



**London N. Breed,
Mayor**

**Jenny Louie,
Chief Financial Officer**

MEMORANDUM

To: President Dan Bernal and Honorable Members of the Health Commission

Through: Dr. Grant Colfax, Director of Health
Greg Wagner, Chief Operating Officer

From: Jenny Louie, Chief Financial Officer

Date: January 12, 2023

Scheduled for the January 17th Commission meeting is the first hearing on the Department of Public Health's proposed budget for FY 2023-2024 and FY 2024-2025 (FY 2023-25). A second hearing is planned for the February 7th 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 14th, one week before department budget submissions are due.

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

January 17

- Overview of FY 2023-24 approved base budget and approach to budget planning
- Projection on current year salary spending (also required under Section 3.3)
- The City's Five-Year Financial Projection and Mayor's Budget Instructions
- Department goals and priorities for FY 2023-24 and FY 2024-25

February 7

- Proposed balancing plan with detailed initiatives
- Request for Health Commission approval of proposed budget for submission to Controller and Mayor's Office

A third meeting will be scheduled for February 21st if needed to address follow-up issues raised at the second meeting, as well as additional meetings as necessary throughout the spring to keep the Commission apprised of the latest developments.

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 financial picture has worsened considerably since the summer when the FY 2022-23 and FY 2023-24 budgets were finalized. Slowing market returns have contributed to increased pension costs. Federal pandemic relief, which proved key to

balancing the City's budget over the last several years, has largely come to an end. The City has also assumed new financial commitments, including wage increases in the labor agreements agreed to last spring and a new school funding set-aside passed by voters last November. Meanwhile, the slow return to the office has resulted in flat or declining business and property tax revenues.

As a result, the City projects a \$728 million General Fund deficit over the next two years. Departments have been instructed to submit budget proposals that reflect a 5% General Fund reduction in FY 2023-24 and an 8% ongoing General Fund reduction in FY 2024-25. For DPH, this translates to \$49.7 million in FY 2023-24 and \$79.5 million in FY 2024-25. In addition, departments should prioritize filling or reclassifying vacancies for core departmental functions and Mayoral priorities and propose remaining vacancies for savings.

There remains considerable uncertainty in this projection, especially with regards to the impact of higher inflation and interest rates, long-term telecommute arrangements, and a weakening tech sector on the City's tax revenues. This deficit projection also does not account for a possible recession or inflation levels that stay significantly elevated. The Mayor's Office has asked departments to be ready for the potential for further reductions beyond these targets should the economic situation weaken further.

The Mayor remains committed to her core policy priorities, which are unchanged from the prior year. These are:

- (1) recovery of the local economy with a focus on downtown economic core;
- (2) improving public safety and street conditions;
- (3) reducing homelessness and transforming mental health service delivery;
- (4) accountability and equity in delivery of programs, services, and spending.

DPH Strategic Goals and Priorities for FY 2023-24 and FY 2024-25:

Over the course of the upcoming two-year budget period, the department will focus on implementation and on institutionalizing of the investments made in recent years. The prior year budgets include initiatives that support six key areas of focus for the department as follows:

I. Financial Stewardship and Leveraging Revenues

The state continues its multi-year roll out and refinement of CalAIM, a framework for broad-based delivery system, program, and payment reform across the Medi-Cal program, with the focus of a whole-person care approach.

Currently DPH is participating in two new CalAIM benefits which started in 2022:

- Enhanced Care Management (January 2022) - A whole-person, interdisciplinary approach to comprehensive care management that addresses the clinical and non-clinical needs of high-cost, high-need managed care members through systematic coordination of service

- Community Supports - Medically appropriate and cost-effective alternatives to services covered under the State Plan. DPH is currently participating with its Medical Respite program (January 2022) and Sobering Center (July 2022) Services
- Supports for Justice Involved populations (January 2023) - In partnership with San Francisco Sheriff's Office, Juvenile Probation Department, and Human Services Agency, insurance screening and pre-release Medi-Cal application processes are in place for individuals booked into County Jail and Juvenile Hall. This initiative also provides Medi-Cal eligibility to Jail Health Patients 90 days before release.

Beyond the creation of new benefits for services that were not previously eligible, CalAIM also seeks to reform and restructure its current methodology and has begun the implementation of several initiatives.

- Long-Term Care Carve-In (January 2023) – This initiative transitions the responsibility of the Long-Term Care benefit in skilled nursing facilities (SNFs) to Managed Care Plans. This change was effective January 2023.
- Behavioral Health Payment Reform (July 2023) – The State will shift its billing unit of record from service function codes and minutes to Service Types and Current Procedural Terminology (CPT) codes.

While these changes may not necessarily have a financial impact, the transitions will have an operational impact and must be completed successfully to maintain revenues.

II. Continuing Investment in and Re-envisioning of Behavioral Health Services

The last several years included historical investments in Behavioral Health Services at all levels of care through growth in two major funding sources – Proposition C and Mental Health Services Act – as well as new general fund investments.

