

**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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March 28, 2013

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst  
**SUBJECT:** April 3, 2013 Budget and Finance Committee Meeting

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<b>Item 2</b> <b>File 13-0283</b>	<b>Department:</b> Department of Public Health
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed ordinance appropriates \$46,079,000 to the Department of Public Health to pay for the projected FY 2012-13 budgetary shortfall.</p> <p>Sources of funds are: (a) \$38,689,454 in patient and other revenues; and (b) de-appropriation of \$7,389,546 in previously budgeted expenditures that are no longer needed, for total sources of funds of \$46,079,000. The requested appropriation includes \$8,410,605 from the State Revenue Loss Reserve and \$4,314,849 from the General Fund Reserve, totaling \$12,725,454 in General Fund monies.</p> <p>Uses of funds are (a) \$35,070,000 to San Francisco General Hospital to pay for the budgetary shortfall in salaries and fringe benefits, and (b) \$11,009,000 to Laguna Honda Hospital to pay for the projected FY 2012-13 budgetary shortfall in salaries and fringe benefits, and materials and supplies, for total uses of funds of \$46,079,000.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• According to the Department, the projected FY 2012-13 budgetary shortfall results from a combination of (1) decreased revenues due to the failure of San Francisco General Hospital patient revenues to keep pace with costs, and no retroactive reimbursement from the State and Federal government to retroactively compensate counties for the costs of mental health services; and (2) increased expenditures because the baseline budget for San Francisco General Hospital salaries and Laguna Honda Hospital salaries and materials and supplies are less than required to meet patient care requirements.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Based on a review of the Department of Public Health's expenditure projections through June 30, 2013, the Budget and Legislative Analyst recommends reducing the proposed supplemental appropriation by \$1,222,000, from \$46,079,000 to \$44,857,000, as shown in Table 4 below.</li> <li>• The Budget and Legislative Analyst's recommendation would reduce the General Fund Reserve appropriation by \$1,222,000, from \$4,314,849 under the proposed ordinance to \$3,092,849.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• From FY 2009-10 through FY 2012-13, the Department of Public Health's budget for San Francisco General Hospital and Laguna Honda Hospital salaries and fringe benefits and for Laguna Honda Hospital materials and supplies has resulted in budgetary shortfalls. As a result, the Department of Public Health has requested supplemental appropriations in each year between FY 2009-10 through FY 2012-13. While the FY 2009-10 supplemental appropriation used surplus patient revenues to pay for the budgetary shortfalls, the FY 2010-11 and FY 2011-12 supplemental appropriations and the requested FY 2012-13 supplemental appropriation are being funded in part from General Fund reserves to pay for the projected budgetary shortfalls. According to Mr. Greg Wagner, Department of Public Health Chief Financial Officer, the Department of Public Health plans to address the historical imbalance between budgeted and actual salaries in its proposed budget for FY 2013-14 and FY 2014-15.</li> </ul>	

### **Recommendations**

- Amend the proposed ordinance to reduce the revenue appropriation by \$1,222,000, which would (a) reduce the General Fund Reserve appropriation from \$4,314,849 to \$3,092,849; and (b) the total requested appropriation from \$46,079,000 to \$44,857,000.
- Amend the proposed ordinance to reduce the expenditure appropriation by \$1,222,000, which includes reducing: (a) San Francisco General Hospital Fringe Benefits by \$550,000, from \$4,490,000 to \$3,940,000; (b) Laguna Honda Hospital Salaries by \$522,000, from \$5,850,000 to \$5,328,000; and (c) Laguna Honda Hospital Materials and Supplies by \$150,000, from \$2,914,000 to \$2,764,000.
- Approve the proposed ordinance as amended.

## **MANDATE STATEMENT**

### **Mandate Statement**

According to Charter Section 9.105, the Board of Supervisors may adopt amendments to the Annual Appropriation Ordinance in the same manner as other ordinances.

## **DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance would (1) appropriate \$38,689,454 in revenues and (2) de-appropriate \$7,389,546 in previously approved expenditures that are no longer needed, totaling \$46,079,000, to fund the Department of Public Health's projected FY 2012-13 budgetary shortfall.

