



Edwin M. Lee,  
Mayor

Greg Wagner,  
Chief Financial Officer

## MEMORANDUM

January 29, 2015

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

FROM: Greg Wagner, Chief Financial Officer

THROUGH: Barbara Garcia, Director

RE: **FY 2015-16 and 2016-17 Proposed Budget – First Hearing**

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Scheduled for the February 3 Commission meeting is the first hearing on the Department of Public Health's proposed budget for FY2015-16 and 2016-17. We will have several hearings on the budget over the coming months. As in years past, the purpose of this first hearing will be to outline parameters and high-level strategic issues for the budget process. We will also introduce a handful of specific proposed budgetary changes, although many additional initiatives will be introduced and discussed at subsequent hearings.

The largest single initiative to be discussed at the February 3 hearing is the reversal of planned reduction of funding to community programs adopted in prior years' budgets. Two years ago, the adopted FY 13-15 budget included a planned reduction in FY 14-15 of \$8.8 million dollars to contracted services, which annualize to \$17.6 million in FY 15-16. As part of last year's FY 14-16 budget process, the Mayor's Office restored \$8.8 million (half of the reduction), and delayed its implementation to July 1, 2015. The Mayor's Office requested in December that DPH prioritize reversing the remaining reduction in its budget submission for the coming year. The Ambulatory Care Division is still moving forward with plans to use an RFP process to realign certain services to be better coordinated with other network functions, but the total funds available for services would no longer be reduced if this initiative is approved.

### Mayor's Budget Instructions

The Mayor's Office issued budget instructions to departments in December, 2014, which were presented to the Health Commission on December 16. The five-year financial outlook for the City presents a significantly improved fiscal picture due to strong economic and job growth in San Francisco driving growth in general tax revenues. The projected General Fund deficits of \$15.9 million for FY 2015-16 and \$88.3 million for FY 2016-17 are among the lowest in over a decade. Because of this financial improvement, the Mayor's Office has not issued departments a reduction target for FY 15-16, and has requested only a 1.5% contingency reduction for FY 16-17.

At the same time, the Mayor's Office has identified several notes of caution in the financial projections. First, while the current period of economic growth is a positive, it has also had

significant impacts on affordability for city residents. Second, projected deficits in years three, four and five of the financial plan increase significantly, growing to \$419 million by FY 19-20, when revenue growth levels and costs continue to rise. Third, the economy has experienced 64 months of continuous expansion dating back to July, 2009, while the average period between economic recessions since 1900 is only 46 months. These data provide a reminder that it is possible, or even likely, that another economic downturn could occur during the City's five-year financial planning horizon.

The instructions from the Mayor's Office included three general themes:

- 1) Focus on mitigating the impact of affordability issues for city residents.
- 2) Use the momentary respite from large reduction targets to improve services using existing resources.
- 3) Plan for long-term financial stability and prepare for the next potential economic downturn.

### **DPH Budget Strategies**

DPH's approach to the proposed budget is consistent with the themes outlined in the Mayor's budget instructions. Over the past three budget cycles, financial planning has focused on establishing the operational infrastructure necessary to be successful under the Affordable Care Act (ACA), such as establishing the San Francisco Health Network, integration of the Public Health Division, improvements to timely access to services, and creation of new organizational functions like the Office of Managed Care and Business Intelligence Unit. One year into the ACA, DPH plans to use the upcoming budget process to shift the Department's focus from preparation to continued execution and refinement of previous initiatives. Key areas of focus for the coming two-year budget include:

***1) Focus resources on continued implementation and refinement of previous years' initiatives.***

While the department laid much of the groundwork for ACA preparedness over the last two years, this work is incomplete. It is critical that resources remain dedicated to continued optimization and refinement of the new organizational structure before moving on to develop new initiatives. Examples include the opening of the new San Francisco General Hospital, improving primary care panel sizes and access standards, implementation of a centralized call center, development and distribution of analytical reporting on finance and operations, strengthening public health programs and their connection to the network, and workforce development.

