



Memorandum

TO: work2future Board

FROM: Joy Salandanan
Finance Manager

SUBJECT: work2future's Proposed
FY 2013-2014 Operating Budget

DATE: June 20, 2013

Approved:

Date:

RECOMMENDATIONS

Board approval of work2future's Proposed Operating Budget for FY 2013-2014, broken down as follows:

- WIA Program Operating Budget for FY 2013-2014 in the amount of \$9,891,785;
- WIA Administrative Budget in the amount of \$927,794;
- WIA Rapid Response Budget of \$610,718 (this amount is estimated since the final allocation amount from the State has not yet been released); and
- Special Funding from other sources representing carry over funds from FY 2012-2013 of \$69,413.

In addition to the above budget recommendations, staff is requesting Board approval of the recommendations and associated budget impacts relating to the following two scenarios:

Budget Scenario I: ASD Model Adopted: If work2future secures City Council adoption of its proposed Alternative Service Delivery (ASD) model or approval of the Unique Services Agreement for direct client services, staff requests Board approval to distribute up to \$1.7 million of work2future's funding allocation to the work2future Foundation (Foundation) to provide direct client services.

Budget Scenario II: ASD Model not Adopted (Continuation of City Based Model): If the proposed ASD model is not adopted or the Unique Services Agreement is not approved by City Council, staff requests the Board to approve a fully operational, stand-alone work2future Budget for FY 2013-2014, resulting in a \$1.7 million reduction in funding. Under this scenario, work2future would eliminate a number of full-time and temporary unclassified (TU) positions, in addition to a number of client-related services.

These recommendations will be presented to the Finance and Executive Committees at their meetings of June 13, 2013.

BACKGROUND

On December 5, 2012 and January 17, 2013, work2future staff presented to the Finance Committee and the Executive Committee respectively, proposed budget scenarios of \$10.2 million; \$9.7 million, and \$8.5 million for FY 2013-2014 for planning purposes only. On these occasions, the budget scenarios were submitted as a fully operational work2future program budget without a funding distribution to the Foundation.

As presented in the City Manager's March 1, 2013 information memorandum to the Mayor and the City Council, work2future prepared a preliminary business case analysis, as part of the City's (ASD) process, to evaluate the benefits of transferring the delivery of direct client services from the City to a third party administrator (TPA), potentially to the Foundation. On April 30, 2013, the City Manager's Office transmitted the preliminary business case analysis to the Mayor and the City Council.

On March 21, 2013, the work2future Board approved three *preliminary* budget proposals of \$8.5 million, \$9.7 million (base budget) and \$10.2 million for work2future, including a recommended funding distribution to the Foundation. These budgets were presented to the Board as preliminary proposals for planning purposes only. The final WIA allocation had not been received from the State at that time.

On May 22, 2013, the Office of Economic Development sent a Manager's Budget Addendum to the Mayor and City Council that provided a final business analysis regarding the proposed ASD model for work2future's direct client services. The Office of Economic Development is currently analyzing the criteria to determine whether an unusual or unique situation exists that makes contracting with the work2future Foundation under a Unique Services Agreement within the public's interest, based on the close alignment of the Foundation with the work2future Board's vision, values, and strategies, as well as work2future staff's expertise, knowledge, and understanding of WIA policies, procedures, service delivery, program outcomes and continuous improvement. By shifting direct service delivery to the Foundation, work2future will also retain its branding and customer identification with minimal interruption of client services, thus ensuring that the transition to the new service model will be seamless for work2future's clients.

If the ASD model is not adopted or the Unique Services Agreement is not approved by City Council, work2future will face a significant reduction of \$1.7 million in funding relative to the ASD Base Budget. This translates into a substantial cut in staffing and client services.

In addition, during the uncertainty of the timing of the transition, effective July 1, 2013 work2future staffing and service delivery model will be principally budgeted around the ASD model. Should the ASD model not be adopted or the Unique Services Agreement not be approved by City Council, work2future will implement the City based model, and immediate staffing and client services reduction

will occur. work2future staff will present the final budget reconciliation to the work2future Board in September 2013.

On June 6, 2013, work2future received a letter of concurrence from the State of California's Employment Development Department (EDD) supporting work2future's new service delivery model transitioning client services to the work2future Foundation, based on maintaining the continuity of client services and saving substantial resources.

