**City and County of San Francisco**

***London Breed, Mayor***

**Human Services Agency**

**Department of Human Services**
**Department of Disability and Aging Services**
**Office of Early Care and Education**

***Trent Rhorer, Executive Director***

# MEMORANDUM

| | |
|---|---|
| TO: | Human Services Commission<br>Disability and Aging Services (DAS) Commission |
| THROUGH: | Trent Rhorer, Human Services Agency (HSA) Executive Director<br>Shireen McSpadden, DAS Executive Director |
| FROM: | Daniel Kaplan, HSA Deputy Director of Finance and Administration |
| DATE: | June 8, 2020 |
| SUBJECT: | New Proposed HSA Budget for FY 2020-21 & FY 2021-22 |

Due to the unprecedented impact of the COVID-19 public health emergency, the City's budget deficit for the current year, and upcoming two-year budget cycle, has grown to over $1.7 billion. Declining tax revenues have produced projected City budgetary shortfalls of $246 million in FY 2019-20, $754 million in FY 2020-21 and $735 million in FY 2021-22, even before addressing a sudden spike in response-related costs. In light of these quick and dramatic changes to the City's financial position, the Mayor's Office has asked for all departments to resubmit their budget proposals, reducing discretionary General Fund budgets by 10% in FY 2020-21 and 15% in FY 2021-22.

For the Human Services Agency (HSA), this results in an ongoing, budget reduction target in each fiscal year as follows:

| | **FY 2020-21 (10% GF)** | **FY 2021-22 (15% GF)** |
|---|---|---|
| Ongoing Reduction | $6,286,341 | $9,429,512 |

In February, HSA submitted a proposed budget for the next two fiscal years, which included General Fund reductions of $2.2 million (3.5%) in FY 2020-21 and $4.4 million (7.0%) in FY 2021-22. We met these General Fund reductions with increased revenues. The further, ongoing General Fund reductions the agency must now make to its proposal are: $4.1 million in FY 2020-21 and $5.0 million in FY 2021-22. Because of uncertainty regarding both the length of the public health emergency, as well as its financial severity, departments are additionally required to provide contingency proposals that reduce General Fund support by 5% in FY 2021-22.

In order to allow time for the rebalancing, the City will operate under an interim budget from July 1 to September 30, and then a new, rebalanced budget beginning October 1. Furthermore, the Mayor's Office has asked that departments refrain from hiring any new staff except for direct emergency-response and essential workforce, pause all nonessential capital projects, halt the issuance of new Requests for Proposals (RFPs), and forgo launching any new programs during this interim period.

## State Budget Impacts

Governor Newsom's May revision to the State budget is also a much changed proposal from that introduced in January and similarly reflects the impacts of emergency response efforts and of a sudden, significant economic downturn. Sizable reductions in projected revenues for 1991 and 2011 Realignment, both of which are tied to state sales tax and vehicle-licensing fees, may have ramifications for HSA, as they constitute a significant proportion of the Agency's overall budget. The Agency proposes to work with the Mayor's Budget Office to offset these losses with additional General Fund dollars and to continue advocacy with the State to provide some financial relief to counties. The recent budget proposed by the Senate and Assembly would partially offset these losses.

The State is also projecting large caseload increases for CalWORKs and CalFresh, while caseloads in Foster Care, In-Home Supportive Services (IHSS) and for Supplemental Security Income (SSI) remain relatively flat. Medi-Cal is expected to see some more modest growth. In balancing the State budget, most inflationary increases and some new proposed programs across the social services spectrum have been eliminated.

Based on the Governor's proposed budget in early January, HSA had anticipated increases to its State allocations for Medi-Cal (+$1.8 million) and IHSS Administration (+$0.7 million). These increases in Medi-Cal and IHSS are no longer included in the proposed budget. The Governor did, however, include new funding for the significant growth for CalWORKs (+$7 million) and CalFresh (+$2.2 million) to support the projected caseload growth. Recent actions by the Senate and Assembly would further increase San Francisco's anticipated CalWORKs funding (+$5.3 million).

## HSA Budget Balancing Approach

These significant shifts in the local and State budget context come at the same time as we face significant shifts in our work. As a safety net agency, the need for our services only increases in a time of emergency and economic distress. Therefore, it is imperative that we work to re-balance our budget while preserving services to clients and ensuring we have the support to meet the increased needs.

In order to meet the revised reduction targets as outlined by the Mayor, HSA intends to make the following adjustments:

- Remove new position substitutions and other enhancements, including State-funded expansions for Medi-Cal outreach and foster youth housing that have been withdrawn in the State budget.
- Consolidate staff into the new space at 1650 Mission and give up leases at several smaller HSA outposts, allowing for us to save funds on leases, and reflect savings from renegotiated leases.
- Redeploy and partially spend down one-time balances in continuing projects and funds. HSA has a number of special funds and multi-year projects. Many of these have accumulated some savings in recent years as a good economy had reduced needs in some areas or where expansions of new work have resulted in some underspending as programs were ramped up. We propose to use some of these savings to maintain service and funding levels while reducing the need for additional funds or to program them to meet new, short-term needs resulting from the pandemic.

