



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 18, 2026
Subject: Disability and Aging Services Budget for FY 2026-27 and FY 2027-28

Through this memo, we present for your review and approval the Department of Disability and Aging Services' budget proposal for FY 2026-27 and FY 2027-28. This proposal, as well as HSA's approach towards its combined agency budget, is guided by the following principles: maintain core client services, pursue cost-saving strategies which minimize operational impacts, look for opportunities to repurpose existing resources, and maximize revenue opportunities through state and federal partners. However, the severity of the forecasted citywide deficit – almost \$936.6 million over the upcoming biennium – plus the likely, consequent loss of Dignity Fund growth – \$3 million in FY 2026-27 – inform this proposal as well.

In December, the Mayor's Office identified the goal of reducing ongoing, annual General Fund expenses by \$400 million citywide. At the time, the Mayor's Office set out certain key principles for achieving reductions:

- Eliminate discretionary programs where possible
- Restructure around current staffing levels
- Shift duplicative or common services towards a centralized model
- Identify technology and procurement savings
- Review grants and contracts for measurable outcomes and financial efficiency
- Make near-term investments for long-term cost savings

In January, the Mayor's Office gave HSA a General Fund reduction target of \$10.5 million ongoing per year. At this time, the agency has identified two-thirds (\$7.2 million) of the \$10.5 million requested, with the remainder to be determined in collaboration with the Mayor's Office in the coming months.

As part of achieving this goal, DAS is proposing budgets for FY 2026-27 and FY 2027-28 that include ongoing reductions of \$2.9 million. With almost all of DAS's discretionary General Fund concentrated in its portfolio for community-based organizations, these ongoing reductions will, by necessity, be implemented in that area. Although program- and contract-specific cuts are still being finalized, the following Service Areas are anticipated to be impacted: Access & Empowerment, Case Management & Care Navigation, Community Connection & Engagement, and Self-Care and Safety.





In the months ahead, DAS will be working closely with its partners, agency leadership, and the Mayor's Office to develop a detailed program- and contract-level plan that remains responsive to the needs and priorities of older adults, people with disabilities, and veterans.

State and federal considerations

State update

The Governor's proposed budget, released on January 9, reflects increased revenues of \$42 billion in California's three-year budget period of FYs 2024-25, 2025-26, and 2026-27 compared to the 2025 Budget Act. The proposal suggests that better-than-expected tax receipts are primarily a result of recent positive 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, maintenance of budget reserves, and higher statewide costs are in excess of the revenue gains, resulting in a \$2.9 billion deficit.

The budget also recognizes important risks including: stock market volatility, mainly related to the artificial intelligence 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 FY 2027-28 and additional shortfalls in the following years. The Governor will focus on addressing these structural deficits in the May Revision.

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.

Federal update

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. HSA 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.

Over the next several months, the agency will continue to analyze and monitor the state and federal budgets for impacts and keep the Commission updated.

DAS budget proposals for FY 2027-28 and FY 2027-28

Budget totals

DAS is proposing a \$579.6 million expenditure budget for FY 2026-27. This amount represents a \$31.8 million, or 5.8 percent, increase over the Department's FY 2025-26 original budget of \$547.8 million. The Department is projecting \$365.8 million in revenues for FY 2026-27 – an \$11.8 million, or 3.3 percent, increase over the \$354.1 million in revenues in DAS's FY 2025-26 original budget.

DAS's proposed budget for FY 2027-28 is similar to its proposal for FY 2026-27. Differences included at this point consist solely of increases to its IHSS aid program budgets, to salary and fringe benefit costs, and to Dignity Fund growth.

Dignity Fund

This proposal omits the \$3 million in Dignity Fund growth in the FY 2026-27 budget. This is because the City's currently projected deficit of \$296.3 million exceeds the \$278.9 million threshold for baseline growth suspension as per the Five-Year Financial Plan/Joint Report published in December 2025. A final determination on FY 2026-27 Dignity Fund growth will occur based on the March 2026 update to the Joint Report.

The enacting legislation that governs the Dignity Fund changes the methodology by which fund growth is calculated in fiscal years 2027-28 through 2036-2037. Beginning in FY 2027-28, the City's annual contribution to the fund will equal its mandatory contribution for the prior year, adjusted by the percentage increase or decrease in aggregate City discretionary revenues as determined by the Controller and announced in March updates to the Joint Report.

Reduction strategies

Strategies to meet community-based organization (CBO) grant reductions in previous years have included the "pausing" of new programs to stop increased spending obligations, leveraging of state and federal funding to offset reductions, right-sizing of contract budgets based on historical spending levels, and reviews of program performance to develop corresponding reductions. DAS will continue to assess its CBO portfolio in this fashion, but by nature these strategies have diminishing effects in subsequent years. As a result, FY 2025-26 saw the first actions to reduce and/or terminate grants using a lens of what are "core" services central to DAS's mission.





DAS will continue this difficult analysis in FY 2026-27 and beyond, reflecting on the purposes and programs of the Older Americans Act and the wealth of information gathered through its decade plus history of community needs assessments and service planning. It has made great strides to best identify underserved populations, track demand for program services, and launch impactful new programming in response to identified community needs. It now finds itself in the midst of multiple years of budgetary stasis and reduction due to the City's prolonged economic recovery. As DAS navigates this new landscape, it must ensure that its budgetary decisions do not backtrack on the important gains it has made since the inception of the Dignity Fund.

Insights

IHSS Maintenance of Effort

HSA projects the IHSS Maintenance of Effort (MOE) cost will increase by \$20.3 million in FY 2026-27, and by an additional \$21.8 million in FY 2027-28, for a cumulative increase of \$42.1 million, relative to the projected FY 2025-26 MOE. The IHSS MOE represents the local share of IHSS program costs. Cost growth is attributable to: a) required four percent 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 IHSS services.

