

**SAN FRANCISCO  
HEALTH SERVICE SYSTEM**

Affordable, Quality Benefits & Well-Being

**Memorandum**

DATE: January 9, 2020  
 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 2020-21 and FY 2021-22 General Fund Administrative Budget

On December 16, 2019, Mayor Breed issued the FY 2020-21 and FY 2021-22 budget instructions that apply to the San Francisco Health Service System (SFHSS) General Fund Administration Budget. This report summarizes the assumptions used by the Mayor’s Office to develop the FY 2020-21 and FY 2021-22 budget instructions, Mayor’s budget instructions, and budget schedules.

**Assumptions used by the Mayor’s Office for FY 2020-21 and FY 2021-22**

Five-Year Financial Plan for FY 2020-21 through FY 2024-25

The City faces a persistent and growing structural deficit. The projections, found in the City’s Five-Year Financial Plan (Plan) for FY 2020-21 through FY 2024-25, indicate a \$195.4 million General Fund shortfall for FY 2020-21 and a \$224.1 million shortfall in FY 2021-22, for a total of \$419.5 million over two years. By FY 2023-24, the deficit is projected to reach \$630.6 million.

Local tax revenues are projected to grow at a slower rate than prior years. However, the increase in expenditures continues to outpace the revenue growth. This is primarily due to increases in voter mandated initiatives, set asides and reserves, salaries and benefits, and City-wide and departmental operating costs. The following chart summarizes the components leading to the shortfall and their value for each fiscal year.

<b>Changes in Sources and Uses Contributing to Deficit</b>		
	<b>FY 2020-21 (millions)</b>	<b>FY 2021-22 (millions)</b>
<b>SOURCES</b>	<b>\$89.0</b>	<b>\$346.0</b>
<b>USES</b>		
Baselines & Reserves	\$45.5	\$54.0
Salaries & Benefits	167.9	269.6
Citywide Operating Budget Costs	66.9	167.8
Departmental Costs	3.9	78.8
<b>Total Uses</b>	<b>\$284.3</b>	<b>\$570.1</b>
<b>Projected Cumulative Surplus/(Shortfall)</b>	<b>(\$195.4)</b>	<b>(224.1)</b>

There are several areas of uncertainty in the projections, including labor negotiations for open labor contracts in FY 2021-22, risks of an economic recession, and potential budgetary impacts from state and federal government actions.

### Mayoral Priorities

The Mayor is focused on addressing the growing deficits and the challenges of people struggling on the streets. The Mayor's budget decisions will emphasize accountability and outcome-driven budgeting in order to prioritize any discretionary funding to:

- Providing housing, shelter, and services for those in need,
- Supporting clean and safe streets for everyone, and
- Fostering healthy and vibrant neighborhoods.

### **Mayor's Budget Instructions for FY 2020-21 and FY 2021-22**

#### Key budget instruction themes

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

#### A. Focus on accountability and equitable outcomes

##### 1. Accountability

- a. Demonstrate effective use of existing City funding,
- b. Track and monitor meaningful and measurable metrics, and
- c. Achieve outcomes and goals based on performance measures and project deliverables.

##### 2. Equitable Outcomes

- a. Provide City services that reflect the value that each person deserves an opportunity to thrive in a diverse and inclusive City, and
- b. Prioritize funding initiatives that serve residents with the highest need.

3. Accountability and Equitable Outcome Plans will be required from select departments. This will include tracking the implementation and outcomes of important initiatives and monitoring the performance to help inform budget decisions.

#### Mayor's Budget Instructions

The Mayor's instructions are:

1. General Fund departments must submit "target" efficiency/reduction proposals in their budget submissions.

For FY 2020-21, departments are instructed to submit budget requests that reflect an on-going 3.5% reduction in adjusted General Fund support. The value of the SFHSS reduction in FY 2020-21 is \$126,227.

For FY 2021-22, departments are instructed to submit budget requests that reflect an additional 3.5% reduction in adjusted General Fund support. For SFHSS this reduction is equal to \$126,228. The cumulative 7% savings proposal over the two years is \$252,455 and must be ongoing.

The reduction proposals should prioritize core functions, minimize service impacts and avoid layoffs.

2. Departments should propose solutions that increase efficient and effective use of General Fund dollars. This includes requiring departments to:
  - a. Explore revenue options,
  - b. Review and consolidate service contracts for potential savings,
  - c. Streamline programs and operations using Lean principles, and
  - d. Pilot creative solutions that reduce costs.
3. Departments are to refrain from adding new General Fund supported enhancements and new positions in their budget submissions. Once budget proposals are submitted to the Mayor's Office, discussions can occur about new positions and discretionary spending which align with the Mayor's priorities.
4. Department must demonstrate the effective use of existing City funding, including tracking, monitoring, and measuring outcomes to achieve and deliver on core department functions and citywide principles.

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. Departments' budget proposals should reflect the goal of achieving equitable outcomes for residents across the City.

Departments are to submit budgets that seek equitable outcomes across the city, focusing on communities most impacted by economic and social inequities and serving residents with the highest needs.

6. Seek public input in developing their proposed budgets in accordance with new budget transparency legislation.

The legislation Code requires:

- a. Holding one public meeting to consider the department's proposed budget by February 14, 2020,
- b. Centralizing of all budget documents on a single website that will be coordinated by the Controller's Office.

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. This is consistent with the SFHSS Strategic Plan Guiding Principles to increase member engagement and to ensure transparency in the decision-making process. The SFHSS budget will also be available from the website coordinated by the Controller's Office.

7. Departments should consider independent reviews and audits in development budget submissions. These include Civil Grand Jury reports, audits by the Controller's Office, and reports by the Budget and Legislative Analyst's Office in developing their budget submissions.

**Budget Schedules**

On February 13, 2020, the proposed FY 2020-21 and FY 2021-22 SFHSS budget will be presented to the Finance and Budget Committee and the Health Service Board for approval. The City's high-level budget schedule is found below.

<b>Action</b>	<b>Schedule</b>
Governor's Budget Released	January 2020
Information Technology Plan	January 17, 2020
Controller's 6-month Report	February 2020
Finance and Budget Committee Reviews the Budget	February 13, 2020
Health Service Board Approves Budget	February 13, 2020
Department's Budget Due	February 21, 2020
Controller's 9-month Report	May 2020
Governor's May Revise	May 2020
Mayor's Proposed Budget Submitted to Board of Supervisors	June 1, 2020
Budget Committee Hearings	June 2020
Budget Considered at Board of Supervisors	July 2020
Board of Supervisors Approves Budget for FY 2020-21 and FY 2021-22	July 2020