MEMORANDUM

To: San Francisco Department of Public Health

From: Mayor's Office

Date: February 27, 2026

Subject: Guiding Principles for Identifying $40 Million Ongoing and $5 Million Contingency in Additional FY 26-28 Budget Reductions

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Context

San Francisco faces a $936 million structural deficit over the next two fiscal years—$296 million in FY 2026–27 and $640 million in FY 2027–28—driven by expenditure growth outpacing General Fund revenues, slower economic growth, and reduced state and federal funding including Medi-Cal. Given the extraordinary impact of HR1 on DPH's budget and potential impact on service operations, the Mayor has directed all departments to reduce General Fund spending by $400 million on an ongoing basis, so that we can continue to maintain delivery of core services, including health services.

SFDPH's $3.6 billion budget has grown at an average of 5.4% annually, outpacing local revenue growth. DPH's February budget submission to the Health Commission identified $198.8 million in budget solves over two years, composed of:

- **$176.3 million in revenue initiatives**, including baseline revenue growth across ZSFG, LHH, BHS, and Ambulatory Care; billing optimizations for BEAM, SPY, Medicare PCE, and ZSFG Psychiatry; BH-CONNECT incentives; and the PHACS behavioral health restructure.
- **$50.3 million in internal expenditure savings**, including eliminating 17 vacant FTEs, contracting efficiencies at ZSFG, administrative spending reprioritization, and salary spending adjustments to address the $20.3 million P103 nursing shortfall.
- **$27.8 million in critical investments**, including security improvements ($15M), staffing the 624 Laguna RCFE ($7.5M), and lease costs for seismic consolidation ($5.3M).

These actions, combined with the $17 million in CBO contract reductions already approved in last year's budget cycle, while also accounting for the $260.8 million in federal (H.R. 1) and state revenue impacts already assumed in the citywide deficit, represent significant progress. However, the City's fiscal situation requires more.

What remains: SFDPH must identify an additional $40 million in ongoing reductions over two years and $5 million in contingency proposals. Savings proposals must come from a combination of contracted and staffed programs. DPH has committed to a transparent process with stakeholders and **will bring additional details for Health Commission feedback by the end of April 2026**. DPH should submit these reductions and communicate Health Commission and public feedback to the Mayor's Office by the end of April, prior to the Mayor's Office introducing a balanced City budget by June 1, 2026.

This memo sets forth guiding principles from the Mayor's Office for how DPH should approach identifying $40 million ongoing and $5 million in contingency reductions; consistent with the Mayor's priorities to deliver clean and safe streets, economic revitalization and effective common-sense government. Planned reductions should include staffed services as well as contracted service areas, across DPH divisions, and focus on preserving core health care services and core public health functions.

Overarching Framework

The annual additional reductions should come from a combination of CBO contract restructuring and reductions in internal department staffing and program consolidations. The department's proposal should include $20 million in ongoing savings derived from internal staffing reductions and $20 million annually from CBO contract reductions, as well an additional $5 million contingency proposal of CBO contracted reductions to ensure sufficient savings proposals to close the deficit. Organizational and staffing reductions within DPH can and should include role eliminations where the department is no longer performing certain functions, consolidation of duplicative administrative structures, and reallocation of positions that are misaligned with current operational priorities. This may result in service reductions given the magnitude of reductions required to close the deficit.

This approach reflects two core commitments: first, that all parts of the system—including DPH's own operations—must contribute to achieving the savings needed to deliver a balanced budget; and second, that any reductions, whether to internal operations or CBO contracts, should be strategic, outcomes-driven, and focused on protecting the services and providers that are making the greatest difference for San Franciscans.

Principles for Organizational Reductions

DPH should identify $20 million in annual savings from restructuring its internal operations. These reductions should look for operational efficiencies, including reviewing organizational structures as well as service levels for programs that provide services. This builds on the $50.3 million in annual efficiencies already identified in the February submission. The following principles should guide this work:

Role and Function Elimination

Identify functions and programs that DPH is no longer performing or that have been superseded by system changes (e.g., post-Epic implementation or program consolidations). Positions tied to legacy workflows, sunset programs, or activities that have been absorbed into other structures should be eliminated. This goes beyond the 17 vacant FTEs already proposed—it should include a systematic review of whether positions either filled or vacant are aligned with current department needs.

Administrative Consolidation

DPH operates across multiple divisions with overlapping administrative, IT, finance, and HR functions. The department should undertake a staffing review to eliminate duplicative management layers and back-office roles that can be combined to reflect optimized team structures.

Workforce Realignment

Align staffing levels with actual service demand and revenue-generating capacity. The February submission's initiative to replace P103 per diem roles with PCAs and float pool RNs demonstrates a fiscally responsible approach—identifying where staffing models are mismatched and restructuring to reduce cost while maintaining care quality. Similar analysis should be applied across all divisions. A standardized, data-informed approach to workforce planning, grounded in community need, service demand, and available funding, will support high-quality care delivery and long-term sustainability of public health services.

