SAN FRANCISCO
HUMAN SERVICES AGENCY

Department of Benefits
and Family Support

Department of Disability
and Aging Services

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London Breed
Mayor

Trent Rhorer
Executive Director

MEMORANDUM

TO:	Human Services Commission
THROUGH:	Trent Rhorer, Executive Director
FROM:	Daniel Kaplan, Deputy Director for Administration & Finance, Human Services Agency (HSA)
DATE:	February 15, 2024
SUBJECT:	Human Services Agency and Department of Benefits and Family Support Proposed Budget for FY 2024-25 & FY 2025-26

Through this memo, HSA presents to you the Fiscal Year (FY) 2024-25 and FY 2025-26 budget for the Department of Benefits and Family Support (BFS) and Human Services Agency (HSA) Administration for review and approval.

As in years past, HSA developed this budget according to principles previously described to the Human Services Commission. This year, the budget planning process has been additionally influenced by a forecasted citywide deficit of approximately $800 million across the upcoming biennium. Softening state revenues and reductions to county social services programs proposed in the Governor's budget further complicate HSA's efforts to meet existing demand for services.

HSA's FY 2024-25 and FY 2025-26 budgets respond to these challenges by adopting mid-year cost-saving tactics on an ongoing basis, proposing changes to "right-size" contracts to better match current service levels, and maximizing state and federal revenue. In this submission, HSA has addressed the challenges mentioned above. There are other potential challenges, like the Governor's proposed reduction in CalWORKs spending, which we will discuss in this memo, but not address in the HSA budget submission, because we believe they will be substantially mitigated in the remaining months of the state budget process. If further actions relating to state reductions are necessitated in the months ahead, we will of course apprise the Commission of those actions.

Overview - BFS and HSA Administration Budget for FY 2024-25 and FY 2025-26

HSA's proposed FY 2024-25 expenditures budget for BFS and HSA Administration of $717.4 million is $15.8 million, or 2.3% more than the FY 2023-24 budget of $701.6 million. HSA's revenues of $557.7 million in FY 2024-25, are $8.5 million, or 1.5% more than FY 2023-24 revenues of $549.2 million. General Fund support for BFS and HSA

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Administration of $159.7 million in FY 2024-25 is $7.3 million, or 4.8% more than the $152.4 million in FY 2023-24.

HSA is experiencing some growth in its funding allocations, particularly in CalFresh administration thanks to the state's recently revised funding methodology. Medi-Cal administration revenue and 1991 Realignment, meanwhile, are seeing mild increases. Much of the General Fund support growth is due to projected higher aid payments costs, as well as $2.6M of debt service which is part of HSA's financing plan for its move out of its 170 Otis headquarters.

Concerning expenditures, HSA has increased costs from cost-of-living adjustments (COLAs) for employee salaries, as well as the rising cost of fringe benefits. HSA's final budget submission will reflect COLAs arrived at through the collective bargaining process, which is taking place now. Other expenditure increase drivers are higher aid payments costs, and the addition of one-time budget to fund the relocation of staff from 170 Otis. These increases are partially offset by various expenditure reductions to other areas of HSA's budget.

HSA's proposed FY 2025-26 budget is largely the same as its proposed FY 2024-25 plan. On the expenditure side, it reflects CPI-driven COLAs in salaries and aid payments, projected cost increases in fringe benefits, and the removal of the one-time budget to relocate from 170 Otis. The projected revenues reflect continued increases in 1991 Realignment allotments, and changes that correspond with the growth in Aid payments.

<u>Mayoral Budget Instructions</u>

As noted at the January 25, 2024 commission meeting, the City's budget projections forecast an approximate $800 million deficit across FY 2024-25 and FY 2025-26. Widespread office vacancies are causing declined revenues in some of the City's largest tax sources, such as property, business and transfer taxes. Adding to these impacts are increased costs in salary and benefits for City staff, inflationary pressures of Citywide operating costs, and the City's commitment to fully fund its 10-year capital plan.

As a result, the Mayor has directed City departments to reduce their discretionary General Fund budgets by 10% in both FY 2024-25 and FY 2025-26, as well as propose a further 5% in ongoing contingency reductions for possible implementation. For HSA, this results in the following reduction targets:

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	FY 2024-25	FY 2025-26
Ongoing reduction 10%	$6,480,000	$6,480,000
Ongoing contingency reduction 5%	$3,240,000	$3,240,000

The Mayor also has directed all City departments to maintain the cost-saving, mid-year cuts implemented in the current year (FY 2023-24), as well as to forego adding any new positions. Extending HSA's mid-year cost-saving measures over the biennium effectively lowers HSA's actual reduction target to $3.1 million each year. However, HSA still must identify roughly $3.2 million per year in contingency reductions.