ANALYSIS

WORK2FUTURE WIA PROGRAM BUDGETS

On May 8, 2013, the Workforce Investment Division of EDD released the Workforce Investment Act (WIA) formula fund allocations for all Local Workforce Investment Areas (LWIAs) for the Adult (AD), Dislocated Worker (DW) and Youth funding streams for FY 2013-2014. These funding allocations are based on the allocations issued by the U.S. Department of Labor (DOL) to the State.¹ work2future's allocation for FY 2013-2014 is \$9,277,941, compared to \$10,209,452 in FY 2012-2013, as a result of receiving \$510,473 less due to federal sequestration and a \$421,038 decrease in formula funding.

Based on the new WIA formula funding allocation for FY 2013-2014, the total available funding for the proposed WIA formula *program* budget (excluding Administrative and Rapid Response budgets) is \$9,891,785, broken down as follows:

- WIA Allocation of \$9,277,941, representing the total allocation for the AD, DW and Youth funding streams;
- Projected Carry Over from FY 2012-2013 of \$2,933,330 which includes Board-Mandated Reserve and Board-Approved Unallocated Reserve from FY 2012-2013 of \$2,094,314 and Projected Savings at year-end, June 30, 2013, of \$839,016;
- WIA Administrative Budget of \$927,794, which is reported separately from the WIA program budget; and
- Proposed Carry Over of \$1,391,692 to FY 2014-2015 representing 15% of the total WIA allocation (this amount decreases the total available funding set aside for operations for FY 2013-2014).

¹ See DOL Training and Employment Guidance Letter (TEGL) 25-12, dated May 1, 2013, available at http://wdr.doleta.gov/directives/attach/TEGL/TEGL_25_12.pdf

work2future sets aside 15% of its formula funding allocations every year to fund the carry over account which helps build a sufficient reserve to sustain the same level of client services in light of anticipated funding reductions.

WIA PROPOSED OPERATING BUDGET VS. PRELIMINARY BASE BUDGET (NET CHANGE)

The following table shows a fully operational WIA program budget of \$9,891,785 compared to the \$9.7M Base Budget approved by the Board in March 2013.

WIA Allocation	Preliminary Base Budget Board Approved March 2013	Proposed Budget June 2013
WIA Allocation	\$9,707,877	\$9,277,941
Projected Carry Over from FY 12-13*	2,942,598	2,933,330
Administrative Budget (10% of AD, DW, Youth)	(970,787)	(927,794)
Carry Over to FY 2014-2015 (15% of AD, DW, Youth)	(1,456,182)	(1,391,692)
Total Proposed Program Budget	\$10,223,506	\$9,891,785

Net Change	\$331,721
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*Projected Carry Over for the June 2013 Proposed Budget includes 15% Board-mandated carry over account from FY 2012-2013 of \$1,531,418 plus additional Board-approved reserve of \$482,626, Board-approved unallocated reserve of \$80,270, and projected savings at the end of June 2013 of \$839,016.

The following are the key changes to the June 2013 Proposed Budget, as compared to the Preliminary Base Budget (\$9.7M) approved by the work2future Board in March 2013:

- Decrease in WIA formula allocation of \$429,936 compared to the \$9.7 million Base Budget approved by the Board in March 2013;
- Decrease in Projected Savings from FY 2012-2013 of \$9,268; and
- Associated decrease in Administrative and Carry Over funding to FY 2014-2015 of \$52,993 and \$64,490 respectively, thereby increasing the overall program funding by said amounts.

Budget Scenario I: Alternative Service Delivery (ASD) Model Adopted

Under the proposed service delivery model, work2future will retain 17.3 full-time equivalent (FTE) positions to provide administrative services in the areas of contract and performance management, fiscal and program oversight, regulatory compliance, business services, partnership development, and board development and support. Since State discretionary funding opportunities require the City to apply as fiscal agent, work2future will also retain functions such as grant writing, funding support, marketing, and outreach services.

If the proposed alternative service delivery model is adopted or the Unique Services Agreement is approved by City Council, the Foundation will begin phasing in operations over the next twelve months, implementing some direct individual client services beginning October 2013 and becoming fully operational by June 2014. During the same period, work2future will be phasing out 25 City positions (7 vacant and 18 currently filled) and convert one Analyst I/II position to Accountant I/II as the Foundation becomes the direct client service provider. The uncertainty in the timing of the adoption of the ASD model may impact the timing of the transition of services to the Foundation. work2future will submit final budget reconciliation to the work2future Board in September 2013, including a reconciliation of the June 2013 year-end carry-over savings and a final funding distribution to the Foundation.

