

# DEPARTMENT OF PUBLIC HEALTH

## FY 13-14 & 14-15 BUDGET

April 23, 2013

# Department of Public Health Financial Position

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## □ **DPH is facing very significant financial challenges**

- City General Fund situation has improved, but still facing \$129M and \$263M deficits for FY 13-14 and FY 14-15, respectively
- \$31M current year deficit required General Fund supplemental appropriation
- Large additional draw on General Fund projected in the future
- DPH must prepare itself to be financially stable in changing health care world

## □ **Causes of Financial Challenges**

- 1. Historical “Structural” Issue
- 2. Rapid cost inflation
- 3. State and Federal reductions
- 4. Revenues not keeping pace with costs

# What is Causing Deficits at DPH?

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## 1. Historical “Structural” Deficit

### “Structural” Deficit

- DPH has historically been under-budgeted for salaries and fringe benefits
- In the past, this was less of a problem because DPH was able to cover some or most of its overspending with excess revenues
- But the imbalance has grown with salary and benefit cost increases
- As a result the General Fund has borne more of these costs

### History of DPH Structural Deficit (\$ Millions)

FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
\$ 23.30	\$ 16.86	\$ 14.15	\$ 20.81	\$ 29.49	\$ 41.25

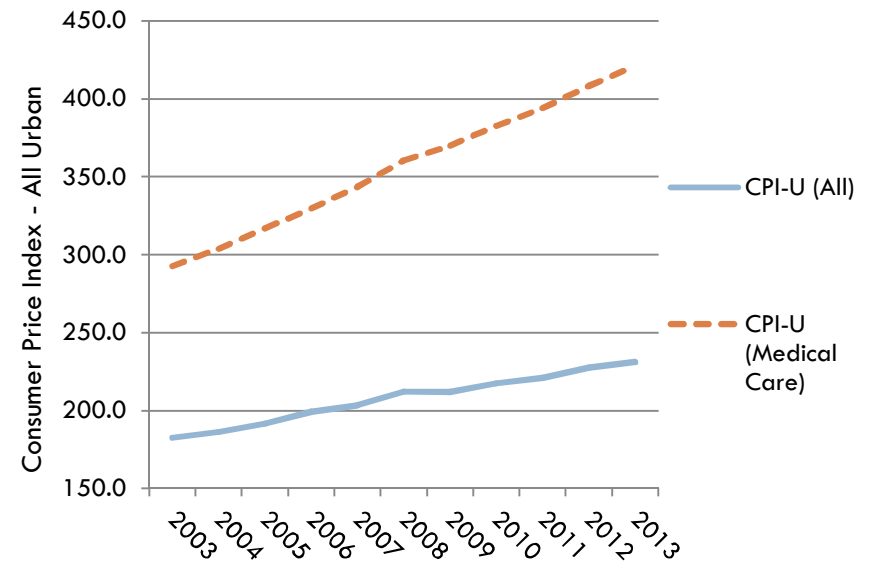
# What is Causing Deficits at DPH?

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## 2. Rapid Cost Inflation

- Like other healthcare systems, costs are growing faster than general inflation
- ~**\$50 Million per year** growth in personnel and other costs (pharmacy, medical supplies, etc) just to maintain existing service levels (5-Year Financial Plan)

Medical Inflation has Significantly Outpaced General Inflation



# What is Causing Deficits at DPH?

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## 3. State and Federal Reductions

