County of San Mateo

Inter-Departmental Correspondence

Department: HEALTH

Board Meeting Date: 1/28/2020

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Louise Rogers, Chief of Health
Srija Srinivasan, Deputy Chief

Subject: FY 20-21 Budget Planning for Health

RECOMMENDATION:
Accept this report and offer guidance regarding the Health FY 20-21 budget proposals.

BACKGROUND:
As we have reported previously to your Board, we are engaged in a multi-year phased approach to addressing the structural deficit in the Health budget. Health will meet its current year 2019-20 fiscal year responsibilities within our budgeted resources; however, given an estimated $57M expected shortfall for the FY 20-21 cycle we are bringing forward proposals for $33M revenue increases and $16M cost reductions for your Board's guidance and public input in advance of the usual timeline for budget planning FY 20-21. We are proposing to cover the balance $8M with SMMC reserves. Our estimate of the shortfall will be updated again once we receive additional information about service charges and any unanticipated impacts of the Governor's State budget. We will propose to cover any additional amount with reserves.

We have already informed 5 potentially impacted contractors, 4 contracted physician specialists and 80 employees in coordination with labor partners that we are bringing reduction proposals forward as outlined in this report. We will strive to treat everyone who may be impacted by the reductions with sensitivity and respect and part of that is affording them substantial advance notice.

The cause of the structural deficit remains that Health revenues are largely flat and declining while costs for both directly operated and contracted functions continue to increase. The majority of Health expenditures are in the workforce, where compensation and benefits are driven substantially by high Bay Area costs and competition with private health employers. Our greatest asset is the workforce of our organization and of our partner organizations who carry out the important work we do to further our mission of longer and better lives for everyone in San Mateo County. At the same time, salary and benefits increases are the greatest driver of our structural deficit because our revenues are not

keeping up with these costs. Our reimbursements are substantially tied to the services we produce. We are proposing to maximize every opportunity we can to raise $33M in revenues for FY 20-21 within the current reimbursement systems. Our budget planning and advocacy has yielded many encouraging opportunities including substantial increases in our skilled nursing rates. However, absent a significant change in state/federal policy and reimbursement for uninsured and low-income health care, we do not see a scenario where we can indefinitely absorb 100% of the salary and benefits increases for services that we deliver through our SMMC health care system and our support functions without further reductions in the coming years.

Our proposal involves difficult choices concerning reductions in services we provide and corresponding reductions to the workforce and yet it is still not enough. Since we are again proposing to use one-time solutions to close the remaining gap for FY 20-21, we will complete an additional third phase of planning to address the remaining structural issues for FY 21-22. While this is not what we had hoped for, the additional time and measured approach will allow us to minimize direct impacts to patients and engage explicitly with other partners who may have a role to play to meet community needs as Health scales back its direct services. In addition, the State budget and efforts to renew the 2020 Medi-Cal Waiver could play out more favorably than our budget plan currently predicts.

DISCUSSION:

Process and Timeline:
We initiated our planning in 2018, including these milestones:

- ✓ Initial planning and outreach July 2018 – December 2018; connected with 1,400 employees and 180 community partners
- ✓ Briefed labor and other partners late September/October 2018 and November 2019
- ✓ Briefed other County department partners, October 2018 and October 2019
- ✓ Held BOS study sessions September 2018 and January 2019
- ✓ Developed FY 19-20 budget plan, aligned with County budget schedule (completed by BOS budget hearings June 2019)
- ✓ Conducted second-round planning for budget year FY 20-21, April-December 2019
- ✓ Notified potentially impacted contractors December 2019
- ✓ Coordinated meetings with potentially impacted employees with HR and Labor January 2020
    - BOS study session January 28, 2020
    - Beilenson hearing early March 2020
    - Complete FY 20-21 changes by BOS budget hearing June 2020

To the extent that the recommended changes represent the elimination or reduction of the level of medical services provided by a county facility; a public hearing will be required. The requirements are described in section § 1442.5 of the California Health and Safety Code (known as the Beilenson Act). The Act requires the County Board to provide public notice of public hearings (known as Beilenson Hearings) before the Board prior to its decision to proceed with the action that would reduce or eliminate public health services. The Act provides that notice of the Beilenson Hearing be posted at the entrance to all county health care facilities not less than 14

days prior to the date of the hearing. The Act does not require the Board to make specific findings based upon these hearings.[1]

Principles:
We have continued to guide our planning for options to achieve fiscal balance using the County Budget Balancing Principles as well as the Health Principles developed with stakeholders for this process in 2018 (Attachment A). We believe these principles help us remain anchored in the Health mission to help everyone in San Mateo County live longer and better lives.