If the ASD model is adopted by the City Council, work2future and the City will begin the process of developing the terms and conditions of a Unique Services Agreement to formalize the contractual relationship between the City and the Foundation. Furthermore, work2future is working with the Employment Development Department (EDD) to develop a process to allow work2future to distribute cash in advance to cover the Foundation's immediate WIA program needs. The Foundation must ensure that its account does not reflect an "excess" cash balance, per WIA requirements. In addition, use of the cash-advance method to fund the Foundation will mitigate the impact of the work2future program on the City's General Fund balance.

The phased-in transition approach of the proposed ASD model is estimated to generate projected savings of \$1.7 million to support the shift of direct client services to the Foundation, subject to the Board's approval of the FY 2013-2014 Program Operating Budget and related staffing plan, as well as the City Council's adoption of work2future's proposed ASD Implementation Plan and Unique Services Agreement.

Transitioning direct client services to the Foundation will allow work2future to provide more services to more clients more effectively and efficiently. In addition, implementation of the proposed ASD model will improve operational flexibility and program service delivery.

If work2future secures City Council adoption for its proposed ASD model or approval of Unique Services Agreement, the following table shows the impact of the net funding decrease of \$331,721 on the Proposed Operating Budget for FY 2013-2014 compared to the March 2013 preliminary Board-approved Budget (please refer to Appendix I for budget details):

Budget Scenario I: Alternative Service Delivery (ASD) Model Adopted

WIA Allocation	Preliminary Base Budget Board Approved March 2013	Proposed Budget June 2013 (ASD Model)	Increase (Decrease) in \$	Increase (Decrease) in %
Personnel (Salaries & Benefits)	\$5,274,738	\$4,593,906	(\$680,832)	-13%
Non-Personnel Costs	1,018,892	1,032,717	13,825	1%
Adult Client-Related Services	2,296,242	2,645,915	349,673	15%
Youth Client-Related Services	987,141	1,369,247	382,106	39%
Other Client-Related Services	646,493	250,000	(396,493)	-61%
Total Uses	\$10,223,506	\$9,891,785	(\$331,721)	-3%

The Proposed Budget assumes a funding distribution up to \$1.7 million to the Foundation that only covers the personnel costs of the Foundation, as part of the staffing transition plan from work2future to the Foundation. All contracted services such as adult training programs, workshop, youth placement/outreach and professional services will be managed by work2future staff as part of work2future administrative oversight. In addition, non-personnel program expenditures incurred by the Foundation in FY 2013-2014 will continue to be managed and paid by work2future. This will allow the Foundation to establish a baseline to determine an appropriate non-personnel budget for FY 2014-2015. Furthermore, the funding allocated for new program initiatives in the preliminary March 2013 Board-approved Budget can no longer be accommodated due to the decrease in the WIA funding allocation.

If the ASD model is adopted or the Unique Services Agreement is approved by City Council, the table below shows the projected savings of \$1.7 million that will be generated based on the proposed elimination of 7 vacant City work2future program positions by June 30, and 18 filled positions from September 2013 through March 30, 2014:

June 23, 2013 7.0 FTE Vacant	September 29, 2013 8.0 FTE Filled	December 22, 2013 5.0 FTE Filled	March 30, 2014 5.0 FTE Filled
3.0 Analyst*	1.0 Accounting Clerk	2.0 Analyst	1.0 Analyst
2.0 Senior Analyst	1.0 Accounting Tech	1.0 Community Coordinator	1.0 Community Coordinator
2.0 Senior Office Specialist	1.0 Analyst	1.0 Senior Account Clerk	2.0 Network Technician
	1.0 Community Coordinator	1.0 Senior Office Specialist	1.0 Senior Office Specialist
	1.0 Community Supervisor		
	3.0 Senior Office Specialist		
\$560,746	\$680,241	\$302,637	\$157,001

*1.0 FTE Analyst position converted to Accountant

Personnel Savings	\$1,700,625
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BUDGET SCENARIO 1 (ASD MODEL ADOPTED): SB 734 TRAINING EXPENDITURE REQUIREMENTS FOR FY 2012-2013 & FY 2013-2014:

The table below shows the Training Budget relative to the SB 734 training expenditure requirement:

WIA Program	Total
Adult and Dislocated Worker Program Allocation, FY 2013-2014	\$6,238,411
Training Requirement, FY 2013-2014 (25% of AD/DW Program Allocation)	\$1,559,603
Remaining Requirement, FY 2012-2013	436,064
Total Training Requirement, FY 2012-2013 and FY 2013-2014	1,995,667
Training Budget (including 75% of workshop budget)	\$1,941,767
Shortfall in SB 734 Requirement, FY 2013-2014	(\$53,900)
% Short SB 734 Requirement, FY 2013-2014	(3%)

*Training budget covers ETPL, OJT, online, cohort, and training-eligible workshops and projected shortfall for FY 2012-2013 of \$436,034.

