Supportive Housing study commissioned by HSH recommended establishing a $28/hr wage baseline for case manager roles in supportive housing. HSH committed to funding a $25/hr baseline and moving up to $28/hr in the coming year.
- The Supportive Housing Provider Network (SHPN) identified a variety of recommended baselines in its survey of members noted above. For example, members recommended a baseline of $22/hr for front desk clerks, $23/hr for janitors, $25/hr for maintenance workers, and $36/hr for property managers. However, SHPN noted that these wage floors attempted to account for the impact of wage compaction in organizations, as well as what might be possible in its advocacy efforts for the year, and so should not be considered an "appropriate" wage for these positions.
- The Service Provider Working Group, a coalition of youth development organizations, identified a proposed baseline of $25/hr for all roles, aligning this to the "living wage" for a single adult in San Francisco, as calculated by the MIT Living Wage Calculator.[14]

The assumptions with such baselines, according to recommendations from nonprofits interviewed, is that they provide availability of funding at sustainable levels, and allow nonprofits to make the choice for how to allocate that funding across the organization. However, this proposed flexibility creates a lack of standardization which may perpetuate inequities and parity concerns.

While some targeted initiatives related to wage floors or baselines may occur, such as the HSH work, broader adoption of this strategy requires a cross-departmental lens to ensure parity, and requires more research and benchmarking on roles, skill level, and market drivers across the sector. Broad adoption of baselines is not likely feasible in the short term.

Cross-departmental wage initiatives

In interviews, department staff speculated about options for building parity across departments for positions and programs that are shared, but currently no initiatives are underway or planned. While several ideas were proposed, there would be significant challenges to implementing these proposals, as outlined below.

Though the most complex of the options discussed, cross-departmental initiatives are most likely to have the most significant impact on addressing wage pressures for specific contractors. Ideas for cross-departmental initiatives, as proposed by various interviewed stakeholders, include:

[14] https://livingwage.mit.edu/counties/06075; updated to $28/hr as of January 2022.

- Benchmarking wage ranges for key positions and creating standards (e.g., "floors") for certain functional roles that many departments fund.
- Identify shared thresholds or floors for positions that departments use in procurements.
- Coordinating on wage allocation strategies for specific shared contractors.
- Coordinating on wage strategies for specific shared program areas (e.g., services in or related to supportive housing which may be funded by multiple departments).

Despite these benefits, certain challenges persist, making this option difficult to accomplish in the current year.

- Nonprofit job titles and position descriptions vary, and categorization of payment by role would be difficult.
- Wages are funded by individual contracts. Many nonprofits have multiple contracts with each department they receive funding from. Opportunities to negotiate wages often comes through the establishment of new contracts, and reopening numerous existing contracts for wage negotiations is burdensome for both departments and nonprofits.
- Per FY20-21 spending data, 47% of nonprofits received payments from two or more departments, and at least 46 nonprofits received payments from five or more. Several nonprofits received payments from 10 or 11 departments. Creating complete alignment across all departments would is unlikely to be feasible.

As one way to make cross-departmental initiatives more feasible, five City departments conduct the majority of nonprofit contracting, and creating alignment among these departments on wage initiatives could have significant benefits.

Updated procurement processes: more guidance and more centralization

Many departments mentioned that the City has limited visibility into how much it actually costs to fund a service (as opposed to a contract). Stakeholders reported that low indirect rates mean that a contract with the City cannot cover the full costs of running a City-contracted program. Ideas for mitigating this issue during procurement processes include:

- Conducting more internal analysis of the actual cost of achieving a goal set by the City rather than relying on nonprofits to figure out how to make it work within a budget constraint.
- Funding fewer nonprofits at higher rates.
- Providing more guidance during the procurement process. For example, most departments issue solicitations stating the total funding amount available but do not say how many organizations, programs, or outcomes they are expecting to fund. Most departments do not give guidance during procurements for wage ranges for positions.

Another key issue that stakeholders pointed to is the decentralization of procurement processes. Many nonprofits are funded by multiple departments; in FY21, over 40% (362) of nonprofit providers had contracts with more than one department, with 112 nonprofits who contracted with 4 or more departments. Additionally, many departments fund similar services. The lack of centralized guidance and minimal opportunities for collaboration mean that departments have limited visibility into what other departments are funding and how. This results in a patchwork of uneven costs, differing processes, and an overload of information. Suggestions included providing more guidance or centralizing information to make it easier for departments to collaborate and make procurement processes easier for nonprofits to follow.