***2) Strengthen the department's long-term financial health through investments in information systems and preparation for future economic downturns.***

DPH remains financially vulnerable due to its reliance on the City's economically-driven General Fund, volatile federal revenues, and lack of infrastructure needed to manage costs and revenues. Through two separate studies commissioned over the past three years, the department has identified a severe deficiency in its information technology infrastructure compared to health care industry standards. A goal for the upcoming budget cycle is to develop policies and allocate funding to allow the department to begin setting aside funding for major information technology projects and financial reserves. In addition to the desire to improve efficiency, productivity, and revenue generation, Cerner Corporation's expected acquisition of Siemens Medical Systems will force DPH to transition its legacy medical records and billing systems to newer systems over the next several years.

***3) Support City efforts to support vulnerable resident, many of whom are struggling with both health and affordability concerns.*** DPH is working with the Mayor's Office and other City departments to develop programs critical to address affordability concerns associated with San Francisco's rapid economic changes. Examples of these efforts include: integration of health programs with the Mayor's housing agenda and the expansion of the respite program; programs targeted to populations with disproportionate health status and economic disadvantages, such as the Black African-American Health Improvement Program and the Getting to Zero program to eliminate new HIV infections; workforce development efforts; and violence prevention efforts.

### **Hearing Schedule**

Attached are an initial set of proposed budget initiatives including projected revenue changes. Additional initiatives and a full balancing plan are targeted to be presented to the Commission on March 3.

Division	Item	Description	15-16 FTE Change	15-16 Expend Incr/(Decr)	15-16 Revenues Incr/(Decr)	15-16 Net GF (Cost)/Savings	16-17 FTE Change	16-17 Expend Incr/(Decr)	16-17 Revenues Incr/(Decr)	16-17 Net GF (Cost)/Savings	Comment
<b>REVENUES</b>											
SFGH/PC	A1	SFGH and Primary Care Baseline Revenue	-	-	9,328,323	9,328,323	-	-	9,114,717	9,114,717	Adjustments to the various revenue components based on projections related to Medi-cal, Capitation, Medicare and other patient revenues. It also takes into account federal funding changes to programs such as Meaningful Use and SB208.
LHH	A2	LHH Baseline Revenues	-	-	-	-	-	-	3,007,324	3,007,324	Projected increase in Skilled Nursing Facility inpatient revenue at LHH in FY15-16 will be offset by the decrease in outpatient revenue based on the current year trend. And the revenue increase in FY16-17 is contributed to another 2% rate increase projected for Year 2.
MH	A3	2011 Realignment	-	-	1,738,000	1,738,000	-	-	1,738,000	1,738,000	Projected baseline revenue growth for 2011 Realignment from the State.
<b>TOTAL REVENUE</b>			-	-	<b>11,066,323</b>	<b>11,066,323</b>	-	-	<b>13,860,041</b>	<b>13,860,041</b>	
<b>BUDGET NEUTRAL</b>											
PHD	B1	Environmental Health Fee Adjustments	2.06	593,229	593,229	-	2.40	593,229	593,229	-	Annual and legislated increases in Environmental Services inspection fees to cover related program expenditures.
PC	B2	Physician Staff Increase at General Medical Clinic	-	316,832	316,832	-	-	411,470	411,470	-	Increases in physician staffing at GMC to increase the number of patients seen, which can be offset by revenues.
<b>TOTAL REVENUE NEUTRAL</b>			<b>2.06</b>	<b>910,061</b>	<b>910,061</b>	<b>-</b>	<b>2.40</b>	<b>1,004,699</b>	<b>1,004,699</b>	<b>-</b>	
<b>EMERGING NEEDS</b>											
AC	C1	Restoration of Request For Proposal (RFP) Funding Reductions	-	8,843,948	-	(8,843,948)	-	8,843,948	-	(8,843,948)	Restoration of the remaining \$8.8 million funding reduction to contracted services initially proposed as part of the FY 13-15 budget. the department will still continue with a series of request for proposals (RFP) to prioritize services as part of health care reform, but will maintain its overall funding levels for contracted behavioral health services.
<b>TOTAL EMERGING NEEDS</b>			<b>-</b>	<b>8,843,948</b>	<b>-</b>	<b>(8,843,948)</b>	<b>-</b>	<b>8,843,948</b>	<b>-</b>	<b>(8,843,948)</b>	
<b>INFLATIONARY</b>											
DPH - All	D1	DPH Pharmacy and Other Inflationary Cost	-	-	-	-	-	2,880,049	-	(2,880,049)	Increased expenditure authority related to pharmaceuticals, food, as well as housing and laundry contracts to reflect inflation on the price of these critical supplies and services
<b>TOTAL INFLATIONARY</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,880,049</b>	<b>-</b>	<b>(2,880,049)</b>	
<b>TOTAL ALL INITIATIVES AFFECTING TARGET</b>			<b>2.06</b>	<b>9,754,009</b>	<b>11,976,384</b>	<b>2,222,375</b>	<b>2.40</b>	<b>12,728,696</b>	<b>14,864,739</b>	<b>2,136,043</b>	

