



**Edwin M. Lee,
Mayor**

**Greg Wagner,
Chief Financial Officer**

MEMORANDUM

February 1, 2017

TO: President Ed Chow and Honorable Members of the Health Commission

FROM: Greg Wagner, Chief Financial Officer

THROUGH: Barbara Garcia, Director

RE: **FY 2017-18 and FY 2018-19 Proposed Budget – First Hearing**

Scheduled for the February 7 Commission meeting is the first hearing on the Department of Public Health's proposed budget for FY 2017-18 and FY 2018-19 (FY 17-10). A second hearing is planned for the February 21 Commission meeting, followed by periodic updates throughout the budget process. Subject matter to be addressed at the two February hearings includes:

February 7

- Review of financial outlook, budget instructions and General Fund targets
- Discussion of goals and strategies for FY 17-19 budget

February 21

- Balancing Plan
 - Initiatives to meet achieve key departmental priorities
 - Revenue-neutral and regulatory initiatives
 - Update on Electronic Health Records initiative

Mayor's Budget Instructions

In December the Mayor's Office issued its five-year financial outlook for the City, forecasting that the economy and the City's budget is expected to expand. General Fund revenues are expected to increase by 11% over the five-year period based on a Controller's Office economic forecast of continued economic growth (although at a slower pace than has occurred over the past two years). However, expenditures are forecast to grow by 29% during the same period - almost three times the rate of revenue growth, largely driven by new voter mandates and increased payments required to fund the City's contribution to the employee retirement system. If these trends continue, the financial projects indicated that the deficit would grow as large as \$848.4 million by FY 19-20 without corrective action.

The City's economic forecast does not assume an economic downturn during the 5-year financial planning horizon. However, the Mayor's Office and Controller note that the economy has

experienced 89 months of continuous expansion dating back to July, 2009, while the average period between economic recessions since 1900 is only 46 months. This suggests that it is a realistic possibility that another economic downturn could occur within the next five years, significantly altering the City's financial outlook.

The Mayor's Office has instructed departments to reduce general fund support, compared to the baseline projection, by 3% in FY 17-18 and an additional 3% in FY 18-19, while minimizing service impacts. For DPH that translates into target of \$18.5 million and \$36.8 million respectively. In addition, they Mayor's deficit assumes growth in hospital operating revenues of \$5.3 million and \$12.6 million, respectively.

DPH has the largest operating budget of any City department and is the largest recipient of discretionary General Fund allocations, with a FY 16-7 budget of \$607.6 million in General Fund support. In the base budget for the Department, the Mayor's Office has already assumed significant increases for labor contract wage increases, employee benefit cost growth, pharmaceutical price inflation and other factors. Consequently, while DPH is required to take actions to reduce its General Fund allocation per the Mayor's Office instructions, these targets do not represent a reduction in total of General Fund support to the Department compared to the current fiscal year. The targets are more appropriately viewed as an instruction to offset a portion of anticipated year-over-year growth in General Fund support.

DPH Budget Strategies for FY 17-19

In FY 17-19, DPH's budget will emphasize financial stewardship through the following strategies:

Strengthen core services through alignment of existing resources – Since FY 11-12 DPH has experience significant growth. The department has added over 1,000 FTEs and increased its budget by almost \$525 million, or a current approved base budget of \$2.1 billion for FY 17-18. This growth has enable DPH to provide a rich array of services to our clients. During a period of projected slowing economic growth, our focus will shift to maintaining and improving critical existing core services.

Support Mayor's Office initiatives on homelessness and public safety – DPH will continue to support key citywide efforts through the budget process. In coordination with the Department of Homelessness and Supportive Housing, DPH will continue to move prioritize efforts such as the Whole Person Care program, development of the addiction/mental health program at the Behavior Health Center ZSFG Campus (Hummingbird navigation center), and support for the City's most vulnerable residents.

Introducing a Department Wide Lean Management Strategy - Building upon the successful deployment of Lean in various programs across the department, DPH plans to develop a central Kaizen Promotion Office (KPO) to coordinate and facilitate improvement efforts across the department. . Lean focuses on continuous improvement, value creation, unity of purpose, respect for front-line workers, visual tracking, and flexible regimentation. Other Healthcare delivery systems has shown that Lean is as applicable in complex knowledge work as it is in assembly-

line manufacturing. A department-wide KPO will support the Electronic Health Records project, key quality initiatives, and efforts to improve revenue capture.

Revenue Generation – Non General Fund revenue sources represent nearly three quarters of DPH’s budget. Continued revenue growth is a key part of DPH’s financial stability, especially in light of the uncertain State and Federal funding environment. The transition to an enterprise electronic health record presents an opportunity to examine and redesign revenue cycle practices—this effort will be a central network-wide priority over the coming two years. .