

MEMORANDUM

DATE: January 14, 2021
TO: Dr. Stephen Follansbee, President and Members of the Health Service Board
FROM: Larry Loo, Chief Financial Officer
RE: Mayor's Budget Instructions for the San Francisco Health Service System (HSS) –
Fiscal Year (FY) 2021-22 and FY 2022-23 General Fund Administrative Budget

SFHSS manages two budgetary sources, the General Fund Administrative Budget and Health Sustainability Fund Budget. This memo outlines the process for the General Fund Administrative Budget for SFHSS as established by the Mayor's Office. The Health Sustainability Fund Budget process will be addressed separately and will follow a similar timeline.

Mayor's Budget Outlook

On December 16, 2020, Mayor London Breed issued the budget instructions that apply to the San Francisco Health Service System (SFHSS) General Fund Administration Budget. This announcement for starts the budget setting process by the Mayor's Budget Office for FY 2021-22 and FY 2022-23. The announcement also included future financial plan and outlook as well priorities, instructions, and schedules for the upcoming biennial budget planning cycle.

Five-Year Financial Plan Projection

The City had to overcome an historically high, pandemically-induced budget shortfall, all while preserving jobs and services, and making progress on key priorities. The use of one-time funding sources mitigated some of the need for more dramatic actions.

The projections found in the City's Five-Year Financial Plan Projection for FY 2021-22 through FY 2025-26 shows cumulative shortfalls each year. For FY 25-26, the projected shortfall is \$531.3 M.

These deficits are due to slow growth in revenues in FY 2021-22 followed by growth in revenues in subsequent years due to the phasing in of proposition "I" and "L". Additionally, the City used \$1.3 billion one-time, short-term sources in from FY 2020-21 through FY 2022-23 which drove up deficits in the ensuing years.

The growth of the deficit was due to increases in expenditures continues to outpace the revenue growth. Salaries and benefits assume adherence to the previous commitments, no recession and trending along with the CPI. Citywide costs in response to COVID-19 continue to grow overall with no assumptions of additional Federal relief.

Two-Year Budget Shortfall

The near-term two-year deficit for FY 2021-22 and FY 2022-23 is \$653.2 M shortfall. The following table summarized the projected contributions to the shortfall for this budget setting cycle:

Changes in Sources and Uses Contributing to Deficit		
	FY 2021-22 (millions)	FY 2022-23 (millions)
SOURCES Increase / (Decrease)	(\$117.6)	\$268.5
USES		
Baselines & Reserves	(\$54.4)	(\$157.7)
Salaries & Benefits	(150.8)	(233.4)
Citywide Operating Budget Costs	(21.4)	(8.2)
Departmental Costs	(67.0)	(111.2)
Total Uses (Increase) / Decrease	(\$293.6)	(\$510.6)
Projected Cumulative Surplus / (Shortfall)	(\$195.4)	(\$224.1)
Two Year Deficit		(\$653.2)

Mayor’s Budget Priorities & Instructions

Policy Priorities

Despite the projected deficits, the Mayor continues to focus on these critical priorities:

- Supporting small business and economic recovery
- Prioritizing programs with demonstrated outcomes centered around equity
- Implementing homelessness and mental health programming
- Continuing to respond to COVID

Budget Instructions to Department

To address the budget shortfall while supporting these priorities, the General Fund departments were given the following target reduction:

- For FY 2021-22 and 2022-23 overall departments are to propose mandatory reductions of 7.5% in adjusted General Fund support, with an additional 2.5% contingency should the fiscal conditions worsen
- The SFHSS specific reduction mandatory reduction is \$273,012 and contingency reduction target of \$91,004

The approach outlined for General Fund departments by the Mayor's instructions are to for develop proposals that prioritize core services and present clear tradeoffs. Suggested actions include looking for contract savings, seeing efficiencies, new revenue sources, and reduction in personnel costs, including reduction in filled positions.

SFHSS FY 2021-22 and FY 2022-23 General Fund Administrative Budget

In addition to following the Mayor's budget instructions and priorities, SFHSS also applies the following approaches to developing the biennial General Fund Administrative Budget:

- Adhere to SFHSS Strategic Plan principles
- Maintain existing staffing and service levels
- Apply zero-base approach Non-Personal Services and Materials and Supplies
- Adjust expenditures to prior year levels
- Support new remote operations including use of eBenefits for enrollments
- Support the emerging health needs of members including mental health

Department Requirement for Public Hearings on Budgets

A new requirement to seek public input in developing their proposed budgets became effective in December 1, 2020. Departments must host two public hearings before February 14th of each year before the proposed budgets are submitted. The first meeting gives the opportunity for initial public input. The second meeting is a presentation of the proposed budget.

These meetings must satisfy the following criteria:

- Announcement noting the meeting's time and location on the department's website at least 72 hours in advance
- Share budget priorities and provide opportunity for feedback from members of the public
- Include the following information about the proposed budget (if applicable):
 - All agency divisions
 - Budget totals and explanation of major changes, including new or reduced initiatives and staffing levels
 - Changes in service levels
 - Projected salary savings
 - How the agency plans to meet budget instruction target
- Allow each member of the public the opportunity for two minutes of public comment
- Allow for the collection of written feedback before, during, and after the meeting

SFHSS has consistently provided opportunities for members to address the Health Service Board during the budget process. A link to the budget documents will be available from the Board landing page, located at <https://sfhss.org/health-service-board>, and a link will appear on the SFHSS website's home page (<https://sfhss.org/>) to budget documents. The SFHSS budget will also be available from the website coordinated by the Controller's Office.

Budget Schedule

The proposed FY 2021-22 and FY 2022-23 SFHSS General Fund Administrative Budget will be developed and presented to a future Finance and Budget Committee and then to the whole Health Service Board for approval in February. This schedule conforms to the Mayor's Budget

Activity	Date
Mayor's Budget Instructions Released	December 16, 2020
Budget system opens to departments / CON budget system trainings	Early January
Information Technology (COIT) and Capital Budget Requests due	January 22, 2021
Controller's 6-month Report	February 2021
Finance and Budget Committee Reviews the Budget	February 2021
Health Service Board Approves Budget	February 11, 2021
Department's Budget Due	February 22, 2021
Controller's 9-month Report	May 2021
Governor's May Revise	May 2021
Mayor's Proposed Budget Submitted to Board of Supervisors	June 1, 2020
Budget and Finance Committee Hearings	June 2020
Budget Considered at Board of Supervisors	July 2020
Board of Supervisors Approves Budget for FY 2021-22 and FY 2022-23	July 2020