

**MEMORANDUM**

**DATE:** January 13, 2022  
**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) 2022-23 and FY 2023-24 General Fund Administrative Budget

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SFHSS manages two budgetary sources, the General Fund Administrative Budget, and Health Sustainability Fund Budget. This memo outlines the approval process for the General Fund Administrative Budget for SFHSS as established by the Mayor's Office. The SFHSS General Fund budget is the primary source of funding for carrying out the duties for SFHSS as a department within the City and County of San Francisco. In brief, the General Fund Budget process involves the development of proposals by the management of SFHSS to meet the Mayor's instructions and priorities, approval by the Health Service Board, incorporation into the overall Mayor's budget and presented to the Board of Supervisors for approval for the next fiscal year. The Health Sustainability Fund Budget development process, will be addressed separately follows a similar timeline.

**Mayor's Budget Outlook**

On December 15, 2021, Mayor London Breed, through the Budget Office, issued the budget instructions that apply to the San Francisco Health Service System (SFHSS) General Fund Administration Budget. This announcement starts the budget setting process for the Mayor's Budget Office for FY 2022-23 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 overcome historically high, pandemically-induced budget shortfall, all while preserving jobs and services, and making progress on key priorities. At the time of publication of the budget instructions, the City projected a \$108.1 M surplus over the next two budget years.

The surplus is driven by improved sources of revenue and moderated expenditure or uses. Stronger new property related revenue and federal disaster relief overcame weakness in traditional revenue such as business and other local taxes. Disaster relief funds are assumed to be spread over a longer period. Savings in retirement costs, due to record returns were also a source of reduced cost in the projection. Salaries and benefits costs were assumed to follow CPI while pension investments assume 7.2% rate of return. Citywide operational and departmental costs were constrained.

Longer-range forecast, however, show structural costs outpacing revenues, resulting in future deficits.

### Two-Year Budget Surplus

The near-term two-year surplus for FY 2021-22 and FY 2022-23 is \$108.1M. The following table summarized the projected contributions to the shortfall for this budget setting cycle:

<b>Changes in Sources and Uses Contributing to Surplus/(Deficit) in Millions</b>				
	<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>
<b>SOURCES Increase / (Decrease)</b>	<b>\$40.1</b>	<b>\$323.4</b>	<b>\$522.5</b>	<b>\$710.9</b>
<b>USES</b>				
Baselines & Reserves	\$ (112.9)	\$ (202.7)	\$ (271.2)	\$ (318.9)
Salaries & Benefits	(57.8)	(81.7)	(140.6)	(266.3)
Citywide Operating Budget Costs	132.9	58.4	(75.2)	(161.0)
Departmental Costs	24.0	(15.5)	(74.1)	(113.6)
<b>USES (Increase) / Decrease</b>	<b>(13.9)</b>	<b>(241.5)</b>	<b>(561.1)</b>	<b>(859.8)</b>
<b>Projected Cumulative Surplus / (Shortfall)</b>	<b>\$26.2</b>	<b>\$81.9</b>	<b>\$ (38.6)</b>	<b>(148.9)</b>
<b>Two Year Surplus / (Shortfall)</b>		<b>\$108.1</b>		

### Mayor's Budget Priorities & Instructions

#### Policy Priorities

The Mayor established these priorities in the upcoming year:

- **Restoring vibrancy** in San Francisco, including improved public safety and street conditions
- **Recovery** of the local economy driven by the return of residents, tourists, and office workers to downtown and public spaces; small business; and, housing production
- **Reprioritization** of funding to improve core service delivery
- **Accountability & equity** in programming, services, and spending

#### Budget Instructions to Department

In recognition of the projected budget surplus for the next biennial period, the General Fund departments were given the following target reduction:

- No mandatory reductions, but do not increase General Fund support
- Get “back to basics”, utilize existing budget and fill current funded vacancies to improve core service delivery
- Focus on programs that produce meaningful, equitable results
- Non-General Fund departments balance within their own revenue projections

The improved financial projection of surplus allowed the Mayor's budget office to not have target reductions in the biennial budget proposal, a first in recent memory. The emphasis is on having no cuts, no new costs but rather reprioritization of uses to better deliver core services.

### New Budget Planning Software

The planning for the implementation of new budgeting software has been completed and all HSS staff have been thoroughly trained on the new system.

### **SFHSS FY 2022-23 and FY 2023-24 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

SFHSS management annually reviews budgetary needs and develops proposals based on existing contractual commitments to support department service levels and strategic initiatives. Where additional resources are needed, projected costs are developed into the proposed biennial budgets.

### **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 14<sup>th</sup> 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 2022-23 and FY 2023-24 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

<b>Activity</b>	<b>Date</b>
Mayor's Budget Outlook & Instructions issued	December 15, 2021
New budget system trainings – new training required to gain access	December 13-17, 2021
Budget system opens to departments	December 20, 2021
Information Technology (COIT) and Capital Budget Requests due	January 14, 2022
Department input to 6-month Report due to Controller	January 18, 2022
Controller's 6-month Report	February 2022
Finance and Budget Committee Reviews the Budget	February 2022
Health Service Board Approves Budget	February 10, 2022
Department's Budget Due	February 22, 2022
Controller's 9-month Report Governor's May Revise	May 2022
Department budgets introduced	May 1, 2022
Mayor's Proposed Balanced Budget Submitted to Board of Supervisors	June 1, 2022
Budget and Finance Committee Hearings	June 2022
Budget Considered at Board of Supervisors	July 2022
Board of Supervisors Approves Budget for FY 2022-23 and FY 2023-24	July 2022