



County of San Mateo

Inter-Departmental Correspondence

Department: HEALTH

File #: 19-057

Board Meeting Date: 1/29/2019

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: Louise F. Rogers, Chief of Health
Srija Srinivasan, Deputy Chief
Subject: FY 19-21 Budget Planning for Health - Update

RECOMMENDATION:

Health Budget Study Session Report Back.

BACKGROUND:

On September 25, 2018, we held a study session regarding the Health FY 19-21 budget projected gap and planning process. At that session, we confirmed that Health will meet its FY 18-19 responsibilities within our budgeted resources; however, we face challenges for the FY 19-21 cycle that will need to be addressed with advanced planning. We received your input to guiding principles, a planning process and timeline:

PROCESS & TIMELINE:

1. Outline developed and shared with Health leaders, July 2018 - Completed
2. Preview with San Mateo Medical Center (SMMC) Board, August - Completed
3. Assignments to Health divisions, August - Completed
4. Engage divisional staff and partners, September - Completed
5. BOS Study Session, September - Completed
6. Brief labor partners, late September/October - Completed
7. Brief other County department partners, October - Completed
8. Conclusion of preliminary planning, late November/early December - Completed
9. Checkpoint with County Manager's Office, December - Completed
10. Checkpoint with SMMC Board, January 2019 - Completed
11. Follow-up BOS Study Session, January - In progress

Work to continue through FY 19-20:

1. Follow-up with divisional staff and partners, January/February 2019
2. Development of 2-year budget plan, aligned with County budget schedule (completed by BOS)

budget hearings, June 2019)

3. Second-round planning and refinement for budget year 2, April-Fall 2019
4. Follow-up BOS Study Session for budget year 2, January 2020
5. Complete budget year 2 changes (completed by BOS budget hearing, June 2020)

As a reminder, 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. The new State administration has signaled that health coverage will be a focus, but it is too soon to say what the impact will be of those initiatives. At the same time, the federal and state focus continues on compliance and reimbursement audits, increasing our risks of disallowance. We continue to 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 2-year cycle (FY 19-20 and 20-21) with some reductions.

In September 2018, we projected a budget gap of approximately \$25M to \$49M, not including debt service and increased rent associated with new facilities. This represents 3% to 6% of the Health FY 18-19 budget of \$803 million.

Unit	Low Estimate	High Estimate
SMMC	15,000,000	30,000,000
BHRS	7,700,000	13,000,000
Aging and Adult Services	1,200,000	1,200,000
Family Health	190,000	195,000
Correctional Health	0	75,000
Public Health Policy and	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

DISCUSSION:

Since the September study session, we have met with key stakeholders, including advisory Board and Commissions, employees and other community partners.

We have also updated that gap estimate; identified \$19.6M in ongoing solutions with a proposal to use \$19.8M in reserves for FY 19-20.

SMC Health Division/Team	Updated FY 19-20 Gap	Annual Ongoing Solutions	One-Time Reserves
SMMC	\$30,000,000	\$10,756,000	\$19,244,000
BHRS	7,440,000	7,440,000	0
Aging and Adult Services/IHSS	1,200,000	638,000	562,000
Family Health	190,000	190,000	0
Correctional Health	0	0	0
Public Health Policy and Planning	138,000	138,000	0
Admin/Health IT	365,000	365,000	0
Health Coverage Unit	23,000	23,000	0
EMS	72,000	72,000	0
Environmental Health	0	0	0
Total:	\$39,428,000	\$19,622,000	\$19,806,000

The gap number was updated to use the high estimate of \$30M for the Medical Center. While the ACA repeal risk lessens as a result of the mid-term elections, there is still enough uncertainty at the federal level to necessitate a higher estimate. Please note the updated gap estimates still do not include the debt service and increased rent associated with new facilities that are currently expected to be completed during the FY 19-20/20-21 period or any adjustments for labor negotiations. We are working with the County Manager’s Office to determine the impact of the recently settled agreement with SEIU and will update our numbers as more information becomes available.

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.

Our initial recommendations for ongoing annual solutions of \$19.6M fall into these categories that we will present at the study session January 29:

1. Maximize Med-Cal Revenue (\$7.9M)
2. Build on Partnerships with Health Plan of San Mateo and Others (\$4.5M)
3. Maximize Other Revenues Claimable to other health funding sources (\$1.1M)
4. Improve Service, Reduce Costs (\$1.4M)
5. Leverage Technology to increase efficiency (\$1M)
6. Respond to Demographic Shifts, Efficiency Demands (\$384k)
7. Reduce flexibility to address unexpected operational demands (\$3.2M)

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. Our budget proposal for FY 19-20 will request that we be allowed to use \$19.8M in reserves. Health's FY 18-19 Adopted Budget included \$32.8M in reserves or 4% of Net Appropriations. Using \$19.8M, will reduce our reserves to \$13M or 1.6%.

We believe we have additional opportunities but need external help to move our initiatives forward at a faster pace. We will bring forward to your Board several agreements for external consultation in the coming months primarily related to San Mateo Medical Center business, operational and clinical improvements and plan to use one-time revenues from cost report settlements to fund these projects.

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 continue to see the impact of the affordable housing shortage in difficulties discharging patients with complex needs from all levels of care and applaud your Board's continued dedication to all variety of strategies to increase housing.

We very much appreciate the significant 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 risks of the local 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 co-chair the San Mateo Medical Center Board.

FISCAL IMPACT:

There is no fiscal impact as a result of acceptance of this report.