County of San Mateo

Inter-Departmental Correspondence

Department: HEALTH
File #: 18-854

Board Meeting Date: 9/25/2018

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

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

Subject: FY 2019-21 Budget Planning for Health

RECOMMENDATION:

Accept this report and offer guidance regarding the Health FY 2019-21 budget planning process, timeline, and budget balancing principles.

BACKGROUND:

Health will meet its Fiscal Year 2018-19 responsibilities within our budgeted resources; however, we face challenges for the FY 2019-21 cycle that will need to be addressed with advanced planning. In June, your Board appointed Supervisors Canepa and Groom to a sub-committee to guide the planning, given their roles co-chairing the San Mateo Medical Center (SMMC) board of directors. Given the expectation that County financial risks will require a plan to meet a 2.5 percent reduction in Net County Cost (NCC), and our need to also address structural financial risks in State and federal funding sources, we have embarked on an early planning process to develop thoughtful recommendations for your Board that incorporate feedback from stakeholders. We expect to use a phased approach to address these challenges in each year of the FY 2019-21 cycle. We have expanded on the existing County of San Mateo Budget Balancing Principles and developed a set of additional principles to guide our planning.

PROCESS AND TIMELINE:

We have initiated our planning early and propose to include these milestones:

- Outline developed and shared with Health leaders, July 2018
- Preview with San Mateo Medical Center (SMMC) Board, August
- Assignments to Health divisions, August
- Engage divisional staff and partners, September
- BOS Study Session, September
- Brief labor partners, late September/October
- Brief other County department partners, October
- Conclusion of preliminary planning, late November/early December

- Checkpoint with County Manager's Office, December
- Checkpoint with SMMC Board, January 2019
- Follow-up BOS Study Session, January
- Follow-up with divisional staff and partners, January/February
- Development of two-year budget plan, aligned with County budget schedule (completed by BOS budget hearings June, 2019)
- Second-round planning and refinement for budget year two, April-Fall 2019
- Follow-up BOS Study Session for budget year two, January 2020
- Complete budget year two changes (completed by BOS budget hearing June, 2020)

PRINCIPLES:

We intend to guide our planning with the County Budget Balancing Principles as well as the Health System Principles developed with stakeholders for this process (attached). We believe these principles will help us remain anchored in the Health mission to help San Mateo County residents to live longer and better lives.

DISCUSSION:

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. While the explicit federal attack on the Affordable Care Act has not yet been successful, the mandate to purchase health insurance has been eliminated and federal support for continued health insurance and delivery system reform is absent at this time. At the same time, the federal and state focus continues on compliance audits, increasing our risks of disallowance.

We feel the prudent course is to continue to push forward on revenue strategies and prepare options for the possibility that we will have to address a budget gap in the next two-year cycle (FY 2019-21) with some reductions. Each of the divisions will need to address the 2.5 percent NCC reduction as well as address their specific opportunities and challenges. So that we have flexibility, we have asked divisions to prepare a five percent reduction scenario in NCC rather than just 2.5 percent. The NCC contribution to the Health budget is $156.6 million, 20 percent of the total Health budget of $803 million. A 2.5 percent reduction will be $3.9 million and a five percent will be $7.8 million.

In addition, the following table contains the estimated annual amount of the structural deficit each division will need to address. Note these estimates do not yet include estimates of the debt service and increased rent associated with new facilities that are currently expected to be completed during the FY 2019-21 period. Once we have those estimates, we will update this information.

PERFORMANCE MEASURE:

FY 19-20/20-21 Low to High Estimates of Structural Deficit		
Unit	**Low Estimate**	**High Estimate**
SMMC	15,000,000	30,000,000
BHRS	7,700,000	13,000,000

Aging and Adult Service	1,200,000	1,200,000
Family Health	190,000	195,000
Correctional Health	0	75,000
Public Health Policy and Planning	138,000	3,100,000
Admin/Health IT	365,000	376,000
Health Coverage Unit	23,000	24,000
EMS	72,000	444,000
Environmental Health	0	416,000
Total:	**$24,688,000**	**$48,830,000**

Should your Board choose to adopt a 2.5 percent NCC reduction for all County departments, Health will be prepared with the following additional reductions:

Unit	**Net County Cost 2.5% Reduction**
SMMC	1,312,739
BHRS	1,172,098
Aging and Adult Services/IHSS	299,872
Family Health	333,260
Correctional Health	481,170
Public Health Policy and Planning	260,426
Admin/Health IT	0
Health Coverage Unit	52,046
EMS	0
Environmental Health	2,603
Total:	**$3,914,214**

Not including debt service and increased rent associated with new facilities, we believe the total structural gap that would have to be closed between revenue increases and reduction strategies is between $25 and $49 million annually, which is three to six percent of the Health FY 2018-19 budget of $803 million. Health will reduce an additional $4 million in NCC in the event your Board adopts a 2.5 percent NCC reduction. In the scenario where the Affordable Care Act is entirely eliminated, the number could grow and would impact multiple parts of Health. While we hope for the best, in an abundance of caution we should plan for the worst.

