



Edwin M. Lee,
Mayor

Greg Wagner,
Chief Financial Officer

MEMORANDUM

June 1, 2017

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

FROM: Greg Wagner, Chief Financial Officer

THROUGH: Barbara Garcia, Health Director

RE: **Revenue and Expenditure Report – 3rd Quarter FY 2016-17**

This report presents the third quarter statement of revenues and expenditures for the Department of Public Health for fiscal year 2016-17. These figures are based on revenue collected and billed, and expenses incurred for the fiscal year beginning July 1, 2016. At the end of the third quarter the department projects a net general fund surplus of \$93.6 million. Operating expenditures are above budget by \$8.2 million, and operating revenues are above budget by \$123.3 million. This surplus is partially offset by a deposit of \$21.5 million into the DPH Management Reserve as authorized under Section 12.6 of the Administrative Provisions of the Annual Appropriation Ordinance.

Third Quarter Projected FY 2016-17 Surplus/(Deficit)

Division	REVENUES			EXPENDITURES			TOTAL
	Revised Budget	Current Projection	Surplus/ (Deficit)	Revised Budget	Current Projection	Surplus/ (Deficit)	Surplus/ (Deficit)
Department of Public Health							
ZSFG	\$ 1,110,038,000	\$ 1,207,854,000	\$ 97,816,000	\$ 1,110,038,000	\$ 1,128,398,000	\$ (18,360,000)	\$ 79,456,000
Laguna Honda	\$ 285,259,235	\$ 291,967,598	\$ 6,708,363	\$ 285,259,234	\$ 285,045,706	\$ 213,528	\$ 6,921,891
Primary Care	\$ 97,437,000	\$ 99,465,000	\$ 2,028,000	\$ 97,437,000	\$ 97,562,000	\$ (125,000)	\$ 1,903,000
Health at Home	\$ 8,209,000	\$ 8,831,000	\$ 622,000	\$ 8,209,000	\$ 8,103,000	\$ 106,000	\$ 728,000
Jail Health	\$ 34,845,000	\$ 34,845,000	\$ -	\$ 34,845,000	\$ 33,877,000	\$ 968,000	\$ 968,000
Public Health	\$ 369,937,706	\$ 383,237,706	\$ 13,300,000	\$ 369,937,706	\$ 364,937,706	\$ 5,000,000	\$ 18,300,000
Mental Health	\$ 342,457,283	\$ 347,457,283	\$ 5,000,000	\$ 342,457,283	\$ 339,457,283	\$ 3,000,000	\$ 8,000,000
Substance Abuse	\$ 89,488,426	\$ 87,270,812	\$ (2,217,614)	\$ 89,488,426	\$ 88,488,426	\$ 1,000,000	\$ (1,217,614)
TOTAL DPH	\$ 2,337,671,650	\$ 2,460,928,399	\$ 123,256,749	\$ 2,337,671,649	\$ 2,345,869,121	\$ (8,197,472)	\$ 115,059,277
DPH Management Reserve Deposit							\$ (21,500,000)
Year-End Projection							\$ 93,559,277

Zuckerberg San Francisco General Hospital: ZSFG projects a surplus of \$79.5 million compared to budget. Revenues are projected to be above budget by \$97.8 million, and expenditures are projected to be above budget by \$18.4 million. Significant variances include:

- \$51.2 million favorable variance in patient service revenues. Revenue from commercial insurance is projected to grow by \$19.3 million compared to FY 15-16 due to improved collections and settlement agreements affecting reimbursement rates. Medicare inpatient revenues are projected to grow by \$9.4 million and Medi-Cal inpatient fee for service revenues by \$6.3 million compared to last year.

- \$32.2 million favorable variance in Medi-Cal Waiver revenues (PRIME/GPP). The department expects to exceed budget assumptions for achievement of PRIME metrics and uninsured visits under the GPP program, resulting in a revenue surplus. This surplus is partially offset by \$9.2 million higher-than budgeted operating transfers out for intergovernmental transfers from the County to pay the non-federal share of these programs.
- \$14.4 million favorable variance in capitation revenues due primarily to a retroactive payment of AIDS capitation dating to July 2015.
- \$7.3 million unfavorable variance in salary and fringe benefits. After ten months of operations in the new ZSFG facility, the hospital has identified several areas where practical staffing requirements are higher than anticipated in the planning model. In addition, overtime and per-diem costs have been higher than budget as the hospital works to fill new positions required to meet staffing requirements in the labor MOU approved in summer of 2016. Because overtime and per diem staffing are being used to fill a portion of the unexpected staffing, salary overspending is partially offset by savings in fringe benefit costs. The proposed budget for FY 2017-19 includes corrections to these deficits moving forward.
- \$9.2 million unfavorable variance in operating transfers out as described above, reflecting higher-than-expected intergovernmental transfers required to draw down federal funding.

