City and County of San Francisco **Department of Public Health**

Gavin Newsom,
Mayor

Gregg Sass,
Chief Financial Officer

MEMORANDUM

May 3, 2005

TO: President Lee Ann Monfredini
And Honorable Members of the Health Commission

THROUGH: Mitchell Katz, M.D.
Director, Department of Public Health

FROM: Gregg Sass
Chief Financial Officer

RE: Revenue and Expenditure Report – 3rd Quarter FY 2004-05

This report presents the third quarter financial projections of revenues and expenditures for the Department of Public Health for fiscal year 2004-05. These projections are based on revenue collected and billed, and expenses incurred for the nine months of the fiscal year ending March 31, 2005. In making our projections, we have taken into account the effect of mid-year budget cuts and projected expenditures for salary, benefits, work orders, and fringe benefit projections (including changes in City wide costs of benefits to retirees and workers compensation costs).

Projections include a revenue surplus of $25,666,000 and expenditure deficit of $15,432,000, after adjusting for SB855 IGT transfers to reflect SB855 disproportionate share revenues net of related transfers. Based on this data, the Department of Public Health is projecting a year-end surplus of $10,234,000 for FY 2004-05. This amount represents 0.9% of the Department's total operating budget and 4.2% of the Department's General Fund.

The mid-year budget cuts have the effect of reducing our budgeted spending authority by $3,500,000. We are therefore required to return a surplus of $3,500,000 to the General Fund at year-end. In addition, we have committed to return $3,200,000 in projected surplus for 04-05 as a carry forward in our 2005-06 base budget. Our projections indicate that will exceed those two requirements by $3,500,000. This remaining projected surplus contributes to one-time efficiency investments of $12,000,000 proposed by the Department.

We anticipate the need for a revenue-funded supplemental appropriation to address structural problems in our current year and fund certain one-time expenditures anticipated for this fiscal year.

The following table summarizes projected financial results for the year:

Projected FY 2004-05 Year-End Surplus/Deficit

	REVENUES			EXPENDITURES			TOTAL
Division	Revised Budget	Current Projection	Surplus/ (Deficit)	Revised Budget	Current Projection	Surplus/ (Deficit)	Surplus/ (Deficit)
SFGH	$ 543,668,000	$ 542,406,000	$ (1,262,000)	$ 543,668,000	$ 533,984,000	$ 9,684,000	$ 8,422,000
SB855 Adjustment	(98,225,000)	(73,473,000)	24,752,000	(98,225,000)	(73,473,000)	(24,752,000)	-
SFGH Adjusted	$ 445,443,000	$ 468,933,000	$ 23,490,000	$ 445,443,000	$ 460,511,000	$ (15,068,000)	$ 8,422,000
Laguna Honda	154,265,000	154,920,000	655,000	154,265,000	155,375,000	(1,110,000)	(455,000)
Primary Care	42,187,000	44,293,000	2,106,000	42,187,000	42,772,000	(585,000)	1,521,000
Health at Home	7,665,000	7,478,000	(187,000)	7,665,000	7,687,000	(22,000)	(209,000)
Jail Health	22,078,000	21,980,000	(98,000)	22,078,000	21,980,000	98,000	-
Public Health	91,447,000	91,147,000	(300,000)	91,447,000	90,546,000	901,000	601,000
Mental Health	172,286,000	172,286,000	-	172,286,000	172,282,000	4,000	4,000
Substance Abuse	65,105,000	65,105,000	-	65,105,000	64,755,000	350,000	350,000
SUBTOTAL	$ 1,000,476,000	$ 1,026,142,000	$ 25,666,000	$ 1,000,476,000	$ 1,015,908,000	$ (15,432,000)	$ 10,234,000
Mid-Year Reduction Target							$ (3,500,000)
Carryforward Assumed in FY 2005-06 Budget							(3,231,440)
NET DPH							$ 3,502,560

(1) The Revised Budget in the table above includes: Annual Appropriation Ordinance for DPH, carry forwards from prior year, Inter Governmental Transfer (IGT) for SB855, Transfer In and Project Related expenses.

San Francisco General Hospital*:* Year-end projections show a surplus of $8,422,000.

Revenues are projected to be $23,490,000 over budget primarily due to:

- $8,200,000 in favorable variances in SB1255 funding;
- (3,100,000) in unfavorable variances in net funding from SB855;
- $4,754,000 in favorable variances in prior years settlements during the year;
- ($1,793,000) unfavorable variance in Capitation/Managed Care Settlement Revenue;
- $15,429,000 in favorable variances in net patient service revenues compared to budget. Higher collections are primarily the result of improvement in identifying sponsors for our patients, improvements in payment rates for insured patients, and improved clinical documentation, which enables the Patient Financial Services department to produce clean claims.

Expenditures are projected to be over budget by ($15,068,000) due to:

- ($5,405,000) unfavorable variances in Personal Services & Fringe Benefits. There are multiple causes of this variance.
    - Salary expenditures are expected to exceed budget by $3,508,000. This variance can be attributed to the higher costs associated with the backfill of vacant positions with higher cost P103 and overtime, ($3.2 million), and with the unbudgeted costs of one-time separation payouts ($871,000). Based on our most recent payroll analysis, SFGH continues to report favorable variances in permanent salaries offset by overspending in OT, P103 and Holiday pay. Overall, SFGH is only 4.02 positions (0.15%) over the budgeted hiring plan.