State deficit and local implications

Unlike previous years where HSA could leverage – at least to some extent – increased state and federal revenues to fund service enhancements, Governor Newsom's budget assumes a statewide deficit of $38 billion in FY 2024-25. The shortfall is largely driven by lower capital gains revenues and the delay of income tax collections during 2023. The Governor proposes to address this deficit by spending from state reserves and reducing expenditures. Under the Governor's proposed plan, social services programs would be impacted by the latter strategy, in both the current and upcoming fiscal years.

Most notably, the Governor's budget proposes a $217.8 million statewide reduction (13%) to the CalWORKs program and the complete reversion of funding for Family Stabilization and Expanded Subsidized Employment in the current and budget year. The Governor's budget further proposes "delays" of one-time funding that counties have used to expand housing supports for core clients served through the Bringing Families Home, Housing and Disability Advocacy, and Home Safe programs. In the area of Family and Children's Services (FCS), the Governor further proposed the elimination of funding for emergency counseling support—available through the Family Urgent Response System—to families and foster youth in crisis. It also proposes to eliminate funding for housing navigation services that guide emancipating foster youth on how to obtain and maintain residences of their own. These proposals, depending on how they are operationalized by the state, may lead to significant disruptions to services for clients and program operations. Over the next several months, HSA will monitor and plan for the magnitude of these state budget reductions.

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HSA/BFS Reduction Strategies

10% Reduction Target

Given this outlook, HSA broadly plans to implement a mix of revenue and expenditure adjustments that will meet both the Mayor's requested reduction targets, while preserving its ability to provide services that promote the health, safety, and economic self-sufficiency of the populations it serves, especially through times of economic uncertainty.

In the current year, HSA included as part of its mid-year cost savings solutions, $1.6 million in General Fund savings from increased salary and fringe attrition based on current hiring timeframes. This savings is assumed in the FY 2024-2025 budget on an ongoing basis.[1] Additionally, the Agency proposed a suspension of a Board addback for security around shelter-in-place hotels in the South of Market neighborhood ($150,000). In the upcoming biennium, HSA would suspend this item indefinitely.

To reach the remaining balance of the Mayor's 10% reduction target, the Agency proposes to achieve savings using the following four approaches:

- Right-size contract and service budgets in the areas of language translation; ancillary services and training for CalWORKs and Personal Assisted Employment Services clients; and consulting and report development. This proposal would more closely align budget levels with anticipated service demands. ($800,000 General Fund)
- Reduction to the Summer Work Experience Program for CalWORKs and Foster Youth – Funding for this program covers the recruitment, enrollment, pre-employment training, worksite placement, and subsidized employment of up to 120 youth on CalWORKs cases and 20 youth in the Foster Care system. This proposal would also right-size our work order with DCYF to achieve savings with minimal impact on clients ($200,000 General Fund).
- Recognize a revenue augmentation to support application processing for Resource Family Approvals and flexible family supports to promote more utilization of home based care, enabling the Agency to rely less on City General Fund support going forward ($700,000 General Fund).

[1] Attrition is the projected underspending in salary and fringe costs that occurs while Programs complete the recruitment process to backfill a vacancy. Increasing the Agency's attrition budget effectively lowers its need for General Fund to support personnel costs.

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Combined with solutions proposed by the Department of Disability and Aging Services (DAS), the solutions described above would enable the Agency to reach the Mayor's 10% reduction target of $6.48 million with minimal impact on clients.

5% Contingency Target

HSA's contingency savings plan will be more difficult to implement. To reach the Mayor's 5% contingency target, the Agency proposes a few targeted reductions to discretionary services with the goal of minimizing service impacts, although some disruption to clients is anticipated:

- *Discontinuation of the Homeless Employment Services program* – This program provides employment preparation, vocational training, and job placement services to individuals who have experienced or currently face the risk of homelessness (approximately 230 participants). The elimination of this program would achieve approximately $900,000 in General Fund savings.
- *Reduction to the Neighborhood Beautification program* - This employment development program provides short-term work experience opportunities in landscape and urban maintenance. This reduction would achieve approximately $300,000 in General Fund savings.
- *Working Families Credit* – Starting in FY 2019-20, the Working Families Credit program received a funding augmentation that enabled the program to remove the once-in-a-lifetime limitation and deliver a local tax credit of up to $250 to approximately 4,000 families who qualify for the Federal Earned Income Tax Credit. Under this proposal, the once in a lifetime limit would be re-instated; however, the credit would remain at $250 and serve approximately 2,000 families. This action would result in $500,000 in General Fund savings.

