

SAN FRANCISCO HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

Memorandum

DATE: January 10, 2018

TO: Karen Breslin, President and Members of the Health Service Board

FROM: Pamela Levin, Chief Financial Officer

RE: Mayor's Budget Instructions for the San Francisco Health Service System FY 2019-20 and FY 2020-21 General Fund Administrative Budget

On December 21, 2018, Mayor Breed issued the FY 2019-20 and FY 2020-21 budget instructions that apply to the San Francisco Health Service System (SFHSS) General Fund Administration Budget. This report summarizes assumptions used by the Mayor's Office to develop the FY 2019-20 and FY 2020-21 budget instructions, Mayor's budget instructions and the tie to the SFHSS Strategic Plan 2020-2022, next steps and budget schedule.

Assumptions used by the Mayor's Office for FY 2019-20 and FY 2020-21

Five-Year Financial Plan for FY 2019-20 through FY 2023-24

The projections, contained in the City's Five-Year Financial Plan (Plan) for FY 2019-20 through FY 2023-24, indicate an \$107.4 million General Fund shortfall for FY 2019-20 and an \$183.4 million shortfall in FY 2020-21. The projections are based on current operations, staffing levels and estimated revenues.

While local tax revenues are projected to grow in the short-term, the increase in expenditures out paces the revenue growth. This is primarily due to an increase in employee costs (pension being the biggest factor), voter mandated commitments through baselines and set-asides, and required contributions to support existing entitlement services. The following chart summarizes the components leading to the shortfall and their value for each fiscal year.

	FY 2019-20 (MILLIONS)	FY 2020-21 (MILLIONS)
SOURCES <i>Increase/(Decrease)</i>	\$182.0	\$466.0
USES		
Baselines & Reserves	(\$55.3)	(\$99.1)
Salaries & Benefits	(180.7)	(317.9)
Citywide Operating Budget Costs	(55.1)	(99.1)
Departmental Costs	1.8	(29.9)
USES <i>Increase/(Decrease)</i>	(\$289.4)	(\$629.4)
Projected Cumulative Surplus/(Shortfall)	(\$107.4)	(183.4)

There are many areas of uncertainty in the projections. These include labor negotiations, San Francisco Housing Authority financial obligations, risks of an economic recession, and potential budgetary and legislative changes from the state and federal government.

Mayoral Priorities and Fiscal Policy

The Mayoral Priorities are to “Get things done.” The priorities are to:

- Build more housing,
- Reduce homelessness – housing and shelters,
- Address behavioral health need,
- Clean up City streets and make them safer,
- Create equitable opportunities for everyone, and
- Make government more accountable

In addition, the Mayor’s fiscal policy is to:

- Continue to build reserves,
- Limit on-going cost growth,
- Fund strategic one-time investments, and
- “Make every dollar count”.

Mayor’s Budget Instructions for FY 2019-20 and FY 2020-21

Key budget instruction themes

The key themes found in the budget instructions are outlined below.

- A. Focus on accountability and equitable outcomes
 1. Accountability, or “Make every dollar count”, means to:
 - a. Demonstrate effective use of existing City funding,
 - b. Set meaningful and measurable metrics, and
 - c. Achieve outcomes and goals based on performance measures, and project deliverables.
 2. Equitable Outcomes, “Prioritize those with the greatest need” results in:
 - a. City services that reflect the value that each person deserves an opportunity to thrive in a diverse and inclusive City, and
 - b. Prioritizing funding initiatives that service residents with the highest need.
- B. Reprioritize within existing departmental budgets to ensure the “highest and best use” of the current funding, and
- C. Identify funds that could be spent more effectively and efficiently

Mayor's Budget Instructions

1. Departments must submit Sustainability and Efficiency proposals in their budget submissions.

To address the key themes, outlined on page 2, departments are directed to formulate Sustainability and Efficiency Proposals to reduce General Fund allocations. For FY 2019-20, departments are instructed to submit budget requests that reflect an on-going 2% reduction in adjusted General Fund support. The value of the SFHSS reduction in FY 2019-20 is \$67,058.

For FY 2020-21, departments are instructed to submit budget requests that reflect an additional 2% reduction in adjusted General Fund support. For SFHSS this reduction is equal to \$67,057. The cumulative 4% savings proposal over the two years, \$134,115, must be on-going.

2. Departments must propose contingency savings.

Due to the uncertainty associated with the impact of the labor negotiations and the growth in City revenues, departments are required to provide contingency proposals that reduce General Fund support by 1.0% in FY 2019-20, and an additional 1.0% in FY 2020-21.

For FY 2019-20, the contingency proposals must total \$33,529 and in FY 2020-21 an additional reduction of \$33,529. The result is an overall decrease of \$67,058 over the two years.