We know our workforce is our greatest asset in meeting our mission of longer and better lives. We are committed to the journey of continuous improvement that relies on the expertise of staff closest to the clients and communities we serve to keep finding ways to deliver excellence and value for our clients and taxpayers.

Key areas of financial risk that necessitate careful planning include:

- Aging and Adult Services/In Home Support Services (IHSS): In our system of supports for older adults and persons with disabilities, as your Board is aware, we face a $3.7 million-dollar gap as a result of IHSS provider wage increases that will hit in FY 2022-23 when the Trust Fund that has subsidized the increases will be depleted. In addition, administrative costs will have exceeded the State allocation by $500,000. We expect 1991 Realignment will not be sustainable in the out years as IHSS costs will likely grow at a faster rate than sales tax and vehicle license fee collections for the State. AAS will also finally deplete the Meals on Wheels Trust Fund that was set up by your Board in 1996 to help adults who were ineligible for the federal program receive home-delivered meals ($42,000 a year). The Theresa Rodriguez Settlement that provided $1 million annually to support AAS clients' residential placements is now depleted. AAS will also have to revisit fees for its Public Guardian function as well as the related warehouse service for conservatees.

- Behavioral Health and Recovery Services (BHRS): In the Behavioral Health and Recovery Services arena, major sources of BHRS revenue such as 1991 MH Realignment and the Mental Health Services Act are not keeping pace with increasing costs for direct services and contracted services. This includes $1.8 million in increased costs for residential supports, including locked beds that have been critical to keep people with serious mental illness safe. Growth from Mental Health Realignment has been directed by the State to IHSS. Some growth from Mental Health Services Act has been directed to other initiatives including housing. Just like SMMC, BHRS will be greatly impacted by any further erosion of the Affordable Care Act or other Federal back-sliding on health care reform. In addition, federal compliance/audit initiatives targeting Medi-Cal impact BHRS, which is slated to pay back at least $5-6 million as part of a statewide settlement spread over four years commencing in FY 2019-20. BHRS also has risk for past year cost reports for FY 2010-11 through FY 2016-17.

- Correctional Health Services: The need to improve care is imperative for the growing population of inmates with complex, chronic needs who are incarcerated for longer periods of time. Significant improvements have already been made with the introduction of mental health living pods and the mental health acute unit that will open in October. Correctional Health is almost entirely supported through local funding and Health Realignment, which is flat.

- San Mateo Medical Center Revenues: In the San Mateo Medical Center system of clinics and hospital, there have been significant changes to the public hospital payment programs that have been a primary source of funding for safety net systems. There is no certain federal commitment to continuing the reimbursement programs such as the Medi-Cal Waiver that have allowed SMMC to absorb cost increases successfully without increased local contributions ($58 million) since FY 2014-15. Assuming continued County contribution of $58 million, we project up to 30 percent of the other SMMC revenue is now at risk, which in the worst case scenario could mean a loss of $30 million. The funding programs have also shifted to pay-for-performance models tied to quality and utilization targets. In addition, the loss of the Health Plan of San Mateo capitation agreement for the Medi-Cal Coverage Expansion population was $15 million and the potentially offsetting fee-for-service revenue stayed flat. The Health Plan of San Mateo is a key partner as the insurance plan for most of our clients and our top priority is to understand their needs and the potential for

alignment in a new agreement.

- San Mateo Medical Center Expenses: While SMMC revenue projections for supplemental revenue are declining and fee-for-service revenue is flat, our expenses continue to increase. Although SMMC FTEs increased by five percent since FY 2015-16, primarily for short-term projects, the salary and benefit costs increased 17 percent, with another 10 percent increase projected for FY 2019-21, not including any newly negotiated increases. Medical supply costs and pharmaceutical costs have also increased 10 percent. In addition, SMMC continues to experience long stays for patients who don't need to be in an acute care hospital but cannot be discharged due to the lack of affordable placements. On average, 30 percent of the patients on the medical-surgical unit and 80 percent on the psychiatric unit do not meet medical necessity for acute care services, adding more than $5 million of costs annually for these unreimbursed services.

