County of San Mateo

Inter-Departmental Correspondence

Department: HEALTH
File #: 21-208

Board Meeting Date: 3/23/2021

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Louise F. Rogers, Chief, SMC Health
Srija Srinivasan, Deputy Chief, SMC Health

Subject: County Health Budget Update and Plan for FY 2021-23

RECOMMENDATION:

Accept this report from County Health regarding the plans for the FY 2021-23 budget.

BACKGROUND:

We are bringing forward our budget plans now for the third season (Phase 3) as we reduce the structural deficit in Health that has developed over time as a result of increasing costs and flat and declining revenues:

- **Phase 1**: Fall 2018 through June 30, 2019 for FY 2019-20: Strategies that largely increased revenues and decreased expenses to address a projected $46M gap without severe impacts to clients/ residents and elimination of only 12 positions.
- **Phase 2:** Fall 2019 through June 30, 2020 for FY 2020-21: Strategies that slated increased revenues and required some reductions in services and workforce (87 positions, of which 28 were filled) to address the projected $57M gap. As a result of the pandemic, some strategies had to be delayed and the gap was initially closed in the budget with $19.5M in one-time funds, comprised of $14M in Health reserves and $5.5M of additional Net County Cost.
- **Phase 3:** As we plan for what we now estimate to be approximately $17M for FY 2021-22 and $23M across Health for FY 2022-23, the gap is less than 3% of our $901M (FY 20-21) Health budget. The focus of this report is our proposed plan for Phase 3--the next two-year budget cycle FY 2021-23 that addresses the structural gap of revenues not growing at the pace of our expenses in the context of the pandemic.

Planning assumptions and timeline: After receiving your input, our plan is to implement the budget items by September 1, 2021, except where otherwise noted. The timeline reflects our goal of assuring we can alert any impacted employees and contractors no later than April 1, 2021, at least five months in advance of reductions.

Pandemic: We have adjusted our planning assumptions and timeline for the budget to reflect that the COVID-19 pandemic has forced us to turn all our attention to fighting the virus and now to the roll-out of the vaccine. This will continue to demand our focus and resources for at least the next year. We are fortunate to have been able to redirect between 60-100 staff from Health as needed to support the public health response to the pandemic, but more resources will likely be needed for the vaccination roll-out. The crisis has also introduced additional financial uncertainties including unrealized revenues and increased costs for most operations[1], as well as the prospect of declines among economically influenced revenues. Fortunately, Health has also received substantial offsets to these impacts through one-time relief funds, including CARES funding, and we still remain on-track to meet our budget for FY 2020-21. We will also scrutinize any new federal relief revenue opportunities when they become known. As the pandemic and vaccine roll-out is likely to continue at least through December of this year, we expect the uncertainties related to revenues and costs to extend through FY 2021-23.

Federal policy: The new federal administration will likely favorably impact policy related to eligibility and reimbursements under the Medicaid program and the Affordable Care Act. California is currently attempting to negotiate a 1-year renewal of the Medi-Cal waiver, as well as develop a new one and the success of that negotiation is currently unknown. This also impacts the future of the federally funded Whole Person Care initiative that is currently expected to end 12/31/2021. The prospects for future waivers or similar financing mechanisms remain unclear but are certainly more hopeful under the new federal administration.

Demand for our services: Our planning would ideally be informed by a greater understanding than we currently have of how the needs of our community for our safety net services have been changed by the pandemic. We will continue to monitor changes in demand in the coming months. We know that the pandemic's economic impact is already resulting in increased caseloads in some program areas and some waiting lists; this appears to be the result of meeting increased demand through tele-delivery (such as in WIC, which increased 17% from pre-pandemic) and capacity/demand mismatches with many Health staff being redirected away from their usual work to pandemic responsibilities. As unemployment has increased, we have expected the number of low-income uninsured to also grow. We see a modest increase in Medi-Cal enrollment, which appears largely due to the State emergency actions that result in beneficiaries not losing coverage. Researchers and the State predict an increase in new Medi-Cal participants due to residents losing income and employer-sponsored health insurance, and we are beginning to see this materialize slowly. We continue to work with the Human Services Agency on efforts to maximize Medi-Cal enrollment and retention among our patients/clients. ACE enrollment has increased 17% between February 2020 and January 2021, from 21,011 to 24,537. During this same period, Medi-Cal members assigned to SMMC by HPSM increased 5% from 32,936 to 34,893.

