



**Daniel Lurie,  
Mayor**

**Drew Murrell,  
Chief Financial Officer**

## MEMORANDUM

To: President Laurie Green and Honorable Members of the Health Commission

Through: Daniel Tsai, Director of Health  
Jenny Louie, Chief Operating Officer  
Drew Murrell, Chief Financial Officer

From: Emily Gibbs, Deputy Finance Officer

Date: January 5<sup>th</sup>, 2026

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Scheduled for the January 5<sup>th</sup> Commission meeting is the first hearing on the Department of Public Health's proposed budget for fiscal year 2026-27 and fiscal year 2027-28 (FYs 2026-28). A second hearing is planned for the February 2<sup>nd</sup> Commission meeting, followed by periodic updates throughout the budget process. These two hearings will comply with Section 3.3 of the Administrative code which requires City departments to have at least two public hearings on budget prior to February 23<sup>rd</sup>, at least one week before department budget submissions are due.

Subject matter to be addressed at the two budget hearings will be as follows:

### *January 5*

- The City's Five-Year Financial Projection and Mayor's Budget Instructions
- Projection of current year personnel spending (also required under Section 3.3)
- Approach to \$17 million in reductions to contracts built into the FY 2026-27 budget during the FY 2025-27 budget process

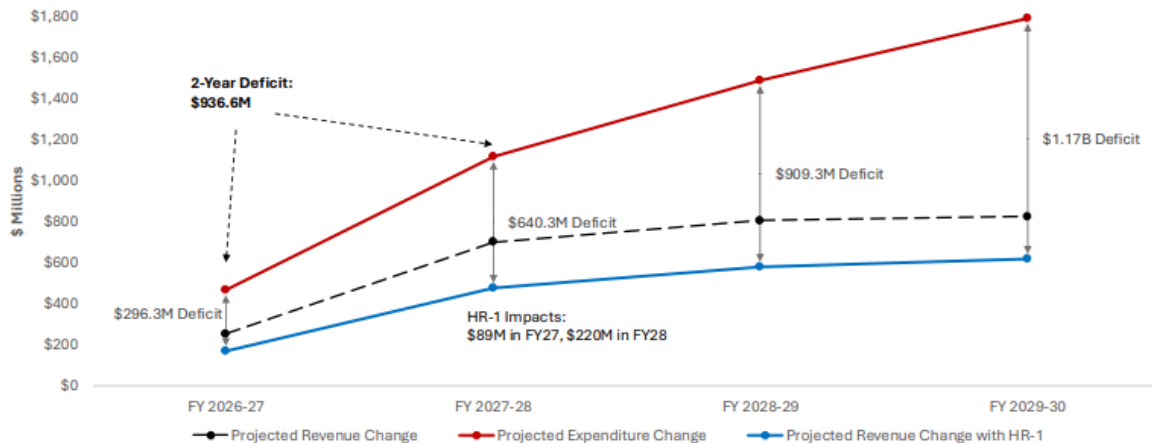
### *February 3*

- Proposed balancing plan with detailed initiatives
- Detailed proposal for \$17 million in reductions to contracts built into the FY 2026-27 budget.
- Request for Health Commission approval of proposed budget for submission to Controller and Mayor's Office.

## **The City's Five-Year Financial Projection and Mayor's Budget Instructions**

In December, the Mayor's Office issued its five-year financial outlook for the City and budget instructions for City departments. The adopted budget made progress toward the City's structural budget gap, but changes in State and federal funding will result in continued, large shortfalls during the forecast period. The City is facing a projected **\$936 million deficit** over the next two fiscal years—\$296 million in FY 2026–27 and \$640 million in FY 2027–28—driven by expenditure growth that significantly outpaces revenue increases and the impacts of HR1 (the

“One Big Beautiful Bill”). This deficit includes \$84.5 million in FY 2026-27 and \$221.8 million in FY 2027-28 as a result of changes in state and federal policy, including the impacts on Medi-Cal enrollment and revenues. Over the next five years, expenditures are expected to grow by **\$1.8 billion**, while revenues are projected to increase by only **\$617 million**. This is not a recession scenario – local revenue growth continues, it just remains significantly slower than growth in costs and cannot make up for the federal revenue losses.



Source: Mayor’s Office of Public Policy and Finance

In response to this structural imbalance, the Mayor is calling for **\$400 million in ongoing General Fund savings**. Unlike in prior years, however, departments are not being asked to meet a fixed percentage reduction target. Instead, they are expected to identify sustainable cost-saving strategies through **restructured service delivery**, **elimination of discretionary programs**, and **targeted operational efficiencies**. This approach emphasizes long-term fiscal stability while maintaining essential services.