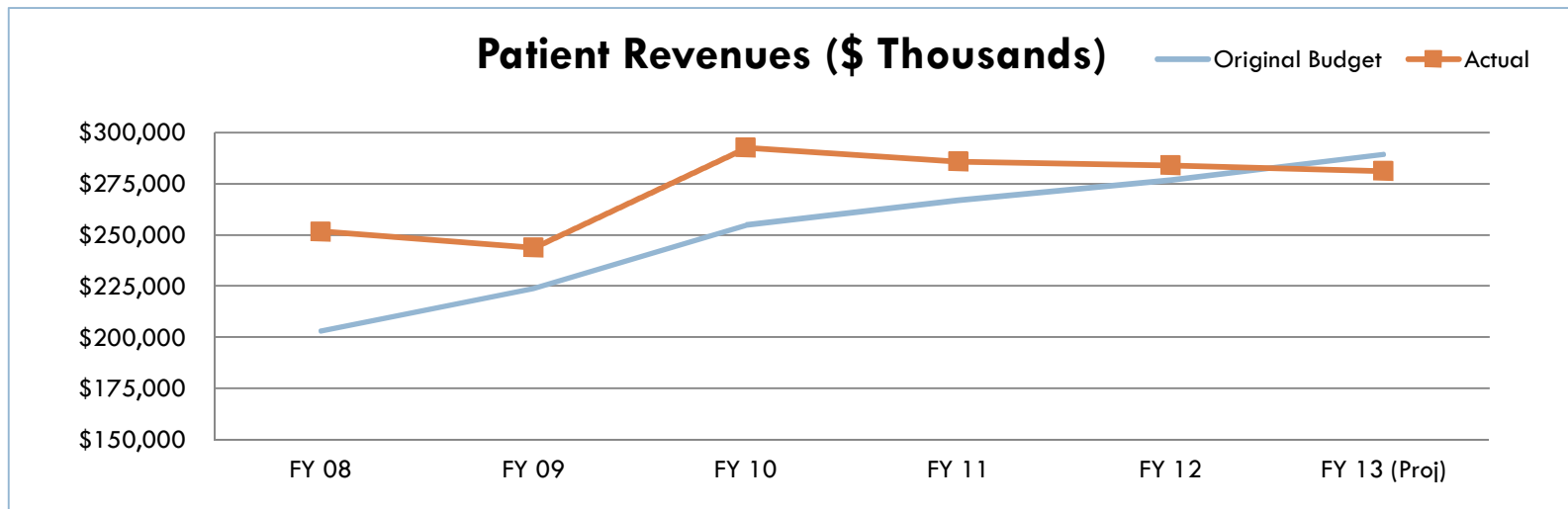
- State Skilled Nursing Facility rate cut (\$30+M)
- Failure to Approve Mental Health Reimbursement Program (\$16M)
- Managed Care rates for Seniors and Persons with Disabilities (\$19M)
- Federal Grants – HIV, TB, etc
- Realignment?

# What is Causing Deficits at DPH?

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## 4. Patient Revenues Not Keeping Pace with Costs

- Expiration of federally enhanced payments
- Transition to Managed Care Reimbursement Model
- More aggressive revenue budgets to minimize service reductions, but limits “upside” available to cover costs



## 5-Year Projection

**Table 26: Base Case Projections for the Department of Public Health (DPH) FY 2014-18 (\$ in millions)**

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
<b>SOURCES Increase / (Decrease)</b>					
DPH Revenues	10.8	17.0	24.7	23.8	23.7
<b>USES Decrease / (Increase)</b>					
Salaries and Benefits	(44.6)	(35.6)	(28.6)	(30.6)	(32.3)
SFGH Rebuild on-going and one-time FF&E costs	(40.0)	(25.0)	15.0	23.8	(1.3)
Annualization of Anticipated Supplemental	(37.6)	(2.2)	(2.4)	(2.5)	(2.7)
Inflation on non-personnel costs and grants to non-profits	(6.7)	(20.7)	(20.7)	(19.9)	(19.8)
Annualize State Supplemental	(3.0)				
Health Care Reform, Regulatory and Other	(21.0)	(3.1)	(5.2)	(8.2)	(16.3)
<b>TOTAL CHANGES TO USES</b>	<b>(152.8)</b>	<b>(86.6)</b>	<b>(41.8)</b>	<b>(37.5)</b>	<b>(72.5)</b>
<b>Projected Growth (Shortfall) vs. Prior Year</b>	<b>(141.9)</b>	<b>(69.7)</b>	<b>(17.1)</b>	<b>(13.7)</b>	<b>(48.8)</b>
<b>Cumulative Growth</b>	<b>(141.9)</b>	<b>(211.6)</b>	<b>(228.7)</b>	<b>(242.4)</b>	<b>(291.2)</b>
<b>Portion of General Fund Growth Assumed for DPH</b>	<b>85.0</b>	<b>22.4</b>	<b>18.6</b>	<b>14.3</b>	<b>19.4</b>
<b>Remaining Surplus (Shortfall) vs. Prior Year</b>	<b>(57.0)</b>	<b>(47.3)</b>	<b>1.5</b>	<b>0.6</b>	<b>(29.4)</b>
<b>Cumulative Projected Surplus (Shortfall)</b>	<b>(57.0)</b>	<b>(104.2)</b>	<b>(102.7)</b>	<b>(102.1)</b>	<b>(131.5)</b>