Preserve capacity needed to respond quickly: All of this leads us to conclude that we must find ways in the next two-year budget FY 2021-23 to preserve our core capacity and ability to respond to surges and other needs quickly for the course of the pandemic. We believe it is appropriate to continue to use reserves/one-time sources to delay some impacts, while also moving some reductions forward to continue to manage the structural deficit as described in this memo. If there are surprises, we may need to take up additional changes in the second year of the budget cycle. We continue to apply an equity lens, striving to minimize harm on the residents/clients shouldering inequitable opportunities for health, and we are excited about the

County's performance focus on equity.

DISCUSSION:

Projected structural Health deficit to address- Phase 3 - FY 2021-23

Below is a chart showing the projected deficit of $17M for FY 2021-22 and $23M for FY 2022-23 that we are proposing to close as outlined in the rest of this memo. The proposed reductions will eliminate 6 positions (3 filled currently) and reassign 1 employee. Of the eliminated positions, 2 are permanent (2 filled currently). The proposal also impacts 7 partner agencies/contractors. The ongoing strategies that we use to close the FY 2021-22 gap will reduce the FY 2022-23 gap accordingly.

Projected structural deficit to address - Phase 3 - FY 2021-23

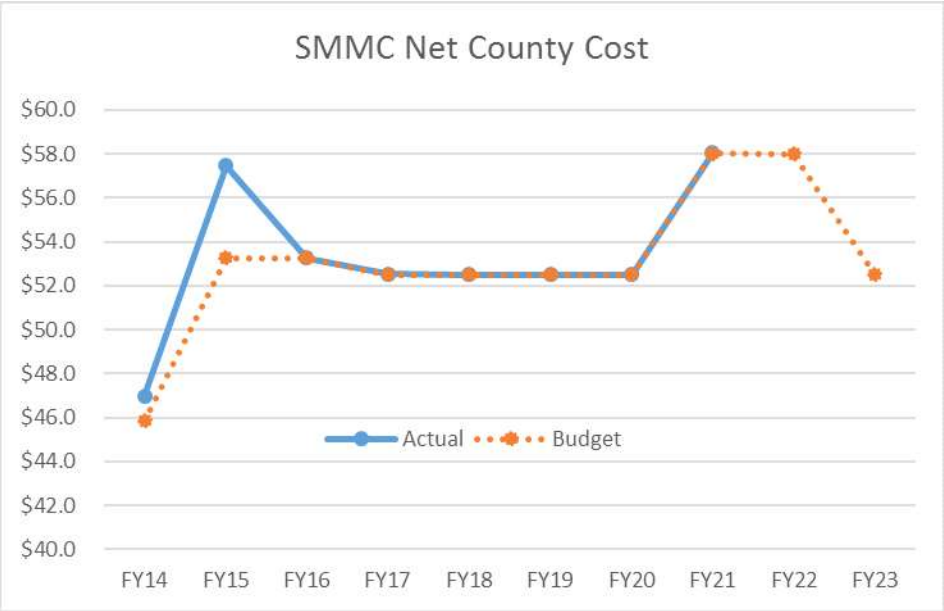
Division	FY 2021-22	FY 2022-23
San Mateo Medical Center	$13,900,000	$15,400,000
Behavioral Health and Recovery Services	$814,374	$5,000,000
Administration / Health IT	$1,191,630	$1,191,630
Environmental Health	$600,000	$800,000
Correctional Health	$161,000	$327,827
Family Health (not structural but to be addressed)	$160,000	$160,000
Aging and Adult Services	$100,000	$100,000
Emergency Medical Services	$32,000	$32,000
Public Health Policy and Planning	0	0
Total not including new negotiated increases/charges	$16,959,004	$23,011,457

San Mateo Medical Center Proposals for FY 2021-22

SMMC has been on the front lines of the pandemic response in San Mateo County and has played a significant role. As has been demonstrated nationally, the populations served by SMMC tend to be those that have been disproportionately impacted. SMMC admitted its first patient with diagnosed COVID-19 on February 28, 2020, and within 7 months had treated more than 1,200 patients. We expect SMMC to need to maintain a state of readiness for surge until there is a vaccine that has been fully distributed. As a result, SMMC proposes no additional service reductions in this budget cycle and is instead recommending focusing on the successful execution of current initiatives.

