



**London N. Breed,
Mayor**

**Jenny Louie,
Acting 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, Acting Chief Financial Officer/Deputy Finance Officer

Scheduled for the January 19th Commission meeting is the first hearing on the Department of Public Health's proposed budget for FY 2021-2022 and FY 2022-2023 (FY 2021-23). A second hearing is planned for the February 2nd 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 19

- Overview of FY 2021-22 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 2021-22 and FY 2022-23

February 2

- 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 16 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.

Approach to FY 2021-23 Budget Development

As described later in this memo, due to a number of processes outside of the department that will continue over the course of the spring, there is a lower level of certainty for revenue projections and initiative development compared to budget submission in prior years. On the revenue side, there are numerous legislative and regulatory proposals that present revenue opportunities for the department which include a successor program to Medi-Cal Waiver, a newly announced stimulus package announced by President-Elect Biden, and additional FEMA/CARES support for COVID-19 response and healthcare systems. While these programs have been announced, some

require authorization or approval and in all cases funding allocation details are still being developed over the next several months, making revenue projections more challenging than normal. For initiatives, budget proposals for two of our strategic priorities, COVID-19 response and Behavioral Health, budget proposals will go through citywide and/or stakeholder processes and will come to the Commission later in the Spring. Overall, these changes present potential favorable opportunities for the department and its programming.

As in years past, the department's primary approach to meeting its general fund reduction target will focus on revenue opportunities, and to the extent possible, avoid any impact to services. Our February submission will include our best estimates of revenue at that time and the department will limit the number of new initiatives to focus on continued support of our strategic priorities.

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.

While the City has addressed some of the significant shortfall driven largely by the COVID-19 pandemic, revenue growth and economic recovery is expected to be slow in the first year of the five year projection with continued cost growth projected to outpace growth in revenues. As in prior years, near-term issues include loss of one-time revenues used to balance prior-year budgets, growing employee costs, and mandatory baseline and set-asides, which reduce general funds available for balancing.

The City's projected general fund deficit is \$411.1 million for FY 2021-22 and reduced to \$242.1 million for FY 2022-23, with the assumption that economic recovery is fully underway within two years. Should no correction be made to address the shortfall, the Mayor's Office projects the shortfall to grow to \$531.3 million by FY 2025-26. In addition, should the economic recovery take longer than projected, it could significantly alter the City's financial outlook.

To help address the deficit, the Mayor's Office has instructed departments to reduce General Fund support by 7.5% in FY 2020-21 and further reduce by an additional 2.5% each year. For DPH a 7.5% reduction represents \$59.5 million and a 2.5% contingency represents \$19.9 million.

DPH Goals and Priorities for FY 2021-22 and FY 2022-23:

Over the two year budget period, the Mayor's policy priorities will focus on:

- Continuing to respond to COVID-19
- Supporting small business and economic recovery
- Prioritizing programs with demonstrated outcomes centered around equity
- Implementing homelessness and mental health programming

As you may have noticed, these priorities align closely with those of the department and will continue to be the primary focus over the two-year budget. In addition to the Mayoral priorities, the department will focus on planning for the State's successor plan to the current Medi-Cal

Waiver that expires in December 2021. The specific work on these strategic priorities are as follows:

Continuing our COVID-19 Response

While there is significant hope with the rollout of a vaccine, DPH must plan to continue efforts to prevent and manage the spread of the virus. The department's multi-faceted response which includes testing, community outreach, outbreak management, isolation and quarantine units, supporting hospital and clinical capacity, and most recently vaccinations, will remain necessary for the foreseeable future and core to supporting economic recovery.

The development of an additional year of the City's COVID response will be coordinated through the Central COVID Command (C3) and closely with the Controller's and Mayor's Offices. As the planning process will take place over the course of this Spring and the costs associated with the response are not considered part of its general fund reduction target, the COVID-19 response budget will not be included as part of the February budget submission.

Focusing on Equity

The Office of Health Equity (OHE) has 4 key areas of work; workforce equity, equity training, service quality and community engagement. In the past several years it has focused on building infrastructure to support equity activities across our large variety of locations and over 7,000 employees. Much of that effort will go toward workforce equity and training to meet the requirements of the 2020 Racial Equity Action Plan Phase 1, which launches in 2021. OHE will be augment the programming in each focus area in collaboration with the City's Office of Racial Equity and the Department of Human Resources.

DPH's equity goals extend beyond internal improvements for the workforce and it has a mission to improve health equity for the community and our patients. Quality improvement resources such as data analytics and process improvement staff, have been dedicated to health disparity reduction with some success. In 2021, in compliance with the REAP, OHE will build on the prior programs to ensure that communication, research, evaluation and service delivery in community are inclusive of community voice and choices.

