SAN FRANCISCO HUMAN SERVICES AGENCY
Department of Disability and Aging Services

MEMORANDUM

To:	**Department of Disability and Aging Services (DAS) Commission**
Through:	**Kelly Dearman, DAS Executive Director**
From:	**Daniel Kaplan, Deputy Director for Administration and Finance, Human Services Agency (HSA)**
Date:	**February 7, 2024**
Subject:	**Disability and Aging Services Budget for FY 2024-25 & FY 2025-26**

Through this memo, we present for your review and approval the Department of Disability and Aging Services budget proposals for FY 2024-25 and FY 2025-26.

As in years past, DAS developed this budget according to principles previously described to both the DAS Commission and the Human Services Commission. This year, the budget planning process additionally has been 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 by the Governor's budget further complicate HSA and DAS's efforts to meet existing demand for services.

DAS's FY 2024-25 and FY 2025-26 budgets respond to these challenges by shifting underutilized resources so that services may better withstand economic uncertainties in both the near- and long-terms. DAS proposes to adopt midyear cost-saving tactics on an ongoing basis, as well as to right-size contracts to better match current service levels. DAS is also preparing for potential setbacks, such as the likely loss of Dignity Fund growth in both years of the biennium. Despite these attempts to achieve savings without impacting services, the magnitude of the deficit, which the City is facing, will introduce difficult choices. A set of deeper potential cuts comprise DAS's contingency savings plan.

The Department has not made any final programmatic decisions at this stage. In the months ahead, DAS will be working closely with community partners, agency leadership, and the Mayor's budget team to develop a proposal that is still responsive to the needs and priorities of older adults, people with disabilities, and veterans.

DAS Budget for FY 2024-25 and FY 2025-26

Overview

DAS is proposing a $510.6 million expenditure budget for FY 2024-25. This amount represents a $21.1 million, or 4%, increase over the Department's FY 2023-24 original budget of $489.5 million. The Department is projecting $317 million in revenues for FY 2024-25 – a $5 million, or 1.6%, increase over the $312 million in revenues in DAS's FY 2023-24 original budget.

As compared to its FY 2023-24 original budget, DAS's current proposal anticipates a $13.5 million increase in Aid payments, a $5 million increase in expenditures through contracts with community-based providers, and a $2.4M increase in salary and fringe benefits.

DAS's proposed budget for FY 2025-26 is similar to its proposal for FY 2024-25. Differences consist of increases to the IHSS Maintenance of Effort and to DAS salary and fringe benefit costs. The FY 2025-26 budget also assumes that $3 million in Dignity Fund growth will not be included, whereas an increase is embedded, for now, in its FY 2024-25 budget.[1]

DAS works diligently to maintain critical client aid and services. Altogether, this budget proposal aims to minimize service impacts by prioritizing core functions, maximizing revenue opportunities through either the pursuit or preservation of outside funding, and supporting initiatives identified by the Mayor, including:

- Improving public safety and street conditions
- Reducing homelessness and transforming mental health service delivery
- Supporting the City's economic recovery and vitality
- Delivering on accountability and equity in city spending

Mayoral budget instructions

Current city estimates project a $244.7 million deficit in FY 2024-25, a $554.5 million deficit in FY 2025-26, and increasing deficits in the years thereafter. In response, the Mayor's Office has directed all city departments to reduce discretionary General Fund budgets by 10% in FY 2024-25 and FY 2025-26, as well as to propose 5% in ongoing contingency reductions for possible implementation. For the Human Services Agency – including both departments and HSA's administrative infrastructure divisions – the ongoing budget reduction targets in each fiscal year are as follows:

	FY 2023-24 Original	FY 2024-25 Proposed
Ongoing reduction: 10%	$ 6,480,000	$ 6,480,000
Ongoing contingency reduction: 5%	$ 3,240,000	$ 3,248,000

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

[1] The Dignity Fund growth estimates reflected in DAS's two-year budget are based on the City's current deficit projection. This projection, released in December, is modestly below the threshold that would suspend growth in FY 2024-25 and significantly exceeds the threshold in FY 2025-26. The final determination on FY 2024-25 growth, however, will occur based on updated projections in the March 2024 Joint Report.

actual reduction target to $3.1 million in each year. However, HSA still must identify roughly $3.2 million per year in contingency reductions.

