SAN FRANCISCO
HUMAN SERVICES AGENCY

Department of Benefits
and Family Support

Department of Disability
and Aging Services

P.O. Box 7988
San Francisco, CA
94120-7988
www.SFHSA.org

Daniel Lurie
Mayor

Trent Rhorer
Executive Director

MEMORANDUM

TO:	Human Services Commission
THROUGH:	Trent Rhorer, Executive Director
FROM:	Daniel Kaplan, Deputy Director for Administration and Finance, Human Services Agency (HSA)
DATE:	February 11, 2025
SUBJECT:	Human Services Agency and Department of Benefits and Family Support Proposed Budget for FY 2025-26 & FY 2026-27

Through this memo, HSA presents to you the Fiscal Year (FY) 2025-26 and FY 2026-27 proposed budget for the Department of Benefits and Family Support (BFS) and the Human Services Agency (HSA) 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 $876 million across the upcoming biennium, as well as a hiring freeze mandate issued by the new Mayoral administration.

HSA's FY 2025-26 and FY 2026-27 budgets respond to these challenges by proposing changes to "right-size" grants/contracts to better match current service levels, scaling back programs that fall outside the core of HSA's organizational mission, and revising the Agency's hiring outlook. The Governor's proposed budget largely maintains revenues to HSA at existing levels. Of greater uncertainty are policy and funding impacts of the new Federal administration, which has expressed a desire to downsize the Federal government, as well as unfavorable views towards immigrant populations. If further actions relating to Federal changes are necessitated in the months ahead, we will of course apprise the Commission of those actions.

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Overview - BFS and HSA Administration Budget for FY 2025-26 and FY 2026-27

HSA's proposed FY 2025-26 expenditure budget for BFS and HSA Administration of $731.1 million is $9.2 million, or 1.3% more than the FY 2024-25 budget of $721.9 million. HSA's revenues of $567.7 million in FY 2025-26, are $12.3 million, or 2.2% more than FY 2024-25 revenues of $555.4 million. General Fund support for BFS and HSA Administration of $163.4 million in FY 2025-26 is $3.1 million, or 1.9% less than the $166.5 million in FY 2024-25.

HSA is experiencing growth in some of its funding allocations, mainly CalFresh administration, 1991 Realignment, and 2011 Realignment revenues. Medi-Cal revenues are projected to remain relatively flat for multiple fiscal years, and CalWORKs revenues will decline. HSA's General Fund support will decline in FY25-26, due to revenue growth exceeding increases in expenditures, and the proposed strategies to meet the Mayor's discretionary GF reduction target.

Concerning major changes in expenditures, HSA has increased costs from cost-of-living adjustments (COLAs) for employee salaries, rising cost of fringe benefits, the start of debt service repayments to finance the purchase of a site in the Bay View, and other cost increases for general services performed by various city departments on the Agency's behalf.

HSA's proposed FY 2026-27 budget is largely the same as its proposed FY 2025-26 plan. On the expenditure side, it reflects CPI-driven COLAs in salaries and aid payments, projected cost increases in fringe benefits and Cost of Doing Business (CODB) increases for CBO grants. The projected revenues reflect continued increases in 1991 Realignment allotments, and changes that correspond with the growth in Aid payments.

Mayoral Budget Instructions

As noted at the January 23, 2025 commission meeting, the City's budget projections forecast an approximate $876 million deficit across FY 2025-26 and FY 2026-27. Local revenues are projected to grow more slowly than in previous projections due to: a shift in timing for business tax collection as part of voter-approved Prop M, slower property tax recovery, and the continued sluggishness in the City's hospitality sector. These are coupled with increased costs in salary and benefits for City staff, inflationary pressures on many Citywide operating costs related to contracts, leases,

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materials and supplies, and provision of services through the City's network of community-based organizations, plus required contributions to City baselines for transportation and education, among others.

