



Finance Committee Summary

Wednesday, March 4, 2009 **1:30 p.m.** **3rd Floor Council Conference Room**

Committee Members Present: Faatz, Chair; Boigon, Vice-Chair; Lehmann
Committee Member Absent: Brown, Hancock
Other Council Present: Garcia, Linkhart, López, Montero, Nevitt, Robb

*Agenda: Supplemental Appropriation for Auditor's Office
Supplemental Appropriation for Dept. of Human Services*

1) Auditor's Office supplemental

Committee Action

The Committee:

- approved a \$190,000 supplemental appropriation to the Auditor's Office to cover the portion of the City's annual external audit budgeted by Dept. of Human Services; and
- requested that the Budget Office directly participate in Human Services' financial operations.

Committee Discussion

Ed Scholz, Budget Director, said the Finance Office requests this supplemental to cover a portion of the required annual independent audit costs of about \$1.2 million. The Department of Human Services (DHS) budgeted \$190,000 for its portion of the 2008 audit, but due to the particularly tight financial situation DHS is experiencing, Mr. Scholz proposed to cover the \$190,000 from the General Fund Contingency. DHS is not required to pay its portion of the audit cost. In past years, DHS paid its portion when its budget was in good shape; in other years, the General Fund covered the full amount for the audit.

Councilwoman Boigon said that the DHS budget crisis was brought about primarily by two factors beyond the control of the department. In simple terms, these two factors are:

- The State reversed its decision that the counties must maintain a high fund balance and now require that the funds be spent rather than retained. In response, DHS contracted with more service providers in order to reduce its fund balance, leaving it vulnerable.
- The State reformulated all of its grants and distribution computerized accounting systems. DHS spent the time and money to learn the new system quickly and be efficient. The State then undertook a work load study. DHS had mastered the system and was efficient; the other counties had not, so their work load appeared to be higher, and DHS lost out in funding to help with work load.

Councilwoman Robb asked about the involvement of the Finance Office with DHS. Mr. Scholz said he is less involved in the day to day activity of DHS than with the other City departments, partly because DHS has its own competent budget staff and a very complex budget due to the numerous revenue sources, including federal and state grants, and it must budget on both a calendar and fiscal year basis. Councilwoman Robb requested that Finance be more directly involved in the financial operations of DHS.

2) Department of Human Services supplemental

Committee Action

The Committee approved a \$2,457,000 supplemental appropriation to the Dept. of Human Services (DHS) in order to continue admissions to childcare services with a 12-month eligibility and contracted homeless services would continue in 2009, albeit at reduced levels. Councilwoman Faatz wanted the record to show her dissent from the Committee's position.

Committee Discussion

Ed Scholz, Budget Director, and Jay Morein, DHS, told the Committee DHS is experiencing a critical financial situation due to a range of factors, and several programs would be suspended without the proposed \$2,457,000 supplemental appropriation from the general fund contingency. Services at risk include child care (\$2.1 M) and locally-contracted services to the homeless (\$362,000).

Child Care: Currently, 4,222 children receive subsidies. Program eligibility has been frozen and a waiting list has been created. Without the requested funds, no new children will be eligible until the caseload drops to 2,700. The requested funds would provide spaces to include children of the working poor who are not receiving TANF by purchase of direct child care services and by leveraging purchase of up to \$10,780,000 in excess TANF funds from other counties, providing child care assistance for a one-year period for up to 2,000 children. Mr. Morein noted that any locally raised funds, including from the Human Service mill levy, could be used to leverage the additional funds. The supplemental funds would also allow restoration of the 12-month eligibility interval, providing more stability to the participants.

Councilmember Boigon said that some of the cuts that would have to be made without the supplemental would be destructive to our goals of keeping people at work and providing quality early-childhood education. A small raise earned by a TANF parent can mean that a child is no longer eligible for the program, requiring a change in placement. Research shows that every move sets a child back several months. We need to sustain the 12-month re-evaluation of eligibility to help prevent children being moved from placement to placement.

Homelessness Services: Most homelessness services are contracted with local providers. Contracts were reduced by a total of \$1.5 M for 2009, based on recommendations of the Commission to End Homelessness. The contracts were extended through March 2009 at the 2008 rates, greatly reducing funds available for the balance of 2009. The requested appropriation of \$357,000 would provide enough funding to maintain the Commission's recommended reductions through 2009. Level of services in 2010 would be determined during the budget process.

Federal stimulus funds of \$3.7 M might be available for homelessness prevention services. Mr. Scholz said if these funds are realized, some amount of supplemental dollars could be rescinded or held over for DHS in 2010.

The Committee had a lengthy discussion, which included, among others, the following points:

The gap in the General Fund is \$56 M. This proposal is to use \$2,457,000 of the general fund contingency to maintain the identified services in 2009. This is not a commitment beyond 2009. After transfer of this amount, the contingency fund will have a balance of \$14.3 M.

In past years, when its budget allowed, DHS has transferred funds to the general fund.

While there are no specific numbers at this time, it is reasonable to assume that if DHS services are strong, costs will decrease for the police, the jail, and Denver C.A.R.E.S.

The "right" eligibility standards and the "right" levels are subjective.

Councilwoman Faatz said eligibility for the child care program is currently 225% of the poverty level; next year it will be lowered to 185%. She calculated that at 225%, a family of 2 could earn \$31,500, and a family of 5 could earn \$55,800. This income was too high to be receiving child care assistance.

Sixty-four percent of the DHS caseload is below 130% of poverty. At this level, a family of 2 earns \$18,204; a family of 5 earns \$32,244.

Councilwoman Boigon noted that Colorado's self-sufficiency incomes are substantially below the federal poverty numbers. High-quality child care is one of our goals, and it takes \$11,000 to \$12,000 per year to provide high-quality care for a child.

Councilman Garcia, Chair of the Neighborhood, Community and Business Revitalization (NCBR) Committee, which recently had an overview of the DHS budget, said he wanted to ensure that spending at DHS in future has more oversight by the Finance department. Mr. Scholz said the DHS budget staff is competent, but his office is meeting with DHS and building a stronger relationship. DHS will participate in quarterly reports delivered to the Finance Committee. Mr. Morein will report quarterly to NCBR Committee.

Councilman Linkhart said DHS increased its spending but it was not inappropriate spending.

Councilman López said he supported the supplemental to provide time to find alternative funding, which must be done. Letting poor people become poorer is not an option. It will cost more in the end if we don't approve this supplemental.

Councilwoman Montero said she supports the supplemental because this is about human beings and there is no choice.

Councilman Nevitt said this is the right thing to do.

Councilwoman Faatz said she did not support taking general fund contingency for DHS to be a problem. DHS has its own dedicated revenue sources, and the general fund should not

subsidize it. The two things that led to this situation were 1) overspending by DHS; and 2) funding non-mandated programs, such as the Road Home and Youth Mentoring. She was not willing to go into one troubled fund to subsidize another. The way this has been handled is not good public policy.

Councilwoman Robb said the City has a huge obligation to find other funding mechanisms. We have to find the best ways to provide City services, and this supplemental is one.

Councilman Garcia said many of these programs would not be continued beyond 2009. The supplemental funds leverage up to \$10M in federal funds. He was confident that the Finance Office would fix the DHS budget problems.

Councilwoman Faatz said she had no disagreement about helping people in certain categories, but we have to question at what level we help. She did not agree that level is necessarily as high as others think it should be.

Councilmembers in support of approving filing of the bill for the supplemental appropriation for DHS were Boigon, Garcia, Lehmann, Linkhart, López, Nevitt and Robb.

Councilwoman Faatz did not support the requested supplemental appropriation.