



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

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Guidance to Departments on the Treatment of the Fiscal Year 2022-2023 Cost of Living Adjustment and Cost of Doing Business Allocation within Nonprofit Contracts and Grants

Version: August 3, 2022

Overview of Budget Allocations

The final approved budget for Fiscal Year 2022-2023 (FY23) allocates \$21 million for a Cost of Living Adjustment (COLA) targeted to salaries within nonprofit contracts and grants. The budget assumes that 55% of nonprofit expenditures are personnel-related, and assumes a 5.25% increase to these line items within General Fund contracts and grants.

The final approved budget also funds \$8.3 million for a Cost of Doing Business (CODB) allocation targeted to non-personnel costs within nonprofit contracts and grants. The budget assumes the remaining 45% of nonprofit expenditures are non-personnel related, and assumes a 2.5% increase to these line items within General Fund contracts and grants.

The assumptions and estimates used in developing the budget and the "split CODB" have led to certain implementation questions among departments and nonprofit suppliers. The Controller's Office is issuing the following guidance to support timely and consistent application of these funds across nonprofit contracts and grants.

Guidance to Departments

The total value of the FY23 allocation is \$29.3 million (\$21 million + \$8.3 million), which is equal to a 4% "complete" CODB on General Fund contracts and grants. When combined in this way, the portion prioritized for personnel costs is approximately 70% of the total.

- Departments should treat the combined amount of the COLA and CODB as a 4% adjustment to the base value of continuing General Fund contracts and grants.
- Departments should request nonprofits allocate approximately 70% of the CODB increase to personnel costs, including wages, benefits and any associated indirect costs, with the remaining 30% allocated to non-personnel costs, including any associated indirect costs.
- The instructions to apply 70% of the CODB allocation to personnel costs should be considered advisory, and departments should apply flexibility in their own instructions to nonprofit suppliers to allow individual organizations to allocate CODB funds to address highest-need costs or make adjustments for varying service models. For example, contracts predominantly funding non-wage line items should not be expected to put 70% of the CODB toward wages.
- The goal of these instructions is to prioritize an increase to wages across nonprofit contracts and grants while allowing sufficient flexibility to expediently address broader inflationary pressures faced by nonprofits.

Questions and Current Guidance

1. Should departments calculate 70% of each contract's CODB allocation and ensure contractors budget this amount within their personnel costs?

No, departments should instruct nonprofits to prioritize personnel line items in their allocation of the CODB with a target of using 70% for personnel costs, but should also provide flexibility in cases where a nonprofit has other inflationary pressures (e.g., rent increases) that would require less than 70% of the CODB to be used for wages. While departments may request information and/or justification for budgets modifications showing significant variance from these targets, departments should not establish new, burdensome approvals processes that may delay timely administration of this funding.

2. How should indirect costs be treated?

Typically, indirect costs are a proportion of the overall contract budget, e.g., 15%. The new CODB allocation should contribute the same proportional share to indirect costs as is already defined in the contract. If a nonprofit is allocating 70% of the CODB to personnel and 30% to non-personnel, then 70% of the indirect allocation should come from the personnel share of the CODB and 30% from the non-personnel share.

3. Is the Minimum Compensation Ordinance fully funded through the CODB?

Yes. The Office of Labor Standards Enforcement (OLSE) publishes wage increases per the Minimum Compensation Ordinance (MCO) instructions. For FY23, the MCO wage for nonprofits will be set at \$17.90 per hour, or a 3.2% increase over the prior MCO wage of \$17.34 per hour. At 4%, the value of the CODB exceeds the inflationary increase of the MCO. The Controller's Office certified there are sufficient appropriations for this increase through our June 2022 Revenue Letter, and so the increase in compensation to \$17.90 per hour for nonprofits was effective as of July 1, 2022.

Nonprofit employers are required to ensure all workers on City contracts are receiving at least the MCO threshold wage, using the CODB allocation to provide any wage increases needed to comply with the ordinance.

<https://sfgov.org/olse/minimum-compensation-ordinance-mco>

4. Since there was a 5.25% COLA in the budget, should departments ensure all workers on City contracts and grants receive a 5.25% raise?

Not necessarily. Though the use of the term "COLA" in the budget seemed to imply workers on City contracts and grants would receive a 5.25% raise, this term and its implications are not accurate for a variety of reasons.

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- First, the allocation only applies to contracts and grants with General Fund sources. Many contracts (and the workers paid through them) have multiple funding sources that will not offer comparable increases.
- Second, the allocation must also be used to fund increases to variable fringe benefits as well as proportional increases to indirect costs, lowering the amount available to fund wages themselves.
- Additionally, departments typically allow nonprofit contractors the flexibility to make business decisions for allocating funding where most needed, and so employers may provide variable increases to wages based on internal business needs.

The transition away from the “COLA” language and to a more traditional “CODB” is intended to clarify that the City is not directing nonprofits to raise wages by a specific percentage, but is hoping to target and prioritize increases to wages through this allocation.

5. How should the CODB be calculated when other nonprofit wage enhancements were also included in the FY23 budget?

The FY23 budget included certain department-specific wage initiatives. If a nonprofit receives funds from both the CODB and another wage initiative, the Mayor’s Office has directed that the 4% CODB be calculated off the base amount of a continuing contract prior to any additional funds being added as part of a wage enhancement.

However, as advised earlier, nonprofits should work with their funding departments to flexibly allocate funds to address the most pressing contract costs while prioritizing salaries. As such, the 4% CODB funding could be used to further supplement the same wages addressed through the enhancement or could be applied to other areas of the contract budget requiring those funds.

Questions?

Nonprofit suppliers should contact their assigned representative (e.g., contract analyst and program manager) at funding departments with questions about this guidance or other issues or concerns related to contracts and grants.

City departments should consolidate questions about this guidance via a contracts or budget lead and send to laura.marshall@sfgov.org. Questions may be consolidated, and this guidance may be updated and republished accordingly.