The Mayor’s priorities for the upcoming fiscal cycle focus on:

- **Safe and Clean Streets**
- **Transforming Health and Homelessness Systems**
- **Economic Revitalization**, including revitalizing Downtown
- **Making the City More Affordable and Livable for Families**
- **Effective, Common-Sense Government**, with an emphasis on modernizing systems and improving service delivery

Departments are encouraged to propose **near-term investments that yield long-term cost savings**, and to review contracts and grants for measurable outcomes and financial efficiency. There is also a directive to reduce citywide work orders and overhead by 10%, and to consider centralizing duplicative or common services.

DPH is working closely with the Mayor’s Office to identify an approach that will meet the City’s balancing needs while preserving services and continuing to transform the health system.

## **Approach to \$17 million in reductions to contracts**

As part of last year's two-year budget planning, the DPH budget included \$17.0 million -- or about 10% of the Department's General Fund contracts that do not draw revenue or serve as a required match -- in reductions in contracts with community-based organizations starting in FY 2026-27. These reductions were placed into the second year of the budget to give us time to thoughtfully consider these difficult choices and allow the impacted organizations time to plan for the implementation.

In announcing these reductions last June, the Department committed to a process of reviewing the cost-effectiveness and strategic alignment of all its CBO partnerships. There are no simple answers to find these reductions; community-based organizations are trusted and relied upon as service providers in the communities they serve. Nevertheless, for DPH to stay effective and solvent we must rebalance our spending to meet budget, finding services and programs that stretch public dollars the furthest in improving the health of all San Franciscans.

Across the last several months, DPH executive staff have engaged in a deep review of our contracted spending with community-based organizations, looking at each program within these contracts. DPH has also held a series of community meetings with our partners in October and November to share our approach with them and gather feedback on our criteria. We have committed to continued transparency in our communications, opportunities for feedback, and sufficient notice for planning.

Leadership have identified a set of seven evaluation criteria to use in reviewing contracts:

- **Strategic alignment:** advances key DPH priorities.
- **Programmatic Fit:** Degree of alignment with divisional area of practice/expertise.
- **Equity & Reach:** Serves underserved or uniquely impacted populations.
- **Cost efficiency:** Delivers measurable outcomes relative to cost.
- **Revenue Potential:** Generates or attracts Medi-Cal or grant funding.
- **Performance:** Demonstrates accountability, quality, and impact.
- **Population Health Outcomes:** Improves measurable community health indicators.

This framework is intended to act as a guide, not a scorecard, for analyzing programs. We recognize that programs will have strengths and weaknesses across these different dimensions. To take a simplified example, a provider that reaches a small, underserved population may have a higher cost per client than one that has greater economies of scale and lower costs per client. Both programs may, therefore, be critical to our strategic goals and health outcomes. In addition, leadership also recognizes that it must weigh cumulative impacts, balance equity, and consider system-wide effects across the portfolio, not just at the individual program-level.

As the list is finalized and difficult choices are made, we also are committed to continuing to explore partnerships, alternative funding, or scaled delivery to preserve critical services. To meet these goals, we committed to the following timeline:

- **By January 16, 2026:** Draft cuts identified and shared with CBO partners
- **Mid-January:** CBO next-step briefing session
- **February 4, 2026:** Deadline for comments via email
  - **Opportunity for additional comments at February 2, 2026 Health Commission**
- **March 6, 2026:** Finalized list of allocated cuts available

While we acknowledge we may not be able to respond to and incorporate all the feedback we receive, DPH leadership is committed to listening to our partners. We anticipate feedback from them and the Health Commission about these decisions as part of the next meeting.

### **Approach and Context to FY 2026-27 and FY 2027-28 Budgeting**

DPH accounts for approximately 60% of Citywide General Fund expenditures before revenues, but after accounting for reimbursements and other funding sources, DPH represents only about 20% of net Citywide General Fund support.

State and federal policy changes introduced via HR1 and the state budget make it more difficult to receive reimbursement for health care provided to San Franciscans. To support closing the citywide deficit of \$936M across both years of the budget, revenue optimization measures as well as expenditure reductions are required. Given the tightening budget picture, DPH plans to focus on the following strategies for its FYs 2026-27 and FY2027-28 budget proposal:

1. Focus on core priorities and services including implementation of initiatives already funded in prior budgets
2. Identify alternative cost-saving measures to limit the growth of new expenditures
3. Maximize revenue to offset general fund supports while fostering long-term financial stewardship
4. Review funding provided to community-based organizations to maximize strong outcomes and cost effectiveness, focused on direct services to clients
5. Coordinate with the Mayor's Office on processes they are convening to look at Citywide savings ideas and opportunities for efficiencies across departments

### **Budget Submission at the Next Health Commission**

At the next Health Commission meeting, staff will provide a budget proposal which addresses the Mayor's reduction targets and these strategic goals, including detailed initiatives, for your approval.