7.00

**Initiative Number A1**

**2015-16 and 2016-17 Program Change Request**

**DIVISION:**

- |  |  |   |
|--|--|---|
| <input type="checkbox"/> DPH – department wide | <input type="checkbox"/> Population Health     | <input type="checkbox"/> SF Health Network Wide / |
| X San Francisco General Hospital               | <input type="checkbox"/> Laguna Honda Hospital | Managed Care                                      |
| X Ambulatory Care: Primary Care                |  |   |

PROGRAM / INITIATIVE TITLE: **San Francisco General and Primary Care Baseline Revenues**

TARGETED CLIENTS: N/A

PROGRAM CONTACT NAME/PHONE: **Valerie Inouye**

2015-16 FTE Change	2016-17 FTE Cumulative Change	FY 2015-16 Net General Fund Impact	FY 2016-17 Cumulative Net General Fund Impact
-	-	(\$9,328,323)	(\$9,114,717)

**PROGRAM DESCRIPTION:** (Brief description of Program Change)

Projected baseline increases for San Francisco General Hospital and Primary Care

**JUSTIFICATION:**

With implementation of the Affordable Care Act, the public hospital systems have an agreement with the State Department of Healthcare Services that the public hospitals would be paid at least 100% of their costs for the Medi-cal managed care newly eligible population. While the methodology to compute this is not yet finalized, we are estimating these additional funds based on how we currently compute costs as required under the current Section 1115 waiver. This is estimated to be an increase of \$8 million. We are also reducing our revenues \$284,937 related to the hospital Meaningful Use incentive program and reclassifying revenue from capitation to fee-for-service due to an overestimate in the capitation category.

Similarly, we are increasing Primary Care baseline revenues as many of the COPC patients are converting from Medi-cal fee-for-service to managed care plans. This initiative decreases the fee-for-service revenues and increases the capitation revenues to reflect this conversion. The net result will be a \$1 million increase in revenue

**IMPACT ON CLIENTS:** (unit of service and/or number of clients affected)

None

**EXPENSE AND REVENUE IMPACT:** (for both fiscal years)

Revenues will increase by \$9.3 million in year 1 and \$9.1 m in year 2.

**IMPACT ON DEPARTMENT'S WORKFORCE:**

None

**ATTACHMENT B FY 15-17  
SUMMARY OF PROGRAM COST**

**INITIATIVE TITLE: SFGH and PC Baseline Revenue**

Description	FY 2015-16	FY 2016-17
<b>Sources:</b>		
Capitation Revenues - SFGH	\$ 8,000,000	\$ 8,000,000
Capitation Revenues - PC	\$ 1,000,000	\$ 1,000,000
Capitation Revenues	(20,000,000)	(20,000,000)
Med-Cal	10,164,162	10,199,827
Medicare	10,164,162	10,199,827
Meaningful Use		(284,937)
Subtotal Sources	9,328,323	9,114,717
<b>Uses:</b>		
	\$ -	\$ -
	-	-
	-	-
Subtotal Uses	-	-
<b>Net General Fund Subsidy Required (savings)/cost (Uses less Sources)</b>	\$ (9,328,323)	\$ (9,114,717)
<b>Total FTE's</b>	<b>0.0</b>	<b>0.0</b>

**New Positions** (List positions by Class, Title and FTE)

Class	Title	FTE		
			-	-
			-	-
			-	-
			-	-
	Fringe (36% for both years)		-	-
			\$ -	\$ -
<b>Operating Expenses</b>				
Index Code	Character/Subobject Code			
			\$ -	\$ -

