Title: Stabilize Finances

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I. Background

The amount of revenue generated by SFHN is less than the cost to operate the network. To help close this gap, the City and County allocates General Fund (GF) dollars to DPH and SFHN.. The amount of GF available to subsidize SFHN's operations is both limited and dependent on the City's economy. The adopted budget for FY 2016-17 assumes SFHN will receive $1.08 billion in revenues, but will spend $1.61 billion. The gap must be filled by $528 million of support from the City's GF, or 32.9% of the network's total funding. This amount has increased from 24.5% of total funding in FY 2011-12. Between FY 11-12 and FY 16-17, GF support for SFHN grew by 70.1%, while the total amount of GF dollars available to the Mayor and Board of Supervisors to allocate grew by 57.2%. While some of this is driven by wage and benefit inflation, budgeted FTEs have grown by 823 (16.3%) over the same period.

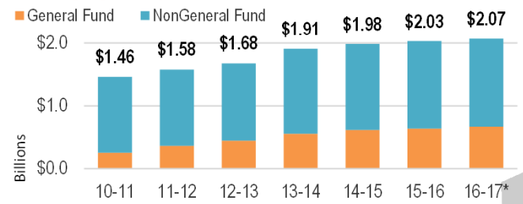
The federal and state governments are reducing many sources of traditional safety net funding (such as DSH, Safety Net Care Pool, and State Realignment) that have been used to offset the cost of providing care to low-income individuals. To replace these revenues, health care providers (including safety net providers such as SFHN) will need to earn a larger share of their revenues by serving patients newly insured under the Affordable Care Act and more effectively manage cost of care.

II. Current Conditions

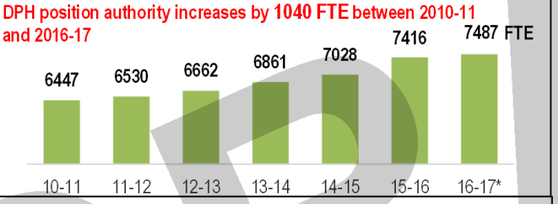
- SFHN's increasing reliance on GF dollars is unsustainable. The City's GF deficit is projected to increase to $690.1 million by FY 2020, and could be much worse if the City experiences an economic downturn.
- In its 5-Year Plan, the City projects GF revenues to grow by 3.2% per year. SFHN's share of the GF growth would be approximately $91 million. To continue growing at the same rate as the past five years, SFHN would require and additional $388.2 million in GF support.
- Payments through the Medi-Cal 1115 Waiver are expected to decline by $47 million by FY 2020 as federal DSH reductions are implemented, and CMS has indicated the current waiver will likely be the last for California.
- SFHN managed care enrollment has grown significantly under ACA, but this growth is insufficient to fully offset declining waiver revenues and cost growth. SFHN loses approximately 1,600 MCE lives and 1,500 non-MCE members per month through dis-enrollments.

**From FY 15-17 Budget*

DPH budget grows by $0.5 billion between 2010-11 and 2016-17



DPH position authority increases by 1040 FTE between 2010-11 and 2016-17



Problem Statement: The gap between revenues and expenditures is increasing. Factors include the department's financial outlook becoming increasingly unpredictable and continually facing budget pressures such as changes in revenue streams and requests for new expenditures (e.g. FTE).

III. Goals & Targets

Goal	Baseline	Year 1	Year 3	Year 5
All new SFHN-proposed FTEs or expenditures supported by savings or revenues, and clear financial measurements of success	N	Y	Y	Y
Disenrollment rate for managed care enrollees reduced by X%	X	0.99X	0.95X	0.9X
Net PMPM increase	X	0.99X	0.95X	0.9X
Additional revenue through new and updated contracts and payers	$0	$X	$Y	$Z
Percentage of PRIME. GPP, WPC, SUD revenue earned	N/A	80%	90%	95%

IV. Analysis

1. SFHN lacks sufficient process for accurately projecting and measuring revenues generated through new budget initiatives. In addition, SFHN's standard budget process includes examination of new proposed expenditures or reductions, but lacks a process for continually evaluating existing operations and whether previously budgeted dollars are being used to optimal effect.
2. Capitated revenues have grown significantly, but potential revenue is lost to Out of Medical Group (OOMG) cost and dis-enrollment of patients assigned to SFHN.
3. With historical sources of safety net funding such as DSH, SNCP, and Realignment decreasing, SFHN can no longer afford to maintain its historical payer mix.
4. SFHN lacks clear, standardized processes for documenting and improving activities required to maximize revenues earned under the 1115 Waiver.
5. Financial stewardship is not a core part of the network's organizational culture. There is limited understanding among network staff around the relationships between day-to-day operations and financial outcomes. Ownership and awareness of revenue cycle success often rests disproportionately with Finance staff, instead of clinical/operational staff.

V. Proposed Countermeasures

1. Expand development of staffing and productivity models for key SFHN services
2. Improve modelling of capitated population and revenues
3. More proactive management of revenue cycle, and coordination between clinical/operations/finance
4. Commercial Payer contracts
5. Budget education and ownership strategy

VI. Plan

1. Expand development of staffing and productivity models for key SFHN services
   a) Cost Accounting System – complete development
   b) Work group to evaluate FFS business and revenue in new ZSFG facility
   c) Ensure each division has one True North productivity metric aligned to SFHN True North
   d) Initiate processes to revisit PC and MH productivity metrics
2. Improve modelling of capitated population and revenues
   a) Finalize managed care dashboards
   b) Establish targets for Medi-Cal managed care patient enrollment and retention
   c) Identify one concrete area to focus on for reducing "bad" OOMG expenses
3. More proactive management of revenue cycle, and coordination between clinical/operations/finance
   1. Complete revenue cycle mapping and gap analysis for Apex transition
4. Commercial Payer contracts
   a) Establish goals (number and revenue) and timeline for commercial contracts
   b) Begin phase 2 of Oliver Wyman engagement
   c) Determine whether Knox-Keene License is required for commercial payer strategy
5. Budget education and ownership strategy
   a) Complete and distribute revenue/financial dashboards for PC, Managed Care, MH
   b) Use F$P process to reorganize financial reporting to improve financial clarity and transparency
   c) Modify and improve revenue cycle workflows in advance of EPIC install

VII. Follow-Up

- *When and how you will know if plans have been followed & the actions have had the impact needed?*
- *What related issues or unintended consequences do you anticipated & what are your contingencies?*
- *What processes will you use to enable, assure & sustain success?*