

MESSAGE FROM THE DIRECTOR OF HEALTH ON FY 06-07 BUDGET

Introduction

In this first budget report to the Health Commission for FY 06-07, we are presenting several important components of the overall budget that we will submit to the Mayor's Office on February 21st. These include the structural, inflationary, and regulatory issues that must be addressed as unavoidable costs of doing business, together with the increases to revenues that serve to offset these expenses. We are also including initial budget assumptions related to increases in costs of doing business that our community partners incur as we work with them to refine those assumptions. As the budget process continues, some of these items may change. We will provide updates as they are identified at subsequent Health Commission meetings.

This report will also address important changes in our approach to budgeting this year, to develop a budget that reflects a more integrated approach to the Department.

In the following sections we present an overview of the Citywide shortfall and Mayor's Instructions, a history of changes in the Department's General fund with a focus on the current year, a discussion of the structural, inflationary, and regulatory issues that impact expenses, and the increases to revenue we are projecting at this time.

Moving to an integrated approach to the Budget Process

Following issuance of the consulting report by Health Management Associates, we moved quickly on a key recommendation in that report to establish an Integration Steering Committee of senior administrative and clinical leadership from the Department's delivery system. This leadership group is also functioning as the Executive Budget Planning Committee for the department. The Committee is guiding the budget development process and working collaboratively to identify and develop initiatives that work to the benefit of the entire Health Department and its clients. Key initiatives under development include an integrated plan to coordinate placement of long-term patients in the most appropriate and cost effective settings, and an initiative to restructure our Primary Care delivery system to expand capacity, increase productivity and improve financial performance. These initiatives will be presented at subsequent meetings of the Health Commission.

The mission of the San Francisco Department of Public Health Integration Steering Committee is to (1) place clients first (2) promote the good of the entire Department (3) maximize resources by aligning with the Department's mission and vision (4) and communicate effectively about the Department's role and function.

The Citywide Shortfall

The Mayor's budget staff is projecting an \$80 million General Fund shortfall for FY 06-07. While this shortfall is significantly less than the \$130 million shortfall we faced last year, the reductions over the last several years limit the options that remain to effect further reductions.

Although the local economy is showing recovery, the increase in City expenditures continues to outpace growth in General Fund revenues. In addition, employee costs for salary and benefits are projected to increase substantially in the coming year. Unlike the State and Federal government, the County is strictly forbidden by the State Constitution from borrowing money for operating expenses and therefore must take action to reduce spending or increase revenues to balance its budget.

The \$80 million citywide shortfall is comprised of the following components.

Sources

Net Growth in Sources	\$ 121M
Less Rainy Day Requirements	(\$ 29M)
Less Mandated Baseline Contributions	<u>(\$36M)</u>
Available Sources	\$ 56M

Uses

Personnel – Annualized MOU costs	(\$ 50M)
Employee benefit costs (retirement and health/dental benefits)	(\$ 74M)
Non-salary costs	<u>(\$ 12M)</u>
Expenditure Increase	(\$136M)
 Total Projected Shortfall	 (\$80M)

The shortfall projection assumes that the City will resume payment for the 7.5% employee share of retirement contributions in accordance with negotiated labor agreements, but that no wage increases will be provided for the nearly forty employee groups whose labor contracts will be open for negotiation next year. To the extent that wage increases are provided, the cost of funding those increases would add to the projected shortfall. Other variables that may influence the size of the projected shortfall over the coming months include revenue collections, current over spending by City departments, and the impact of budget decisions at the state and federal levels.

The Health Department's General Fund subsidy represents approximately 20% of the City's discretionary General Fund budget. Twenty percent of the projected shortfall is \$16M.

Although the County will undoubtedly be looking at new fees or increasing existing fees,

it is important to remember that tax increases require approval of the voters. The next election on which a County revenue measure could be placed would be November 2006.