**Facilities Maintenance, and Equipment** (List by each item by count and amount)

2015-16 and 2016-17 Program Change Request

**DIVISION:**

- DPH – department wide                       Population Health                       SF Health Network Wide /  
 San Francisco General Hospital      X Laguna Honda Hospital                      Managed Care  
 Ambulatory Care \_\_\_\_\_

PROGRAM / INITIATIVE TITLE: **LHH Baseline Revenue**

TARGETED CLIENTS:

PROGRAM CONTACT NAME/PHONE:

2015-16 FTE Change	2016-17 FTE Cumulative Change	FY 2015-16 Net General Fund Impact	FY 2016-17 Cumulative Net General Fund Impact
		(\$0)	(\$3,007,324)

**PROGRAM DESCRIPTION:** (brief description of proposed change)

Laguna Honda Hospital's baseline revenues will stay flat in FY15-16 and increase by \$3.0M in FY16-17.

**JUSTIFICATION:**

The projected increase in SNF inpatient revenue in FY15-16 will be offset by the decrease in outpatient revenue based on the current year trend. The revenue increase in FY16-17 is attributed to a 2% rate increase projected for year 2.

**IMPACT ON CLIENTS:** (units of service and/or number of clients affected, if applicable)

None.

**EXPENSE AND REVENUE IMPACT:** (for both fiscal years)

No impact.

**IMPACT ON DEPARTMENT'S WORKFORCE :**

No impact.

**ATTACHMENT B  
SUMMARY OF PROGRAM COST**

**INITIATIVE TITLE: Laguna Honda Baseline Revenues**

Description	FY 2014-15	FY 2015-16
<b>Sources:</b>		
Net Patient Revenue	-	3,007,324
Subtotal Sources	\$ -	\$ 3,007,324
<b>Uses:</b>		
Subtotal Uses	\$ -	\$ -
<b>Net General Fund Subsidy Required (savings)/cost (Uses less Sources)</b>	\$ -	\$ (3,007,324)
<b>Total FTE's</b>	0.00	0.00

**New Positions** (List positions by Class, Title and FTE)

<u>Class</u>	<u>Title</u>	FTE	FY 14-15	FTE	FY 15-16
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**Operating Expenses**

Index Code	Character/Subobject Code	<u>FY 14-15</u>	<u>FY 15-16</u>
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**Facilities Maintenance, and Equipment** (List by each item by count and amount)



2015-16 and 2016-17 Program Change Request

**DIVISION:**

- DPH – department wide                       Population Health                       SF Health Network Wide /  
 San Francisco General Hospital            Laguna Honda Hospital                Managed Care  
 X Ambulatory Care: Behavioral  
 Health

**PROGRAM / INITIATIVE TITLE: 2011 Realignment Projections**  
**TARGETED CLIENTS:** n/a  
**PROGRAM CONTACT NAME/PHONE: Greg Wagner 554-2610**

2015-16 FTE Change	2016-17 FTE Cumulative Change	FY 2015-16 Net General Fund Impact	FY 2016-17 Cumulative Net General Fund Impact
n/a	n/a	-(1,738,000)	-(1,738,000)

**PROGRAM DESCRIPTION:** (brief description of proposed change)

Projected baseline revenue growth for 2011 Realignment from the State.

**JUSTIFICATION:**

Starting in FY12-13, all State funding for behavioral health was realigned from the State to the County, (termed 2011 Realignment) meaning each county has become responsible for managing its risk within the 2011 Realignment funding level. As the State economy gets stronger, the County is allocated a legislated portion of the growth. A total increase of \$1,738,000 is expected starting in FY 15-17.