IHSS Community First Care Option (CFCO) Late Reassessment Penalties

All IHSS recipients are required to have at least one annual reassessment, and these are carried out by DAS-IHSS personnel. For recipients under the CFCO program category – generally clients with more complex needs which might otherwise necessitate a skilled nursing/institutional setting – the state began imposing a penalty on counties in the current fiscal year equal to three percent of wages paid during the time a client's reassessment had exceeded the annual requirement.

While program staff were able to bring almost all of San Francisco's CFCO cases into compliance during the first half of the year, the division must now remain focused on maintaining timely assessments going forward as the penalty will escalate from three to six percent on July 1, 2026. No significant fiscal impact is anticipated due to this change, but it does present an additional, ongoing risk.

Service and Allocation Plan (SAP) / Dignity Fund Contracting Cycle

Fiscal year 2026-27 will include the drafting and publication of the third Service and Allocation Plan since the start of the Dignity Fund. Previous SAPs covered FY 2019-20 to FY 2022-23 and FY 2023-24 to FY 2026-27. This third iteration will cover FY 2027-28 to FY 2030-31. A requirement in the Dignity Fund legislation, the SAP is a four-year funding plan which outlines the use of Dignity Fund dollars. The SAP is grounded in the findings and recommendations from the Community Needs Assessment process, which is completed in the year prior to the SAP drafting. The Community Needs Assessment and then SAP processes ensure that the Dignity Fund is administered in a transparent, responsible manner





and is best identifying and addressing the needs of older adults and adults with disabilities. Work on the new SAP will start in summer/fall 2026 with a review of the draft report in Spring 2027 before subsequent finalization.

Unlike years one to three of the Dignity Fund four-year funding cycle, year four (in this case FY 2026-27) does not have a specific service focus area. This is intentional – the Dignity Fund SAP elects to hold this year without a focus while an updated needs assessment and allocation plan can be developed. The Community Needs Assessment shall be completed in FY 2025-26, with the SAP developed in FY 2026-27. Funds received during the FY 2026-27 “open year” are to be utilized to address unmet demand for services and emergent needs.

The previous “open year” was FY 2021-22 with funding arriving for the start of FY 2022-23. In that year, the Department was able to support a variety of identified needs including:

- Additional investment into digital divide programs
- Helping community-based organizations adjust their programs to better allow for “virtual” engagement
- Increasing language capacity at DAS’s network of Aging and Disability Resource Centers
- Support for a nationally recognized collaboration between DAS’s Adult Protective Services and a community-based legal services organization to launch the Financial Abuse Virtual Unit (FAVU)
- Support for caregiving programs
- Support for programming focused on justice-involved older adults
- Expansion of successful programs engaging transgender and gender non-conforming older adults and adults with disabilities

DAS received no Dignity Fund growth allocation for FY 2025-26 and recognizes that a new growth allocation is also unlikely for FY 2026-27. To mitigate disruption of services to clients and meet demand and cost increases, DAS has prioritized the repurposing of budgetary savings to support existing high-impact and in-demand services. By repurposing one-time budgetary savings from FY 2024-25, DAS has provided one-time financial support in FY 2025-26 and FY 2026-27 to:

- Support congregate meal programs and prevent multiple site closures
- Address the large waitlist for home-delivered meals
- Continue the wheelchair repair program
- Maintain Vietnamese language support
- Maintain Adult Day Services programs

Office on Disability and Accessibility

The Office on Disability and Accessibility (ODA), formerly the Mayor’s Office on Disability, ensures City services, programs, facilities, and information are accessible and compliant with the Americans with Disabilities Act (ADA). ODA serves as the City’s overall ADA Coordinator,





overseeing Title II ADA compliance, overseeing the City's transition and self-evaluation planning, and supporting over 60 departmental ADA Coordinators. It provides technical assistance on architectural, programmatic, and digital accessibility; coordinates ASL interpretation and language access; resolves ADA grievances; and leads public engagement through the Mayor's Disability Council.

SOMArts ADA Barrier Removal Project. ODA will contribute a total of \$1.56 million (including \$464,940 from its FY 2026-27 capital budget and \$1.1 million previously allocated and held by the Department of Public Works), towards the SOMArts ADA Barrier Removal Project. This work will install a Limited Use/Limited Application (LULA) elevator at the SOMArts Cultural Center. The San Francisco Arts Commission also will contribute \$628,000 towards the work. The project is now fully funded at \$2.19 million, deploying prior-year capital balances and current allocations. Construction begins in August 2026, with estimated completion in May 2027, transforming SOMArts into an inclusive arts hub and meeting the City's Title II ADA obligations.

Expansion of Language Access and ASL Interpretation. ODA uniquely provides ASL interpretation services as subject matter experts on a one-time, no-cost basis to other departments. For FY 2026-27, this budget proposal increases ODA's interpretation services budget from \$31,000 to \$50,000, funded by redirecting dollars from HSA's centralized interpretation budget. This investment supports ASL interpretation for community events, the Mayor's Disability Council, ADA Coordinator trainings, and one-time support for other departments and the Mayor's Office. It is especially critical as San Francisco prepares to host the National Association of the Deaf Conference in July 2026, welcoming 1,000–2,000 attendees and positioning the City as a national leader in accessibility.

Position actions

DAS is not proposing any position changes in its FY 2026-27 and FY 2027-28 budgets.

Required action and recommendation

With this memo, we request approval of the proposed FY 2026-27 and FY 2027-28 budgets for the Department of Disability and Aging Services.