County investment in Health and key trends:
Health carries out a broad range of public health protection and medical, behavioral health and social service functions, most of which are extensions of federal and state government responsibilities delegated to counties in California. Our overall budget of $838M (net appropriations not including pass through revenues for Burlingame Skilled Nursing) is primarily funded by federal and state revenues with $177.4M in Net County Cost for FY 20-21. Net County Cost trends by Health division are contained in Attachment B.

We are legally mandated to provide certain services and have been successful in using county general funds to match federal and state funding to maximize the services we provide. Actions to achieve a balanced budget must consider our legal mandates as well as revenue losses associated with reductions. Most of our federal and state funding has specific requirements for what the money can be used, which limits our flexibility to redirect revenues from one service type to other purposes.

After engaging with stakeholders and partners in 2018, Health leaders reviewed each area of our operations to delineate the mandated functions and to estimate the level of Net County Cost investment needed to operate at the minimum mandated level. Because San Mateo County has long prioritized health, your Board has historically supported investments of local funds that enable us to operate at levels above the minimum mandated and to invest in areas of local priority such as prevention and early intervention and healthcare for residents regardless of documentation status. Additionally, because most of our funding sources do not adjust for our high local cost of doing business, discretionary Net County Cost investment is necessary to support costs such as salaries and benefits and lease/occupancy costs that are higher than jurisdictions outside the Bay Area. The Net County Cost serves as the required "non-federal share" of match that is required to provide specialty mental health services to Medi-Cal beneficiaries and other low-income residents ineligible for Medi-Cal through our medical, mental health and substance use healthcare delivery system functions. Key State laws that govern these responsibilities include Section 17000, et seq., of the Welfare and Institutions Code (Section 17000), which requires counties to arrange for medical care to the medically indigent, and the 1991 Bronzan-McCorquodale Act, which governs local mental health responsibilities for people with serious mental illness. Attachment C summarizes the current direction of Net County Cost within Health, denoting areas that are mandated and levels of local investment that exceed minimum mandates.

[1] Prior to the Act's amendment in 1992, it required a finding by the Board that the proposed action will or will not have a detrimental impact on the health care needs of the county.

Health also analyzed key trends in client need where possible and our projections for the next five to ten years. This work included reviewing the findings from the every-five-year Community Health Needs Assessment that our Public Health, Policy and Planning team conducts in partnership with local hospitals (to be released this year) as well as processes to hear directly from clients/patients and family members through our Boards and Commissions, operational teams and partners. We also continue to monitor enrollment in the Medi-Cal program and our County indigent healthcare program, ACE, to understand trends in demand for our services as low-income residents leave the County due to the high cost of living and/or forego public benefits due to concerns about immigration enforcement actions. These were important inputs to assessing our strengths, weaknesses, opportunities and threats as we plan for a next ten-year (2030) horizon. We drew from this assessment in developing the budget proposals necessary to achieve financial balance.

Update on Gap for FY 20-21 and Options to Achieve Fiscal Balance

The overall gap the proposals we are bringing forward will solve for FY 20-21 is now estimated at $57M, broken out by division as shown in the following table. Our first quarter monitoring of the initiatives included to achieve $21M in savings for FY 19-20 indicates most are on-track and we project carrying continuing these for FY 20-21 (Attachment D). We have adjusted estimates in a few initiatives to reflect updated information.

FY 20-21 Updated $ Gap (as of Sept 2019)	
San Mateo Medical Center (SMMC)	48,320,948
Behavioral Health and Recovery Services (BHRS)	4,925,938
Admin/Health IT	1,200,000
Environmental Health	1,004,008
Correctional Health	741,000
Aging and Adult Services	562,000
Emergency Medical Services (EMS)	313,708
Gap to Solve	**$57,067,602**

We have identified $49M in ongoing proposed solutions and are recommending use of $8M in one-time SMMC reserves to address the gap in FY 20-21. Our first priority actions to achieve fiscal balance were those that increase revenues and do not have a negative impact on clients or the community. Unfortunately, this phase of proposed reductions includes redirections of clients to other services and the resulting elimination of 130 positions (80 filled). Of the total positions, 37 are permanent positions (22 currently filled) and 93 are extra help or limited term (58 filled). We have not yet added the cost of severance that would be paid to eligible permanent employees laid off. The proposals will impact 5 community partner entities and 4 contracted physician

specialists beyond those affected in actions already implemented for the current 2019-20 fiscal year.