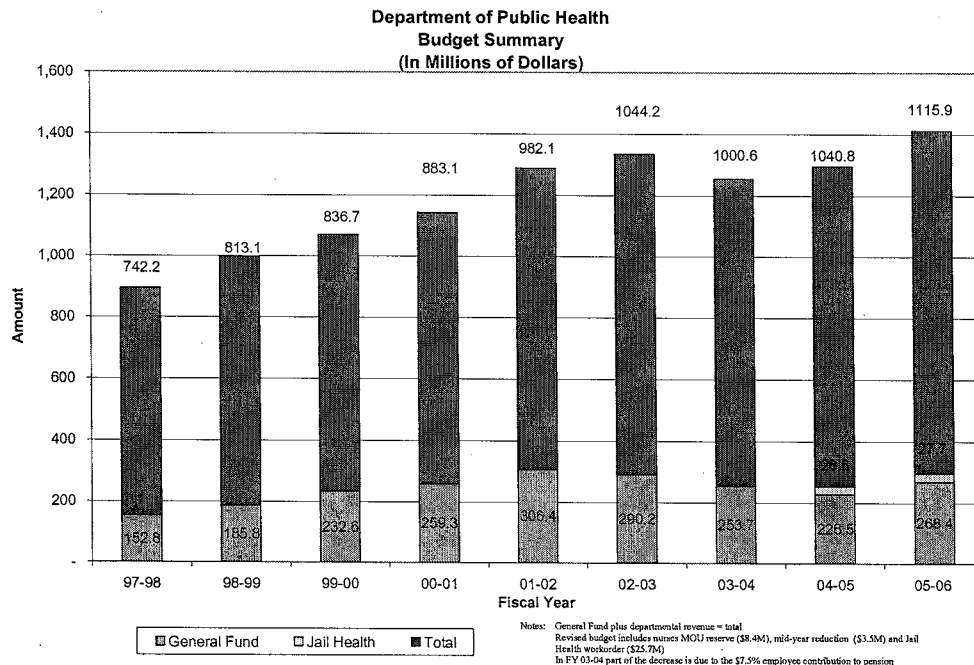
Mayor's Instructions

The Mayor's instructions to departments are as follows:

- Absorb half the cost of restoring 7.5% employee pickup for its own employees. For DPH, the projected cost of this restoration is \$14.26M and therefore, the amount we must absorb is \$7.13M. The instructions further require that we meet this target with ongoing expenditure reductions or revenue increases (e.g., local fee increases) and not rely on one-time sources.
- Submit a list of expenditure savings worth 3% of the department's reduced General Fund subsidy in the event additional reductions become necessary. This translates to an additional reduction of \$7.8M.
- Propose one-time investments and expenditures equal to 3% of our reduced General Fund (also \$7.8M). Examples of one-time uses include but are not limited to capital improvements, systems upgrades, and capacity-building efforts. One-time uses that generate revenue or reduce operating cost will receive favorable consideration.

Health Department General Fund

The chart below summarizes changes in total expenditures and General Fund.



In FY 2005-06 the General Fund budget began to reverse the trend of year over year declines that began in FY 01-02. The FY 2005-06 General Fund is \$268.4 million, which is an increase of \$41.9 million from FY 2004-05. When the Jail Health workorder is taken into account, the growth in the General Fund appropriations is \$43.0 million from \$253.1 million in FY 2004-05 to \$296.1 million in FY 2005-06.

How we balanced the current year budget

The increase to the Department’s General Fund was primarily related to structural, inflationary, and regulatory issues, including MOUs and COLAs that added over \$63M in expenses. This was partially offset by revenue increases, and moderate reductions in administrative and service costs. Importantly, we have been able to preserve our full range of services through a difficult period of time for the City and the Health Department.

The following table summarizes the components of the \$41M increase to the Department’s General Fund:

<u>Budget Initiatives</u>	<u>FTEs</u>	<u>General Fund (000)</u>
Cost increases due to structural, inflationary and regulatory issues	15.57	59,058
Contractor COLA		4,551
Increased Revenues	44.14	(19,324)
Carryforward of FY 2004-05 Surplus		(6,050)
Capital Projects and One-Time Efficiencies		6,527
New Funding	1.05	4,369
Service Cuts	(15.09)	(3,797)
Administrative and Operating cuts	(18.03)	(3,178)
Budget Committee Actions	(0.07)	(266)
Total	27.57	\$ 41,890

Financing the unavoidable costs of doing business

Before we can begin to address the requirement to decrease our General Fund, we must first take into account unavoidable increases in the cost of doing business that result from structural, inflationary, and regulatory issues. These are discussed below and shown in greater detail on the attached spreadsheets.

Regulatory

The Healthcare industry is among the most heavily regulated sectors of the economy. Federal, and State agencies, and licensing agencies such as JCAHO increasingly require our institutions and other public health services to incur additional costs. These costs include increased levels of clinical staff, management oversight and increased cost of monitoring and reporting on compliance. For the 2006-07 fiscal year, we will be required to add positions in Environmental Health, increase clinical resources at SFGH and LHH, and increase staffing for quality and compliance monitoring.