- Balance the reduced State revenues in IHSS and Medi-Cal with some of the proposed growth in the CalWORKs and CalFresh administrative allocations. This will still allow for some proposed growth in those programs in line with anticipated need.
- Make additional targeted reductions in FCS. FCS was already facing significant projected shortfalls in the next few years. The drop in 2011 Realignment revenue will further exacerbate the problem, so FCS will begin to make additional reductions to bring their budget in line with the current and projected revenue declines.
- Budget some additional close-out revenues. These are revenues tied to our expenditures and claims to the State for the FY 18-19 fiscal year. They come in 18 months after the end of the year, once all counties across the State have had the opportunity to finalize their claims. If there is unspent State funding from some counties after claims are completed, counties that had additional eligible expenses receive a share of the unspent State funds. Since February, more information about FY18-19 spending has become available and there is another $2.7 million in anticipated, one-time revenues in FY 20-21 to budget.

| | **FY20-21**<br>**+ = Cost / Losses**<br>**- = Savings / Revenues** | **FY21-22**<br>**+ = Cost / Losses**<br>**- = Savings / Revenues** |
|---|---|---|
| **MBO Target** | | |
| General Fund Reduction Target (amount above February submission) | 4.09 | 5.03 |
| **Revenue Reductions since February** | | |
| Medi-Cal Administrative Revenues | 1.83 | 1.83 |
| IHSS Administrative Revenues | 0.58 | 0.58 |
| Projected Growth in 2011 Realignment | 4.24 | 5.24 |
| **Expenditure Reductions** | | |
| Remove proposed substitutions | (0.37) | (0.38) |
| Lease Savings | (0.70) | (0.29) |
| Spend out in DAS Projects / Continuing Funds: SF Connected and Dignity Fund | (2.67) | - |
| Spend out in DHS Projects - IPO | (1.13) | (1.13) |
| Spend out in HSA Admin. – CalWIN Project | (1.00) | (1.00) |
| Spend out in DHS – Children’s Trust Fund | (0.25) | - |
| Targeted reductions in FCS | (1.35) | (2.00) |
| **New Revenues** | | |
| CalWORKs Admin / Employment Services | (8.53) | (8.53) |
| CalWORKs Stage One | (3.80) | (3.80) |
| CalFresh Admin | (2.22) | (2.22) |
| Additional Closeout Revenues | (2.70) | (2.60) |
| **New Costs for Expanded Services** | | |
| CalWORKs Admin / Employment Services | 5.30 | 5.20 |
| CalWORKs Stage One | 3.80 | 3.80 |
| CalFresh Admin | 2.22 | 0.28 |
| DAS Emergency Response Efforts | 2.67 | - |
| **Total Deficit/(Surplus)** | **0.00** | **0.00** |

The Agency will redouble efforts to leverage Federal and State revenues, looking to maximize revenue opportunities wherever possible within existing programs. HSA will also seek to adapt service delivery models to current conditions while continuing to provide critical assistance to those in need.

**Department of Human Services (DHS)**

**Economic Support and Self-Sufficiency**

The severe economic downturn will cause more San Franciscans to apply for aid programs in the coming fiscal year, and the State predicts notably increased demand for CalWORKs and CalFresh. On top of processing new applications, ESSS eligibility workers will also face a backlog of renewal and recertification tasks that had been temporarily suspended during the COVID-19 emergency period. HSA intends to prepare for this by recalibrating its County Adult Assistance Program (CAAP) and CalWORKs aid budgets to the expected caseloads, and budgeting more overtime pay for its ESSS eligibility staff during the months in which they address the delayed renewals.

Towards further improving or restoring clients' self-sufficiency, HSA's Workforce Development Division (WDD) will expand and reconfigure its employment services budget to offer more subsidized employment opportunities to clients across all ESSS aid programs. WDD will prioritize pairing clients with Bay Area private employers and non-profits, who will receive up to 6 months' partial reimbursement from WDD of that employee's wage costs. By expanding its wage subsidy offerings, HSA expects to not only better serve a growing client population of job-ready individuals, but also revitalize the City's business sector that has been hit hard by the shelter-in-place.

The budget also assumes that IPO (Interrupt, Predict, Organize) Project, which provides subsidized employment to justice-system involved youth and young adults, will absorb $2.3 million in reductions to spend down funds resulting from under-enrollment in recent years.

The State has partially rescinded funding for the Medi-Cal Navigator program; the program is reexamining how to restructure these new outreach services, which were planned for a combination of new City and CBO staff, in light of the reduced funding.

**Family and Children's Services (FCS)**

In order to mitigate the loss of 2011 Realignment and continue to plan for the decline in Title IV-E revenues, FCS plans to take a close look at all contracts and implement reductions in line with current usage or based on assessment of efficacy. In addition, FCS also plans to utilize a one-time fund balance in the Children's Trust Fund to further generate savings in the fiscal year.

The State has rescinded funding for the Housing Navigator program which will result in a loss of an estimated $350,000 in funding.  These funds had not yet been programmed so no service disruptions are anticipated.