3. Departments must not add new positions in their budget submissions.

Despite the positive revenue performance in the short-term, the City continues to face a structural deficit that is projected to reach \$643.9 million by FY 2023-24. The increased cost of salaries and benefits is the primary driver of the City's growing deficit and accounts for nearly half of the projected shortfall.

Once budget proposals are submitted to the Mayor's Office, discussions can occur concerning new positions if they align with Mayoral priorities. We continue to work closely with the Mayor's Office to ensure the new positions associated with the SFHSS Strategic Plan 2020-2022 (SFHSS Strategic Plan), and budgeted in the Trust, are reflected in the Annual Salary Ordinance.

4. Departments must have clearly defined goals for programs and initiative within their budgets and must consider meaningful ways of measuring and reporting outcomes.

The Mayor's Budget Office will be implementing an accountability framework to ensure that "every dollar counts." After review of the budget submissions, the Mayor's Budget Office will select key initiatives or programs to develop more detailed accountability and implementation plans entitled "Accountability and Equitable Outcome Plans."

This approach to budgeting is a core tenet in the SFHSS Strategic Plan's guiding principles. Using data driven insights to measure and evaluate effectiveness of programs and services is integral to achieving the SFHSS Strategic Plan goals.

5. Departmental submissions should be particularly reflective of the goal of achieving equitable outcomes for residents across the City.
- 5A. The Mayor is committed to preserving the diversity of the city while creating access and opportunities for everyone to thrive. Accordingly, departments are encouraged to submit budgets that seek to attain equitable outcomes across the City and focus on communities most impacted by economic and social inequities.

The SFHSS Strategic Plan goal to Reduce Complexity and Fragmentation includes an objective to understand the impact of social determinants of health for high impact / high value conditions. Additionally, the goals for Affordable and Sustainable and to address Choice and Flexibility include enhancements to plan design to reduce costs.

- 5B. In addition, departments are encouraged to seek community engagement while developing the budget. This includes describing and publicizing, on departmental websites, the development of the budget and the community engagement process.

SFHSS has consistently provided opportunities for members to address the Health Service Board during the budget process. This year, in addition to the providing a link to the budget documents from the Board landing page, located on sfhss.org, a link will appear on the SFHSS website's home page to the documents. This is consistent with the SFHSS Strategic Plan Guiding Principles to increase member engagement and to ensure transparency in the decision-making process.

6. Departments are to consider long-term savings and cost avoidance initiatives in developing budget submissions

Since the 2014 update to the City's Five-Year Financial Plan, the deficit projection for the final year of the projection timeline, has increased from \$339 million to \$643.9 million, found in the Five-Year Financial Plan for FY 2019-20 through FY 2023-24. To address the structural deficit, departments should consider ways to decrease long-term liabilities when developing their budget proposals. This may include implementing more efficient business processes, reducing waste through thoughtful utilization of technology and repurposing existing assets to maximize cost effectiveness.

The SFHSS Strategic Plan goals for Affordable and Sustainable and Choice and Flexibility include enhancements to plan design to reduce costs and implementation of technology projects to increase departmental efficiency, effectiveness, and assistance to members.

7. Departments are encouraged to apply to participate in the City's talent development programs.

These programs include the San Francisco Fellows program which serves as a talent development pipeline for the City. The San Francisco Fellows program is likely to continue, however, consistent with the budget instructions, the number of Fellows Citywide will be between 15 and 18 per cohort.

SFHSS will investigate funding for a Fellow through the Department of Human Resources and additional information will be provided in February when the budget is presented for approval by the Health Service

Board. SFHSS continues to participate in San Francisco YouthWorks program through the Department of Children, Youth and Their Families. This is a City-wide and year-round paid internship program designed to give San Francisco youth the opportunity to explore a career, gain basis skills and learn about city government. SFHSS is evaluating the future opportunities for interns to ensure their experience in the department is meaningful for both SFHSS and the interns.

8. Departments should consider independent review and audits in developing budget submissions.

When developing the budget, departments are directed to consider independent reviews and audits including Civil Grand Jury reports, audits performed by the Controller’s Office and Budget Analyst reports.

While there are no current reviews and audits by the Controller’s Office or the Budget Analyst’s Office, SFHSS is developing an internal audit plan to ensure compliance with rules and regulations and that best practices are followed.

Next Steps

On February 14, 2018, the proposed FY 2019-20 and FY 2020-21 SFHSS budget will be presented to the Finance and Budget Committee and the Health Service Board for full approval. The high-level budget schedule is found below.

Action	Schedule
Governor’s Budget Released	January 2018
Information Technology Plan	January 11, 2018
Controller’s 6-month Report	February 2018
Finance and Budget Committee Reviews the Budget	February 14,2018
Action	Schedule
Health Service Board Approves Budget	February 14, 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 2019-20 and FY 2020-21	July 2018