In addition, DPH will continue to implement new equity programs funded under the FY 2020-21 budget with reinvestments from Public Safety. This work will be done in collaboration with the Human Rights Commission, the Mayor's Office and other City departments.

Re-envisioning Our Behavioral Health System of Care and Supporting Our Most Vulnerable

The department will continue to build upon the initial foundation established in the prior FY 2020-21 budget to re-envision our approach to behavioral health and to support services for our most vulnerable populations, with initiatives centered around the following:

- *Office of Coordinated Care (OCC)* to oversee the seamless mental health care and substance use services across the City's behavioral health systems through case management that meets clients where they are, as well as data collection and reporting.
- *Creating Street Crisis Response Team* to provide appropriate interventions and connections for people who experience behavioral health crises on the streets of San Francisco, in partnership with the San Francisco Fire Department. The first team was launched in November 2020 and an additional five teams are planned to be added over the next several months.
- *Expanding Treatment Beds and Facilities* to increase our behavioral health treatment capacity and better meet community needs. Using the analysis provided by the Mental Health Reform bed optimization study, the additional beds will include crisis diversion, drug sobering, managed alcohol, additional locked subacute beds, and long-term supportive housing such as board and care to promote stability and wellness, especially for people experiencing homelessness. The capacity expansion strategy will include both purchasing beds from CBO providers as well as acquisition of new sites to provide these services.
- *Providing services for a Mental Health Services Center (MHSC)* to create a unified portal of entry to the behavioral health system of care that reduces barriers and provides seamless access to services. The initial phase of this work focuses on expanding the hours at the current Behavioral Health Access Center and Behavioral Health Pharmacy for services that include triage, assessment, placement authorization, treatment plans, pharmacy services, psychosocial services, and crisis stabilization.
- *Increasing services for clients in shelters and permanent supportive housing (PSH)* to meet clinical and behavioral need at these locations. The City's Homeless Recovery Plan leverages the largest one-time expansion of PSH in the City in 20 years, planning for an overall 4,500 permanent supportive housing adult placements to be made available through a combination of newly acquired or leased units, a pipeline of units currently in construction, and turnover within the City's current permanent supportive housing portfolio. DPH will expand its presence at PSH sites and provide additional support to shelters and shelter-in-place hotels through roving street medicine and shelter health teams.

The department will continue to build upon these initiatives with the input of two advisory stakeholder groups. The first is the Mental Health SF Working Group established under the legislation and is intended to advise on the design, outcomes and effectiveness of the MHSF program. Second is the Our City, Our Home (OCOH) Oversight Committee that advises and oversees the use of Proposition C funds that supports behavioral health programming for the homeless. As OCOH only started meeting in September and the MHSF committee had its first meeting in December, the program planning process take place over the course of this spring so additional initiatives will likely not be included as part of our February budget submission. As always, we will continue to work closely with the Mayor and Board of Supervisors on the development of major initiatives as well.

Anticipating Changes in State and Federal Revenues, Including a Successor Program to the Medi-Cal Waiver

California's current Medi-Cal Waiver, worth approximately \$150 million annually in net revenues to the department, was extended for an additional year through December of 2021. The State Department of Healthcare Services (DHCS) had started a statewide stakeholder process in 2019 to create a successor plan, in which a number of DPH staff participated, but was delayed due to COVID-19. The State has since resumed its program development and issued additional details on the new plan named , California Advancing and Innovating Medi-Cal, (CAL-AIM). The stated goals of Cal-AIM are:

- Identifying and managing member risk and need
- Reducing complexity and increasing flexibility in the Medi-Cal system
- Improving quality outcomes and driving delivery system transformation through value-based initiatives, modernization of systems and payment reform.

The major components of this new framework builds upon or continues the successful outcomes of the current waiver programs and pilots including pay for performance, supplemental payments for public hospitals and incentive programs including

- Global Payment Program/Public Hospital Redesign and Incentives in Medi-Cal (GPP/PRIME)
- Whole Person Care
- Organized Delivery System for Substance Use

DHCS released a revised proposal this month updating the original document created in October 2019. Additional program details will be developed over the course of the next several months. The department's submission will include initial assumptions of revenue and a more detailed update on the waiver will be presented a the February 2 meeting.

Budget Submission at the Next Health Commission

At the next Health Commission meeting, staff will provide a balancing plan for your approval. As mentioned earlier, the department anticipates meeting a significant portion of its general fund reduction targets primarily with revenue, and will make every effort to avoid proposing reductions to service levels. However, should the department be required to fully implement its 2.5% contingency proposal, expenditure reductions impacting services may be required.