We propose to address $1.2 M in the structural deficit in Administration/Health IT as well as the $741,000 in Correctional Health through revenue opportunities and expense reductions contributing $1.9 M by FY 20-21. These include reductions in capacity in our central support functions, taking the 2.5% plans developed by all the divisions, tightening flexibility to respond to unanticipated needs and reduced investment in community capacity for long-term prevention. The savings are not achievable with vacant positions alone and include the proposed elimination of 7 positions (3 of which are filled and 1 of which is permanent), ending contracts with two community-based partner entities July 1 and the sunsetting of contracts with five partner organizations prior to the start of this fiscal year.

Proposals from across Health, FY 20-21		**Financial impact**	**Clients impacted**	**Positions Impacted, (filled)**
1	Reduce support for training/development and capacity in central administration for administrative and facilities support, legislative advocacy and communications.	$ 1,200,000	-	6 pos, (3 filled)
2	Redesign revenue capture and reduce expenses in early intervention with Medi-Cal eligible pregnant women and young children, case management support for children with complex needs, and public health protection.	$ 468,000	-	1 pos, (0 filled)
3	Reduce funding directed to external partners for primary prevention, capacity building and for unanticipated public health and early intervention operational needs. These include reductions to Regional Pacific Islander Task Force $20,000 and the Bay Area Community Health Advisory Council $20,000.	$ 192,000	-	
4	Take savings from already ended contracts with five community-based organizations for health coverage enrollment assistance and redirect Health staff to absorb responsibilities.	$ 60,000	-	
	Subtotal	**$1,920,000**	**-**	**7 positions** (3 filled)

Plan to Increase Environmental Health and Emergency Medical Services Fees, FY 20-21	**Financial impact**
Environmental Health has initiated a fee study with NBS Financial Consulting Group to design the fee structure that will cover increased	$ 1,004,008

costs of regulatory functions. The proposed fee ordinance will be brought to the Board in June after outreach to stakeholders.	
Emergency Medical Services is studying increasing existing fees for paramedic accreditation and EMT certification and adding fees for training/continuing education and other services. Ambulance/patient fees will not be impacted. The proposed fee ordinance will be brought to the Board in June after outreach to stakeholders.	$ 313,708

Budget balancing proposals for SMMC, BHRS and AAS are summarized in the following tables. Within each, we strived to identify the actions that would result in the least negative impact to clients or the community, considering both current and expected future needs.

San Mateo Medical Center (SMMC)
Virtually all SMMC services were analyzed for potential reduction or elimination with consideration for our principles and mission, potential positive (or negative) impact on the financial gap and the following factors:

- Impact on SMMC's ability to continue to function as a fully integrated system of care;
- Likelihood that another service provider would meet the needs in the community;
- The potential for another entity to provide the service at equal or higher quality and lower cost than SMMC;
- Number of clients impacted;
- Number of staff impacted;
- Regulatory or contractual requirements to provide the service.

SMMC also identified numerous operational and revenue enhancement opportunities that could help avoid deeper reductions. This included the engagement of Navigant Consulting which provided significant assistance in identifying potential revenue generating opportunities and is providing improvement support in specific operational areas. If not for this support, SMMC would have been forced to bring forth additional reduction initiatives.

The service reductions we are proposing represent our best thinking. Other service reductions were not recommended primarily because they did not contribute significantly to gap closure, significantly impacted our ability to function as an integrated system, or so negatively impacted the community that implementation would be premature at this time.

SMMC Proposals FY 20-21		**Financial impact**	**Clients impacted**	**Positions Impacted (filled)**
1	Increase revenue from the Medi-Cal waiver program that expires in FY 20-21 but looks likely to contain at least this level of support for public hospital systems. This is less than the $16 M we expect to receive in FY19-20.	$10,000,000	-	

SMMC Proposals FY 20-21		Financial impact	Clients impacted	Positions Impacted (filled)
2	Increase revenue as determined from already renegotiated Medi-Cal skilled nursing facility rate.	$3,000,000	-	
3	Redirect Measure K revenues supporting health programs noted elsewhere to preserve priority direct services operated by SMMC.	$1,217,825	-	
4	Reduce BHRS health education activities targeting asthma and physical activity and redirect funds to mitigate loss of direct services.	$245,000		
5	Increase revenues at Ron Robinson Senior Care Center by redirecting some staff time now spent in home visits and coordination meetings to patient care that is billable.	$604,305	-	
6	Increase revenue to maintain Optometry Services by seeing an additional 6 -11 optometry patients per day across the system.	$412,063	-	
7	Change model to increase reach of ambulatory care to 10,000 assigned patients, delivering 25,000 additional ambulatory visits for needed preventive and follow-up care. Earn more revenue for ambulatory services delivered to Medi-Cal clients assigned to us by HPSM.	$8,750,000	-	
8	Increase revenue by decreasing claim denials as length of stay reductions are effectively implemented through improved effectiveness of case management workflows. Optimize discharge planning and assertively coordinate care across the enterprise by aligning case management with physician stakeholders and enabling reductions in registry and overtime expenditures.	$875,000	-	
9	Adjust Emergency Department (ED) staffing from ‘fixed’ to ‘flex’ to align with variations in patient volume. Optimize ED and acute care capacity, and patient experience, by significantly reducing holding ‘inpatient-status’ patients in the ED and expedite disposition to the right level of acute care.	$500,000	-	

