

SAN FRANCISCO HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

Memorandum

DATE: January 11, 2018

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

FROM: Pamela Levin, Chief Financial Officer

RE: Health Service System FY 2018-19 and FY 2019-20 Budget Instructions

On December 4, 2017, Mayor Lee released the FY 2018-19 and FY 2019-20 Budget Instructions which have also been approved by the Acting Mayor. The instructions only apply to the San Francisco Health Service System (SFHSS) General Fund Administration Budget. This report will summarize the assumptions used by the Mayor's Office for FY 2018-19 and FY 2019-20, Mayor's budget instructions, next steps and budget schedule.

GF Assumptions used by the Mayor's Office for FY 2018-19 and FY 2019-20

On December 16, 2017, the Mayor's Office released the Five Year Financial Plan (Plan) for FY 2018-19 through FY 2021-22. The FY 2018-19 General Fund deficit is projected to be \$88.2 million and \$173.4 million in FY 2019-20. This projection is based on current operations, staffing levels and estimated revenues.

The Plan projects General Fund revenues will increase each year, however they are not growing fast enough to keep pace with the projected increase in expenditures. The projected deficit is primarily driven by increases in wages, employer pension contributions, and rising health costs. Other areas impacting the projection are voter approved baselines and set-asides with spending requirements and shifting of the cost of In-Home Support Services from the State to the City.

Employer pension contributions and health rates have grown at a rate that exceeds inflation. The Plan assumes that the cost of the employer share of health and dental insurance will increase 6% for active employees in FY 2018-19 and 8% each year in the remaining three years of the plan. Retiree Health costs are projected to increase 9% in each year. To the extent that health and dental costs increase at a lower rate, the deficit projection may change.

The employer contributions to the retirement plan are projected to increase due to the loss of the supplemental COLA lawsuit associated with the implementation of the 2011 Proposition C, employees living longer, and lower than expected investment returns in 2015 and 2016. While the 2017 return exceeded the projection, the City's contribution rates also increase in the near term due to an additional on-going supplemental COLA to certain retirees triggered

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by the one-time better than expected return. Over the last decade, the General Fund expenditures related to employer contributions has increased from 2.5% of the General Fund spending to over 7%.

The spending on voter approved baselines and set-asides has increased from 14% of General Fund sources in FY 1994-95 to over 30% of projected current General Fund spending. San Francisco has 19 baselines and set asides while there are 10 baselines across the entire State of California.

Areas of uncertainties that could impact the City's financial conditions include:

- Economic issues such as a recession
- State and federal budget impacts
- Collective bargaining agreement negotiations
- Service levels associated with the City's growth in employment and population
- New General Fund budgetary commitments approved by the Board of Supervisors
- Current year overspending or supplemental appropriations

Mayor's Budget Instructions for FY 2018-19 and FY 2019-20

The highlights for the budget instructions are outlined below. While there are 8 instructions, only seven are applicable to SFHSS.

Propose ongoing reductions

The budget instructions require departments to submit ongoing reductions. In both FY 2018-19 and FY 2019-20, SFHSS will need to propose reductions and/or revenues equal to 2.5% of the GF support. The reductions in FY 2018-19 must be ongoing reductions, meaning that they will also continue in the FY 2019-20 budget, and an additional 2.5% reduction in FY 2019-20 is required. The cumulative 5% savings proposal, over the two years, should be ongoing.

The value of the SFHSS reduction in FY 2018-19 is \$83,551. In FY 2019-20, the reductions that are proposed in FY 2019-20 remain and an additional \$83,551 reduction must be proposed.

No increases in total FTE counts

The budget instructions require departments to maintain the current level of budgeted and funded FTE counts (authorized FTEs less attrition). Funding is provided for anticipated cost of living increases for most employees in line with CPI.

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Consider long-term savings and cost avoidance initiatives

Due to the magnitude of the City's structural deficit, the Mayor is instructing departments to be mindful of cost growth and consider ways to decrease long-term liabilities wherever possible. Such initiatives could include, but are not limited to: identifying and implementing more efficient business processes, reducing waste through thoughtful utilization of technology, and repurposing existing assets to maximize cost effectiveness.

Reflect the five vision areas set forth in the City-wide strategic planning process

The proposed budget should align with the following vision areas:

- Resident and Families That Thrive – A strong City is one in which all residents and families thrive. San Francisco residents and families should have access to high quality education, job opportunities, and health care in order to thrive in our City.
- Clean, Safe, and Livable Communities – San Francisco is a city that is clean, safe and livable for residents, businesses, and visitors. The City should encourage community engagement and local pride, ensuring that neighborhoods have clean air and water, healthy ecosystems, as well as well-maintained roadways and physical infrastructure.
- A Diverse, Equitable, and Inclusive City – San Francisco remains committed to lifting up all in our diverse city and creating access and opportunity for everyone to share in the prosperity. The City must develop strategies to address the problems of poverty and homelessness while at the same time acknowledging the impact of the intersection of gender, gender identity, race, and national origin. All neighborhoods should receive high-quality benefits and services.
- Excellent City Services – Excellent city services are central to helping us achieve our full vision. Our services must be well managed, embrace modern tools and technology, and be delivered by engaged and committed employees.
- A City and Region Prepared for the Future – San Francisco must prepare for coming changes and challenges over multiple time horizons to ensure that the City is resilient environmentally, economically, and educationally now and for future generations.

Participate in the City's talent development programs

Departments are instructed to participate in the programs that serve as talent development pipelines for the City. These include the San Francisco Fellows Program and the Mayor's Senior Fellows Program. The size of the programs is anticipated to remain constant.

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Foster community engagement in the budget development process

Departments are encouraged to foster community engagement in the budget development process. This includes clearly describing and publicizing (on departmental websites) each department's budget development and community engagement process. In addition, departments are instructed to engage community stakeholders through commissions, advisory boards, and/or additional community meetings.

Consider independent reviews and audits when developing budget submissions

Departments are to consider independent reviews and audits such as Civil Grand Jury reports, audits by the Controller's Office, and reports by the Budget Analyst's Office when developing their budget submissions.

Next Steps

On February 8, 2018, the proposed FY 2018-19 and FY 2019-20 SFHSS budget will be presented to the Finance and Budget Committee and the Health Service Board for full approval.

Budget Schedule

The key milestones in the budget process are summarized below.

Description	Schedule
Governor's Budget Released	January 2018
Information Technology Plan	January 12, 2018
Controller's 6-month Report	February 2018
Health Service Board Approves Budget	February 8, 2018
Department's Budget Due	February 21, 2018
Controller's 9-month Report	May 2018
Governor's May Revise	May 2018
Mayor's Proposed Budget Submitted to Board of Supervisors	June 1, 2018
Budget Committee Hearings	June 2018
Budget Considered at Board of Supervisors	July 2018
Board of Supervisors Approves Budget for FY 2018-19 and FY 2019-20	July 2018