Wage-related and non-wage strategies to support hiring and retention

Many department and nonprofit stakeholders discussed ways to increase wages for specific skillsets. They also discussed the desire and need for recruitment and retention strategies that go beyond wages. A brief list of strategies mentioned by one or more respondents includes:

- Premium pay for multi-lingual staff or staff who reflect the community they are serving
- Hazard pay for front-line staff in high-risk settings
- Transportation allowances for staff commuting from far away
- Professional development opportunities and funding to support professional growth
- Investments in trauma-informed mental health trainings and supports for frontline nonprofit workers whose jobs entail regular exposure to trauma
- City-backed public service loan reimbursement for nonprofit positions not covered by federal public service loan forgiveness (such as case workers)
- Better staffing ratios for case workers so that the workload feels more manageable
- Reassessment of legacy contracts based on modality of service, and developing strategies to restructure contracts with market-rate wages
- Develop a workforce pipeline, such as a "Nonprofit Workforce Academy," that regularly assesses the greatest workforce needs and develops certification programs for youth and adult
- Incorporate a hiring and retention line item in contract budgets that can be flexibly deployed by the provider to any of a number of specified eligible uses, including wage equity initiatives such as wage increases for workers not on City contracts or other uses such as those listed above

RECOMMENDATIONS

1. Wage issues faced by the City's nonprofit contractors are of a magnitude that standard inflationary increases to contracts will not address them. **The City must identify strategies above a standard inflationary CODB**.

2. Needed investments are likely to be significant, and it is unlikely that the City can afford to make investments that solve for these wage constraints in a single budget year. **The City should plan for this need as part of a multi-year strategy**.

3. The current wage pressures experienced by nonprofit contractors represent a complex array of issues that will require multiple, complementary strategies to address. Some may need to be implemented over several years. However, to address immediate needs, **the City should develop several short-term options that could be delivered simultaneously in the coming budget**, as described below.

a. **Apply a Cost of Living Adjustment (COLA) above the Cost of Doing Business (CODB) allocation.**

   The City may also consider setting a policy priority to apply the COLA primarily for lowest wage workers, but this prioritization should also acknowledge that wage pressures exist for mid-level and management positions as well.

   For a sense of cost and scale, we estimate a 2% COLA to cost approximately $8 million across General Fund contracts Citywide, with this cost assumed in addition to a CODB. See Appendix B for additional cost scenarios. The estimates here and in the Appendix are meant for illustration purposes only and do not reflect a recommended COLA or CODB amount.

b. **Develop specific budget allocations to address wage pressures in key service areas with planned expansion.**

   The City has adopted several policy priorities over the last several years. The Our City, Our Home (OCOH) Fund increases investments in housing and services for people experiencing homelessness. Mental Health San Francisco (MHSF) expands and improves the delivery of behavioral health services. Proposition C ("Baby C"), passed in June 2018 and approved in 2021, invests $146 million annually in childcare in San Francisco. To fully realize the goals of these City priorities, additional funding will be needed to support hiring and retention of staff among nonprofit partners implementing related services.

   For example, HSH has developed several proposals to address wage pressures, equity and worker retention:

   - HSH invested $1.7 million in the current year and proposed a further $3 million in General Fund and OCOH funding in the budget year to enhance support services and frontline worker wages in Family, Youth and Adult permanent supportive housing (PSH) programs. This proposal raises the floor on case manager wages to a baseline of $28/hr across nearly 10,000 units of permanent supportive housing.
   - HSH is also proposing $12 million annually in General Fund and OCOH funding starting in FY22-23 to reduce case management staffing ratios in legacy PSH sites that are severely underfunded relative to newer sites, both to increase the quality of services for tenants and to improve working conditions for nonprofit staff.
   - These two proposals are meant as an initial investment to help ensure the success of a significant planned expansion of homeless housing, while bringing underfunded legacy programs into closer alignment with the actual cost to provide high-quality services to a highly vulnerable client population. Additional investments at a similar scale are also needed in PSH property management operations and shelter operations.

The Office of Early Childcare and Education (OECE) announced a similar initiative to raise wages for childcare workers as part of "Baby C."[15]

- The proposal aims to raise wages for early educators up to a $28/hr floor by 2025, increasing each worker's salary by $8,000-$30,000 annually.
- Up to $60 million annually has been allocated for this proposal, which also includes expanded benefits.

As a longer-term strategy, the Controller's Office is engaging in a staffing analysis of the behavioral health system as mandated through the MHSF ordinance, and will propose recommendations in the coming year.