SMMC Proposals FY 20-21		Financial impact	Clients impacted	Positions Impacted (filled)
10	Optimize Peri-Operative workflows to reduce surgical backlogs and cancellations by improving pre-surgical preparation, operating room block utilization, first case on-time starts, room turnover time, operating room staffing mix, and surgical instrumentation management.	$1,225,000	-	
11	Augment dental clinic staffing with 2 extra-help dental hygienists to increase volume and thereby increase access and revenue.	$ 565,000	-	+2 pos (add)
12	Redesign Endoscopy workflows to improve access to timely colonoscopy and other endoscopic procedures endoscopy procedures at SMMC, which is expected generate 6 additional visits a day. This is expected to lower the backlog for patients waiting for endoscopy procedures and to protect the high-risk segment of our population.	$324,000	-	
13	Operational improvements at Sequoia Teen Wellness to compensate for no-shows and capture additional patient revenue.	$370,058	-	
14	Net savings from elimination of 4 term positions piloted in Respiratory and determined to be appropriate for permanent. Permanent positions were previously added through salary ordinance changes.	$327,143	-	4 pos, (0 filled)
15	Eliminate 3 term positions in Psychiatry that supported patient wellness while hospitalized; proposed reductions to the inpatient census (described below) will reduce need for these supportive services.	$180,005	-	3 pos, (3 filled)
16	Eliminate 5 term positions in Acute care and absorb needs through restructuring of Acute support responsibilities.	$796,056	-	5 pos, (2 filled)
17	Eliminate 7 term positions in Finance planning and analysis, accounting and patient access.	$834,448	-	7 pos, (5 filled)

SMMC Proposals FY 20-21		Financial impact	Clients impacted	Positions Impacted (filled)
18	Eliminate 5 term positions piloted to further safety, workforce engagement, diversity and health equity improvements.	$627,849	-	5 pos, (2 filled)
19	Eliminate 5 term positions piloted to strengthen analytics necessary for Medi-Cal Quality Improvement Program (QIP) and other efforts.	$751,160	-	5 pos, (5 filled)
20	Eliminate 23 term positions in Ambulatory designed to improve flow throughout several clinics and redesign work within existing resources.	$3,429,315	-	23 pos, (15 filled)
21	Close retail outpatient pharmacy at main campus and direct Medi-Cal patients to any of 10 pharmacies in the HPSM network in the area; partner with HPSM to obtain services for ACE clients through an alternative provider.	$1,300,000	15,196	22 pos, (21 filled)
22	Reduce acute inpatient psychiatric capacity by 12 beds from 34 licensed (29 budgeted) to 17 staffed beds. Redirect $1.4 M to purchase other residential placements for 80% of census who are waiting for discharge to residential care. Currently, of the 18 referrals per week from Psych Emergency Services, 5 are admitted to the unit and 13 are referred out. Estimate reduction of 2.5 admissions per week referring those out to other hospitals for total of 15.5 referred out per week to other hospitals.	$1,634,946	100	29 pos, (19 filled)
23	Eliminate ophthalmology services at SMMC and work with HPSM to obtain services for ACE clients through an alternative provider and direct Medi-Cal patients in need of these services to other HPSM contracted providers.	$ 269,000	1485	3 pos, (3 filled)
24	Relocate Mental Health Primary Care services (6 staff) for mentally ill clients operated at the BHRS Central and South Clinic sites that are not billable to FQHC under SMMC structure to other SMMC FQHC clinic locations. Specialized co-located model is beneficial for and tailored to needs of mentally ill clients but not currently	$930,000	1,385	

SMMC Proposals FY 20-21		Financial impact	Clients impacted	Positions Impacted (filled)
	reimbursable under Medi-Cal outside the medical clinic structure.			
25	Reduce IT charges commensurate with reductions in workforce based on 104*$3,297 per person	$342,888	-	
26	Reduce future A-87 costs (now $5.9 M) commensurate with reductions in workforce. Estimating by applying current cost/ authorized employees to reduction in workforce: 104 *$5,606	$583,024	-	
TOTAL		**$40,094,085**		**106 pos,** **(64 filled, 75 people)**
Additional investment of one-time reserves to close remaining gap		**$8,226,863**		

