

DEPARTMENT OF PUBLIC HEALTH

FY 13-14 & 14-15 BUDGET

April 23, 2013

Department of Public Health Financial Position

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- **DPH is facing very significant financial challenges**
 - City General Fund situation has improved, but still facing \$129M and \$263M deficits for FY 13-14 and FY 14-15, respectively
 - \$31M current year deficit required General Fund supplemental appropriation
 - Large additional draw on General Fund projected in the future
 - DPH must prepare itself to be financially stable in changing health care world

- **Causes of Financial Challenges**
 - 1. Historical “Structural” Issue
 - 2. Rapid cost inflation
 - 3. State and Federal reductions
 - 4. Revenues not keeping pace with costs

What is Causing Deficits at DPH?

1. Historical “Structural” Deficit

“Structural” Deficit

- DPH has historically been under-budgeted for salaries and fringe benefits
- In the past, this was less of a problem because DPH was able to cover some or most of its overspending with excess revenues
- But the imbalance has grown with salary and benefit cost increases
- As a result the General Fund has borne more of these costs

History of DPH Structural Deficit (\$ Millions)

FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
\$ 23.30	\$ 16.86	\$ 14.15	\$ 20.81	\$ 29.49	\$ 41.25

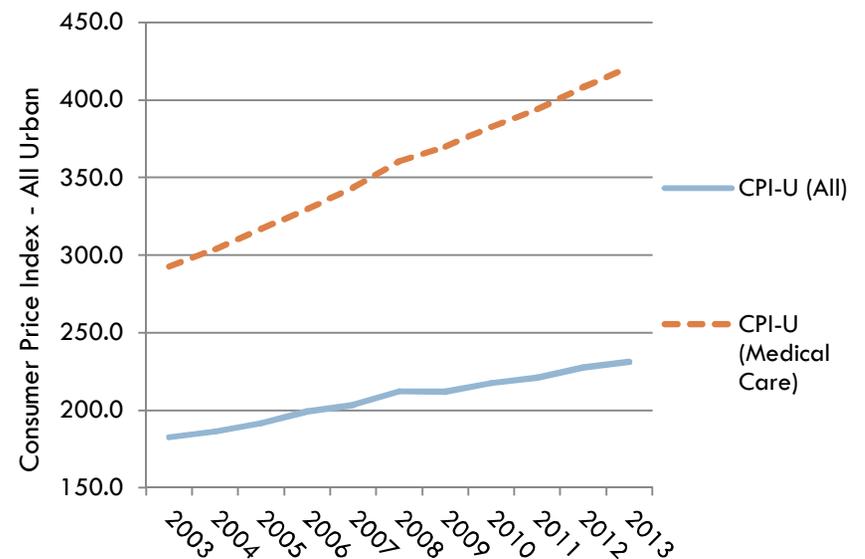
What is Causing Deficits at DPH?

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2. Rapid Cost Inflation

- Like other healthcare systems, costs are growing faster than general inflation
- ~\$50 Million per year growth in personnel and other costs (pharmacy, medical supplies, etc) just to maintain existing service levels (5-Year Financial Plan)

Medical Inflation has Significantly Outpaced General Inflation



What is Causing Deficits at DPH?

