



Memorandum

To: Human Services Commission
Through: Trent Rhorer, Executive Director
From: Daniel Kaplan, Deputy Director for Administration and Finance, Human Services Agency (HSA)
Date: January 22, 2026
Subject: Human Services Agency and Department of Benefits and Family Support Budget for FY 2026-27 & FY 2027-28

In accordance with the City's Administrative Code, each year the Human Services Agency presents to the Human Services Commission two updates on the budget process for the upcoming biennium: one in January and another in February. In the present January memo, HSA provides context regarding the economic climate at the local, federal, and state levels; a summary of the Mayor's budget instructions and priorities; and highlights of program accomplishments and upcoming challenges.

Local Fiscal Climate and Budget Instructions

The City's financial projections for the next two fiscal years suggest expenditure growth well in excess of local revenues, leading to significant budgetary shortfalls in both the near- and long-terms. A combined deficit of \$936 million is anticipated in the upcoming biennium, composed of a roughly \$296 million shortfall in FY 2026-27 and a further \$640 million gap in FY 2027-28. Conditions only worsen thereafter with an estimated deficit of a little less than \$1.2 billion by FY 2029-30.

Although local tax proceeds – particularly from business taxes – are projected to come in higher than previously expected, the City's rate of expenditure growth far outpaces revenue inflows to the General Fund. The primary drivers of increased costs include salary and fringe benefits for City staff, required contributions to City baselines, and inflationary pressures on Citywide operating costs related to contracts, leases, materials and supplies, and grants to community-based organizations (CBOs).

Additionally, the City expects a loss of roughly \$300 million in revenue due to the federal H.R. 1 bill over the next two years, driven by both administrative cost shifts and eligibility policy changes. The City's financial projections also rely on General Fund balance in the second year of the biennium in order to smooth the multi-year deficit. There is, furthermore, considerable risk to the city's economy in the near-term owing to volatility in federal policy and funding as well as financial shortfalls at the state level.





As a result, the Mayor's Office is seeking \$400 million in ongoing Citywide savings starting in FY 2026-27. Unlike previous years, the Mayor's Budget Office (MBO) has not mandated a specific percentage by which departments must cut spending in order to achieve this goal. Instead, it has instructed departments to reorient spending toward 2026 priority core services, continue to reduce structural deficits wherever possible, and invest in long-term operational efficiencies.

Strategies specifically outlined in the MBO's budget guidance include:

- Eliminating discretionary programs
- Restructuring departments around current staffing levels
- Reducing Citywide interdepartmental services costs and/or overhead
- Shifting duplicative or common services toward a centralized model
- Identifying technology and procurement savings
- Reviewing grants and contracts for measurable outcomes and financial efficiency
- Proposing near-term investments for long-term cost savings.

In addition to these priorities within the budget-making context, the MBO also enumerated the Mayor's overarching priorities for the biennium, which include: keeping streets safe and clean, improving health and wellbeing outcomes for San Franciscans, revitalizing the local economy through a variety of means, making the city more affordable and livable for families, strengthening city arts and cultural activity, and improving government effectiveness through investments in systems modernization, data analytics, technology and workforce talent.

In order to manifest these goals, the MBO will work with departments in the coming weeks to develop tailored budget proposals which consider the strategic, discretionary and legally mandated services departments currently deliver, and focus departmental efforts on core City services in alignment with Mayoral priorities.

HSA Budget Strategies

HSA is using the following principles in building its proposed budget:

- Maintain core services that meet clients' basic needs and fulfill both new and existing mandates
- Pursue creative cost-saving strategies that minimize negative impacts on clients, staff, and operational efficiency





- Look for opportunities to repurpose existing position vacancies and funds to meet new needs
- Maximize revenue opportunities with our state and federal partners.

Federal Issues

On July 4, 2025, the President signed a budget reconciliation bill (H.R.1) that shrinks the size and scope of federal SNAP and Medicaid programs (known in California as CalFresh and Medi-Cal, respectively). Absent any interventions, these changes will make it harder for clients to qualify for CalFresh and Medi-Cal, increase administrative costs, and strain uncompensated health care systems as people lose coverage but still need care.