State deficits and their local implications

Unlike previous years where HSA could leverage – at least to some extent – increased state and federal revenues, 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. Social services programs will 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. 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.

DAS reduction strategies

Given this outlook, DAS, like HSA more 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 independence of the populations it serves, especially through times of economic uncertainty.

DAS's budget proposal for FY 2024-25 and FY 2025-26 shifts resources to integrate mid-year cost reductions on an ongoing basis, adjusts contract budgets to better align with program strengths and capacity, and prepares for worsening financial projections by planning for the possible implementation of its contingency reductions.

Ongoing adoption of mid-year cost savings measures

In the current year, DAS received an increase in its state IHSS Administration allocation ($1.1 million). In FY 2024-25 and FY 2025-26, the DAS budget reflects this revenue on an ongoing basis, enabling the Department to rely less on city General Fund going forward.

On the expenditure side, DAS contributed towards HSA's FY 2023-24 mid-year reduction targets by pausing its plans to launch several new services funded by ongoing Board of Supervisors addbacks attached late in the FY 2023-24 and FY2024-25 budget process ($260,000). In the upcoming biennium, DAS would suspend these items indefinitely.

Additionally, HSA included $1.9 million in General Fund savings from increased salary and fringe attrition as part of its mid-year cost savings solutions, which is assumed in the FY2024-25 and FY2025-26 budgets on an ongoing basis.[2] The proportional share of this reduction attributed to DAS programs is approximately $360,000 (General Fund).

Other budget solutions: contract rightsizing and revenue increase

DAS proposes to achieve $1.1 million in ongoing efficiencies in its community services budget, beginning in FY 2024-25, using two main approaches. The Office of Community Partnerships would work with its community partners to right-size contracts based on historical underspending to better reflect organizational capacity and ability to deliver services. DAS also would support community-based providers who have expressed interest in modifying and/or winding down programs that no longer align with organizational strengths or objectives. The specific shape of these adjustments will be the subject of ongoing conversations with clients, community partners, and the Mayor's Budget Office over the next few months.

In FY 2024-25 and FY 2025-26, DAS further proposes to increase its revenue budget for Public Administrator (PA) and Public Guardian (PG) fees to align the amount with recent trends. Doing so would reduce the amount of General Fund needed to support the related programs, thus resulting in savings of $400,000. This revenue increase is attributed to the thorough accounting and processing of requests submitted to the court by the PA/PG legal team, and the increase is predicated on recent trends.

Contingency planning

HSA's 5% contingency savings plan will be harder to implement. This set of reductions is likely to force difficult choices that will lead to adverse service-level impacts on older adults, people with disabilities, and veterans.

At this time, DAS's budget proposal for FY 2024-25 tentatively includes the annual $3 million in Dignity Fund growth mandated by the San Francisco Charter. However, the City may forgo this appropriation should its projected budget deficit for the upcoming year exceed the established threshold of $252.5 million. The status of this growth will hinge on the budget deficit projected in the March 2024 Joint Report. DAS anticipates, however, that the FY 2024-25 budget will not include the additional $3 million new appropriation given current revenue trends.

DAS has begun preparing for scenarios in which city financial projections trigger the loss of the annual $3 million contribution to the Dignity Fund base. If the Fund's growth is paused, DAS would redirect resources within its existing budget to finance cost of doing business (CODB) increases to DAS contracts supported by the Fund in an amount equal to 3% (at present, $1.7 million) of the Dignity Fund base. The resources identified to address this issue will be presented to the Mayor as part of HSA's 5% contingency reduction plan.

---

[2] Attrition is the projected underspending in salary and fringe costs that derives from vacant positions. Increasing the Agency's attrition budget effectively lowers its need for General Fund to support personnel costs.

The extent to which DAS will need to operationalize its contingency plan hinges on several variables, such as the outcome of labor negotiations with city workers (currently underway) and the state budget process. As these items play out in the months ahead, DAS will make every effort to help the Mayor develop a strategy that minimizes impacts on clients, providers, and its workforce to the fullest extent possible, while remaining responsive to the priorities identified in the most recent Dignity Fund Community Needs Assessment and Services and Allocation Plan.