Regulatory Increases

Hire New Agricultural Commissioner per State regulations – Environmental Health	\$91,877
Add SureMed (OMNICELL) Pharmacy Lease per JCAHO accreditation standards – SFGH	225,000
Increase Inpatient Pharmacy Staffing per JCAHO accreditation standards – SFGH	820,901
Add staff for increased requests for Quality Data Reporting - SFGH	166,384
Nurse Practitioners to replace interns and residents	865,844
Increase Housekeeping Staffing to prevent citations- LHH	179,567
Maintain annual dental visits mandated by State - LHH	<u>65,000</u>
Total Regulatory Issues	\$2,414,573

Inflationary Increases/Unavoidable Increases in doing business

For the 2006-07 fiscal year, we are anticipating significant increases in costs of pharmaceuticals, natural gas, and rents and leases. We are also subject to increasing costs of our laundry contracts at Laguna Honda. We also appreciate that our community partners and UC also incur increased costs due to inflation. We are working collaboratively with our community partners to fully assess the effects of inflation on their services. In the meantime, we have included a 2% contractor COLA as a placeholder pending a full assessment of that cost.

Wherever possible, we try to deal with inflationary increases by decreasing our level of utilization. Similarly, we will work with our community partners to determine the extent to which we must decrease utilization via our service contracts in order to cover the full cost of doing business.

Inflationary Increases

Increased cost of Natural Gas and Steam – Dept wide	\$1,268,458
Increased cost of Pharmaceuticals – Dept wide	2,115,000

Inflationary Increases (continued)

Increases in Housing Master Lease Rent and annualization of contracts – Housing and Urban Health	445,088
Increase in Laundry contract due to price and volume - LHH	415,000
Contractor's COLAs – Dept wide	<u>4,806,257</u>
Total Inflationary Increases	\$9,049,803

Structural Issues

A structural problem exists when the dollars budgeted are less than funding required to support the level of compensation to employees or services provided to clients. Each year we attempt to address the range of structural budget shortfalls that cause us to exceed appropriations and request supplemental funding. Over the past several years we have been successful in funding many of these items. However, it was necessary to seek a supplemental appropriation in 2005-06 for personnel costs at the Hospitals. We must address those structural shortfalls in the 2006-07 budget as well as several other costs we are incurring that are expected to exceed budget this year.

Structural Issues

Increase Private Provider Network funding based on usage – CBHS Mental Health	\$500,000
Fund shortfall for Supportive Housing Services (Conard House) - CBHS Mental Health	125,000
Correct positions to reflect actual duties - CBHS Mental Health	475,108
Increase usage of Long-term care (Psychiatric) Beds to expand reliance on alternatives to SFGH – CBHS Mental Health	4,211,260
Correct positions to reflect actual duties – Environmental Health	70,224
Correct City Attorney workorder shortfall – Dept wide	266,000
Fund debt service for loan from PUC for replacement of chiller - SFGH	183,140
Correct salary, premium, holiday and temp help shortfalls - SFGH	3,566,568

Structural Issues (continued)

Correct positions to reflect actual duties - Housing and Urban Health	26,111
Correct Nursing Staffing Structural shortfall – LHH	2,290,727
Increase funding for unbudgeted Laundry Positions - LHH	371,880
Correct workorder shortfalls for Waste Disposal – LHH	80,000
Increase DSG Billing Vendor Fees per system upgrade - LHH	53,000
Increase funding for Dermatology Clinic to meet patient needs - LHH	25,000
Increase funding for Podiatry Clinic to recovery for loss of student help – LHH	34,115
Correct Positions in order to meet State Match requirements – Maternal Child Health	356,679
Correct supply shortfall – Dept wide	120,000
Increase Facility Maintenance Staffing for Health Centers to meet existing needs – Primary Care	64,295
Correct Positions to reflect actual duties – Primary Care	169,115
Correct RN Staffing Mix at the Urgent Care Clinic at TWHC – Primary Care	383,593
Correct Position to reflect actual duties – Public Health	335,973
Provide MOU required standby pay for on-call physician - PH	67,126
Reduce Salary Savings to reflect the correct step - STD	107,796
Increase funding for Methadone Detoxification Services for Homeless Clients to actual amounts – CBHS Substance Abuse	120,000
Increase funding for Security for CATS' McMillan Drop-in and Sobering Centers to actual amounts – CBHS Substance Abuse	157,531
Correct shortfall for Treatment Access Program Facility costs – CBHS Substance Abuse	59,244

Structural Issues (continued)

Correct positions to reflect actual duties – CBHS Substance Abuse 28,050

Total Structural \$14,247,535

Revenue Neutral Programs

One fortuitous aspect of our ability to generate revenue is that in a few cases we are able to create new services, which are funded entirely through revenues linked to the services. In this budget we propose to include the following 22 initiatives.