4. To ensure nonprofit contractors have stable, planned funding increases to address inflationary pressures in contracts, including for wages, **the City should transition from an annual CODB allocation to a process where multi-year contracts include a planned increase (or "embedded escalator") in subsequent years**.

   Embedding an annual increase in multi-year contracts may address operational challenges described in the Findings section by:

   - Providing more certainty in nonprofit budget planning by providing the amount of the increase well in advance of the fiscal year.
   - Easing the administrative burden by reducing the number of times multi-year contracts must be reopened and modified (though some contracts will still require modification during the year for other reasons).
   - Allowing nonprofits to invoice immediately for current year salary increases without contracting delays or incurring unreimbursed costs.

   Embedded escalators shouldn't preclude adding additional funding to specific contracts or across contracts when needed. Similarly, contract amounts may still be subject to budget reductions in times of deficit.

   The City should create an implementation plan for rolling out a revised CODB policy that considers key operational issues such as:

   - How to address contracts with blended funding. This recommendation continues to focus on General Fund sources for the CODB, and there is still concern about equitably distributing funding, particularly for departments and contracts that rely heavily on State and Federal dollars.
   - Whether to use a negotiated increase or a flat percentage across all contracts, and implications for this policy, such as how to calculate the base and percentage increases when new funding is added to a contract.
   - Roll-out of policy across new and existing contracts.

[15] "Mayor Breed Announces Landmark Pay Raise Initiative for Early Educators in City-Funded Programs." April 28, 2022. <https://sfmayor.org/article/mayor-breed-announces-landmark-pay-raise-initiative-early-educators-city-funded-programs>

5. **The City should develop a comprehensive plan to address the ongoing wage pressures faced by nonprofit contractors**, and to make structural overhauls where needed to ensure equitable wage levels for City-funded services.

   The City should gather robust data on wages across programs, organizations and sectors, including demographics of the current workforce and the leadership of organizations. A centralized survey of nonprofit contractors should be administered by the Controller's Office in the coming fiscal year to support enhanced analysis and planning for future wage-related initiatives.

   The City should engage nonprofit partners in a collaborative process to analyze gathered data and identify policy proposals to implement over the coming fiscal years. The City may also consider engaging philanthropic funders interested in contributing to a joint strategy. Policy proposals may include setting wage floors in future solicitations, cross-departmental alignment on wage rates, review and potential restructuring or re-solicitation of legacy programs, and solutions to address race equity and gender equity in pay across providers and services.

   The City should incorporate into the plan considerations of other nonprofit sustainability needs. Stakeholders have proposed efforts around indirect rates, workforce pipelines, and non-wage strategies to support hiring, retention and equity. The plan should prioritize and stage key initiatives over subsequent fiscal years.

APPENDIX A: METHODOLOGY

The summarized findings in this analysis result from a series of policy group meetings, informational meetings, interviews, and structured focus group sessions with City staff and nonprofit service providers.

Policy Group

Beginning December 2021, the Controller's Office convened a Policy Group to set direction and propose policy strategies around nonprofit sustainability. The group includes finance and contracting leadership from several of the largest grant-making departments, as well as representatives of nonprofit organizations and advocacy groups.

City Departments

- City Administrator's Office
- Controller's Office
- Department of Children, Youth, and Their Families
- Department of Homelessness and Supportive Housing
- Department of Public Health
- Human Services Agency
- Mayor's Office of Housing and Community Development

Nonprofits

- Compass Family Services
- Delivering Innovations in Supportive Housing (DISH)
- Dolores Street Community Services
- Hospitality House
- Larkin Street Youth Services
- PRC
- Swords to Plowshares
- Third Street Youth

Advocacy Groups

- Homeless Emergency Service Providers Association
- San Francisco Human Services Network
- Supportive Housing Provider Network

Interviews and Informational Meetings

The Controller's Office conducted interviews and informational meetings with the following City departments and nonprofit service providers:

City Departments

- Department of Children, Youth, and Their Families
- Department of Homelessness and Supportive Housing
- Department of Public Health
- Human Services Agency
- Mayor's Office of Housing and Community Development
- Office of Economic and Workforce Development

Nonprofits

- Conard House
- Delivering Innovations in Supportive Housing (DISH)
- Homerise
- Swords to Plowshares
- Tenderloin Housing Clinic
- Tenderloin Neighborhood Development Corporation