Laguna Honda Hospital: LHH shows a surplus of \$6.9 million due to:

- \$6.1 million favorable variance in patient revenues due to a higher-than-expected annual increase in the skilled nursing facility per diem rate.
- \$0.2 million favorable variance in salary and fringe benefits.

Health at Home: Health at Home shows a \$0.7 million year end surplus due primarily to patient service revenues.

Primary Care: Primary Care shows a \$1.9 million surplus. Revenues are above budget by \$2.0 million due to a \$3.5 million favorable variance in capitation revenues, offset by a \$1.5 million shortfall in fee-for-service revenues. Expenditures are below budget by \$0.1 million.

Jail Health Services: Jail Health shows a surplus of \$1.0 million due to a favorable variance in personnel costs.

Mental Health: Mental Health projects a \$8.0 million year-end surplus. Short-Doyle revenues are projected to be \$5.0 million above budget. Expenditures are projected to be \$3.0 million below budget due to one-time closeouts of prior year encumbrances and appropriation carryforwards.

Public Health: Public Health projects an \$18.3 million year- end surplus.

- Revenues are above budget by \$13.3 million, driven by \$11.8 million in payments for the Whole Person Care program under the State's Medicaid 1115 Waiver. Because applications for this program were not approved until FY 16-17, these funds were not assumed in the FY 16-17 budget.
- Salary and fringe benefits are below budget by \$4.8 million. This savings is driven primarily by delays in hiring new information technology positions associated with the

electronic health records project and associated preparedness initiatives. Hiring of these positions is expected to be completed by the end of the fiscal year.

Substance Abuse: Substance Abuse projects a \$1.2 million year-end deficit. Medi-Cal revenues are projected to be \$3.0 million below budget due to delays in implementation of the Drug Medi-Cal Organized Delivery System (ODS) Waiver. This shortfall is partially offset by a \$0.8 million favorable variance in State Alcohol funds. The division also projects a favorable variance of \$1.0 million in personnel costs due to delays in hiring newly budgeted positions associated with the ODS program.

Comments

- Section 12.6 of the administrative provisions of the Annual Appropriation Ordinance authorizes the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future reductions or audit adjustments associated with the Affordable Care Act and funding allocations for indigent health services. This provision was adopted by the Board of Supervisors to smooth volatile state and federal revenues that can lead to large variances between budgeted and actual amounts due to unpredictable timing of payments, major changes in projected allocations, and delays in final audit settlements. Current projected uses of the Management Reserve total \$129.1 million, including potential liability of disallowed SB1128 reimbursement, reductions to supplemental payments for Medi-Cal managed care for Seniors and Persons with Disabilities, and greater budgeted withholding of 1991 health and welfare realignment subventions. This amount represents a \$21.5 million increase from the FY 2015-16 year-end balance and is due to the need to reserve for the full loss of previously received SB 1128 federal reimbursements for Laguna Honda Hospital construction which were previously assumed payable by Laguna Honda Debt Service Fund.
- The FY 16-17 budget included appropriation authority to transfer up to \$25 million into the electronic health records project from revenues at Zuckerberg San Francisco General Hospital and Laguna Honda Hospital. This report reflects a transfer of the full \$25 million to the project.
- The department projects total year-end expenditures to be \$8.2 million above budget. However, this projection includes \$9.2 million in unbudgeted expenditures for intergovernmental transfer payments used to draw down federal supplemental revenues. Section 12.6 of the Administrative Provisions of the Annual Appropriation Ordinance appropriates expenditures for this purpose, allowing the department to adjust the expenditure budget to cover these shortfalls prior to year-end. As a result the department expects to end the year with sufficient expenditure appropriation and does not expect to require a supplemental appropriation.