Mental Health San Francisco (Mental Health SF) programs under Proposition C Our City, Our Home. Starting in FY 2020-21 the department has phased in programs totaling \$98 million annually including:

- Additional Bed Capacity - \$11.4 million in operation costs for up to 196 new beds and \$129 million for one-time facilities acquisition
- \$11.5 million to increase services in the street, in shelter, and in permanent supportive housing. Programs includes seven Street Crisis Response Teams, Behavioral Health expansion in Street Medicine and Shelter Health Teams, and expansion DPH Behavioral Health Services at Permanent Supportive Housing sites.
- \$2.5 million in other Mental Health Services for Transitional Aged Youth, Transgender services and Behavioral Health Access Center services expansion
- \$10.8 million in Overdose Prevention for the Street Overdose Response Team, the expansion of contingency management and for medication-assisted treatment

- \$2.8 million in Harm Reduction and expansion of overdose education and naloxone provision

Mental Health Service Act (MHSA) Funding - Last year's budget programmed \$4 million in additional funds ongoing funds to support new, innovative and culturally congruent services to meet the pressing needs of the Black/African American community and mental health support for birthing people who are Black-Identified. In addition, \$3 million was invested annually to create an Office of Overdose Response and \$12.8 million was allocated for one-time capital improvements.

Other Behavioral Health Investments – Over \$10 million in other Behavioral Health Programming to strengthen services for clients on involuntary holds, expand comprehensive services, create a utilization management team, and enhance coordination in the residential system of care.

III. Strengthening program and department operations to improve service delivery and Workforce and Health Equity

Last year's budget proposal included \$11.1 million and 56 FTEs in investments in Human Resources, Workforce Development and Equity, Business Office/Contracts, Communications, Compliance and Security to strengthen operating and administrative staffing levels. The additional support reflects new program mandates and growth in DPH and ensures sufficient support and safety for our workforce as well as maintaining the integrity of our core programs and services.

IV. Strengthening Population Health and Transitioning COVID-19 response functions into operations

Over \$6.8 million annually was invested to bolster the infrastructure of Population Health Division, including our Public Health Emergency Preparedness and Response (PHEPR) branch, based on lessons learned from the last three years.

In addition, the Department continues to step down and maintain its response to the COVID-19 pandemic. As part of last year's budget process, the Department invested \$25 million to establish a baseline level of ongoing COVID Task Force functions and infrastructure to monitor, communicate and address changes to the pandemic. The upcoming budget proposal will outline the spending planning for continuing services.

V. Recertification of Laguna Honda Hospital and Sustaining Long Term Improvements

As you are aware, in April 2022, the federal Centers for Medicare and Medicaid Services (CMS) terminated Laguna Honda's participation in Medicare and Medicaid Provider Participation Programs. Laguna Honda, with support from across the department, continues to work to meet all regulatory requirements and make rapid improvements to prepare for recertification. This includes long-term operational, institutional, and cultural changes needed to achieve

recertification and to ensure the long-term success of the hospital. Certification experts conducted a comprehensive organizational assessment and made recommendations on gaps and improvements, and Laguna Honda is implementing those improvements.

Between the Laguna Honda staff and expert consultants, we are confident we have the team in place for successful recertification. Looking beyond the recertification process, additional investments will be necessary to ensure long-term sustainability of those improvements and to maintain patient safety, quality, and satisfaction.

VI. Expanding Electronic Health Records and Improving Access to Data

During FY 2023- 2025 budget years, the Department will move forward with the largest expansion of our Epic Electronic Health Record (EHR) since our initial go live in August of 2019. While many areas of DPH are already live on our Epic EHR, the 'Wave 3' phase of the project includes a number of new modules and will bring a large part of our organization, Behavioral Health Services, into the shared Epic record for the first time. The expansion includes the many Behavioral Health Services partner agencies in the community who support mental health and substance use treatment. Additional ancillary teams, such as laboratory services, dialysis, mammography, and more will also undergo a migration to Epic and take advantage of the patient engagement aspects.

In addition, EHR 'Wave 3' will focus on patients' engagement in their care with a lens for efficiency and equity. Examples of increased functionality include SMS text message reminders about key engagement points in their care, which will be available in the seven threshold languages for San Francisco. Patients will be able to use these messages to take actions such as self-scheduling appointments, increasing their access to care and improving efficiency and utilization at our clinics. Furthermore, a new "digital clipboard" element will help deliver consent documents in the patient's preferred language and capture electronic signature.

Approach to FY 2023-24 and FY 2024-25 Budgeting

Given the tightening budget picture as well as the significant level of programmatic and staffing level growth approved in last year's FY 2022-2024 budget process, DPH plans to focus on the following strategies for its FY 2023-2025:

1. Maximizing revenue to meet general fund targets as well as support long-term financial stewardship
2. Maintaining operations and services levels, including backfilling grants and other sources that support existing programs
3. Seek revenue-neutral opportunities to expand or strengthen services that do not require additional General Fund resources
4. Focus on full and effective implementation of new initiatives already funded during the FY 2022-2024 budget process; limit new initiatives to ensure continued focus and support on existing priorities and investments.

Because of the City's substantial investment in DPH program expansion over the last several years, the department believes it can continue to make significant progress on its key programmatic priorities by focusing on implementation and refinement of new services budgeted to come on line during the current budget cycle. DPH will make every effort to leverage anticipated revenue growth to meet its reduction target and address any internal revenue shortfalls, ensuring it can maintain current services levels and move forward with already planned expansions.

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. Should additional review and or changes be necessary, a third hearing at the Health Commission will be scheduled for February 21st.