Focus Group

The Controller's Office conducted an interactive focus group with participants from nonprofit organizations across the human service sector. Attendees represented organizations of varying sizes, with 5 having fewer than 50 full-time equivalent staff (FTEs), 4 having between 50 and 200 FTEs, and 3 having more than 200 FTEs. Organizations fell into one or more of the following categories: behavioral health treatment/clinical services, homelessness/housing/shelter services, youth services, and/or general human services. Attendees included the following service providers:

- AIDS Legal Resource Center
- Bayanihan Equity Center
- Catholic Charities
- Conard House
- Edgewood Children's Services
- Friends of the Children
- Homerise
- Huckleberry Youth Programs
- Mission Neighborhood Health Center
- North Beach Citizens
- Safe and Sound

Materials Reviewed

The Controller's Office reviewed the following informational materials and publications:

- Analysis conducted by the Supportive Housing Provider Network on property management job roles and wage levels
- Analysis conducted by the Service Providers Working Group on wage levels among nonprofits service children, youth and families
- Analysis conducted by the Corporation for Supportive Housing on wage levels associated with Permanent Supportive Housing case management staff
- Analysis from DCYF on wages by position type for FY21-22 contractors
- Past surveying, analysis, and implementation of MCO allocations
- Data on supplier payments for FY20-21
- The "Race to Lead" series, created by the Building Movement Project. https://racetolead.org/
- "Reflecting on Leadership Diversity in Today's Nonprofit Sector," the Center for Effective Philanthropy. https://cep.org/reflecting-on-leadership-diversity-in-todays-nonprofit-sector/
- "A National Imperative: Joining Forces to Strengthen Human Services in America," Alliance for Strong Families and Communities. https://www.alliance1.org/web/resources/pubs/national-imperative-joining-forces-strengthen-human-services-america.aspx

APPENDIX B: COST SCENARIOS

While limited data makes it difficult to estimate an exact cost of any of the recommendations, we've used the data that is available to estimate the financial impact of certain policy proposals.

Cost Scenario 1: Implementing a COLA on top of the CODB

One recommendation is to add a cost-of-living adjustment (COLA) on top of a CODB allocation. Each year, the Mayor's Office requests departments provide the amount of General Fund sources attributed to nonprofit contracts and uses that information to estimate a CODB base amount. In the table below, we use the base CODB amount to estimate a CODB at the estimated inflation amount for the year, 3.25%.[16] We've estimated the amount of contract expenditures attributable to salaries at 55%.[17] In the figure, we've estimated several options for a COLA ranging from 1% to 5%, which could be applied on top of a CODB allocation. These estimates are meant for illustration purposes only and do not reflect a recommended COLA or CODB amount.

Figure B1: Estimated annual cost of potential CODB and COLA policies

Policy	1%	2%	3%	4%	5%
CODB at Estimated Inflation (3.25%)	$23,664,827	$23,664,827	$23,664,827	$23,664,827	$23,664,827
COLA (variable)	$4,004,817	$8,009,634	$12,014,450	$16,019,267	$20,024,084
Total	**$27,669,643**	**$31,674,460**	**$35,679,277**	**$39,684,094**	**$43,688,911**

The benefit of the CODB is its flexibility in use. Some nonprofits may use the CODB solely to fund non-wage elements of their contracts, while others use the CODB to fund a mix of wage and non-wage expenses. Policy choices should account for this variability.

In one scenario using this table, we can assume that a policy choice to apply a 3.25% CODB allocation in alignment with inflation plus another 2% COLA on General Fund contracts would cost approximately $31.7 million. In this scenario, a nonprofit receiving this allocation may apply the entire allocation to wages to make more structural impacts on salaries. Another nonprofit may continue to need the CODB for non-wage inflationary pressures, but is able to use the COLA portion of the allocation to adjust wages of certain positions.

Cost Scenario 2: Increasing lowest wage workers to $25/hr, estimated using historical MCO data

Using historical MCO data, we can estimate the cost of raising all funded positions under $25/hr up to $25/hr and allowing for compaction costs up to $30/hr.