Budget scenario I allows work2future to cover the training shortfall of \$436,034 for FY 2012-2013 to fully comply with the SB 734 requirement to spend 25% of its Adult and Dislocated Worker funding on training during the two years of the grant period. In addition, nearly 100% of the SB 734 expenditure requirement for FY 2013-2014 has been budgeted. work2future intends to use leveraged resources to cover the shortfall of \$53,900 in FY 2013-2014 to fully comply with SB 734 requirements within the first year of the two-year grant period; any excess after satisfying SB 734 requirements will be re-directed to program services in FY 2013-2014.

Budget Scenario II: City Based Model (Non-ASD)

Impact of Non-Adoption of ASD or Unique Services Agreement

Over the last five years, WIA formula funding has decreased from \$16 million to \$9 million. In addition, recent legislation now requires work2future to allocate of 25% of its Adult and Dislocated Worker funding for training, reducing the amount of funding available for other client-related services such as case management, supportive services, job development, and occupational assessments.

In the event that the proposed ASD model is not adopted by City Council, the City will continue to be both the administrative and service delivery entity for work2future. Considering the recent federal sequestration and other funding reductions, work2future foresees further declines in overall funding levels beyond FY 2013-2014. Based on current and projected funding levels, the current service delivery model and staffing levels are not sustainable and would need to be adjusted to accommodate future declines in funding.

If the proposed ASD model is not adopted or the Unique Services Agreement is not approved by City Council, work2future has developed for the Board's consideration a fully operational stand-alone

work2future Budget for FY 2013-2014 with a reduction of \$1.7 million, eliminating a number of full-time and temporary unclassified (TU) positions in addition to a number of client-related services.

The following table shows the impact of non-adoption of the ASD model compared to the Proposed Budget with ASD (**please refer to Appendix II for budget details**):

Budget Scenario II: City Based Model (Non-ASD)

WIA Allocation	Proposed Budget June 2013 (ASD Model)	Proposed Budget June 2013 (City-Based)	Increase (Decrease) in \$	Increase (Decrease) in %
Personnel (Salaries & Benefits)	\$4,593,906	\$6,294,531	\$1,700,625	37%
Non-Personnel Costs	1,032,717	1,032,717	\$0	0%
Adult Client-Related Services	2,645,915	1,415,552	(\$1,230,363)	-47%
Youth Client-Related Services	1,369,247	898,985	(\$470,262)	-34%
Other Client-Related Services	250,000	250,000	0	0%
Total Uses	\$9,891,785	\$9,891,785	\$0	0%

This scenario includes a reduction of up to 18 full-time equivalent positions that could not be redirected to client services. The eliminated positions may include staff providing program oversight, monitoring, and fiscal compliance. Insufficient oversight and monitoring of the various funding streams and subrecipients could result in potential disallowed program costs, which the City of San Jose, as the fiscal agent, is responsible to cover per federal regulations.

Furthermore, if the ASD is not adopted or the Unique Services Agreement is not approved, work2future will lack the flexibility to maintain and enhance the current service delivery model, given the ongoing SB 734-mandated training expenditure requirements that carry budgetary impacts from one year into the next. The increased amount required to be expended on training also decreases resources available to provide other workforce development services, such as case management, job development and supportive services.

BUDGET SCENARIO 2 (CITY-BASED MODEL): SB 734 TRAINING EXPENDITURE REQUIREMENTS FOR FY 2012-2013 & FY 2013-2014:

The table below shows the impact of non-adoption of the ASD or Unique Services Agreement on the training budget:

WIA Program	Total
Adult and Dislocated Worker Allocation, FY 2013-2014	\$6,238,411
Training Expenditure Requirement, FY 2013-2014 (25% of AD/DW Program Allocation)	\$1,559,603
Remaining Expenditure Requirement, FY 2012-2013	436,064
Total Training Expenditure Requirement, FY 2012-2013 and FY 2013-2014	\$1,995,667

Training Budget (including 75% of workshop budget)	1,063,786
Shortfall in SB 734 Requirement FY 2013-2014	(\$931,881)
% short SB 734 Requirement in FY 2013-2014	(60%)

*Training budget covers ETPL, OJT, online, cohort, and training-eligible workshops and projected shortfall for FY 2012-2013 of \$436,034.