**IMPACT ON CLIENTS:** (units of service and/or number of clients affected, if applicable)

n/a

**EXPENSE AND REVENUE IMPACT:** (for both fiscal years)

Decrease of general fund support of \$1.73 million

**IMPACT ON DEPARTMENT’S WORKFORCE :**

n/a



**2015-16 and 2016-17 Program Change Request****DIVISION:**

- DPH – department wide                      X Population Health                       SF Health Network Wide /  
 San Francisco General Hospital             Laguna Honda Hospital                Managed Care  
 Ambulatory Care

PROGRAM / INITIATIVE TITLE: **Environmental Health Baseline Revenue/Expenditures**

TARGETED CLIENTS: All San Francisco Residents and Regulated Business Establishments

PROGRAM CONTACT NAME/PHONE: Cyndy Comerford 415-252-3989

2015-16 FTE Change	2016-17 FTE Cumulative Change	FY 2015-16 Net General Fund Impact	FY 2016-17 Cumulative Net General Fund Impact
2.06	2.40	(\$0)	(\$0)

**PROGRAM DESCRIPTION:** (Brief description of Program Change)

The San Francisco Department of Public Health's Environmental Health Branch strives to promote health and quality of life in San Francisco by ensuring healthy living and working conditions in the City and County of San Francisco. Projected revenues fluctuate annually due various reasons, including change in inventory, new fees, and changes in regulatory programs, fee increases and economic conditions. Expenditures are adjusted ensure that programs do not exceed 100% cost recovery and that there is little net impact on the General Fund.

**JUSTIFICATION:**

Projected increases in revenues are due to fee increases, changes in inventory and program changes due to state regulations. As outlined in authorizing legislation, fees and expenditures are adjusted accordingly for workloads to ensure cost recovery and adequate staffing and resources to carry out regulatory work. Fee increases ranged from 2 - 4% and no net impact on the General Fund. Environmental Health's baseline revenues will be increased by 593,228 in both FY15-16 and FY16-17.

The following programs have changes in revenue:

Program Name	Reason for Change	Change in Baseline Revenue
Base Closure	Nominal cost recovery fee increase	11,996
Food Safety	Increase in inventory of food establishments and CPI increase for a small subset fees	117,587
Hazardous Materials	Nominal cost recovery fee increase which will support additional staff.	97,529
Agriculture, Weights & Measures	Fee increase to adhere to recent legislation for Weights and Measures and increases in funding from unclaimed gas tax	141,000
Medical Cannabis	Decrease due to inventory adjustment	(29,890)
Retail Tobacco	Nominal cost recovery fee increase	11,233
Healthy Housing & Vector Control	Nominal cost recovery fee increase	138,874

Water Quality	Nominal cost recovery fee increase	23,610
Air Quality, Noise, Radiation and Site Mitigation	Increase in Radiation fees and increase in Site Mitigation Inventory	81,289

**IMPACT ON CLIENTS:** (unit of service and/or number of clients affected)

None.

**EXPENSE AND REVENUE IMPACT:** (for both fiscal years)

The Environmental Health's baseline revenues will be increased by 593,228 in FY15-16 and 593,228 in FY16-17. The Environmental Health's baseline expenditures will be increased accordingly.

**IMPACT ON DEPARTMENT'S WORKFORCE :**

Increase FTE 2.06 in FY 2015-2016 and 2.40 FY 2016-2017

ATTACHMENT B

INITIATIVE TITLE: Environmental Health Baseline Revenue/Expenditures

Description		FY 2015-16	FY 2016-17
<b>Sources:</b>			
Revenues		\$ 593,228	\$ 593,228
Subtotal Sources			
<b>Uses:</b>			
Salary and Benefits		\$ 335,599	\$ 410,599
Non Personnel Services		\$ 257,630	\$ 182,630
Subtotal Uses		\$ 593,229	\$ 593,229
<b>Net General Fund Subsidy Required (savings)/cost (Uses less Sources)</b>		\$ 0	\$ 0
<b>Total FTE's</b>		2.06	2.40

**Expenditures**

**New Positions (List positions by Class, Title and FTE)**

Class	Title	FTE			
2818	HCHPBADMINGF - Health Program Planner	0.39	35,782	0.50	47,954
2589	HCHPBFOOD-GF - Health Program Coordinator 1	0.40	32,429	0.40	32,429
6120	HCHPBFOOD-GF - Environmental Hlth Insp	0.77	84,574	1.00	109,837
1422	HCHPBHAZMTGF - Junior Clerk Typist	(1.00)	-52,284	(1.00)	-52,284
6108	HCHPBHAZMTGF - Environmental Hlth Tech 1	1.00	73,850	1.00	73,850
6124	HCHPBHAZWTGF - Pr Environmental Hlth Insp	0.50	67,869	0.50	67,869
	Attritions Savings		29,635		36,143
1301	Retire City Misc		63,743		94,801
		2.06	335,599	2.40	410,599