Budget Proposals and Enhancements

IHSS Maintenance of Effort

HSA projects the IHSS Maintenance of Effort (MOE) cost will increase by $13.3 million in FY 2024-25, and by an additional $16.8 million in FY 2025-26, for a cumulative increase of $30.1 million, relative to the projected FY 2023-24 MOE. The IHSS MOE represents the local share of IHSS program costs. Cost growth is attributable to: a) required 4% inflation on the MOE; b) negotiated wage increases and estimated cost increases for health benefits for IHSS providers; and c) increases in the hourly rate paid for contract-mode services.

Dignity Fund

If the March 2024 Joint Report projects a FY 2024-25 deficit below $252.5 million and the City does transfer $3 million to grow the Dignity Fund base, $1.7 million of that growth allocation would fund the aforementioned CODB increases. The remainder of the new allocation would be invested in services in DAS's 'Group B' category within the Dignity Fund four-year funding cycle. Programs in Group B include Access and Empowerment, Caregiver Support, and Housing Support programs.

Decisions regarding those distributions would be made by DAS as guided by the latest Community Needs Assessment and Service and Allocation Plan, and in conjunction with the Dignity Fund Oversight and Advisory Committee.

Preparing for SB43

In October 2023, Governor Newsom signed Senate Bill 43 (SB43), which expands the definition of grave disability – the legal basis for establishing mental health conservatorships – to include those living with severe substance use disorder and those unable to provide for their own personal safety and/or medical care. This change will enable local governments to begin utilizing Lanterman-Petris-Short (LPS) conservatorship as a means to stabilize and provide compulsory wraparound care and treatment to individuals most at risk of fatal overdoses and self-harm. More than 50% of San Francisco's unhoused residents self-reported having substance use challenges; in recent years, untreated substance use disorder and mental illness have had profound impacts on health and safety in the City.

While serving the expanded population specified in SB43 will necessitate a multi-departmental, collaborative approach, it is anticipated that workloads will increase in both DAS's Benefits and Resources Hub (DAS Hub) at 2 Gough, as well as in the Office of the Public Conservator. Please note that while not all new referrals will ultimately result in conservatorship, they will all nevertheless require screening/tracking, which will place increased demands on extant DAS resources; the Department has already received more than 140 referrals as of this writing.

While specifics around the precise mix of staffing required to successfully implement SB43 continue to be under development, the Department's initial assessment calls for establishing a specialized, four-member unit of protective services workers in the Public Conservator division, as well as assigning one new social worker to the BRH team at 2 Gough in order to facilitate referrals specifically tied to SB43. Additionally, DAS will likely incur increased costs for conservatorship-related transportation, as well as for required enhancements to its IT system for client tracking/management.

This set of resources is expected to have a one-time cost of roughly $1 million in the first year, with an ongoing cost of $760,000 per year thereafter. Since the Mayor's Office has asked HSA to absorb these anticipated new costs, as well as to refrain from growing its staff, the Agency will need to repurpose vacant positions and redirect personnel dollars in order to implement SB43.

Other planned services

DAS's FY 2024-25 and FY 2025-26 budgets include funding for initiatives closely aligned with the Mayor's priority to reduce homelessness and transform mental health service delivery, and the Department's priority to maximize revenue opportunities with state and federal partners, including:

- $425,000 in each year for the development and operation of a new Residential Care Facility for the Elderly (RCFE) in San Francisco Supervisorial District 1. This budget provides the necessary funding to complement a $4.1 million capital grant secured through the Mayor's Office of Housing and Community Development
- Outreach to MediCal eligible San Francisco Health Plan members who qualify for CalAIM Enhanced Care Management (ECM), for which the Department is monitoring revenue earnings potential that may present a possible budget solution in a future year
- Pilot projects supporting behavioral health needs of participants at DAS Community Service Centers

Position actions

In its FY 2024-25 and FY 2025-26 budgets, DAS proposes to reassign 10 positions in order to accurately reflect in which division work is performed. In this budget, these actions are cost neutral shifts within DAS divisions.

Required action and recommendation

With this memo, we request approval of the proposed FY 2024-25 and FY 2025-26 budgets for the Department of Disability and Aging Services.