

**SAN FRANCISCO**  
**HEALTH SERVICE SYSTEM**

Affordable, Quality Benefits & Well-Being

**Memorandum**

DATE: January 12, 2017

TO: Randy Scott, Vice President and Members of the Health Service Board

FROM: Pamela Levin, Chief Financial Officer

RE: Health Service System FY 2017-18 and FY 2018-19 Budget Instructions

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On December 8, 2016, the Mayor released the FY 2017-18 and FY 2018-19 Budget Instructions. The instructions apply only to the General Fund Administration Budget. This report will summarize the assumptions made by the Mayor's Office for FY 2017-18 and FY 2018-19, Mayor's Budget instructions, next steps and budget schedule.

**General Fund Assumptions used by the Mayor's Office for FY 2017-18 and FY 2018-19**

At this time, the Mayor's Office is projecting a General Fund deficit of \$119 million in FY 2017-18 and \$283.4 million in FY 2018-19. 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's retirement contributions to employee pensions, rising health costs, new baselines and voter approved set-asides, increases in services and positions, and on-going costs that grow. The increases in employer retirement contributions are required to offset lower than expected returns in the pension system for FY 2014-15, updated mortality rate 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. The City has added 5,090 FTEs since FY 2011-12. The new FTEs have contributed to overall future deficits as employee benefits are rising faster than inflation.

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
- Recreation and Parks Baseline 2016
- Street Trees Set-Aside 2016
- Dignity Fund 2016

The impact of these propositions is \$111.7 million in FY 2017-18 and \$145.9 million in FY 2018-19.

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 2017-18 and FY 2018-19**

The highlights for the budget instructions are outlined below.

#### Propose Ongoing Reductions

The budget instructions require departments to submit ongoing reductions. In both FY 2017-18 and FY 2018-19, HSS will need to propose reductions and/or revenues equal to 3% of the General Fund support. These must be ongoing reductions, meaning that they will also continue in the FY 2018-19 budget.

The value of the HSS reduction in FY 2017-18 is \$97,442. In FY 2018-19, the reductions that are proposed in FY 2017-18 remain and an additional \$97,442 reduction must be proposed.

#### Implement Disciplined Approach to Future FTE Growth

The budget instructions require departments to not grow the budgeted and funded FTE counts (authorized FTEs less attrition). The Mayor's Office is not asking for layoffs, a hiring freeze, or to keep positions vacant; rather, they are asking departments not to request the creation of new positions.

#### Adhere to Citywide Strategic Initiatives

Each department's proposed five year strategic plan should reflect the Citywide Strategic Initiatives:

- Residents and families that thrive
- Clean, safe, and livable communities
- A diverse, equitable, and inclusive City
- Excellent City services
- A City and region prepared for the future

## Next Steps

Staff will present a Proposed Departmental Budget to the Finance and Budget Committee and the Health Service Board for full approval on February 9, 2017. The budget will:

- Satisfy the Mayor's instructions for living within the FY 2017-18 General Fund budget approved by the Board of Supervisors with no annualization of new positions
- Meet the directive to propose ongoing reductions in FY 2017-18 and FY 2018-19
- Maintain the budget at the FY 2016-17 levels as modified by the Mayor's Office.

## Budget Schedule

The key milestones in the budget process are summarized below.

<b>Description</b>	<b>Schedule</b>
Governor's Budget Released	January 2017
Information Technology Plan	January 13, 2017
Controller's 6-month Report	February. 2017
Health Service Board Approves Budget	February 9, 2017
Department's Budget Due	February 21, 2017
Controller's 9-month Report	May 2017
Governor's May Revise	May 2017
Mayor's Proposed Budget Submitted to Board of Supervisors	June 1, 2017
Budget Committee Hearings	June 2017
Budget Considered at Board of Supervisors	July 2017
Board of Supervisors Approves Budget for FY 2017-18 and FY 2018-19	July 2017