According to the Department's February 13, 2013 memorandum to the Health Commission, the Department's projected FY 2012-13 budgetary shortfall results from a combination of decreased revenues and increased expenditures.

Decreased revenues include:

- (1) The failure of San Francisco General Hospital patient revenues to keep pace with costs, due in part to the shift from fee-for-service reimbursements from third-party payers to managed care, in which third party payers pay San Francisco General Hospital based on the number of patients enrolled in the payers' health plans rather than the costs of services provided; and
- (2) No retroactive reimbursement from the State and Federal government to compensate counties for the costs of mental health services.

Increased expenditures are due to San Francisco General Hospital and Laguna Honda Hospital salary and fringe benefits, and Laguna Honda Hospital materials and supplies that exceed budget.

According to Ms. Anne Okubo, Department of Public Health Deputy Financial Officer, the Hospitals' baseline salary and fringe benefit costs to meet patient care requirements are higher than budgeted expenditures. According to Ms. Okubo, the FY 2012-13 budget did not sufficiently account for:

- (1) The number of positions required to meet San Francisco General Hospital and Laguna Honda Hospital average daily patient census;

- (2) The percentage increases in San Francisco General Hospital and Laguna Honda Hospital premium pay, overtime, and holiday pay; and
- (3) Laguna Honda Hospital's costs for materials and supplies, especially pharmaceuticals and food, to meet patient care.

## FISCAL IMPACT

### Source of Funds

The Department of Public Health requests the (a) appropriation of \$38,689,454 in revenues and (b) de-appropriation of \$7,389,546 in previously budgeted expenditures that are no longer needed, for total sources of funds of \$46,079,000, as shown in Table 1 and described in detail below. The requested appropriation includes \$8,410,605 from the State Revenue Loss Reserve and \$4,314,849 from the General Fund Reserve, totaling \$12,725,454, as shown in Tables 1 and 2 below.

**Table 1: Source of Funds**

Sources	Amount	Total
<b>Appropriation of Revenues</b>		
<u>General Fund</u>		
State Revenue Loss Reserve	\$8,410,605	
General Fund Reserve	<u>4,314,849</u>	
General Fund		\$12,725,454
<u>San Francisco General Hospital</u>		
Health Plan Fees	14,000,000	
Hospital Fees	2,560,000	
Other Patient Revenue	17,460,000	
Medicare	5,066,000	
Provision for Bad Debts	<u>(32,582,000)</u>	
San Francisco General Hospital		6,504,000
<u>Laguna Honda Hospital</u>		
MediCal	8,850,000	
Skilled Nursing	3,710,000	
Debt Service Reserve	<u>4,300,000</u>	
Laguna Honda Hospital		16,860,000
<u>Other</u>		
State Health and Welfare Realignment		<u>2,600,000</u>
<b>Total Appropriation of Revenues</b>		<b>38,689,454</b>
<b>De-appropriation of Budgeted Expenditures</b>		
Intergovernmental Payment	3,751,406	
Public Works Building Repair	938,140	
Healthy San Francisco	1,500,000	
Child Health Initiative	<u>1,200,000</u>	
<b>Total De-appropriation of Budgeted Expenditures</b>		<b><u>7,389,546</u></b>
<b>Total Sources</b>		<b>\$46,079,000</b>

State Revenue Loss and General Fund Reserves

The proposed supplemental appropriation would appropriate \$12,725,454 from the State Revenue Loss and General Fund Reserves, as shown in Table 1 above. Two additional supplemental appropriations are pending before the Board of Supervisors: the Public Defender's Office (\$751,312) and the Sheriff's Department (\$3,458,970). If the Board of Supervisors approves the three pending supplemental appropriations, the State Revenue Loss Reserve will have no remaining balance and the General Fund Reserve will have a remaining balance of \$20,320,524, as shown in Table 2 below.