For the most part, implementation of these federal policy changes will begin in FY 2026–27. Our Agency is actively assessing the impacts and developing proposals to mitigate these challenges. A strong, proactive response—particularly in eligibility processes and workforce capacity—will be critical to help clients retain benefits, protect health and nutrition, and reduce financial pressures on the City’s healthcare and food systems.

More details on the agency’s proposed strategies will be included in the next Commission budget memo. At this stage, we are providing preliminary information in the State Budget, SF Benefits Net (SFBN), and Workforce Development (WDD) sections below.

State Budget

Earlier this month, the Governor released the proposed budget for the coming fiscal year. The Budget forecast reflects increased revenues of \$42 billion in the three-year budget period of 2024-2025, 2025-2026, and 2026-2027 compared to the 2025 Budget Act. This is mainly driven by higher cash receipts, higher stock market performance, and an improved economic outlook.

The Governor proposed a balanced budget of \$348.9 billion and does not currently forecast a recession or stock market correction. Still, projected expenditures due to constitutional funding requirements, budget reserves, and higher costs, exceed the increased revenues resulting in a \$2.9 billion deficit. The budget also recognizes important risks including stock market volatility related to the performance of the AI industry, unpredictable federal policies around tariffs and immigration, and elevated inflation. The state continues to face structural operating deficits, projecting a \$22 billion deficit in 2027-2028 and continued shortfalls in the following years. The Governor will focus on addressing these structural deficits in the May Revise.





The Governor's budget plans for significant federal changes coming under H.R. 1. These changes will affect programs like Medi-Cal and CalFresh by adding new work requirements, changing eligibility rules, and shifting more costs to the state and counties. While some changes will reduce State program spending due to anticipated decreases in caseload, others will increase costs and administrative responsibilities. Importantly, the proposed budget includes state funding to help cover part of the increased share of CalFresh administrative costs, which is a positive step to support local implementation.

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

Program Highlights and Initiatives

SF Benefits Net (SFBN) - Medi-Cal & CalFresh

Changes under H.R.1 will scale back eligibility, impose stricter requirements, and increase workload for Eligibility staff. Beginning in June 2026, about 53,000 dual CalFresh and Medi-Cal clients will be subject to work requirements due to changes in Able-Bodied Adults Without Dependents (ABAWD) exemption criteria. Starting in January 2027, approximately 30,000 Medi-Cal-only clients will face new work requirements, and around 83,000 clients will have their benefits redetermination frequency increased from annually to every six months. In addition, the federal match for CalFresh administrative costs will decrease from 50% to 25% in October 2026, reducing HSA's reimbursement and increasing State/local cost pressures. Starting in FY2027-28, H.R.1 will require State agencies to pay a percentage of SNAP benefit allotments, based on a sliding scale if the state's Payment Error Rate (PER) exceeds 6%.

Department leadership is actively planning strategies to manage the expected increased workload for SFBN and WDD for the remainder of FY 2025-26, as well as in FY 2026-27 and FY 2027-28. The Governor's budget indicates that the State will pick up 70% of the lost Federal SNAP Administration revenue, and HSA awaits further guidance around the PER distribution methodology.

County Adult Assistance Programs (CAAP)

On the March 5th, 2024, local ballot, an ordinance pertaining to CAAP and substance use disorders was approved by San Francisco voters. The legislation requires those who apply for or receive benefits from CAAP to undergo screening for substance use disorder and





participate in a substance abuse treatment program when the screening reveals that they may have a substance abuse dependency. This program is known as the CAAP Treatment Pathways Program and has referred 352 clients to treatment since program inception, with roughly 200 active clients.