## 5-Year Projection

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Absent changes, DPH will require an increasing share of the General Fund:

- If no action is taken, \$291M additional General Fund need in five years
- Even after accounting for growth in the economy, DPH would need \$131M more than its proportional share of that growth

### Take-Aways:

- DPH can position itself to be successful and financially stable in the future
- But that requires making some difficult decisions today
- If we don't take action, we risk continued deficits and deterioration of safety net services



# FY 13-14 and FY 14-15 Proposed Budget

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## SAN FRANCISCO DEPARTMENT OF PUBLIC HEALTH FY 2013-15 PROPOSED BUDGET - Health Commission Meeting

Increase/(Decrease) in DHP General Fund Support Compared to FY 12-13 (\$ Millions)	13-14 Impact	14-15 Cumulative Impact
<b>Baseline Growth*</b>		
Salaries and Benefits	44.6	80.2
SFGH Furniture, Fixtures and Equipment	40.0	65.0
Structural Salary Deficit	37.6	39.8
Subtotal	122.2	185.0
<b>Budget Proposals</b>		
Non-Personnel Cost Inflation	7.5	16.1
Regulatory Costs	11.2	10.1
Revenue	(4.4)	(6.2)
Reductions	(13.6)	(25.8)
Emerging Needs	5.2	8.3
Subtotal	6.0	2.4
<b>Total General Fund Support Increase (Decrease)</b>	<b>128.2</b>	<b>187.4</b>

\*Projections from City and County of San Francisco, Proposed Five-Year Financial Plan, Fiscal Years 2013-14 through 2017-18

# Cost of Doing Business Update (CODB)

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## CODB Status in FY13-14

- In FY12-13, CBO's received a 1.91% CODB (2% annualization in FY13-14)
- This 2% remains funded in FY 13-14 and FY 14-15, but there is no additional CODB increase in the budget.
- The Department is unable to fund a CODB without reducing and reallocating existing service funding. The Department has not proposed this in FY13-14.
- The Department recognizes that CBO's may need to reduce direct services to fund CODB increases to support infrastructure costs.
- Financial projections assume CPI-based CODB beginning in FY15-16 as part of its overall strategy to address this gap.

# Across-the-Board-Reductions

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- The Department is proposing a 5% reduction to its contractual expenditures, through an across-the-board reduction to unmatched General Fund dollars
- The Department is not proposing reductions to selected modalities, including homeless specific services, Methadone services, children's services, etc. See the initiative for a complete list.
- This initiative will result in \$7,312,104 in annual savings, or a reduction of 9% to total General Fund support of contractual services. The impact may be higher to agencies that rely heavily or completely on unmatched General Fund monies.
- Outpatient reductions would be implemented as of September 1, and residential service reductions would be implemented as of January 1, to allow sufficient transition time.
- Agencies may propose a different scenario to achieve their assigned savings than how the reductions were allocated on the reduction summary. The reduction summary is a formula applied to unmatched General Fund.
- Any errors or disagreements in the reduction summary should be emailed to [michelle.ruggels@sfgov.org](mailto:michelle.ruggels@sfgov.org), who will follow-up with you to address.

# Request for Proposals (RFPs)-Health Care Reform Readiness

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- In anticipation of new programmatic responsibilities expected under the Affordable Care Act (ACA) and California's 1115 Waiver, DPH is in the process of examining its service delivery system.
- Specifically, the Department will be looking to realign its contractual services to meet one or more of the following objectives:
  - ▣ Essential services to meeting the Affordable Care Act (ACA) milestones
  - ▣ Services reimbursable under ACA (e.g. MediCal reimbursable)
  - ▣ Services that directly help hospital discharge
  - ▣ Services that support population health
- Upon completion of this planning process, the Department will release a packet of RFP solicitations to meet these objectives, to achieve budgetary savings, and to adhere to the City's contractual solicitation timeline requirements.
- Total annualized savings from these proposals is \$17,687,896. RFP implementation would begin in FY14-15 through FY15-16.
- The Department will hold Town Hall meetings related to the implementation of Health Care Reform, and to receive feedback for its community based partners during the development of the RFPs.

# Timeline

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- April 23 – First Health Commission Budget Hearing
- May 7 – Second Health Commission Budget Hearing
- June 1 – Mayor’s Balanced Budget Submission
- June – Board of Supervisors Budget (BOS) Hearings
- June 28 – BOS Budget and Finance Committee approves amended budget
- Mid-July – Final BOS approval of Budget