The proposed reductions reflect our priority to try to preserve, now and in the future, the unique strength of all Health, including San Mateo Medical Center, which lies in its integrated delivery system. We put reductions to the outpatient clinics as a last resort, as these clinics position us to remain focused on preventive care and chronic disease management for improved patient outcomes as required under health care reform models for value-based purchasing. Overall, the larger clinics operate with greater financial sustainability and economies of scale than other parts of the system due to the ability to leverage more team members to serve more patients thus generating more revenue. Although there are still significant challenges to be addressed, we are seeing early promise in our experiments using a team model to improve capacity to see previously unseen patients and reduce wait times within our existing staff resources. We believe there is promise in trying to expand this approach to all clinics to see 10,000 assigned but unseen new patients and generate more revenues rather than make further reductions at this time. We recognize that it is possible that partners contracted with HPSM could meet some of the needs more cost effectively and efficiently than we can, so we also considered what safety net functions we must do that other entities are not doing. Our proposal to close the outpatient pharmacy we operate on the San Mateo campus reflects the fact that the HPSM pharmacy network is robust across the County including near our campus.

We reviewed our main campus emergency department, medical inpatient units and skilled nursing/ long-term care. We recognized that these services not only serve an important function within the integrated care delivery system and for the community, but these functions generate at least $82M in federal matching funds that would not be available to the County community if the public hospital did not exist. SMMC currently has the second busiest emergency department in

the County. Closure of the emergency department would not only result in the loss of a critical community resource but would inevitably lead to closure of the hospital and loss of the funding outlined above. Once closure of the emergency department was considered premature; reduction or closure of the 69 beds for acute medical and surgical services became unrealistic. A free-standing emergency room (without inpatient services) cannot currently be licensed in the State of California. It would also be virtually impossible to proactively reduce the size of those services and remain compliant with regulations related to emergency evaluations and admissions.

There is significant opportunity to reduce the census of inpatients with no medical necessity to be in the hospital and thus unreimbursed by insurance. Our proposal will reduce our inpatient psychiatry average daily census from 29 by 12 to 17 people. This will be necessary anyway to comply with requirements for substantial capital improvements to reduce ligature risk required by regulation. Given this necessity, our proposal is to try to maintain a reduced census permanently. Most of the time, eighty percent of the patients on the acute inpatient psychiatry units are waiting for lower levels of residential care and their care on our units is not fully reimbursed. We will redirect $1.4M to BHRS to arrange alternative residential placements for these patients. Currently, the Psychiatric Emergency Services admits 5 patients per week to the acute inpatient psychiatry unit and refers 13 patients out to other hospitals. We estimate the reduction to 17 beds will result in an additional 2.5 admissions per week referred out to other hospitals.

Across the board non-labor reductions such as capital expenditures, consulting fees, contracted services, medical supplies, and travel were included in the previously submitted budget for the current fiscal year. Additionally, we welcome the opportunity to maximize Medi-Cal revenue through collaboration with Human Service Agency colleagues on efforts to assure patients covered by Medi-Cal keep their coverage with no disruptions at the annual renewal mark. We are not yet counting on any new revenues in this area but hope improvements will assist in closing the remaining gap.

Behavioral Health and Recovery Services

The following table shows the proposed budget actions for BHRS to close its $4.9 M gap and direct Measure K resources to prevent further loss of direct services for clients at SMMC as noted.

BHRS Proposals FY 20-21		**Financial impact**	**Clients impacted**	**Positions Impacted (filled)**
1	Redirect one-time MHSA revenue to support areas of ongoing operations to enable stabilization of services for those with Serious Mental Illness until staff and contractor revenue generation can be increased for Medi-Cal Federal Financial Participation (FFP).	$2,500,000	-	
2	Increase revenue for services provided by Canyon Oaks Youth Center from $13,532 per child per month by $1,500	$180,000	-	

BHRS Proposals FY 20-21		Financial impact	Clients impacted	Positions Impacted (filled)
	to $15,032 (assume 10 youth per month)			
3	Reduce scope of contract for Edgewood Full-Service-Partnership services for youth to reflect reduced caseload from 40 slots to 20 slots.	$1,000,000	-	
4	Reduce health education activities targeting asthma and physical activity and redirect funds to mitigate loss of priority direct services.	$245,000	-	1 pos, (0 filled)
5	Increase revenue from Medi-Cal Substance Use Disorder treatment for case management services.	$ 237,000	-	
6	Redirect unspent Measure K revenue away from Mental Health First Aid training/education through reducing from $275,525 to $225,525. No actual reduction but prevents expansion.	$50,000	-	
7	Redirect unspent Measure K revenue away from the Parent Project training/education, reducing from $208,041 to $158,041. No actual reduction but prevents expansion.	$50,000	-	
8	Reduce staffing capacity to reflect reduced trends in clients served in Youth Service Center.	$221,500	-	3 pos, (0 filled)
9	Redirect Measure K revenue away from the Court Alternatives for the Mentally Ill services in BHRS and Correctional Health to mitigate loss of other priority direct services.	$182,155 (BHRS) $143,005 (CHS)	-	2 pos, (0 filled)
10	Increased revenue in children services by shifting Youth Service Center out of center into community-based services.	$150,000	-	
11	Reduce planning, grant support, and client transportation coordination capacity within the Adult System. Reduce forensic assessments and case management to match caseloads.	$ 370,000	200	4 pos, (0 filled)
12	Reduce communications and support capacity in BHRS administration.	$391,900	-	4 pos, (0 filled)