**Operating Expenses**

Index Code	Character/Subobject Code		
02799	Other Professional Services	50,000	65,000
03000	Rents/Leases-Bldgs & Structures-Budget	63,630	63,630
03500	Other Current Expenses - Budget	44,000	29,000
06F00	IS-Purch-Vehicle Leasing (AAO)	100,000	25,000
		257,630	182,630
<b>Total</b>		593,229	593,229

**2015-16 and 2016-17 Program Change Request**

**DIVISION:**

- DPH – department wide                       Population Health                       SF Health Network Wide /  
 San Francisco General Hospital             Laguna Honda Hospital                Managed Care  
X Ambulatory Care: Primary Care

PROGRAM / INITIATIVE TITLE: **Physician Staff Increase at General Medical Clinic**

TARGETED CLIENTS:

PROGRAM CONTACT NAME/PHONE: **Valerie Inouye 206-3599**

2015-16 FTE Change	2016-17 FTE Cumulative Change	FY 2015-16 Net General Fund Impact	FY 2016-17 Cumulative Net General Fund Impact
-	-	\$0	\$0

**PROGRAM DESCRIPTION:** (Brief description of Program Change)

Provide additional physicians in the General Medical Clinic (GMC) to meet patient demand and to improve patient flow. These costs will be offset by increased revenue due to increased visits.

**JUSTIFICATION:**

General Medicine Clinic is one of DPH’s largest and busiest clinics with some of the most complex patients. In December of 2014, the Controller’s Office conducted an audit of DPH billing practices and recommended that DPH analyze specific areas to determine whether additional providers could increase revenues. In response to that recommendation, DPH analyzed GMC billing data and determined that adding attending physicians would generate revenues equal to or greater than the added costs. To improve patient access and oversight of residents, DPH would add 1.625 FTE faculty attending physicians in the GMC at San Francisco General. This would result in 868 new clinical encounters and add 220 new patients to the clinic panel. This increased staff will result in an additional 1,456 billable encounters to Medicare and Medi-cal.

**IMPACT ON CLIENTS:** (unit of service and/or number of clients affected)

Improved access to care for our patients.

**EXPENSE AND REVENUE IMPACT:** (for both fiscal years)

Both revenues and expenses would increase by \$316,832 in the first year and by \$411,470 in the second year.

**IMPACT ON DEPARTMENT’S WORKFORCE:**

None

**ATTACHMENT B FY 15-17  
SUMMARY OF PROGRAM COST**

**INITIATIVE TITLE: Physician Staff Increase at General Medical Clinic**

Description		FY 2015-16	FY 2016-17
<b>Sources:</b>			
	Medicare and Medi-cal Revenues	\$ 316,832	\$ 411,470
Subtotal Sources		316,832	411,470
<b>Uses:</b>			
	Salary and Fringes	\$ -	\$ -
	Non Personnel Services	316,832	411,470
		-	-
Subtotal Uses		316,832	411,470
<b>Net General Fund Subsidy Required (savings)/cost (Uses less Sources)</b>		\$ (0)	\$ -
<b>Total FTE's</b>		<b>0.0</b>	<b>0.0</b>

**New Positions** (List positions by Class, Title and FTE)

Class	Title	FTE		
			-	-
			-	-
			-	-
	Fringe (36% for both years)		-	-
			\$ -	\$ -

**Operating Expenses**

Index Code	Character/Subobject Code		
	UCSF Affiliation Agreement	\$ 316,832	\$ 411,470

**Facilities Maintenance, and Equipment** (List by each item by count and amount)

**2015-16 and 2016-17 Program Change Request**

**DIVISION:**

- DPH – department wide                       Population Health                       SF Health Network Wide /  
 San Francisco General Hospital               Laguna Honda Hospital              Managed Care  
 Ambulatory Care \_\_\_\_\_