During FY2025-26, several programmatic changes were made to CAAP, with the intent of better preparing clients for employment and strengthening program integrity. Changes include: 1) ending phone-based applications, 2) implementing graduated sanctions for multiple instances of non-compliance, 3) increasing required work activity hours from 12 to 24 hours per month, 4) requiring the completion of a screening for employability or other pathway (triage) prior to enrollment, and 5) aligning the calculation of the in-kind value component of the homeless CAAP grant with that used by CalWORKs. Through these reforms, the program better ensures that service-rich and higher-grant programs are targeted to clients who have established San Francisco as their long-term home, while also helping all clients get on a clear path toward employment, SSI, or recovery—key steps to achieving long-term self-sufficiency.

CalWORKs

State Senate Bill 119 signed into law in July 2025 included a package of reforms that marked a significant transition in CalWORKs policy, to officially begin a transition from a compliance-oriented program focused on meeting work requirements, to one that is more family-centered and focused on family well-being. One of these reforms is the elimination of penalties that could be passed onto counties if California does not meet its targeted Work Participation Rate (WPR), starting with the Federal Fiscal Year 2026 (that begins in October 2025 and ends September 2026). Due to changes in federal law, the likelihood of any penalties being applied is low.

Instead of focusing on WPR, county CalWORKs programs will focus on 26 performance measures under the California Outcomes and Accountability Review System (Cal-OAR). These measures cover key areas including:

- **Client engagement** - Encouraging counties to keep clients involved in activities and services, with less emphasis on counting hours
- **Welfare-to-Work process** - Tracking how many approved clients complete CalWORKs orientation or appraisals on time
- **Receipt of services** - Measuring how many families receive requested transportation or ancillary support





- **Employment outcomes** – Tracking the number of participants employed, those exiting into work, median earnings six months and one year after exit, and the rate of return to CalWORKs.

Overall, San Francisco has performed close to or above the state average on most Cal-OAR measures.

Aside from performance measures, Cal-OAR also provides a continuous quality improvement accountability framework through a 5-year strategic planning process, where counties complete a Self-Assessment, develop a System Improvement Plan, and then complete two reports on their progress. San Francisco is close to completing its first 5-year Cal-OAR cycle and has drafted its final Progress Report. SFHSA's System Improvement Plan had identified two goals to improve on: (1) to increase the Welfare-to-Work Engagement Rate and (2) reduce re-entry of families into CalWORKs after they have exited. The final Progress Report will report that CalWORKs has met both of its goals in these measures, improving the engagement rate from 21% to 35.7%, and reducing the re-entry rate from 22% to 13.6%. CalWORKs implemented several new efforts that may have led to these improvements, including enhancing informational materials for clients, introducing new resource tools and training for staff, and strengthening the Quality Assurance process for Welfare-to-Work.

Other parts of SB 119 reforms are still in the planning phase, with implementation expected in mid-2026. These changes include: combining Welfare-to-Work orientation and appraisal into a single step rather than two separate steps; allowing clients the option to complete a Welfare-to-Work plan independently, while still offering the option to work with a case manager; expanding the list of allowable activities to include financial literacy classes, coaching, parenting classes, housing search and other activities that lay the foundation for employment; and prohibiting Welfare-to-Work sanctions during the first 90 days after a participant is approved for CalWORKs.

Workforce Development

The Workforce Development Division (WDD) continues to play a vital role in advancing initiatives that strengthen economic security for San Francisco's public benefit recipients. Over the past year, WDD has prioritized creating meaningful pathways to sustainable employment and training opportunities for vulnerable populations, particularly those affected by new work requirements under H.R.1.



As H.R.1's new work requirements are implemented, WDD will provide services to CalFresh and/or Medi-Cal recipients to connect them to employment services to maintain their Medi-Cal and/or CalFresh eligibility. WDD is exploring strategies to maximize reach and effectiveness of work placements and other opportunities. The services offered will include programs suited to varying levels of assessed job-readiness, ranging from job search assistance to placements, in both paid and unpaid work opportunities with City departments and community-based organizations.