BHRS Proposals FY 20-21		Financial impact	Clients impacted	Positions Impacted (filled)
13	Reduce Adult Flexible Funds to assist high-risk clients with extraordinary expenses.	$43,000	-	
14	Reduction in ISD charges commensurate with workforce reduction based on $3297 per person	$46,158	-	
	TOTAL	**$5,809,718**		**14 pos, (0 filled)**

To reduce the structural budget deficit, BHRS will continue a multi-year approach to improving revenue generation. In 2018, BHRS determined the revenue generation level of both internal staff and some contractors had dropped to 21%, much lower than other county norms, given that most of the population served has Medi-Cal coverage. Revenue generation requires an eligible client to receive an eligible service that meets various criteria. In response to this low level, a multi-year process was launched to reach a goal of 55% within three years. BHRS developed and launched a tracking system, allowing each staff member to monitor her or his own progress. In addition, alerts, reports, training and tools have been developed for supervisors. Early results are promising. BHRS finished FY 18-19 with an increase of 3% and FY 19-20 first quarter results reflect an increase of 12% to 33%. This increase is significant, as every 5% increase results in a $1.1M annual increase in revenue. Until the revenue generation initiative is fully successful, for FY 20-21 $2.5M and for FY 21-22, $1.5M of one-time MHSA funds will be used to sustain ongoing services for approved MHSA funded programs.

Like SMMC, BHRS considered a variety of reductions that were eventually ruled out. Each BHRS clinic's revenue and expense were analyzed for opportunity and elimination of services with higher revenues was avoided. Geographical access for people with mental illness was a consideration in order to remain compliant with timeliness and accessibility standards set for the BHRS contract with the State to be the specialty mental health plan for Medi-Cal beneficiaries. Across the board rate cuts to contracted providers were avoided as many substance abuse and mental health providers are already facing serious financial stress.

The total number of youth receiving services from BHRS has declined for the past three years. The unduplicated count began to drop in FY 2014-15 from 4,514 to 3,893 in FY 2018-19. This represents a drop of 15%. However, even though the total number of children being served has gone down, there is caution about reductions because the degree of clinical complexity presented by the children who remain has grown more severe than previous years and education partners report that anxiety, depression and other emotional disturbance have not abated.

Nonetheless, some high intensity services have experienced a decline. Since referrals to Edgewood for its Full- Service Partnership, a contract for $7.8M, have dropped substantially, we are proposing to reduce the total number of slots from 40 to 20, a savings of $750,000 in FY 19-20 and $1M in FY 20-21.

In addition to the downward trend in total number of youth served by BHRS, the number of youth served at the Youth Service Center (YSC) has decreased. Current projections are that the census will be approximately 50% less than previous years, with the census frequently falling below 50. This falling census requires both reduction in staffing levels and service redesign to meet the needs of youth in the community. The first step is reducing staff at the YSC by eliminating three positions. This will save $221,500 beginning the current year FY 2019-20. BHRS proposes to continue planning a restructure of services for youth in the juvenile justice system cooperatively with Probation and the Courts. BHRS and Probation will work collaboratively to ensure services provided in the community are not duplicated between departments. In addition, BHRS and Probation are working jointly with Juvenile Court Judges to improve collaboration, regarding the shift in population from YSC to the community. By shifting the role of YSC staff to community-based services, BHRS conservatively projects the new community-based services will generate approximately $150,000 in new revenue in FY 20-21.

Aging and Adult Services

The long-term challenge in Aging and Adult Services (AAS) remains the expected depletion of the Realignment Trust Fund as a result of the salary and wage increases for In-Home Support Services (IHSS) workers. We continue to estimate the Realignment Trust Fund will remain solvent until January 2024 requiring $3.2M for that partial fiscal year and then $7.4M in FY 24-25 to cover local IHSS costs. This eventual challenge is already familiar to your Board. The more immediate structural gap in the AAS FY 19-21 budget of $562,000 is for the costs of housing supports for conserved clients whose care is entrusted to us. A litigation settlement funded a revenue source (Teresa Rodriguez Fund) that was depleted in the FY 17-19 budget, requiring $562,000 per year to support 15 conserved clients at an average monthly cost of $2,750 per client. AAS recommends the below actions to redirect funding to support this ongoing need. AAS identified additional options to reduce the impact of the loss of direct services for older adults.