To do this, we applied the wage data from the 2019 MCO survey and assumed the lowest earners had been adjusted up to the current MCO wage ($17.34/hr). For the remaining brackets we assumed that

[16] The consumer price index (CPI) amount for FY22-23 is estimated at 3.25% per the March update of the Controller's Budget Outlook. Other measures of inflation may vary, such as measures of the prior year increases.
[17] Departments surveyed estimated a range from 45% to 66% of contract costs attributable to salaries.

other FTEs received the wage adjustments allocated to account for compaction costs (a $1 increase for FTEs from $16.50-$18.50 and a $0.75 increase for those making $18.50-$30.00). The figure below estimates the cost of raising any positions still earning under $25/hr up to $25/hr and providing $1/hr wage increases to those in the $25-$30/hr range to account for compaction. To estimate the cost of raising those under $25/hr up to $25/hr, we assumed that the number of positions are uniformly distributed within each bracket. The total cost is reflected in the table below:

Figure B2: Estimated annual cost of raising wages using historical MCO data[18]

Estimated Starting Wage Range	Change in Hourly Wage	Estimated FTEs	Annualized Cost
$17.34	$7.66	1,000	$15,931,207
$17.35 - $25.00	$0.01 - $7.65	1947	$20,751,250
$25.00 - $30.00	$1.00	662	$1,376,835
Total Annualized Cost			**$38,059,292**

Cost Scenario 3: Increasing lowest wage workers in child and family services to $25/hr, estimated using DCYF salary data

DCYF manages a contract database containing robust salary data for grantees. We can use that information to estimate the cost of raising low wage worker salaries. DCYF funds 387 full-time equivalent staff members (FTEs) with an hourly wage under $25/hr. We estimated the cost to increase salaries for all of those positions to $25/hr, and to apply a potential compaction policy of $1/hr for all FTEs between $25/hr and $30/hr.

Figure B3: Cost of raising low wages for DCYF grantees

	Number of FTEs	Annualized Amount
Cost of raising adult wages to $25/hr	387	$2,978,403
Cost of $1/hr compaction policy	275	$571,711
Total Potential Cost	**662**	**$3,550,114**

There are numerous caveats to this scenario. As noted in the findings above, it is not generally feasible to create an across-the-board wage increase like this due to the complexities of individual nonprofit budgets and business models. This scenario does not account for the current tiering between positions, which would increase the costs. This estimate only accounts for salaries within DCYF's contracts, and only the portion of salaries funded by DCYF (i.e., costs are based on annual hours attributed to a contract rather than a head count of staff in each position). Given that many staff are funded by multiple contracts and grants, the cost to apply this scenario to positions as opposed to funded FTEs is likely much higher.

[18] Note that the number of FTEs reflected in this memo may not exactly match the number of FTEs reflected in the MCO memo, due to different methodologies and recalculation of some data since it was published.

However, this scenario provides an estimated annual cost of raising wages for DCYF-funded positions as a way to estimate possible costs of creating new baselines for wages, should that be an option in the future, and these estimates could serve as a proxy for the cost of specific funding recommendations targeting childcare and family services.

Cost Scenario 4: Wage floors for specific positions, using SHPN cost estimates

The Supportive Housing Provider's Network (SHPN) conducted a survey among its membership to estimate the cost of targeting wage increases at roles that have been particularly hard to fill: Case Managers, Desk Clerks, Janitors, and Maintenance Workers. SHPN proposed a wage floor for each role and calculated the annual cost to raise wages for HSH-funded positions in their partner organizations. The calculation assumes all reported positions are in each agency's lowest reported wage for the job category, so likely overstates the cost to raise wages to the proposed base. However, the results provide a benchmark for the cost to apply a base wage for these positions.

Figure B4: Estimated cost to implement base wages for key positions in permanent supportive housing programs

Position Category	# HSH-Funded FTEs	Target Base Hourly Wage	Total Annual Baselined Funding Needed
Case Managers	232	$ 28.00	$ 4,022,185
Desk Clerks	337	$ 22.00	$ 4,244,458
Janitors	156	$ 23.00	$ 2,594,249
Maintenance Workers	143	$ 25.00	$ 2,290,598
Total	**868**		**$ 13,151,490**

These calculations suggest that the maximum cost of implementing wage floors for key positions for only HSH-funded supportive housing organizations (a total of 868 FTEs across 11 organizations) is over $13 million annually.

APPENDIX C: CENSUS BUREAU WORKFORCE INDICATORS FOR SAN FRANCISCO

The Census Bureau produces Quarterly Workforce Indicators a set of 32 economic indicators including employment, job creation, wages, hiring, and other measures.

The table below shows industry wages trends in San Francisco, from the first quarter of 2019 through the first quarter of 2021 (the most recent available). Industries are sorted by average monthly wage for stable employees – workers who worked the full quarter. The percentage change is the annualized two-year change in pay for stable employees.