**Department of Disability and Aging Services (DAS)**

Due to both the sudden economic downturn, as well as the delayed schedule in developing and approving the City's budget for the next two fiscal years, a $1 gross hourly wage increase scheduled to go into effect on July 1 for In-Home Supportive Services (IHSS) providers has been paused. It is unclear if the City will appropriate funds for this increase in October and allow it move forward later in the fiscal year, but the immediate effect is a reduction in HSA's IHSS Maintenance of Effort (MOE) cost in FY 2020-21.

Annual growth in the Dignity Fund of $3 million per year is contingent upon the City's deficit projection for the upcoming fiscal year not exceeding an annually-adjusted threshold. For FY 2020-21, that trigger amount was $261 million, which the City's updated projection exceeds almost threefold. Therefore, the Mayor's Budget projections assume that the $3 million in Dignity Fund growth for FY 2020-21 will not be appropriated. This will curtail the department's ability to expand or implement new programming next fiscal year.

Because of a dramatic increase in nutrition-related expenditures, the Office of Community Partnerships (OCP) in DAS will be spending down one-time fund balances and may be shifting funds within its portfolio of contracts to meet demand. To do this, OCP will move some budget from programs which, due to current conditions, are either unable to perform—or only able to do so at reduced levels—primarily into delivery of nutrition-related services. The OCP will also work with its many Community Based Organization partners to foster programmatic adaptations which employ creative solutions—technology-related and otherwise—to deliver services safely given the changed environment. For the SF Connected Program, there is $0.1 million available, while for Dignity Fund-eligible services there will be $2.5 million.

**Office of Early Care and Education**

OECE is focused on preserving system capacity by keeping providers operating and preserving quality classroom experiences for as many children as possible. Current public health guidance for child care providers – which is expected to remain in place for much or all of the next fiscal year – significantly reduces the capacity at child care centers in order to keep groups small and minimize the number of people children and teachers interact with. This guidance will increase the costs providers face and require a variety of creative solutions.

At the same time, OECE is facing a drop in the Public Education Enrichment Fund (PEEF), which is funded by a share of General Fund tax revenues, of $7.0 million revenue relative to the February submission. To offset this shortfall, OECE will also be proposing to reduce some contracts that underspend or do not directly provide child care in order to focus its more limited resources on direct services. Given that this crisis has strained the early care and education system, OECE will prioritize funding to maintain its infrastructure and prevent the permanent closure of child care centers and the loss of providers. System capacity—the number of child care slots available to low-income households—must be preserved. OECE will also to adjust its reimbursement model and spend down continuing fund balances in PEEF to meet these goals through the crisis.

In the State's FY2020-21 budget, the CalWORKs Stage 1 allocation increased by $3.7 M to support the child care needs of families it anticipates enrolling in the program. OECE will use this for anticipated Stage 1 caseload growth.

**HSA Administration**

The Administration division is also reexamining its expenditure budget in light of guidance from the Department of Public Health and the City Administrator's Office that departments plan to continue to maximize telecommuting throughout the next fiscal year while still providing critical public services. To protect our workforce and prevent the spread of the novel coronavirus (COVID-19) in our communities, an estimated 80% of HSA's staff will telecommute and work remotely through FY 2020-21. We will provide our remote employees with equipment for their homes and the tools they need to communicate, collaborate, and effectively serve the public. For those who cannot telecommute and must be in the field, we are providing personal protective equipment (PPE) so they and our clients can remain safe.

As a result we have reworked our materials and supplies budget, prioritizing PPE and need telecommute equipment. We have also increased our software licensing budget cover the new remote work needs. This increase has been offset by reductions in our employee travel and off-site training budgets, as employees will also not be asked to do optional travel or conferences during this time.

In addition, since our February budget submission, HSA and the Department of Real Estate have successfully renegotiated several leases resulting in significant cost savings as the market for office space changes. Additionally, the Agency plans to use the new space at 1650 Mission to consolidate staff and give up approximately 32,000 square feet of office space, since many staff will not be in the office. Thus, our revised two-year budget submission will realize a nearly $1 M General Fund support reduction for space costs.

| | | FY 2020-21 | | FY 2021-22 | |
|---|---|---|---|---|---|
| **Lease (Savings) / Increases** | **Sq.Ft. Change** | **All Funds** | **General Fund** | **All Funds** | **General Fund** |
| 160 South Van Ness | (16,958) | (129,867) | (94,803) | - | - |
| 1360 Mission | (15,000) | (664,386) | (485,002) | (228,359) | (166,702) |
| 3120 Mission | - | (246,515) | (179,956) | (253,910) | (185,355) |
| 2 Gough | - | 87,798 | 64,093 | 90,432 | 66,015 |
| **Total** | **(31,958)** | **(952,970)** | **(695,668)** | **(391,838)** | **(286,042)** |

## Timeline and Next Steps

Departments must resubmit their revised budgets to the Mayor's Office by June 12. The Department will then continue to work with the Mayor's Office to develop a budget for ongoing emergency response efforts and to come into balance.

The Mayor's balanced budget proposal is then due to the Board of Supervisors (BOS) on August 1. The BOS Budget and Finance Committee will hold its hearings during August, with the Mayor signing a new budget into law on October 1.