AAS Proposals FY 20-21		**Financial Impact**	**Clients Impacted**
1	Reorganize AAS Fiscal/ Administration and claim where possible.	$161,000	-
2	Eliminate land lines for field-based staff.	$24,000	-
3	Ongoing savings from reducing operating cost of electronic document system IT project.	$100,000	-
4	Direct conservatee fees (Public Guardian Fee Reserve) to support conservatees' placement costs.	$277,000	-
5	Redirection of Measure K revenue from the Alzheimer Association dementia education/outreach services to maintain other direct clinical services for older adults at SMMC.	$491,727	22
6	Transfer Edgewood Kinship Care Grandparent education services contract serving 20 clients to Human Services Agency and redirect Measure K revenue to maintain other direct clinical services for older adults at SMMC.	$81,955	-

AAS Proposals FY 20-21		Financial Impact	Clients Impacted
7	Redirection of Measure K revenue from the Ombudsman services to maintain other direct clinical services for older adults at SMMC. The Ombudsman monitors facilities that serve this number of clients per year in total and the Measure K revenue supports a volunteer coordinator who oversees the volunteers who monitor the facilities.	$121,983	10,359
	TOTAL	**$1,257,665**	

AAS has restructured administrative and fiscal operations, eliminating three vacant positions this year, and scrutinized other opportunities to eliminate waste in order to address the sustained and increased demands for support of the aging population in our community. These actions will meet more than half of the annual costs of housing supports for an estimated 15 conserved clients per year. We propose to direct $277,000 per year from the Public Guardian Fee Reserve to support the remaining housing costs for these clients. At the end of June 2019, our Fee Reserve fund balance was $4.9M; we aim to keep a balance representing at least 18 months program operational needs in this reserve, which is approximately $2 million. We project that we could direct funding from this source to support the housing costs of the targeted small group of conserved clients for at least five years as we continue to monitor the growing need for such support as well as any emerging opportunities for other funding that could be applied to this need.

Correctional Health Costs

The Correctional Health budget gap that we originally projected of $741,000 will be covered by reductions throughout Health as described earlier in this memo. Once we receive the new service charges it is possible that gap will increase. If so, we will engage with the County Manager's Office regarding the options and bring forward a plan through the usual budget planning process.

There remain risks to the out-year budgets for Correctional Health, as there is almost no external revenue. Currently, 100% of CHS's permanent salary and benefit expenses are funded by the County, as well as $3,030,106 in Net County Cost directed to CHS for the acute psychiatric services delivered by Liberty. Together, these costs represent 90% of CHS's budget for FY 20-21. The remaining 10% is comprised of:

- Salaries of extra help and limited term employees, which comprise 47% of the CHS workforce (77 out of 163);
- Overtime costs, which represented $1,024,205 in FY 18-19 as we have needed to rely on overtime to operate at mandated staffing levels;
- Payments to external healthcare providers for treating inmates who are not able to be treated by SMMC, and medical and dental supplies totaling $3,204,317 in FY 18-19;
- Payments for providing prescription drugs, ancillary, and medical care for inmates totaling $1,866,477 in FY 18-19. Prescription drugs have increased by 142% over a 5-year period due to the loss of 340B discount pricing;

- Software maintenance for the to-be-implemented electronic health record and medication dispensing machines.

County Funding Model for FY 21-23

As difficult as these options are, the plan we have brought forward still relies on continued investment of $8M one-time SMMC reserves to balance FY 20-21. We will bring forward additional reductions for FY 21-22. We recognize the importance of achieving fiscal balance so that we can sustain the services most needed to further longer and better lives for our clients and the broader San Mateo County population. As we have analyzed the structural drivers for the deficits, we also understand that our current County funding model will not sustain our medical care delivery system or our support functions. The most recent salary and benefits increases for Health staff for FY 20-21 amounted to $14.3 million, which was covered $5.7M by County and $8.6M by Health, directly increasing the gap because revenues were not sufficient to cover the increased costs.