- San Mateo Medical Center Use of Reserves: SMMC's structural deficit between flat revenues and increasing costs was partly mitigated in FY 2017-18 as we used only $7.3 million of reserves (out of a budgeted $19 million) to close the gap; however, that was dependent on a one-time supplemental revenue payment and salary savings in our permanent positions. SMMC has established prudent reserves for various reimbursement and market uncertainties, and this will allow time for implementing financial improvement strategies; however, these reserves cannot be counted on to entirely close budget gaps in the future.

- Public Health, Policy and Planning and Family Health Services: In our public health protection and early intervention arenas, the combination of being at the ceilings of categorical revenue sources including federal and state grants, reduced 1991 Realignment, rising inflation outpacing unadjusted fees and increased labor costs and lease/debt service costs in some key locations requires us to keep improving our productivity and asset use with the staff and space we have. In the areas in which we see reductions in demand due to low-income families moving away, we are carefully considering what alignment of staffing best matches demand. It is more important than ever that we advance work the BOS has strongly supported to use epidemiology and research-based models that can deliver the highest impact for our clients. In the arenas of early intervention with low-income pregnant women and children, disease control, health policy and supporting our most complex adults with medical and behavioral health needs, we see promising results. However, working with the State and HPSM, we will need to design revenue strategies to sustain successful efforts, such as the five-year Whole Person Care pilot that will end December 30, 2020.

- Environmental Health: Environmental Health is supported almost entirely through fees. Environmental Health inspection demands will continue to increase along with regulations that expect compliance monitoring through Environmental Health inspections. Environmental Health must also modernize its website interface and e-gov capability to automate processes for business operators, contractors, and residents. The existing fee structure will have to be revisited once staff costs increase by more than three percent. We expect to bring forward a revised fee proposal to keep revenues in synch with expenses.

- Technology: We expect costs for replacing the technology we use to operate our systems to

be an additional challenge in the next budget cycle and beyond, as existing systems are coming to the end of vendors' willingness to provide continued support and acquiring the next systems will be unaffordable. We are staying the course on the technology plan developed at the onset of this two-year cycle with a few changes such as the addition of the Correctional Health electronic health record that your Board recently approved. We will complete the assessment of future records costs through a bid process but recognize we may have to defer implementation. We are thrilled with the recent implementation of our Health Information Exchange that at last makes it possible for staff in one part of our system to learn how their client is connected to other services and staff, so they can all work together in a more efficient and coordinated way to meet the needs of our clients.

Fortunately, through the prudent financial stewardship of County leadership and Health, we have reserves that will allow us to make thoughtful choices and take a phased approach to the reductions that may be needed over a multi-year period. As part of our planning this fall we will evaluate the extent to which one-time resources including reserves can be used to delay impacts and will incorporate this into our report back to the Board in January 2019.

We are grateful for your Board's consideration of department-spanning efforts that are critical to our long-term effectiveness in advancing longer and better lives for our residents. We see the Board-supported deep place-based planning in the four neighborhoods in which a disproportionate number of young people end up in our most intensive service systems as an important strategic prevention initiative to further trauma-informed prevention strategies that can achieve long-term results for the clients and communities that have shouldered significant inequities.

We very much appreciate the deep investments in planning and resources for the replacement of Cordilleras, the animal shelter, the seismic improvements to San Mateo Medical Center and the San Mateo Campus, the planning for South San Francisco, County Office Building 3, the move of the Daly City Youth Health Center, and the many other projects that benefit our clients such as the replacement of the Maple Street Shelter. While these are steep investments, we believe these core client-serving functions will continue into the future and it will be prudent to avoid the market for rent. However, the necessity to cover the debt service and increased rent associated with these new facilities also adds to the multi-year challenge we face.

We appreciate the guidance provided by Supervisors Groom and Canepa, who are on the SMMC Board and have already engaged with us in developing our approach.

FISCAL IMPACT:
There is no fiscal impact as a result of acceptance of this report and guidance regarding the planning process, timeline, and budget balancing principles.

Attachments:
SMC Budget Balancing Principles
Health System Budget Balancing Principles FY 2019-21