Our proposal also assumes that SMMC would continue to tightly manage hiring to ensure staffing matches actual volumes and pandemic related staffing ratios, and that vacant positions be maintained rather than eliminated in case surge demands of the pandemic require a prompt response. Currently, SMMC has approximately 102 vacant positions and the Medical Center aims to hold approximately twelve of those positions open unless circumstances including increased demand and revenue opportunities require them to be filled. At the same time, we know that it will be many months until patients are back to seeking routine care that we are reimbursed to provide, and revenues will be impacted. Thus, our proposal assumes that the revenue strategies we have targeted will not be fully achieved until FY 2022-23 and we are grateful that the CMO has agreed to continue the additional $5.5M in Net County Cost (NCC) for

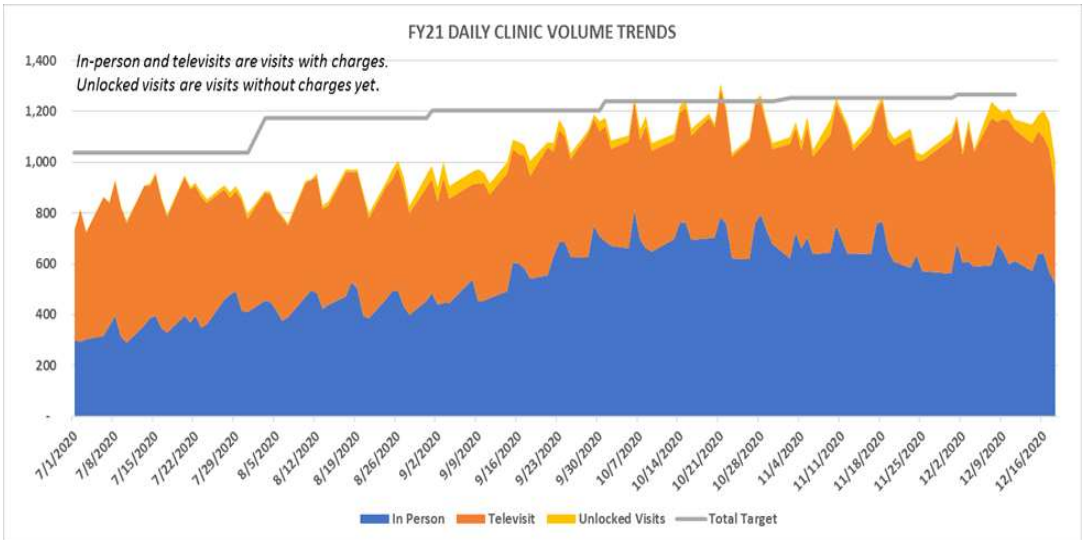
FY 2021-22. We have reflected this in the chart below, which depicts the SMMC NCC over time.



NCC for SMMC was increased in FY 2014-15 to offset salary increases and the loss of Realignment revenue. NCC was decreased in FY 2015-16 to offset decreases in pension costs and reallocation of IT costs. NCC remained flat from FY 2015-16 through FY 2019-20 while costs primarily related to the workforce increased an average of 5% per year during this same period. SMMC's ability to absorb cost increases without additional Net County Cost was due in large part to unanticipated revenues from prior year cost report settlements[2].

As you will recall, a significant segment of the annual deficit for SMMC rests in the uncertainty of the public hospital supplemental revenue programs that have increased over time and now comprise 40% of SMMC's revenues. We have described this dynamic and how we have managed it by developing audit reserves for potential disallowances, of which $38M is relatively low-risk.[2] As we have learned more about how to earn revenues within these programs and what amount of risk must be planned for and reserved against, we believe we can safely reduce the level of audit reserves required to address unexpected revenue shortfalls and budget accordingly. This will allow us to reduce our estimate of the gap by $2.5M. In addition, given the likelihood of continued one-time settlements, we are proposing to start reserving significant portions of these for the purpose of funding the replacement of the electronic health record, which an RFP process confirmed would require one-time costs of $100M over two years to implement. Our goal is to reserve $20M per year for the next three years towards this goal.