As a result, the Mayor's Office has directed all City departments to permanently reduce their discretionary General Fund budgets by 15 percent, starting in FY 2025-26. For the Human Services Agency, including both departments and its administrative division, this results in an ongoing budget reduction target in each fiscal year as follows:

	FY 2025-26	FY 2026-27
Ongoing reduction 15%	$8,200,000	$8,200,000

The Mayor also directed all City departments to freeze hiring as of January 2025. Exceptions to this freeze are being made on a case-by-case basis, with priority being given to frontline staff, and positions that have been historically challenging to fill.

State Impacts

The Governor's Proposed Budget is balanced and does not currently forecast a recession; however, it anticipates shortfalls in subsequent years driven by expenditures exceeding revenues. It also recognizes several risks that could negatively impact the state's economy and revenues, including stock market volatility, geopolitical instability, and federal policy changes. Meaningful adjustments to the State budget are expected in the May Revision, which will likely incorporate cost impacts of the catastrophic January fires in Southern California, as well as accompanying tax filing delays for Californians affected by the fires. Updates in the budget assumptions, where needed, will be reflected in the Governor's revised budget released in May.

The Governor's budget also maintains its wind-down of CDSS-funded housing supports through the Bringing Families Home (BFH), CalWORKs Housing Support (HSP), Housing and Disability Advocacy (HDAP), and Home Safe programs. Of these four programs that have received augmented funding over the past several fiscal years, only HSP and HDAP will continue to have ongoing funding in FY 2025-26 onwards, while BFH and Home Safe will become entirely phased out. HSA has long been aware of this wind-

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down to these programs, however, and is planning accordingly for this fiscal reality.

Over the next several months, we will continue to analyze and monitor the State budget for impacts, and keep the Commission updated as we learn more details.

HSA/BFS Reduction Strategies

15% Reduction Target

Given this outlook, HSA broadly plans to implement a mix of 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. To reach the Mayor's 15% reduction target, the Agency proposes to achieve savings using the following three approaches:

- Right-sizing contract and service budgets in various Administration and BFS program areas, to bring budgets in line with historical spending levels ($1M)
- Program redesign, reduction or elimination when investments and services no longer meet programmatic objectives or are no longer necessary ($3M)
- Maximize new state funding for existing services, enabling the Agency to rely less on City General Fund going forward ($2.2M)

Over the next several months, HSA will take steps to implement these approaches to achieve the estimated savings per category and will report back to the Commission at a subsequent meeting with details on the areas impacted before the Mayor's proposed budget is submitted to the Board.

Combined with solutions proposed by the Department of Disability and Aging Services (DAS), the solutions described here would enable the Agency to reach the Mayor's 15% reduction target of $8.2 million.

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 and 1235 Mission due to seismic

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deficiencies identified during evaluations of these buildings. For over 40 years, HSA has operated core programs and functions from these locations including FCS, CAAP, 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 amount assumed for FY 2025-2026 and FY2026-2027 provides the funding necessary to initiate the debt repayment associated with this project.

Maintaining hiring momentum

Over the past few years, the Agency has increased resources dedicated to recruitment and outreach efforts, by participating in hiring fairs both virtual and in-person, leveraging Citywide procedural modifications to streamline the hiring process wherever possible, and amplifying the frequency of communication and information exchange between HR staff and hiring managers. These and other efforts have helped bring HSA's vacancy rate down to 11.6% today compared with 15% from one year ago.

Prior years budgets reflected an assumption that a ramp up of hiring would take time and assumed natural underspending that occurs while Programs complete the recruitment process to backfill a vacancy (also referred to as salary attrition). Given the progress the Agency has achieved in lowering its vacancy rate and desire to continue the momentum in addressing workload pressures, the Agency proposes to reduce the assumed amount of underspending. The proposed budget includes $2.8 million in salary attrition adjustments, which would provide additional funding to cover personnel costs for the number of positions expected at year end. The impact of this increase will be offset by state and federal revenues largely made possible by the recent ramp up in Economic Support and Self Sufficiency programs.

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 have 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 2025-26 and FY 2026-27 budgets for the Department of Benefits and Family Support and the Human Services Agency Administration.