**Table 2: State Revenue Loss and General Fund Reserves' Balances**

	<b>State Revenue Loss Reserve</b>	<b>General Fund Reserve</b>
Available Balance as of March 30, 2013	\$8,410,605	\$28,845,655
Pending Supplemental Appropriations		
Public Defender's Office (File 13-0185)		(751,312)
Department of Public Health (File 13-000)	(8,410,605)	(4,314,849)
Sheriff's Department (File 13-000)		(3,458,970)
<b>Balance if Pending Supplemental Appropriations are Approved</b>	<b>\$0</b>	<b>\$20,320,524</b>

San Francisco General Hospital and Laguna Honda Hospital Patient Revenues

The proposed ordinance appropriates San Francisco General Hospital and Laguna Honda Hospital patient revenues that are projected to exceed budgeted revenues in FY 2012-13, offsetting the budgetary shortfall.

San Francisco General Hospital patient revenues include increases in:

- Managed care payments to the San Francisco Health Plan for seniors and persons with disabilities;
- MediCal hospital fee payments<sup>1</sup>;
- Medicare payments; and
- Other patient revenues due to an increase in payments from self-pay patients.

The increase in San Francisco General Hospital patient revenues is offset by an increase in uncollectable patient charges ("provision for bad debt") due mainly to an increase in patients not covered by third-party payers, such as MediCal, Medicare or private insurance.

Laguna Honda Hospital revenues include increases in:

- MediCal rates for skilled nursing beds;
- The number of skilled nursing facility patient days reimbursed by MediCal; and
- Tobacco Tax Settlement funds that can be used to pay debt service on Laguna Honda Hospital, thus making available \$4.3 million that was budgeted for debt service in FY 2012-13 but can now be used for other purposes.

<sup>1</sup> Assembly Bill (AB) 1383 imposes a health provider fee on hospitals, and fee revenues are used to increase Medi-Cal reimbursement rates to hospitals.

State Health and Welfare Realignment for Mental Health Services

The Controller projects that the State will allocate \$2.6 million more in mental health funding to San Francisco than was included in the FY 2012-13 budget.

De-Appropriation of Previously Budgeted Expenditures No Longer Needed

The Department of Public Health proposes to use, as a source of funds for the requested supplemental appropriation, funds that were previously budgeted but are no longer needed and can be de-appropriated as follows:

- Intergovernmental payments, which are state and local funds that can be used as a match for federal funds under the Medicaid waiver program, due to the lack of funding authority provided by the federal government in FY 2012-13;<sup>2</sup>
- The work order with the Department of Public Works for a facility at 30 Van Ness Avenue which is no longer needed; and
- Healthy San Francisco and Child Health Initiative prior years' unexpended funds, which are now considered surplus funds.

**Uses of Funds**

As shown in Table 3 below, the proposed ordinance would appropriate \$35,070,000 to San Francisco General Hospital to pay for the budgetary shortfall in salaries and fringe benefits, and \$11,009,000 to Laguna Honda Hospital to pay for the projected FY 2012-13 budgetary shortfall in salaries and fringe benefits, and materials and supplies.

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<sup>2</sup> The federal Medicaid waiver program allows certain Medicaid requirements to be waived to provide program flexibility.

**Table 3: Uses of Funds**

<b>Uses</b>	<b>Amount</b>
<b>San Francisco General Hospital</b>	
Permanent Miscellaneous Salaries	\$760,000
Temporary Miscellaneous Salaries	2,999,000
Permanent Nurses Salaries	11,548,000
Temporary Nurses Salaries	5,278,000
Premium Pay	6,290,000
Overtime	1,244,000
Holiday Pay	<u>2,461,000</u>
Salaries	30,580,000
Fringe Benefits	4,490,000
<b>Total San Francisco General Hospital</b>	<b>\$35,070,000</b>
<b>Laguna Honda Hospital</b>	
Temporary Miscellaneous Salaries	\$600,000
Temporary Nurses Salaries	3,210,000
Overtime	1,170,000
Holiday Pay	440,000
Permanent Miscellaneous Salaries	<u>430,000</u>
Salaries	5,850,000
Fringe Benefits	<u>2,245,000</u>
Total Salaries and Benefits	8,095,000
Total Materials and Supplies	2,914,000
<b>Total Laguna Honda Hospital</b>	<b>\$11,009,000</b>
<b>Total Supplemental Appropriation</b>	<b>\$46,079,000</b>

According to Ms. Okubo, the projected FY 2012-13 budgetary shortfalls in San Francisco General Hospital and Laguna Honda Hospital salaries and fringe benefits are due to an inadequate budget for permanent and temporary positions to meet patient care requirements given the patient census, mandated staffing ratios and requirements of 24 hours a day staffing. Additionally, Laguna Honda Hospital's FY 2012-13 budget was not sufficient to pay for materials and supplies, especially food and pharmaceuticals.