Finally, SMMC proposes to continue its efforts towards achieving the operational improvements and revenue strategies that were included in this FY budget, such as increasing daily clinic volume as shown below, with the understanding that the targets will not be hit in FY 2020-21.



We estimate $4.5M towards the gap in the table below. This strategy will also allow the organization to hit Federally Qualified Health Center (FQHC) productivity requirements in FY 2020-21 such that an application for rate increases may be submitted in FY 2021-22 and new rates implemented in FY 2022-23. This approach will not only allow the organization to address its short-term needs but provides a pathway for long term financial solvency through increased rates that better cover costs.

	SMMC Proposals for FY 2021-22	Fiscal Impact	Client Impact	Positions, FTEs (filled)
1	Plan for supplemental revenue and budget accordingly[2]	$2.5M		
2	Continue additional County Net County Cost contribution to allow pharmacy to remain open and to offset slow ramp up of revenues	$5.5M		
3	Assume salary savings from at least 12 frozen FTE but retain these positions as needed for surge requirements.	$1.5M		
4	Continued progress in operational improvements and revenue increases for ambulatory care and other service lines	$4.4M		
	Total	**$13.9M**		

Behavioral Health and Recovery Services Proposals for FY 2021-22

BHRS originally expected to have a significant deficit of $4M in FY 2021-22; however, we learned in February that the proposed State Budget anticipates an increase in Realignment Revenue of $3.2M for BHRS. While the economy suffers greatly, Realignment from sales and vehicle license fees has not been impacted as badly as first projected. We are comfortable

restoring a portion of this revenue moving forward in FY 2021-22 and FY 2022-23. After factoring this additional revenue in, BHRS projects a $5M deficit in FY 2022-23 as result of the loss of Whole Person Care funding and the end of a temporary increase in the federal portion of Medi-Cal. These losses may be delayed. Given the FY 2022-23 gap, BHRS plans to implement some reductions in FY 2021-22 that will contribute to closing the gap again in FY 2022-23. BHRS is also exploring opportunities to apply Mental Health Services Act (MHSA) funds in the two-year budget more strategically with the assistance of a financial consultant. The MHSA requirements do not allow a lot of flexibility to spend outside of specific categories, however there may be opportunities to restructure and realign with MHSA requirements.

BHRS Proposals for FY 2021-22		Fiscal Impact	Client Impact	Positions, FTEs (filled)
1	Reduce contracts to actual costs without impacting clients: BAART methadone and MV transportation	$100,000		
2	Reduce Human Services Agency Vocational Rehab Services MOU to eliminate 3 vacant supported employment slots for clients that have been vacant for 3 years	$69,809		
3	Return the sublease at 262 Harbor to DPW as telework reduced need	$225,232		
4	Reduce budget for administration Expenses	$45,000		
5	Reduce housing component of AOD sober living environments provided by HealthRight 360, Free at Last, Our Common Ground, Latino Commission, and Service League.	$50,000	5 beds not in use	
6	Reassign MOA II from BHRS to PHPP	$91,778		1 filled
7	Eliminate limited term Patient Services Assistant	$87,465		1 vacant
8	Eliminate extra help Psychiatric Specialist conducting investigations for temporary conservatorships	$145,090		1 filled
	TOTAL	$814,374		Total: 3 pos (3.0 FTE) Filled: 2 pos (2.0 FTE) 1 reassigned Vacant: 1 pos (1.0 FTE)

Administration/Health IT

Health Administration and HIT will address a structural gap of $185K in Health Administration and of $1M in HIT to continue operations of the Health Information Exchange, which has become a community standard and necessary to link information across Health and with other health

partners.