The wage numbers are monthly averages which could be affected by high numbers of part-time workers. The list includes every industry with at least 500 employees in the city. Some of the anomalies (very high wages for accommodations and transit workers) are because of the IPOs of Airbnb and Uber.

Sector	2019Q1 stable monthly earnings	Annual growth in stable earnings, 2019Q1-2021Q1	Employment, 2019Q1
Social Assistance	$2,310	7%	35,718
Food Services and Drinking Places	$2,765	-4%	63,071
Gasoline Stations	$2,768	30%	804
Sporting Goods, Hobby, Musical Instrument, and Book Stores	$2,902	18%	1,594
Food and Beverage Stores	$2,983	37%	9,447
Amusement, Gambling, and Recreation Industries	$3,030	4%	5,438
Private Households	$3,035	17%	3,271
Personal and Laundry Services	$3,077	3%	10,088
Apparel Manufacturing	$3,207	19%	721
Miscellaneous Store Retailers	$3,563	8%	3,217
General Merchandise Stores	$3,747	-4%	4,803
Food Manufacturing	$3,775	57%	2,696
Clothing and Clothing Accessories Stores	$3,902	-13%	6,999
Truck Transportation	$4,001	101%	821
Nursing and Residential Care Facilities	$4,257	3%	5,969
Museums, Historical Sites, and Similar Institutions	$4,566	13%	3,365
Health and Personal Care Stores	$4,590	-15%	4,810
Repair and Maintenance	$4,810	7%	2,140
Educational Services	$4,833	5%	18,541
Furniture and Related Product Manufacturing	$4,843	12%	513
Building Material and Garden Equipment and Supplies Dealers	$4,974	45%	1,729

Sector	2019Q1 stable monthly earnings	Annual growth in stable earnings, 2019Q1-2021Q1	Employment, 2019Q1
Scenic and Sightseeing Transportation	$5,001	202%	1,005
Furniture and Home Furnishings Stores	$5,292	14%	1,676
Beverage and Tobacco Product Manufacturing	$5,294	-7%	762
Religious, Grantmaking, Civic, Professional, and Similar Organizations	$5,700	9%	14,687
Couriers and Messengers	$5,735	47%	3,726
Printing and Related Support Activities	$5,888	45%	553
Performing Arts, Spectator Sports, and Related Industries	$5,922	34%	7,085
Motor Vehicle and Parts Dealers	$5,976	61%	1,379
Accommodation	$6,368	199%	19,714
Administrative and Support Services	$6,762	11%	39,482
Ambulatory Health Care Services	$7,462	16%	20,451
Merchant Wholesalers, Nondurable Goods	$7,635	32%	6,881
Specialty Trade Contractors	$7,833	14%	11,276
Electronics and Appliance Stores	$7,863	-13%	1,340
Hospitals	$8,108	5%	9,171
Support Activities for Transportation	$8,261	1%	1,461
Broadcasting (except Internet)	$8,875	7%	2,770
Heavy and Civil Engineering Construction	$9,247	7%	1,711
Nonstore Retailers	$9,248	-35%	7,103
Motion Picture and Sound Recording Industries	$9,299	-1%	1,996
Miscellaneous Manufacturing	$9,320	-31%	679
Air Transportation	$9,512	25%	1,974
Construction of Buildings	$9,736	23%	10,334
Monetary Authorities-Central Bank	$10,270	18%	978
Real Estate	$10,868	5%	12,828
Merchant Wholesalers, Durable Goods	$11,286	1%	6,018
Waste Management and Remediation Services	$11,382	-11%	1,769
Rental and Leasing Services	$11,465	5%	2,666
Wholesale Electronic Markets and Agents and Brokers	$14,236	-22%	1,856
Professional, Scientific, and Technical Services	$15,522	9%	139,695
Insurance Carriers and Related Activities	$15,779	5%	7,722
Management of Companies and Enterprises	$16,351	2%	22,180
Publishing Industries (except Internet)	$16,592	3%	10,401
Computer and Electronic Product Manufacturing	$19,561	-18%	4,163
Data Processing, Hosting, and Related Services	$20,942	28%	12,028

Sector	2019Q1 stable monthly earnings	Annual growth in stable earnings, 2019Q1-2021Q1	Employment, 2019Q1
Credit Intermediation and Related Activities	$22,363	14%	20,702
Other Information Services	$25,069	29%	18,034
Telecommunications	$26,915	22%	2,514
Securities, Commodity Contracts, and Other Financial Investments and Related Activities	$45,807	8%	16,922
Transit and Ground Passenger Transportation	$67,956	-75%	11,352