SAN FRANCISCO
HUMAN SERVICES AGENCY

Department of Benefits
and Family Support

Department of Disability
and Aging Services

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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 17, 2026
SUBJECT:	Human Services Agency and Department of Benefits and Family Support Proposed Budget for FY 2026-27 & FY 2027-28

Through this memo, HSA presents to you the Fiscal Year (FY) 2026-27 and FY 2027-28 proposed budget for the Department of Benefits and Family Support (BFS) and the Human Services Agency (HSA) for review and approval. This year, the budget planning process has been influenced by a forecasted citywide deficit of approximately $936 million across the upcoming biennium. HSA's FY 2026-27 and FY 2027-28 budgets respond to these challenges by scaling back programs that fall outside the core of HSA's organizational mission, and revising the Agency's hiring outlook.

Overview - BFS and HSA Administration Budget for FY 2026-27 and FY 2027-28

HSA's proposed FY 2026-27 expenditure budget for BFS and HSA Administration of $779.2 million is $17.8 million, or 2.3% more than the FY 2025-26 budget of $761.4 million. HSA's revenues of $572.0 million in FY 2026-27[1], are $15.5 million, or 3% less than FY 2025-26 revenues of $587.4 million. General Fund support for BFS and HSA Administration of $207.2 million in FY 2026-27 is $33.3 million, or 19.1% more than the $173.9 million in FY 2025-26.

HSA will experience a significant reduction in Federal funding in FY26-27 because of the reduced Federal share of CalFresh administration, resulting from The One Big Beautiful Bill Act of 2025 (H.R.1). Meanwhile, HSA is experiencing mild growth in other funding allocations such as CalWORKs, 1991 Realignment, and 2011 Realignment

[1] Additional revenues relating to HSA's H.R.1 staffing proposal are not going into this budget submission. All H.R.1 expenditure and revenue increases are still being discussed with the MBO, and will be entered into HSA's budget proposal no earlier than the Mayor's Phase of budget development.

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revenues. Medi-Cal revenues are projected to remain relatively flat. HSA's General Fund support will increase in FY26-27, due in no small part to the H.R.1 Federal funding loss, as well as natural expenditure growth in program areas where external funding is expected to remain flat.

Concerning major changes in expenditures, HSA has increased costs from cost-of-living adjustments (COLAs) for employee salaries, and rising cost of fringe benefits. These increases also affect HSA's expenditures to other City departments whose staff perform services on HSA's behalf. There is also growth in HSA's debt service repayments to finance the purchase of a site to serve the southeastern neighborhoods in the City.

HSA's proposed FY 2027-28 budget is largely the same as its proposed FY 2026-27 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, changes that correspond with the growth in Aid payments, and the annualized impact of H.R. 1 that reduces Federal funding for CalFresh administration.

Mayoral Budget Instructions

As noted at the January 22, 2026 Commission meeting, the City's budget projections forecast an approximate $936 million deficit across FY 2026-27 and FY 2027-28. 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. Most of this impact will take the form of lost revenue to DPH, but HSA will also lose revenue. 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.

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As a result, the Mayor's Office is seeking $400 million in ongoing Citywide savings starting in FY 2026-27, and has directed HSA to permanently reduce its discretionary General Fund budget by $10.5 million:

	FY 2026-27	**FY 2027-28**
Ongoing reduction	$10,500,000	$10,500,000

State Impacts

The Governor's Proposed Budget is balanced 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 federal 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. At this time, HSA expects the Governor's May Revision budget to address County workload increases through additional administration funding.

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

The Mayor's Office instructed HSA to lower its ongoing, General Fund expenditure budget by $10.5 million per year in the upcoming biennium. This amount is further disaggregated into $8.5 million in programmatic reductions, and $2 million in personnel costs. At this time, the agency has identified most, though not all, of the $10.5 million requested, with the remainder to be determined in collaboration with the Mayor's Office in the coming months.

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Pursuant to this directive, the HSA/BFS proposed budgets for FY 2026-27 and FY 2027-28 include ongoing reductions of $3.7 million toward the Mayor's $10.5 million target. These ongoing reductions will be implemented in the following program areas:

- Fire Victims Support ($950K) – lowering the maximum length of time recipients can receive rent subsidies to 12 months.
- Prop F / CAAP Aid Savings ($675K) – savings in CAAP aid payment expenditures due to client discontinuances from not complying with Prop F (substance abuse treatment) requirements, as well as reduced Prop F expenditures.
- Employment Services ($2.1M) – ending employment programs where State mandates around work participation requirements have softened, and where services are tailored to specific subpopulations. These subpopulations will instead be served through HSA's general employment services offerings.

DAS is proposing $2.9M in reductions, mostly in its community-based organizations (CBO) budget.

<u>Other Budget Changes</u>

H.R.1 Planning

As mentioned earlier, H.R.1 includes provisions that adversely affect CalFresh and Medi-Cal, including more restrictive eligibility standards, and stricter ongoing compliance requirements. These changes will entail significantly increased workload for HSA eligibility and program staff, but HSA's current staffing levels are insufficient to meet these anticipated workload demands.

HSA is developing a budget proposal for additional staff to ensure that HSA can manage the increased eligibility administration required by H.R.1, and be best positioned to help HSA's clients retain their public assistance benefits. With this effort, HSA aims not only to maintain clients' connection to these vital services, but also preserve hundreds of millions in annual Medi-Cal revenue to San Francisco. This proposal will be finalized during the Mayor's Phase of FY26-27 budget development after the Governor releases his budget revision in early May.

HSA Facility Planning

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

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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 move 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. HSA's budget includes $6 million ongoing toward a future COP-financed purchase of a Southeast San Francisco property.

Both these relocations will allow HSA to accomplish two goals: 1) moving staff out of the seismically challenged 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.

Capital and Fleet Requests

In addition to our operating budget described above, we are submitting a request for one-time resources to support critical capital projects and vehicle replacement. Specifically, our proposed budget includes $950,000 in General Fund to replace 23 vehicles, essential for staff to conduct mandatory field visits to clients. This will address inoperative vehicles returned to central shops, older vehicles well beyond their useful life, and reduce reliance on car rentals.

Additionally, we are seeking $175,000 for roofing and door replacement at 538 Holloway, a site providing rapid housing support for homeless families in the child welfare system.

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.

<u>Required Action and Recommendation</u>

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With this memo, HSA requests approval of the proposed FY 2026-27 and FY 2027-28 budgets for the Department of Benefits and Family Support and the Human Services Agency Administration.