PROGRAM / INITIATIVE TITLE: **DPH Pharmacy and Other Inflationary Costs**

TARGETED CLIENTS:

PROGRAM CONTACT NAME/PHONE: **Jenny Louie/554-2610**

2015-16 FTE Change	2016-17 FTE Cumulative Change	FY 2015-16 Net General Fund Impact	FY 2016-17 Cumulative Net General Fund Impact
n/a	n/a	n/a	\$2,880,049

**PROGRAM DESCRIPTION:** (brief description of proposed change)

This initiative requests annual inflationary adjustments for expenses critical to network operation. The department projects costs increases of 5% for pharmaceuticals, 4% for food and 3.25% for laundry & linen costs. In addition, this initiative also includes contracted increases to housing programs at DPH.

**JUSTIFICATION:**

These adjustments are critical to ensuring that DPH is able to continue to provide services and treatments to its patients in a financial sustainable manner.

**Pharmacy:** Drugs continue to be the primary treatment modality for the prevention, mitigation or cure of disease. Drug therapy cost increases have exceeded the inflationary rate for other goods and services for the past decade, and increases in the utilization of novel therapeutic agents are expected to continue into year 2014-15 and 2015-16. Projected nation-wide increases in drug expenditures are 4-6% across all settings. At DPH, continued participation in drug manufacturer patient assistance programs, tight drug formulary control, and aggressive use of lower cost generic drugs will help offset increases in expense due to volume. At the same time, the development and increased use of specialty drugs which affect a smaller number of drugs, but tend to be higher. The net result of factors that will increase and decrease drug costs at DPH are projected to lead to an overall increase in the cost of pharmaceuticals for the department of 5% in FY 2016-17.

**Food and Laundry:** In addition, while DPH continues to leverage discounts for its food purchase, it expects a 3% increase in food costs in next fiscal year. Finally, laundry and linen costs will rise by 3.25%.

**Master Lease Housing:** The Department of Public Health’s Housing and Urban Health (HUH) section currently oversees 36 supportive housing sites totaling 1,707 units through its Direct Access to Housing Program (DAH). As the Department master leases seven of the DAH sites and is therefore responsible for funding annual rent increases and property management cost increases as indicated in its contracts for each site. Projected annual increases for FY 16-17 total \$179,819.

**IMPACT ON CLIENTS:** (units of service and/or number of clients affected, if applicable)



None.

**EXPENSE AND REVENUE IMPACT:** (for both fiscal years)

Expenditure increase of \$2.88 million in FY 16-17.

**IMPACT ON DEPARTMENT'S WORKFORCE :**

None.

**ATTACHMENT B  
SUMMARY OF PROGRAM COST**

**INITIATIVE TITLE: DPH Pharmacy and Other Inflation**

Sources:	Description	FY 2015-16	FY 2016-17
		\$ -	\$ -
Subtotal Sources		\$ -	\$ -
<b>Uses:</b>			
	Operating Expenses	\$ -	\$ 2,880,049
Subtotal Uses		\$ -	\$ 2,880,049
<b>Net General Fund Subsidy Required (savings)/cost (Uses less Sources)</b>		\$ -	\$ 2,880,049
<b>Total FTE's</b>		0.00	0.00

**New Positions (List positions by Class, Title and FTE)**

<u>Class</u>	<u>Title</u>	FTE	FY 15-16	FTE	FY 16-17
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**Operating Expenses**

Index Code	Character/Subobject Code	FY 15-16	FY 16-17
HGH1HUN40061	040/04461 Pharmaceutical Supplies - SFGH	-	1,306,580
HLH448803	040/04461 Pharmaceutical Supplies - LHH	-	483,033
HJAILHLTH-GF	040/04461 Pharmaceutical Supplies - Jail Health	-	99,152
HCHAPADMINGF	040/04461 Pharmaceutical Supplies - Primary Care	-	20,886
HCHAPSPY - - GF	040/04461 Pharmaceutical Supplies -PC SPY	-	6,643
HMHMCC730515	040/04461 Pharmaceutical Supplies - CBHS	-	433,636
HCHSHHOUSGGF	021/03000 - Rent and Lease costs	-	187,759
HLH448811	040/04699 Food (LHH)	-	120,521
HGH1HUN40061	040/04699 Food (SFGH)	-	130,024
HLH449439	021/03511 Laundry & Linen Services (LHH)	-	51,059
HGH1HUN40061	021/03511 Laundry & Linen Services (SFGH)	-	40,756