- Fringe benefits are projected to exceed budget $1,897,000 which includes $917,000 in unfavorable variances in the Citywide estimates for retiree benefit subsidies.

- ($7,943,000) unfavorable variance in Non-Personal services. This variance is comprised of several one-time expenses related to JCAHO and some unfunded project expenditures as well as some variances that are ongoing and structural in nature and which have been addressed in next year's budget.

  <u>One time, non recurring expenses - $4,703,000</u>
  - $2,150,000 in JCAHO related costs. This includes $450,000 in contract services cost for the JCAHO survey that commenced on April 18 and $1.7 million for project costs as a result of deficiencies cited in the 2002 survey. Continued accreditation by JCAHO is necessary for the hospital to continue to receive payment for Medicare and Medi-Cal services.
  - $1,433,000 for Radiology, including $1,085,000 in Radiology Equipment project costs associated with facilities renovation and installation of equipment, and $348,000 project costs associated with installation of nuclear medicine equipment,$670,000 in cost over runs associated with the remodel of the CHN headquarters at 2589 25th Street;
  - $450,000 to replace Operating Room chillers;

  <u>Recurring expenses addressed in structural adjustments in the 2005-06 budget - $3,240,000.</u>

  - $1,059,000 in additional cost of Radiology registry services to backfill vacant positions.
  - $2,181,000 comprised of several contracted services where expected costs will exceed budget.

- ($2,492,000) unfavorable variance in materials and supplies. A favorable variance in pharmacy expenses of $1,500,000 partially offsets a $4,000,000 unfavorable variance in other medical and non-medical supplies, which includes $1,000,000 in blood costs, $537,000 in budgeted savings not realized as a result of delay in implementing filmless radiology, $750,000 in budgeted savings not realized as a result of delayed implementation of Proposition C activities by the Controller's Office, $350,000 in unbudgeted expenses associated with a sales tax audit conducted this year and $250,000 in JCAHO related costs for the survey that commenced April 18.
- $772,000 favorable variance in work-orders due to lower than budgeted workers compensation costs offset by additional expenses for tele-communication,utilities, reproduction, mail, and central service expenses.

Laguna Honda Hospital: Year-end projections show a deficit of $455,000.

Revenues are projected to be $655,000 greater than budget due to a projected favorable adjustment to the computation of Distinct Part Skilled Nursing supplemental payments (DPNF). The Rate Development Branch of the State Department of Health Services is finalizing approval of an increase in DPNF rates retroactive to 8-1-04. This is offset by a $129,000 negative variance resulting from delay in implementing paid parking reflected in Fees and Miscellaneous revenue.

Expenditures are projected to be $1,110,000 more than budgeted primarily due to unfavorable variances in Personnel Services and Fringe Benefits ($1,510,000). This is primarily a result of changes in the laundry worker budget this year. There are 27 laundry workers on the payroll who are not budgeted. Although we have been utilizing these workers in other areas, accommodating these positions has made it impossible to meet our salary savings target. In addition, the retiree benefit subsidy charged to LHH is over budget by $311,000.

Materials and supplies are projected to exceed budget by $300,000.

This is offset by $700,000 projected savings in work order payments for energy costs and workers compensation costs.

Primary Care: Year-end projections show a surplus of $1,521,000.

Revenues are projected to be $2,106,000 greater than budgeted due to a budget timing difference in recording TCM/MAA revenues of $1,224,000 related to the previous year, and $1,035,000 in improved net revenues compared to budget.

Expenditures are projected to be over budget by $585,000 due to unfavorable variances in Personnel Services and Fringe Benefits and work order expense.

Health at Home: Year-end projections show a deficit of $209,000.

Revenues are projected to be $187,000 less than budget due to an unfavorable variance in TCM/MAA revenue, related to the reduction in public health nursing personnel following the mid year cuts.

Expenditures are projected to be $22,000 less than budget due to unfavorable variances in Personnel Services and Fringe Benefits expenditures.

Jail Health Services: Year-end projections show Jail Health at budget due to unfavorable variances in Personnel Services and Fringe Benefits that are offset by favorable work order variances for workers compensation expenses.

Public Health: Year-end projections show a surplus of $601,000.

Revenues are under budget $300,000 related to a shortfall in TCM/MAA revenues.

Expenditures are projected to be $901,000 under budget due to:

- $500,000 in favorable variances in Non-personal Services resulting from underutilization of contracts;

- $35,000 in net favorable variances in Material and Supplies; and
- $366,000 in favorable variances in Services of Other Departments.

Mental Health: Year-end projections show a surplus of $4,000.

Revenues are projected to be on budget.

Expenditures are projected to be $4,000 under budget due to small offsetting variances in materials and supplies and workorders.

Substance Abuse: Year-end projections show a surplus of $350,000.

Revenues are projected to be on budget.

Expenditures are projected to be under budget $350,000 due to:

- $200,000 in favorable variances in Personnel Services and Fringe Benefit expenditures;
- $150,000 in favorable variances in Non-Personal Services.

Conclusion

The Department is projected to return a surplus of $10,234,000 to the General Fund, which is $3,502,000 more than required as a result of mid-year cuts and carryforward surplus to the FY 2005-06 budget. The projection also identifies a number of one-time expenses and structural issues which we are addressing in next year's budget and which will require a revenue-supplemental appropriation.