	Admin/Health IT Proposals for FY 2021-22	Fiscal Impact	Client Impact	Positions, FTEs (filled)
1	Reduce agreement for security by ¼ given plans to reduce presence on campus early 2022 when building is demolished	$27,750		
2	Reduce agreement for custodial by 1/4 for 227 37th given plans to end occupancy of building	$145,493		
3	Reduce extra help hours for coordination related to housing projects	$12,344		
4	Reduce a variety of HIT expenses related to travel, advertising, office and computer supplies, training, meeting support, licenses	$106,043		
5	Use one-time sources from Health Admin, Public Health, Policy and Planning and Health Coverage Unit to support Health Information Exchange	$900,000		
	TOTAL	**$1,191,630**		

Family Health
Family Health does not have an ongoing structural deficit but due to the changes the State is making in the 340B pharmacy program, we will no longer be responsible, along with Health Plan of San Mateo (HPSM), for the nutritional and dietary aspects of the California Children Services (CCS) program. These services include nutritional consultation, utilization review and authorization of formula and special foods. The loss of $96K in annual revenues from HPSM is expected by December 2021, eliminating funding for two 0.5 FTE dieticians supporting this program. The matching $48K in State funding for these positions will be reallocated to other positions on the CCS Admin budget. The plan is to eliminate those positions in the FY 2021-22 budget to take effective December 31, 2021.

	Family Health Proposals for FY 2021-22	Fiscal Impact	Client Impact	Positions, FTEs (filled)
1	Eliminate (2) 0.5 FTE dieticians	$160,000	786 currently served (minimal impact; transitions to the State)	2 (.5 FTE) filled

Correctional Health (CHS)

The CHS projected gap of $161K for FY 2021-22 is the result of expected increases in costs for contracted services and various services and supplies. In FY 21-22, the gap can be addressed by aligning staffing to the reduced census, which is at 75% of pre-pandemic levels. We have tried to plan in the budget for the fact that we expect some costs to increase despite the reduced census, such as injectable medications for treating substance abuse, which is effective and now standard of care. While we can currently absorb these increased costs for medications with the low census and address the gap with the plan below, any other increases such as labor costs or a large increase in the census will require additional NCC. The FY 2022-23 gap of $328K will be addressed by continuing the same reductions and eliminating some of the one-time project management costs that will no longer be needed for implementation of the electronic health record.

	Correctional Health Proposals for FY 2021-22	**Fiscal Impact**	**Client Impact**	**Positions, FTEs (filled)**
1	Eliminate extra help Psychiatric Social Worker/Marriage Family Therapist	$97,517		1 vacant
2	Eliminate extra help Licensed Vocational Nurse	$90,230		1 vacant
	TOTAL (more than may be needed but covers next year)	**$187,747**		**2 vacant pos/2 FTE**

Aging and Adult - In-Home Supportive Services
For the FY 2021-22 year, AAS continues to wrestle with the unfunded costs of housing for dependent older adults whose care in entrusted to the County. AAS implemented efficiencies and identified a revenue source that can be directed to support $400K/ year of these costs that is built into the current year budget and will continue to be available. We currently estimate a gap of $100K/ year in housing costs for conservatees in FY 21-22. We will address this gap by freezing a vacant supervisory position.

	Aging and Adult Proposals for FY 2021-22	**Fiscal Impact**	**Client Impact**	**Positions, FTEs (filled)**
1	Redirect savings from frozen vacant Supervising Deputy Public Guardian position toward gap for Public Guardian client housing supports.	$168,372	n/a	1 vacant pos/1 FTE frozen

Environmental Health and Emergency Medical Services
The Environmental Health projected gap of $600K for FY 21-22 and in Emergency Medical Services of $32K will eventually be resolved by the implementation of new fees. New Environmental Health fees have been delayed as a result of the pandemic and its inevitable impact on businesses, particularly on restaurants and new Emergency Medical Services fees for training programs will also be delayed. Delaying the Environmental Health fee ordinance beyond July 2022 year will require using $800K in reserves for FY 22-23. Delaying the Emergency Medical Services fees will require using $32K from reserves.