Additionally, WDD recently underwent a restructuring to integrate workforce services staff into the distinct benefits programs in the agency. This will strengthen WDD's service delivery by ensuring a more seamless handoff between eligibility and employment services staff.

Family & Children's Services (FCS)

The Title IV-E Waiver provided a higher level of revenue that allowed FCS to make multiple program and staffing investments to strengthen its child welfare programs. The Title IV-E Waiver ended in September of 2019 and created an immediate and significant revenue shortfall in the FCS budget. Since then, FCS has been navigating through this transition by gradually implementing low-impact cost reductions, such as rightsizing underspending programs and utilizing one-time funds to sustain its current level of programming. These strategies have given FCS time to identify and prioritize core services as the program implements the Families First Prevention Services Act (FFPSA).

FCS has been implementing FFPSA by developing and implementing an integrated citywide prevention plan meant to increase economic stability, reduce child maltreatment, and improve child welfare permanency outcomes through coordinated prevention programs for children, youth, and families. In the interim, additional funding for FFPSA programming has been provided through one-time federal FFPSA Transition Grants. Over the longer term, FCS expects to leverage Title IV-E funding, now made possible through FFPSA, for evidence-based prevention services. FCS is waiting for the State's new child welfare information system (CWS-CARES) to go live, at which point revenue claiming can begin. FCS is also awaiting State guidance on how far back the County may retroactively claim eligible prevention services.

FCS has also been focused on addressing the needs of youth aging out of the foster care system. Since FY 2023-24, HSA has been implementing a guaranteed income pilot program for former foster youth in San Francisco. Intended as a short-term program that gauges the effects of guaranteed income, this pilot provided 18 months of \$1,200 payments to 150 low-

income youth who had recently aged out of San Francisco’s extended foster care and juvenile probation systems. With the payments issuance phase now ending, the pilot is currently focused on research into the impacts and long-term outcomes of this program.

Another area of program development in FCS has been the availability of placement options for high needs youth. These options require more intensive staffing support, and should be able to accommodate varying levels of case severity. FCS is currently piloting a continuum of ten high needs placements that offers three different levels of support, which youth will be able to move fluidly between based on their evolving needs. FCS is leveraging enhanced foster care revenue, along with a one-time State grant to support this pilot. Future ongoing State funding for this continuum of high needs placements is possible, but will depend on the outcomes of this pilot period.

Program Support

Staffing Relocation

The Agency’s headquarters is located at 170 Otis Street, an eight-story building which houses personnel supporting a wide range of programs and functions, as well as a public-facing service center for families, garage space for a significant portion of HSA’s fleet, and the organization’s primary public meeting space. Another large HSA site at 1235 Mission Street serves as the City’s entry point for the CAAP program, provides public access to SFBN services, and contains 88,000 square feet of back-office space for support staff. Evaluations of these two buildings have identified major seismic deficiencies, leading HSA to pursue permanent relocation of staff and operations from both sites.

HSA finalized a lease for three floors at 1455 Market Street. This new space will replace the 1235 Mission Street service center and provide back-office space for staff from that site, as well as certain functions currently housed at 170 Otis. The building, which provides space for other City departments across its 22 stories, is currently undergoing tenant improvements to meet HSA’s needs and will be move-in ready in early Spring 2026.

This will allow HSA to close its 1235 Mission Street location and replace one of the agency’s primary service centers in the mid-Market area. Simultaneously, HSA continues to pursue the potential purchase of a property in the City’s southeast. This project is complex and expected to require another 1-2 years before becoming operational.



Both these relocations will allow HSA to accomplish two goals: 1) moving staff out of the seismically unsound 170 Otis and 1235 Mission buildings, and 2) relocating staff across the City in ways that strategically bring HSA services closer to where HSA's clients reside.

Next Steps

HSA will finalize its proposed budget and program initiatives for FY 2026-27 and FY2027-28 over the coming two weeks. This proposal will be presented for your review and approval at a special meeting of the Human Services Commission on February 9th.