The current structure was adopted decades ago and pegged to assumptions about the revenue model for services funded by the federal and state governments and the ability to incorporate our support and infrastructure costs (administrative personnel, rent, much more minimal technology needs) into the revenues we can earn. Currently, the County provides Net County Cost for 80% of permanent salary and benefit increases in AAS, BHRS, FHS, PHPP and 100% of CHS permanent salary and benefit increases. EMS and EHS are almost entirely fee based. SMMC and support functions receive no Net County Cost for salary and benefit increases. (Attachment B)

Prior to 2013, County support for San Mateo Medical Center reflected funding for 65% of SMMC's salary and benefit cost increases. It also considered the County's responsibility as a safety net for medically indigent care. This model ended and became 0% when we no longer directly operated Burlingame Long-Term Care and were able to take advantage of the tremendous opportunity of the Affordable Care Act implementation, which reduced the number of uninsured medically indigent in the County. Unfortunately, the initial Medi-Cal expansion dollars were scaled back. We currently have 22,562 uninsured participants enrolled in our ACE program that is designed to meet our Section 17000 mandate and the County contribution is $52.5M, which works out to $2,477 per participant per year or $194 per participant per month.

With increasing labor costs and continued uncertainty about what the overall Medicaid funding model for public hospitals will be, we can no longer count on the payment models that are largely performance and outcome-based to enable stability in retaining a skilled workforce.

Other Future Risks

- **HPSM** is a valued partner and has assisted Health in a variety of progressive efforts to better meet the needs of our shared patients. HPSM's financial situation is challenged by declining Medi-Cal enrollments and rates and continued Federal uncertainty that if not reversed will also impact us. The proposed Federal Medicaid Fiscal Accountability Rule (MFAR) could jeopardize both HPSM and Health funding.
- **The Brius Agreement** for management of Burlingame Skilled Nursing ends September 2020. The building is owned by Brius. We believe that the likelihood these beds will remain

in service for low-income residents will diminish substantially if the agreement ends. We are working with counsel to explore options to extend the Brius Agreement that would not introduce any financial risk to the County.

- **Increasing costs for all levels of residential placements and** housing will continue to challenge the flow of patients through the levels of care we directly operate. We will continue to work towards completion of the Cordilleras replacement and collaborate with our housing partners on all the other opportunities we can that will benefit complex SMC patients.
- **340B discounted drug-pricing:** The Governor's initiative to leverage all the public pharmacy purchasing in the State through a new system is well-intended but may create problems for existing local purchasing for us through 340B and HPSM.
- **Facilities and moves:** We are working closely with the PDU and others on the development of each new capital facility and we greatly appreciate the support of County leadership in helping us find options for the longer term financing that will be manageable. We will continue to partner in value engineering each project to find the right balance of built and leased space that is most appropriate by function. Until each project is finalized there remain uncertainties in the costs.
- **EHR 2.0:** We are uncertain how long we can count on existing vendors to maintain the myriad electronic health records we currently use, and we are in the process of conducting an RFP to understand what the current market offers in terms of functionality and demands in terms of pricing. However, we do not have all the funding needed to replace our current systems with new system(s). We expect the one-time resources that are left once we are through addressing our structural budget deficit will have to be devoted to replacing our existing systems.
- **Compliance issues:** As we have reported previously, SMMC reserves to plan for known potential compliance risks. At this time, SMMC has reserved more than $131M for various compliance/audit risks and categorized those as high, medium and low. At this time, $19M are considered low, and we remain concerned that new risks could arise at any time.
- **Correctional Health:** We also continue to work closely with County Counsel to monitor risks in the Correctional Health arena, as lawsuits have resulted in sizable claims against several of our neighboring Counties. We will continue to seek your guidance on the appropriate strategies to mitigate these risks in this arena that is completely locally funded.

We continue to be amazed and encouraged by the resourcefulness of our staff in continuing to identify positive solutions for our structural deficit and we regret those solutions don't yet fully address the gaps. We want to emphasize that we know that even those services we have recommended for reduction or elimination are considered vital within our system and will be met with dismay. There is no failure of quality or effort from the people staffing these services who have devoted themselves to our patients and the County's residents. We remained focused on identifying other revenue sources, reducing waste and inefficiency, and advancing our constructive improvement efforts with the expectation that they may still reduce the need to execute on service reductions. This progress is one of the reasons we are recommending an additional investment of one-time funds and another phase of planning.

As always, we appreciate the tremendous support offered by your Board and County leadership for the many things our staff and partners do each day to help SMC residents live longer and

better lives. We appreciate your support even as we wrestle with the challenges of financing this important work and look forward to working with you and other stakeholders to identify more solutions.

FISCAL IMPACT:
There is no fiscal impact as a result of accepting this report.

Attachments
A – County Health Principles
B – County Health FY 16-17 Actuals through FY 20-21 Rec Budget
C – FY 20 21 Health Net County Cost Breakout
D – Progress on FY 19-20 Solutions