Public Health, Policy and Planning (PHPP)
PHPP has not yet developed a structural gap, despite redirecting the majority of its activity to the pandemic response. ELC-CARES relief funds commencing March 1st for thirty months will support continued response to the pandemic as well as the vaccination roll-out. Our staff will work with the County Manager's Office to confirm the proposed uses of these funds and bring them forward through the budget process for FY 21-23.

Closing

There are many unknowns we are unable to address, particularly for the second year of the two-year budget, but we felt it was prudent to bring this plan for FY 2021-23 to you a few months early. We will have to continue to update our assumptions in the coming months.

As always, we look forward to meeting with you and your staff. We appreciate your support and look forward to working with you through these challenging issues.

NOTES:

1. **Impacts of COVID-19 on SMMC operations leading to increased costs and lost revenues** have been widespread but examples include:
   1) Increased nurse to patient ratios for COVID-19 patients
   2) Increased turnaround times for all activities related to the need to put on and take off appropriate Personal Protective Equipment (PPE)
   3) Temporary Cessation of screening procedures such as Mammography
   4) Temporary Cessation of elective surgical and endoscopic procedures
   5) Initial loss of ambulatory volume as clinics closed to in person visits
   6) Conversion of ambulatory visits to telehealth platforms
   7) Reduced Emergency Department and Inpatient capacity related to the need to isolate and cohort infected and potentially infected patients
   8) Need to maintain increased staffing availability to prepare for potential surge of infected patients
   9) Increased use of sick leave due to exposures and isolation, requiring temporary coverage. As a result of the pandemic, SMMC has seen a 15% increase in sick leave utilization at an extra cost of $400K. Almost 30% of the total sick leave hours this year have been coded as due to COVID-19, due to a combination of actual illness, quarantine days, and leaves related to childcare or distance learning. This leaves the organization in the position of increasing its costs in order to compensate for these absences (typically by using extra help or registry staffing). In order to mitigate these cost increases, SMMC has held a large number of vacancies (approaching 100) to maintain financial and staffing flexibility, which is partially reflected in FY 2020-21 YTD budget favorability of $1.5M, but this has created its own challenges in operating service units and meeting required ratios. Several other Health divisions have faced similar sick leave challenges.

2. **Budgeting supplemental funding and managing audit risks**

We are revisiting how SMMC budgets certain expected revenues and propose to change for FY 2021-23. Approximately 40% of SMMC funding comes in the form of supplemental state/federal public hospital funding either as enhanced payments for direct services or pay for performance program funding. These supplemental reimbursement programs are PRIME (now included in the Quality Incentive Pool), Global Payment Program, Enhanced Payment Program, Voluntary Rate Range, AB85 Realignment and AB915 Medi-Cal Outpatient. These supplemental payments are often delayed beyond the fiscal year but even when received within the fiscal year are subject to audits years later. In addition, public hospital distribution methodologies for some supplemental payment programs dictate that the finalized payment to SMMC may be impacted (positively or negatively) by audit results at other public hospitals in California as part of a pool. The SMMC finance team has appropriately and judiciously reserved funds to accommodate for this uncertainty each year. This means, however, that SMMC routinely does not take full credit for revenues received in a particular year. For example, in a circumstance where SMMC receives $100 in a supplemental payment program, it may only apply $90 to current revenue targets with the remaining $10 going toward audit reserves to protect for risk of disallowance. At this time SMMC has approximately $160M reserved for these risks, of which $38M are considered low risk and can likely be released in the coming budget cycle. An audit several years in the future may allow SMMC to release those reserves but they will typically be counted as “unanticipated” income in that future year rather than counted towards the year

the service was provided that generated the revenue. For FY 2019-20, SMMC received approximately $48M dollars in unanticipated income from prior year settlements and released $10M of reserves no longer needed.

Similarly, approximately $18M of unneeded reserves were released in FY 2018-19. While SMMC was able to comfortably use reserves and rely on prior year settlements in the past, not budgeting for some level of settlements may unfairly portray operational activity as “falling short” and suggest there is a structural deficit when in fact a large component is simply delayed payments. For the FY 2021-23 period we are proposing to increase the amount we expect to receive rather than reduce costs by the same amount. This approach can be revisited in the event reserves drop to levels too low to manage potential risk.