**Facilities Maintenance, and Equipment (List by each item by count and amount)**

**2015-16 and 2016-17 Program Change Request**

**DIVISION:**

- DPH – department wide                       Population Health                       SF Health Network Wide /  
 San Francisco General Hospital             Laguna Honda Hospital                Managed Care  
 Ambulatory Care –Behavioral  
 Health Services

PROGRAM / INITIATIVE TITLE: **Restoration of Request For Proposal (RFP) Funding Reductions**

TARGETED CLIENTS: N/A

PROGRAM CONTACT NAME/PHONE: **Michelle Ruggels/255-3404**

2015-16 FTE Change	2016-17 FTE Cumulative Change	FY 2015-16 Net General Fund Impact	FY 2016-17 Cumulative Net General Fund Impact
n/a	n/a	8,843,948	8,843,948

**PROGRAM DESCRIPTION:** (brief description of proposed change)

Due to the significant financial challenges facing the Department for FY13-15, along with shifting departmental priorities to meet the Affordable Care Act (ACA) funding requirements, the Department proposed the following to achieve its budget savings target: (a) Reduce \$17,687,896 in General Fund monies allocated to contractual community based services over two years; and (b) Redistribute the remaining funding through the issuance of a series of Request for Proposals (RFPs). The RFPs were to be issued following an examination of the service delivery system to address the Department’s new programmatic responsibilities and capacity needs under Federal Health Reform and California’s 1115 Waiver. Prior to the implementation of the reductions, the Mayor restored half of the funding, or \$8.8 million in FY14-15, but \$8.8 million still remained in FY 15-16 and ongoing. This proposal would restore the full funding reduction, or the balance of \$8,843,948 previously reduced from the FY15-16 baseline.

The Department is continuing to examine its service delivery system, to conclude with a prioritization of services and funding, along with a plan describing how the Department will optimize and integrate contracted community based services into the San Francisco Health Network’s integrated delivery system. Changes to the existing system may be implemented through a Request for Proposal process, or may be the result of contractual negotiations, but as a result of this initiative there would no longer be a planned decrease in the total funding available for community based services. All DPH contracts are subject to RFP requirements, and therefore RFPs will continue to be issued to meet those requirements, as well as to reflect service model changes to support the Department under ACA.

**JUSTIFICATION:**

This will allow the Department more time to complete its system planning without being completely subject to the time requirements of an RFP that may have limited necessary discussion.

**IMPACT ON CLIENTS:** (units of service and/or number of clients affected, if applicable)

N/A

**EXPENSE AND REVENUE IMPACT:** (for both fiscal years)

Ongoing restoration of \$8,843,948 in expenditures starting in FY 15-16 to maintain the Department’s contractual services expenditure level at the same level as prior years.

**IMPACT ON DEPARTMENT’S WORKFORCE :**

N/A

**ATTACHMENT B FY 15-17  
SUMMARY OF PROGRAM COST**

**INITIATIVE TITLE: Restoration of RFP Funding Reductions**

Description		FY 2015-16	FY 2016-17
<b>Sources:</b>		\$ -	\$ -
Subtotal Sources		-	-
<b>Uses:</b>			
Char 021/027 Professional Services		\$ 8,843,948	\$ 8,843,948
Subtotal Uses		8,843,948	8,843,948
<b>Net General Fund Subsidy Required (savings)/cost (Uses less Sources)</b>		\$ 8,843,948	\$ 8,843,948
<b>Total FTE's</b>		<b>0.0</b>	<b>0.0</b>

**New Positions** (List positions by Class, Title and FTE)

Class	Title	FTE		
			-	-
			-	-
			-	-
	Fringe (36% for both years)		-	-
			\$ -	\$ -
<b>Operating Expenses</b>				
Index Code	Character/Subobject Code			
HMHMCC730515/02700			\$ 8,843,948	\$ 8,843,948

**Facilities Maintenance, and Equipment** (List by each item by count and amount)