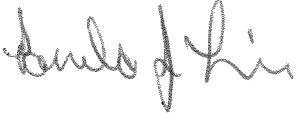


HEALTH SERVICE SYSTEM
CITY & COUNTY OF SAN FRANCISCO

Memorandum

DATE: January 14, 2016
TO: Randy Scott, Vice President and Members of the Health Service Board
FROM: Pamela Levin, Chief Financial Officer 
RE: Health Service System FY 2016-17 and FY 2017-18 Budget Instructions

On December 1, 2015, the Mayor released the FY 2016-17 and FY 2017-18 Budget Instructions. The instructions only apply to the General Fund (GF) Administration Budget. This report will summarize the GF assumptions used by the Mayor's Office for FY 2016-17 and FY 2017-18, Mayor's Budget instructions, next steps and budget schedule.

Similar to last year, the \$2.05 budget will be considered by the Health Service Board on February 11, 2016 at the same time as the General Fund Administration Budget.

GF Assumptions used by the Mayor's Office for FY 2016-17 and FY 2017-18

At this time, the Mayor's Office is projecting a General Fund deficit of \$99.8 million in FY 2016-17 and \$140.4 million in FY 2017-18. This projection is based on current operations, staffing levels and estimated revenues.

The City's General Fund projected deficit is primarily driven by increases in the employer retirement contributions to employee pensions and voter approved propositions and set-asides. The increases in employer retirement contributions are required to offset lower than expected returns in the pension system for FY 2014-15, updated mortality assumptions, and the loss of a legal challenge to a portion of the 2011 Proposition C, that reformed City pension and health care benefits related to supplemental Cost of Living Adjustment (COLA) payments.

In addition, the Mayor's Office has taken into account the 2011-2015 ballot initiatives that result in an increase in expenditures including:

- Housing Trust Fund in 2011
- Increases to the MTA baseline in 2014
- Increases in the City's minimum wage in 2014



- Renewal of the Children's Fund in 2014
- Legacy Business in 2015

The impact of these propositions is \$28.1 million in FY2016-17 and \$58.3 million in FY2017-18.

The City's budget projections do not include unknown impacts from:

- Labor negotiations in FY 2016-17
- New General Fund budgetary commitments approved by the Board of Supervisors
- State or Federal budget impacts
- Current year overspending or supplemental appropriations
- Changes in the economy such as a recession

Mayor's Budget Instructions for FY 2016-17 and FY 2017-18

The highlights for the budget instructions are outlined below.

Implement a Two Year Fixed Budget

Each department is directed to submit a two year budget, and it is possible that HSS will need to submit a fixed two year budget. If HSS is selected as one of the departments, the FY 2016-17 budget must be developed with the understanding that the FY 2017-18 budget will not be changed beyond existing administrative rules for transfers between expenditure categories and position substitutions without the approval of the Board of Supervisors. In the second year of the fixed two year process, if changes are requested that exceed administrative rules, they will require Board of Supervisors approval through the submission of a supplemental ordinance. The Mayor's Office and Controller's Office will work with departments to determine if a budget adjustment will be needed.

Propose Ongoing Reductions

The budget instructions require departments to submit ongoing reductions. In both FY 2016-17 and FY 2017-18, HSS will need to propose reductions and/or revenues equal to 1.5% of the GF support. These must be ongoing reductions, meaning that they will also continue in the FY 2017-18 budget.

The value of the HSS reduction in FY 2016-17 is \$48,467. In FY 2017-18, the reductions that were proposed in FY 2016-17 remain and an additional \$48,467 reduction must be proposed.

Adhere to Policy Instructions

The Mayor's budget should also incorporate the following policies:

- Reflect the priorities and programmatic goals identified in each department's proposed five year strategic plan
- Support the development of a modern, responsive and engaged government through public trust and civic engagement, public experience of City services, performance, accountability, investing in what works, and in giving employees the tools to do their best work
- Minimize service impacts
- Identify and pursue opportunities for cross-departmental collaboration

Next Steps

Staff will present a Proposed Departmental Budget to the Health Service Board at the February 2016 meeting that:

- Satisfies the Mayor's instructions for living within the FY 2016-17 General Fund budget approved by the Board of Supervisors with annualization of new positions
- Meets the directive to propose ongoing reductions in FY2016-17 and FY2017-18
- Proposes enhancements to meet critical needs that are consistent with the Mayor's policy instruction but require additional funding

Budget Schedule

The key milestones in the budget process are summarized below.

Description	Schedule
Governor's Budget Released	January 2016
Information Technology Plan	January 15, 2016
Controller's 6-month Report	February, 2016
Health Service Board Approves Budget	February 11, 2016
Department's Budget Due	February 22, 2016
Controller's 9-month Report	May 2016
Governor's May Revise	May 2016
Mayor's Proposed Budget Submitted to Board of Supervisors	June 1, 2016
Budget Committee Hearings	June 2016
Budget Considered at Board of Supervisors	July 2016
Board of Supervisors Approves Budget for FY 2015-16 and FY 2016-17	July 2016