HSA proposes to submit the budget solutions described above, as well as additional items proposed by DAS, to fulfill the Mayor's request for contingency cuts that would reduce the agency's discretionary General Fund budget by 5%. The extent to which the Mayor will need to operationalize this contingency plan hinges on several variables, such as the outcome of labor negotiations with city workers (currently underway), updated revenue trends, and the state budget process.

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State Budget Contingency Planning

Combined, the Governor's Proposed budget would reduce funding for HSA by as much as $24.5 million, impacting CalWORKs, CDSS funded housing programs, and FCS services for foster youth. In preparation for the possibility that the state partially or wholly implements the Governor's proposals, HSA has begun preparing for scenarios in which the final state Budget is unfavorable to county social services programs. The status of those, as well as other state-funded programs, hinges on discussions at the state level, which may not get resolved until later this summer.

Under the worst-case scenarios, service impacts would be inevitable and extremely disruptive to clients, providers, and other parties. To guide the Agency's actions to align services with the possibility of severely reduced funding, it would prioritize basic needs (i.e. food, health, and housing) and mandated services. With those principles in mind, the Agency would need to prepare for deep budget reductions or the elimination of services in areas such as:

- *JobsNow for CalWORKs clients* – An array of workforce development programs that can offer over 1,000 placements across multiple programs, tailored to varying degrees of job-readiness. The loss of these services would also affect dozens of non-profits, small businesses, and government agencies that participate in providing work experience opportunities to these clients.
- *JobsNow for clients earning up to 300% of the federal poverty level (FPL)* – Subsidized employment to low-income individuals whose income makes it challenging to make ends meet in San Francisco, but is not low enough to qualify for other public benefits.
- *Discretionary ancillary services and supports* - This category includes a variety of support services provided to clients to keep them engaged and continuing on a path toward self-sufficiency. Reductions in this area could impact: retention services for CalWORKs families who exceed income eligibility thresholds, but continue to need support to successfully remain engaged in employment; self-sufficiency services to unaided family members in CalWORKs households; free diapers for low-income families enrolled in CalFresh and Medi-Cal, with children under the age of three.
- *Housing navigation services* – This service assists non minor dependents and former foster youth in navigating the housing search process. This includes assistance with applying for housing and funding opportunities, as well as negotiating lease terms with housing providers.

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- *Crisis intervention services* – These services involve 24/7 rapid response to youth and families experiencing crises that require immediate stabilization.

HSA recognizes that the absence of these services could result in clients not being able to sustain employment, and having to return to public assistance caseloads. The Agency will continue its advocacy efforts, monitor discussions at the state level, and keep staff and other stakeholders informed about the status of these proposals. As needed, once the final budget plan begins to take shape, we will inform key stakeholders regarding upcoming changes and seek input on executing them in a manner that prioritizes services that meet the basic needs for core agency clients.

Other Budget Changes

HSA Facility Planning

As part of a multi-year planning effort, HSA is pursuing various steps to relocate its operations at 170 Otis due to seismic deficiencies identified during an evaluation of the building in 2018. For over 40 years, HSA has operated core programs and functions from this location including FCS, CalWORKs, HSA's Facilities/Operations and its Executive Offices. The purchase of a building to replace 170 Otis is assumed in the City's Capital Plan, and the budget amounts assumed for FY 2024-2025 provide the funding necessary to initiate this project.

The FY 2024-25 proposed budget includes $7 million for relocation costs. In addition to the funding in HSA's proposed budget, this relocation project will be funded in part with $70 million in Certificates of Participation (COPS) to be issued by the City, and managed through the citywide Capital Planning process. Approximately $2.6 million is included in each year of the upcoming biennium for the associated debt service payments.

Position Actions

In addition to the above proposals, there are a number of substitutions of existing positions within the Department of Benefits and Family Support and Human Services Agency Administration. Some of these substitutions aim to bring positions in line with their current usage by the agency, while others correspond to organizational changes in service delivery and management. Details of these substitutions, along with internal reassignments of positions, are in the attached packet. The combined value of these changes is a nominal net savings that has no material impact on the Agency budget.

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Required Action and Recommendation

With this memo, HSA requests approval of the proposed FY 2024-25 and FY 2025-26 budgets for the Department of Benefits and Family Support and the Human Services Agency Administration.