<u>Revenue Neutral Programs</u>	<u>Expenditure</u>	<u>Revenue</u>	<u>General Fund</u>
Mental Health Services Act (Prop 63) – CBHS Mental Health	\$5,792,247	\$5,792,247	\$0
EPSDT Initiative - CBHS Mental Health	700,000	700,000	0
Adult Med Ctr/Family Hlth Ctr - Diabetes Management – SFGH	127,708	138,000	(10,292)
Outpatient Speech Program - SFGH	98,947	99,398	(451)
MRI Trailer Evening Shift Operation – SFGH	266,874	295,720	(28,846)
Expansion of 4C Clinic Hours - SFGH	303,949	312,665	(8,716)
Comprehensive Cardiac Care: Heart Failure Clinic – SFGH	22,852	28,851	(5,999)
Colon Cancer Screening Initiative - SFGH	159,681	162,006	(2,325)
Family Health Center Medi-Cal Revenue – SFGH	235,811	237,000	(1,189)
Charge Description Master Maintenance - SFGH	88,443	88,443	0
Medical Marijuana Program - SFGH	48,062	133,110	(85,048)

<u>Revenue Neutral Programs (Continued)</u>	<u>Expenditure</u>	<u>Revenue</u>	<u>General Fund</u>
Reducing Re-hospitalizations for Cancer, Diabetic & CHF Patients through Rehabilitative-focused Home Health Services – SFGH	265,440	265,440	0
Medical High Utilizer – Health at Home	157,007	157,007	0
Move various personnel off expiring grants to FQHC Medi-Cal Funding – Housing and Urban Health	878,831	878,831	0
Increase workorder with Sheriff for additional positions – Jail Health	390,984	390,984	0
AIDS Expansion and Dementia Program – LHH	240,018	243,079	(3,063)
Breast and Cervical Cancer Patient Navigators Program – Health at Home	359,691	435,600	(75,909)
Accounting correction for Intradepartmental Workorders – Primary Care	1,105,739	1,105,739	0
California Children Services - MCH	127,905	127,905	0
Adult Immunization Clinic	426,485	426,485	0
Cannabis Program position	<u>120,863</u>	<u>214,092</u>	<u>(93,229)</u>
Total Revenue Neutral Programs	\$11,992,121	\$12,307,188	\$(315,067)

Increased Revenues

Increased revenue provides funding to absorb inflationary and structural costs and offset the decrease in General Fund reductions that we are asked to make. This is consistent with our Strategic Planning initiative to adopt a financial strategy that enhances revenue and reduces expenditures to ensure that the overall public health system operates cost-effectively. We continue to explore opportunities to increase revenues and anticipate that we will identify additional opportunities through the budget process. Following are the initiatives identified at this time.

Increased Revenues

Community Behavioral Health Services (Mental Health) - SSI Advocacy	\$175,817
SFGH - \$9M Medi-Cal reform, \$1M price increase, \$1M placement initiative	11,000,000
LHH – Net SNF Per Diem increase	16,000,000
Primary Care – Medi-Cal and SSI Enhancement	775,688
Environmental Health – Hazmat and Weight and Measures Fees	<u>412,518</u>
Total Increased Revenues	\$28,364,023

Summary

The net effect of inflationary, regulatory, structural, revenue neutral, and revenue increases results in a surplus of \$2,967,178 as follows:

	<u>Amount</u>
Regulatory Increases	\$2,414,573
Inflationary Increases	9,049,803
Structural Issues	14,247,535
Total Revenue Neutral Programs	(315,067)
Revenue Increases	<u>28,364,023</u>
Totals	\$(2,967,178)

This surplus can be put towards the Mayor’s Office instructions to absorb \$7.13M for restoration of the retirement pickup and \$7.8M for the 3% GF savings target. Clearly additional cuts will be needed to meet our obligation.

Next Steps

We will bring our full budget proposal to the Health Commission as soon as possible.