This budget scenario will create a shortfall of 60% with respect to meeting the SB 734 expenditure requirement for FY 2013-2014 in the first year, since the FY 2012-2013 shortfall of \$436,064 will be added to the total training expenditure requirement for FY 2013-2014. The remaining shortfall in FY 2013-2014 will be covered in the second year of the two-year grant period. work2future intends to use leveraged resources to offset a portion of the shortfall of \$0.932 million in FY 2013-2014; any excess after satisfying SB 734 requirements will be re-directed to program services in FY 2013-2014.

WIA ADMINISTRATIVE BUDGET

work2future's Administrative Budget represents 10% of the total WIA formula funding allocation for AD, DW and Youth, equivalent to \$927,794 for Fiscal year 2012-13. The Administrative Budget funding consists of the following:

Personnel Cost 6.5 FTEs	\$625,623
City Attorney 0.7 FTE	171,063
Non-Personnel Cost	90,682
City Overhead @ 19.38%	40,426
Total Administrative Budget	\$927,794

work2future can only absorb \$40,426 of the projected City overhead costs of \$759,037. The unfunded portion will be part of the cumulative liability to the City of San Jose since FY 2010, now estimated at \$2,969,068. The City-allocated overhead costs have not been fully paid since FY 2010-2011, based on ongoing decreases in WIA funding, as well as WIA regulations that allow a maximum of 10% to be allocated to administrative costs. However, it is anticipated that with the proposed staffing reductions, work2future may be in a position in the future to absorb a significant portion of the City overhead costs, since personnel costs, the basis against which the City overhead rate is applied, would be significantly reduced. It is also worth mentioning that the City overhead rate for work2future in FY 2013-2014 changed from 28.98% to 19.38%, a 30% reduction from the FY 2012-2013 rate.

WIA RAPID RESPONSE FUNDING

Presently, the Rapid Response Budget is estimated at \$610,718. The estimated funding will fund: 1) personnel costs of \$490,630, representing 3.5 FTEs; and 2) a non-personnel budget of \$120,088. Since this is estimated funding, work2future will submit a final budget once the final Rapid Response allocation is received from EDD. It is possible that the actual Rapid Response Budget may include a portion for leveraged funding to partially offset SB 734's training expenditure requirements, in which case the FTEs for the Rapid Response program may be reduced from 3.5 to 2.

SPECIAL FUNDING

Aside from the WIA formula allocation, work2future has carryover funds from other funding sources in the amount of \$69,413 as follows:

- Small Business Administration (SBA) projected carry-over of \$31,650 to fund salaries and benefits for a part-time staff position until September 2013 to support the web-based permitting tool during its implementation stage. The web-based permitting tool was created and developed through the SBA grant to streamline the City's licensing and permitting process. The permitting tool will be live on the City's website in June 2013.
- Other miscellaneous grants from the private sector and projected carry over funding of \$37,763 to assist with BusinessOwnerSpace.com (BOS) website enhancement and other general purpose work2future activities.

Overall, work2future's combined Proposed Operating Budget for FY 2013-2014 is \$11,499,710, broken down by the following sources:

- a) WIA formula program funding of \$9,891,785;
- b) WIA Administrative funding of \$927,794;
- c) WIA Rapid Response estimated funding of \$610,718; and
- d) Special Funding of 69,413.

This budget represents a decrease of 29% as compared to the June 2012 Board-approved FY 2012-2013 Proposed Budget of \$16,113,814.

work2future obtained approval from the Board in March 2013 to shift the Training Budget pool fund between categories such as workshops, individual training accounts (ITAs), On-the-Job Training (OJT), etc., whenever client demands dictate. In addition, the work2future Board has approved staff to transfer funds between the Adult and Dislocated Worker programs as needed to accommodate changes in the numbers of clients being served by the two programs without having to return to the Board for approval. The work2future Board also approved staff's discretion to transfer funds between budget line items, so long as there is no change to the overall amounts for personnel and non-personnel, and provided that the requested budget transfer is still within the Board-approved Operating Budget.

COORDINATION

This memo has been coordinated with the Office of the City Attorney.

Joy Salandanan
work2future Finance Manager

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