



Edwin M. Lee,
Mayor

Greg Wagner,
Chief Financial Officer

MEMORANDUM

January 28, 2015

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

FROM: Greg Wagner, Chief Financial Officer *[Signature]*

THROUGH: Barbara Garcia, Director *[Signature]*

RE: Revenue and Expenditure Report – 2nd Quarter FY 2014-15

This report presents the second quarter statement of revenues and expenditures for the Department of Public Health for fiscal year 2014-15. These figures are based on revenue collected and billed, and expenses incurred for the fiscal year beginning July 1, 2014. At the end of the second quarter the department projects a general fund surplus of \$ 9.3 million, or 0.4 percent of total budget.

Second Quarter Projected FY 2014-15 Surplus/(Deficit)

Second Quarter

Division	REVENUES			EXPENDITURES			TOTAL
	Revised Budget	Current Projection	Surplus/ (Deficit)	Revised Budget	Current Projection	Surplus/ (Deficit)	Surplus/ (Deficit)
Department of Public Health							
SFGH	\$ 1,158,923,000	\$ 1,141,920,000	\$ (17,003,000)	\$ 1,158,923,000	\$ 1,144,588,000	\$ 14,335,000	\$ (2,668,000)
Laguna Honda	\$ 234,907,621	\$ 243,995,588	\$ 9,087,967	234,907,621	236,521,848	(1,614,227)	7,473,740
Primary Care	\$ 92,518,000	\$ 97,060,000	\$ 4,542,000	92,518,000	83,783,000	8,735,000	13,277,000
Health at Home	\$ 7,616,000	\$ 7,616,000	\$ -	7,616,000	7,595,000	21,000	21,000
Jail Health	\$ 33,263,000	\$ 33,263,000	\$ -	33,263,000	33,122,000	141,000	141,000
Public Health	\$ 224,676,978	\$ 222,476,978	\$ (2,200,000)	224,676,978	223,936,978	740,000	(1,460,000)
Mental Health	\$ 318,287,303	\$ 313,287,303	\$ (5,000,000)	318,287,303	321,287,303	(3,000,000)	(8,000,000)
Substance Abuse	\$ 83,506,350	\$ 83,506,350	\$ -	83,506,350	82,976,350	530,000	530,000
TOTAL DPH	\$ 2,153,698,251	\$ 2,143,125,218	\$ (10,573,033)	\$ 2,153,698,251	\$ 2,133,810,478	\$ 19,887,773	\$ 9,314,740

Expenditures are below budget by \$19.8 million, and revenues are below budget by \$10.6 million.

San Francisco General Hospital: SFGH shows a deficit of \$2.7 million compared to budget.

Revenues are \$17.0 million below budget. Significant variances include:

- \$17.5 million favorable variance in patient service revenues. SFGH has not experienced the full anticipated decline in fee-for-service revenues associated with the transition of Medi-Cal recipients to managed care. The improvement versus budget is due to continued implementation of presumptive eligibility for Medi-Cal, and an increased per diem rate for Medi-Cal inpatient services.

- \$34.5 million unfavorable variance in capitation revenues, reflecting capitation rates lower than assumed during the prior year's budget development process.

Expenditures are below budget by \$14.3 million. Expenditure variances include:

- \$7.9 million favorable variance in operating transfers out. This savings is due to lower than budgeted intergovernmental transfers to pay the non-federal share for supplemental revenue programs.
- \$6.4 million (1.7 percent) favorable variance in salary and fringe benefits, due to delays in hiring positions not backfilled with per diem or overtime staffing, such as information technology, clerical, and interpreter positions.

Laguna Honda Hospital: LHH shows a surplus of \$7.5 million due to:

- A \$9.1 million favorable variance in patient service revenues, including: 1) \$4.6 million due to lower-than-anticipated growth in unbillable patient days for Medi-Cal Managed Care recipients, and 2) \$4.5 million due to increased patient census and recovery of Distinct Part Nursing Facility supplemental revenues.
- Expenditures above budget by \$1.6 million due to a projected discrepancy between the budget system's calculated fringe benefit rates and actual charges. DPH has requested that the Controller's Office review benefit calculations and recommend a response.

Health at Home: Health at Home projects a \$0.2 million year end surplus due to savings in fringe benefits.

Primary Care: Primary Care shows a \$13.3 million surplus. Revenues are above budget due by 4.8 million, due to capitation revenues from increased enrollment under the ACA, offset by a \$1.7 million shortfall in patient revenues also due to increased managed care enrollment. Expenditures are below budget by \$8.7 million, due largely to delays in implementing new initiatives in the current year's budget, including the centralized call center.

Jail Health Services: Jail Health shows a surplus of \$0.1 million in personnel costs.

Mental Health: Mental Health shows an \$8.0 million deficit, including: 1) a \$5.0 million unfavorable variance in Short-Doyle revenues due to uncertainties associated with delays in claims submission and claims processing by the State, and 2) \$3.0 million unfavorable variance in non-personal services due to increased need for placement beds for hospital discharges.

Public Health: Public Health shows a deficit of \$1.5 million due to:

- \$1.2 million unfavorable variance due to a change in costs eligible for reimbursement under the MAA/TCM program
- \$1.0 million unfavorable variance due to unrealized gains from the sale of surplus property. This sale may be concluded by year end.
- Expenditures are below budget by \$0.7 million, due to personnel savings.

Substance Abuse: Substance Abuse shows a \$0.5 million surplus due to personnel savings

Conclusion and Comments

For the second year in a row, the Department of Public Health remains on track to finish the year within budget. This is significant after more than a decade of persistent expenditure overruns requiring mid-year supplemental budget appropriations. In the 2013-14 budget, the Mayor's Office included a major initiative to correct the historical structural imbalance in the budgets for San Francisco General and Laguna Honda Hospitals. The Department is taking additional steps in the current year to bring personnel budget for Mental Health, Health at Home, and Jail Health—all of which have spent above budget consistently for a number of years—back into balance. Each of these divisions is projected to remain within its personnel budget for the current year.

There are significant uncertainties in this projection which could materially affect the department's bottom line financial performance before the end of the year. DPH is still dependent on volatile federal revenue allocations, which can vary unpredictably in amount and timing. This projection assumes major allocations for DSH, Safety Net Care Pool, SB 208, and other formula-driven revenues will come in at budget. However, as we have seen in recent years, significant variances are likely as new information becomes available on San Francisco's allocations from these funding sources. In addition, major new initiatives underway, including operational preparation for the move to the new San Francisco General Hospital and continued implementation of patient access programs, could result in variances from budget.

Top financial priorities for DPH include:

- Work with the Controller's Office to establish operating reserves and other mechanisms to mitigate revenue volatility and the risk of economic downturn. In the FY 13-14 Annual Appropriation Ordinance, DPH worked with the Controller's Office, Mayor's Office and Board to establish a legislative provision allowing for management reserve of surplus revenues to offset anticipated future declines. During the coming months, we will work to strengthen this process.
- Establish a mechanism to begin pre-funding major information technology and capital costs, to spread the budgetary impact of EMR and capital upgrades over multiple years.
- Make contingency plans for the next economic downturn.