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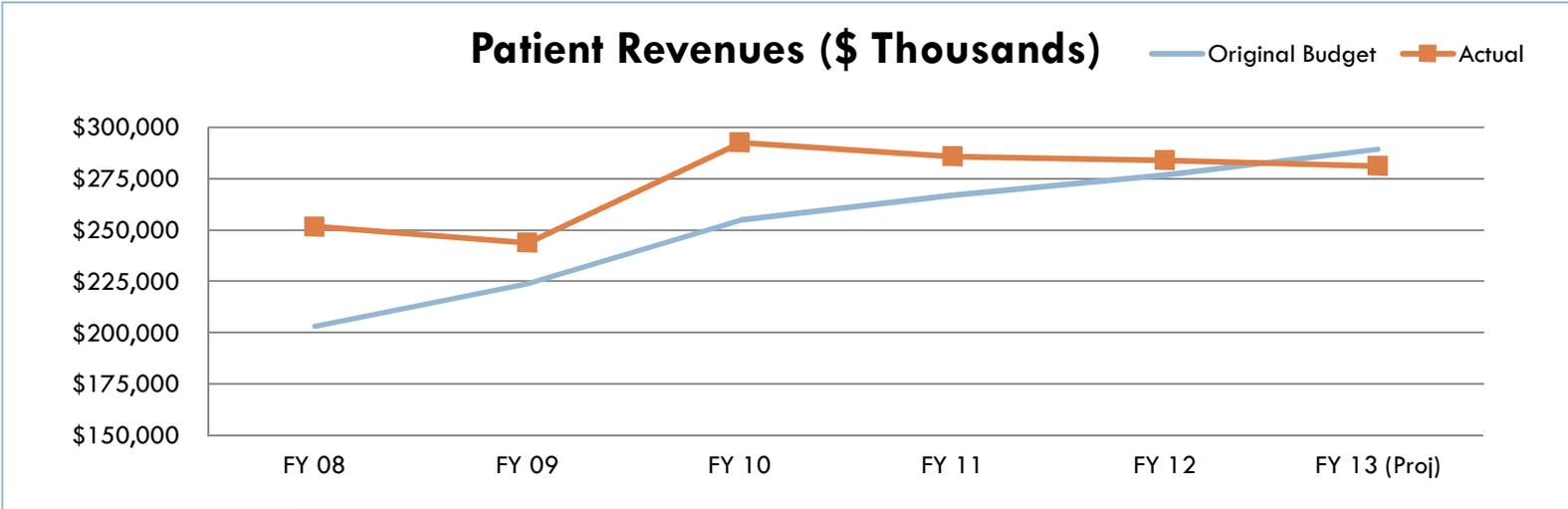
3. State and Federal Reductions

- State Skilled Nursing Facility rate cut (\$30+M)
- Failure to Approve Mental Health Reimbursement Program (\$16M)
- Managed Care rates for Seniors and Persons with Disabilities (\$19M)
- Federal Grants – HIV, TB, etc
- Realignment?

What is Causing Deficits at DPH?

4. Patient Revenues Not Keeping Pace with Costs

- Expiration of federally enhanced payments
- Transition to Managed Care Reimbursement Model
- More aggressive revenue budgets to minimize service reductions, but limits “upside” available to cover costs



5-Year Projection

Table 26: Base Case Projections for the Department of Public Health (DPH) FY 2014-18 (\$ in millions)

	<u>FY 13-14</u>	<u>FY 14-15</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>
SOURCES Increase / (Decrease)					
DPH Revenues	10.8	17.0	24.7	23.8	23.7
USES Decrease / (Increase)					
Salaries and Benefits	(44.6)	(35.6)	(28.6)	(30.6)	(32.3)
SFGH Rebuild on-going and one-time FF&E costs	(40.0)	(25.0)	15.0	23.8	(1.3)
Annualization of Anticipated Supplemental	(37.6)	(2.2)	(2.4)	(2.5)	(2.7)
Inflation on non-personnel costs and grants to non-profits	(6.7)	(20.7)	(20.7)	(19.9)	(19.8)
Annualize State Supplemental	(3.0)				
Health Care Reform, Regulatory and Other	(21.0)	(3.1)	(5.2)	(8.2)	(16.3)
TOTAL CHANGES TO USES	(152.8)	(86.6)	(41.8)	(37.5)	(72.5)
Projected Growth (Shortfall) vs. Prior Year	(141.9)	(69.7)	(17.1)	(13.7)	(48.8)
Cumulative Growth	(141.9)	(211.6)	(228.7)	(242.4)	(291.2)
Portion of General Fund Growth Assumed for DPH	85.0	22.4	18.6	14.3	19.4
Remaining Surplus (Shortfall) vs. Prior Year	(57.0)	(47.3)	1.5	0.6	(29.4)
Cumulative Projected Surplus (Shortfall)	(57.0)	(104.2)	(102.7)	(102.1)	(131.5)

5-Year Projection

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Absent changes, DPH will require an increasing share of the General Fund:

- If no action is taken, \$291M additional General Fund need in five years
- Even after accounting for growth in the economy, DPH would need \$131M more than its proportional share of that growth

Take-Aways:

- DPH can position itself to be successful and financially stable in the future
- But that requires making some difficult decisions today
- If we don't take action, we risk continued deficits and deterioration of safety net services

FY 13-14 and FY 14-15 Proposed Budget

**SAN FRANCISCO DEPARTMENT OF PUBLIC HEALTH
FY 2013-15 PROPOSED BUDGET - Health Commission Meeting**

Increase/(Decrease) in DHP General Fund Support Compared to FY 12-13 (\$ Millions)	13-14 Impact	14-15 Cumulative Impact
Baseline Growth*		
Salaries and Benefits	44.6	80.2
SFGH Furniture, Fixtures and Equipment	40.0	65.0
Structural Salary Deficit	37.6	39.8
Subtotal	122.2	185.0
Budget Proposals		
Non-Personnel Cost Inflation	7.5	16.1
Regulatory Costs	11.2	10.1
Revenue	(4.4)	(6.2)
Reductions	(13.6)	(25.8)
Emerging Needs	5.2	8.3
Subtotal	6.0	2.4
Total General Fund Support Increase (Decrease)	128.2	187.4

*Projections from City and County of San Francisco, Proposed Five-Year Financial Plan, Fiscal Years 2013-14 through 2017-18

Cost of Doing Business Update (CODB)

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CODB Status in FY13-14

- In FY12-13, CBO's received a 1.91% CODB (2% annualization in FY13-14)
- This 2% remains funded in FY 13-14 and FY 14-15, but there is no additional CODB increase in the budget.
- The Department is unable to fund a CODB without reducing and reallocating existing service funding. The Department has not proposed this in FY13-14.
- The Department recognizes that CBO's may need to reduce direct services to fund CODB increases to support infrastructure costs.
- Financial projections assume CPI-based CODB beginning in FY15-16 as part of its overall strategy to address this gap.

Across-the-Board-Reductions

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- The Department is proposing a 5% reduction to its contractual expenditures, through an across-the-board reduction to unmatched General Fund dollars
- The Department is not proposing reductions to selected modalities, including homeless specific services, Methadone services, children's services, etc. See the initiative for a complete list.
- This initiative will result in \$7,312,104 in annual savings, or a reduction of 9% to total General Fund support of contractual services. The impact may be higher to agencies that rely heavily or completely on unmatched General Fund monies.
- Outpatient reductions would be implemented as of September 1, and residential service reductions would be implemented as of January 1, to allow sufficient transition time.
- Agencies may propose a different scenario to achieve their assigned savings than how the reductions were allocated on the reduction summary. The reduction summary is a formula applied to unmatched General Fund.
- Any errors or disagreements in the reduction summary should be emailed to michelle.ruggels@sfgov.org, who will follow-up with you to address.

Request for Proposals (RFPs)-Health Care Reform Readiness

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- In anticipation of new programmatic responsibilities expected under the Affordable Care Act (ACA) and California's 1115 Waiver, DPH is in the process of examining its service delivery system.
- Specifically, the Department will be looking to realign its contractual services to meet one or more of the following objectives:
 - Essential services to meeting the Affordable Care Act (ACA) milestones
 - Services reimbursable under ACA (e.g. MediCal reimbursable)
 - Services that directly help hospital discharge
 - Services that support population health
- Upon completion of this planning process, the Department will release a packet of RFP solicitations to meet these objectives, to achieve budgetary savings, and to adhere to the City's contractual solicitation timeline requirements.
- Total annualized savings from these proposals is \$17,687,896. RFP implementation would begin in FY14-15 through FY15-16.
- The Department will hold Town Hall meetings related to the implementation of Health Care Reform, and to receive feedback for its community based partners during the development of the RFPs.

Timeline

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- April 23 – First Health Commission Budget Hearing
- May 7 – Second Health Commission Budget Hearing
- June 1 – Mayor’s Balanced Budget Submission
- June – Board of Supervisors Budget (BOS) Hearings
- June 28 – BOS Budget and Finance Committee approves amended budget
- Mid-July – Final BOS approval of Budget