



City and County of San Francisco
Edwin M. Lee
Mayor

San Francisco Department of Public Health

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Commissioners:

Attached is the Department's of Public Health's proposed budget for FY 12-13 and FY 13-14, including proposals to meet the City's budget instructions. The initiatives included here meet the department's budget target, inflationary and regulatory costs, and to meet the milestones required under the 1115 Waiver. However, the proposals attached do not meet the department's contingency reduction target of \$9.3 million. As a result, additional reduction proposals may be required at future commission meetings.

While the worst days of the economic downturn appear to be behind us, our budget challenges remain. We face a dual challenge of meeting significant General Fund reduction targets while also identifying funding for spending requirements that will be critical to the long-term viability of our system of care under federal health care reform. Department staff have been working on budget planning since early fall, beginning almost immediately upon the completion of the current year's budget. The budget development process is led by the Director and the Integration Steering Committee, comprised of leadership from each of the department's divisions. Budget preparation also included:

- Three town hall meetings (at 101 Grove, San Francisco General Hospital, and Laguna Honda Hospital) for Department of Public Health employees to hear about the budget situation and offer thoughts, feedback, and ideas.
- A series of three workshops with the Department's CBO partners, in addition to several meetings led by the Mayor's Office with CBO representatives from across the City.
- A request to DPH employees, broadcast through the FastFacts email, to submit suggestions for efficiencies and budget savings ideas.

Budget Deficit and Reduction Targets

In December, 2011 the City projected a General Fund deficit of \$263 million for FY 2012-13, growing to \$375 million in FY 2013-14. To address this deficit, the Mayor's Office instructed departments to submit budget proposals including:

- A 5% ongoing reduction to General Fund support beginning in FY 2012-13, and an additional 5% reduction beginning in FY 2013-14
- A contingency proposal of an additional 2.5% of General Fund support
- A reduction of 1% of General Fund supported full time equivalent positions in FY 2012-13, and an additional 1% in FY 2013-14.
- Taken together, these instructions equate to a reduction of \$69.3 million over the next two years for the Department of Public Health.

Additional Financial Challenges

In addition to the reduction targets to help close the citywide deficit, the department also faces several significant internal financial challenges and opportunities.

The mission of the San Francisco Department of Public Health is to protect and promote the health of all San Franciscans.
We shall ~ Assess and research the health of the community ~ Develop and enforce health policy ~ Prevent disease and injury ~
~ Educate the public and train health care providers ~ Provide quality, comprehensive, culturally-proficient health services ~ Ensure equal access to all

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Loss of One-Time Funding Sources Used to Balance Past Years' Budgets. Although the City's deficit is not as large as those of the past several years, in many ways the Department of Public Health's challenges are no less significant. This is because:

- For the last several years, DPH has been able to rely on one-time solutions (e.g., one-time savings and revenues) to meet its General Fund budget reduction targets.
- In each of the last three years, the department has used large, fortuitously-timed infusions of federal dollars to meet its budget targets, including the federal stimulus-funded increase to the Federal Medical Assistance Percentage (FMAP), the State Hospital Quality Assurance Fee, and Medi-Cal 1115 Waiver to limit the level of spending reductions needed.
- Unfortunately, there are no such opportunities available to DPH for the upcoming budget cycle, since each of the one-time revenues have expired, and one-time expenditure savings do not meet the requirements for two-year budgeting.

Required Financial Investment for 1115 Waiver – \$42.5 million in Federal Revenues Contingent upon Meeting of Performance Milestones. The 1115 Medicaid Waiver includes a source of funds (formerly called the Delivery System Reform Incentive Pool or DSRIP, now called the CMS Incentive Program), which will tie federal funding to ambitious performance milestones in care delivery improvements.

- This is a “pay-for-performance” program – if DPH fails to meet the milestones, then it must return some or all of the \$42.5 million in annual federal funding that DPH is expected to receive.
- In order to meet these milestones, DPH must undertake multiple delivery system improvements simultaneously across many parts of the system, with a minimum cost of \$5 million in FY 2012-13 and \$10 million in FY 13-14. These investments represent the minimum amount the department believes is needed to reach its milestones.
- Without these investments, DPH will be unable to meet the performance milestones putting millions of federal funding for DPH in jeopardy.

Other Operating Cost Increases. As it does each year, the Department must pay for unfunded cost increases necessary to sustain current levels of operations. The Department must identify funding over and above the City's budget reduction targets to pay for these increases. The increases range from additional regulatory requirements imposed on hospitals to inflation in the cost of essentials such as pharmaceuticals and medical supplies. For FY 2012-13 and FY 2013-14 these costs total \$28.5 million, including:

- \$6.7 million per year for increases in costs for our partners at UCSF (primarily resulting from labor contract requirements and benefit cost growth)
- \$13.8 million in costs to comply with regulatory findings and directives.

Strategies for Budget Initiatives

To the extent possible, prioritize programs that draw down matching funds. Much of DPH's General Fund budget is used to draw down State and federal matching funds. The budget emphasizes retaining services that maximize federal and State reimbursements so that the greatest amount of resources are available for the system of care. In addition, the budget includes several initiatives designed to increase revenue generation by improving patient flow and optimizing levels of care.

Promote Service Delivery Integration. The department is placing a high priority on increasing collaboration and integration of services across divisions. Consolidations of services and support functions that are duplicated in different parts of the system of care are proposed to save \$1.9 million,

and better coordination between divisions to improve patient flow are proposed to generate over \$7 million in new revenue.

Prioritize Non-Service Reductions and Efficiency. Financial and operational efficiency has been identified as one of the three five-year budget and policy goals for DPH. The budget process focused in identifying efficiencies including savings from vacant positions, consolidating the physical locations of DPH services to reduce rental expense, and maximization of financial value from the department's real estate assets.

Redirect Vacant Positions Rather than Adding New Ones. The reality the department faces is that it will need additional staffing resources to meet the requirements of the 1115 Waiver, other regulatory directives, and implement new initiatives to increase revenue generation. At the same time, the department faces a mandate to become leaner and reduce costs. To balance these competing goals, the budget was developed with a goal of re-directing existing positions rather than creating new ones. More than 15 FTE positions have been re-allocated for these critical new initiatives.

Potential Contingency Reductions

The budget included here meets the department's target, but does not include specific proposals to meet the 2.5% contingency reduction from the Mayor's budget instructions of \$9.3 million. In order to meet that contingency, DPH would need to propose significant additional service reductions. In discussions with the Mayor's Office, we agreed that we would submit our budget without meeting the contingency reductions for the time being. However, the Mayor's Office faces a substantial challenge in closing the two-year City deficit. The 5% reduction targets issued to departments account for only \$58 million per year, or less than a quarter of the total deficit. Consequently, there is a very real possibility that the Health Commission will be asked to consider additional reduction proposals to meet the contingency target at a future meeting. Should we be asked to do so, potential contingency proposals could include:

- Further reductions to unmatched General Fund contracts, including program closures
- Reductions to matched General Fund contracts and civil service programs
- Service and administrative reductions at the hospitals and throughout DPH
- Outsourcing of civil service functions