This workforce alignment framework should be applied consistently across all DPH programs, services and sites. Staffing levels should be evaluated against volume, acuity, productivity expectations, and available funding to determine whether positions are appropriately configured, redeployed, consolidated, or reduced. In areas with sustained low utilization or excess capacity, roles should be reassessed and realigned to higher demand settings to ensure equitable access and efficient use of limited public resources.

DPH should also review management span of control and layers based on both administrative and healthcare industry standards, particularly where managers have few direct reports. While there are many situations where managers with few direct reports are appropriate (for example, based on the breadth of scope of work directed and specific skillsets or expertise), in general, DPH should make organizational restructuring changes to ensure managers and supervisory roles have sufficient span of control and direct reports. Broader management ratios should be implemented where doing so may increase employee empowerment and delegation; reduction in management layers should increase the speed of decision making.

Principles for CBO Contract Reductions

Contracts (primarily for CBOs and UCSF) total approximately $964 million across DPH's budget and are anticipated to grow by at least $55M between FY26 and FY28. To manage this growth, DPH should focus on CBO cost reductions in this cycle, using the following principles to guide decisions:

Prioritize Outcomes

Budget decisions should be guided by performance against defined, data-driven outcomes—not simply service volume, historical allocations, or provider relationships. Contracts should be evaluated based on:

- Measurable impact on reducing fatal and non-fatal overdoses
- Success with treatment initiation and retention rates, and connecting individuals to services and care
- Reduction in emergency system utilization
- Progress on reducing health disparities, including in chronic diseases, overdose death rates, and maternal/infant health outcomes

Programs that do not demonstrate performance against these criteria should be reviewed for potential reduction or elimination. Programs that are focused on interventions that are less evidenced based or are focused on lower quality interactions (e.g., general activity fair participation, handing out pamphlets/literature) should be deprioritized.

Invest in Behavioral Health Treatment Access and Stickiness; Reduce Investment in Services Without Assertive Pathways to Treatment

Consistent with the Mayor's Breaking the Cycle strategic priorities, CBO funding should be directed toward:

- Expanding medication-assisted treatment (MAT) access and initiation
- First-72-hours crisis stabilization and treatment engagement
- Solutions promoting sustained client engagement from crisis stabilization through treatment, recovery, and independence

Contracts for harm reduction services that do not promote assertive pathways to treatment for drug addiction, serious mental illness, or urgent medical needs, or that have negative collateral impacts on our communities (e.g. exposure of children to public drug use, including via proximity to schools or playgrounds) should be eliminated or restructured.

Maximize Revenue-Generating Potential

DPH's February submission demonstrates that significant revenue growth is achievable through health insurance billing optimization and Medi-Cal/CalAIM implementation ($176.3M in revenue initiatives). CBO contracts should be evaluated for whether they maximize reimbursement potential. Where DPH-staffed services can generate Medi-Cal or Medicare or other revenue that CBOs cannot—as demonstrated by the planned PHACS restructure, which moved contracted behavioral health positions in-house for better retention, coordination, and $0.5M in savings—in-sourcing should be considered.

In addition, DPH should develop a re-procurement process for various CBO contracts. DPH contracts for and staffs multiple programs with complementary, overlapping services and populations of focus. DPH should develop a re-procurement plan that reduces administrative duplication, improves service delivery, improves outcomes and accountability and potentially generates savings.

Protect Frontline Safety

Safety for frontline providers is a non-negotiable priority. CBO reductions should not compromise provider safety staffing, training, or infrastructure. DPH has proposed $15 million per year in additional staffing and other investments to support staff safety. The Mayor's Office remains committed to finding budget solutions to cover half those costs; the DPH budget submission includes the other $7.5 million per year. If additional CBO cuts are required for reinvestment in frontline provider safety, they should be pursued.

Focus on Direct Client Services

Consistent with DPH's stated budget principle of reviewing CBO funding to "maximize strong outcomes and cost effectiveness, focused on direct services to clients," reductions should target administrative overhead, capacity building, and training line items before direct client-facing services. While important areas, difficult choices must ensure funds are directed to essential services first.

Process and Timeline

DPH has committed to bringing additional details to the Health Commission by end of April 2026. In developing the DPH budget submission, the Mayor's Office expects DPH to:

- Conduct a systematic review of CBO contracts and DPH-staffed programs identified as the focus area for reductions
- Engage stakeholders transparently, including CBOs, labor, and community members
- Present proposals with clear rationale justifying reductions or restructuring decisions
- Coordinate with the Mayor's Office on citywide savings processes and cross-departmental efficiency opportunities
- Present proposals at the Health Commission for feedback by the end of April, 2026, in advance of the June 1, 2026 balanced budget deadline

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These principles are intended to guide—not prescribe—DPH's process for identifying the remaining $40 million ongoing and $5 million contingency annual savings. This will require difficult decisions, including programmatic service cuts, prudent identification of program cuts where possible, and hard prioritization choices about which services are most aligned with DPH's core mission and outcomes. The Mayor's Office is committed to working collaboratively with DPH and the Health Commission to ensure that reductions are strategic, protect core services, and advance the Mayor's priorities including keeping our city safe, transforming out health and homelessness systems, maintaining clean, safe and welcoming public spaces, making the city more affordable and livable for families, and delivering effective, common-sense government.