### **Recommended Reductions**

Based on a review of the Department of Public Health's expenditure projections through June 30, 2013, the Budget and Legislative Analyst recommends reducing the proposed supplemental appropriation by \$1,222,000, from \$46,079,000 to \$44,857,000, as shown in Table 4 below.

The Budget and Legislative Analyst's recommendation would reduce the General Fund Reserve appropriation by \$1,222,000, from \$4,314,849 under the proposed ordinance to \$3,092,849.

**Table 4: Recommended Reductions**

Uses	Proposed Supplemental Appropriation	Budget & Legislative Analyst Recommended Supplemental Appropriation	Budget & Legislative Analyst Recommended Reduction
<u>San Francisco General Hospital</u>			
Permanent Miscellaneous Salaries	\$760,000	\$760,000	\$0
Permanent Nurses Salaries	11,548,000	11,548,000	0
Temporary Miscellaneous Salaries	2,999,000	2,999,000	0
Temporary Nurses Salaries	5,278,000	5,278,000	0
Premium Pay	6,290,000	6,290,000	0
Overtime	1,244,000	1,244,000	0
Holiday Pay	<u>2,461,000</u>	<u>2,461,000</u>	<u>0</u>
Salaries	30,580,000	30,580,000	0
Fringe Benefits	4,490,000	3,940,000	550,000
<b>Total San Francisco General Hospital</b>	<b>\$35,070,000</b>	<b>\$34,520,000</b>	<b>\$550,000</b>
<u>Laguna Honda Hospital</u>			
Temporary Salaries	3,810,000	\$3,500,000	\$310,000
Permanent Salaries	430,000	430,000	0
Overtime	1,170,000	958,000	212,000
Holiday Pay	<u>440,000</u>	<u>440,000</u>	<u>0</u>
Salaries	5,850,000	5,328,000	522,000
Fringe Benefits	<u>2,245,000</u>	<u>2,245,000</u>	<u>0</u>
Total Salaries and Benefits	8,095,000	7,573,000	
Materials and Supplies	2,914,000	2,764,000	150,000
<b>Total Laguna Honda Hospital</b>	<b>\$11,009,000</b>	<b>\$10,337,000</b>	<b>\$672,000</b>
<b>Total Supplemental Appropriation</b>	<b>\$46,079,000</b>	<b>\$44,857,000</b>	<b>\$1,222,000</b>

## POLICY CONSIDERATION

### The Department of Public Health Budget Does Not Accurately Reflect Actual Expenditures

From FY 2009-10 through FY 2012-13, the Department of Public Health's budget for San Francisco General Hospital and Laguna Honda Hospital salaries and fringe benefits and for Laguna Honda Hospital materials and supplies has resulted in budgetary shortfalls. As a result, the Department of Public Health has requested supplemental appropriations each year from FY 2009-10 through FY 2012-13. While the FY 2009-10 supplemental appropriation used surplus patient revenues to pay for the budgetary shortfalls, the FY 2010-11 and FY 2011-12 supplemental appropriations and the requested FY 2012-13 supplemental appropriation are being funded in part from General Fund reserves to pay for the projected budgetary shortfalls.

As noted in Table 1 above, the requested supplemental appropriation includes \$8,410,605 in State Revenue Loss Reserve funds and \$4,314,849 in General Fund Reserve funds, totaling \$12,725,454.

According to Mr. Greg Wagner, Department of Public Health Chief Financial Officer, the Department of Public Health plans to address the historical imbalance between budgeted and



actual salaries in its proposed budget for FY 2013-14 and FY 2014-15. In 2012, the Health Commission convened a five-year financial planning subcommittee, which identified correction of the historical structural problem as a priority for the upcoming two-year budget. The Health Commission will hold hearings over the coming two months to consider specific policy options to address the deficit. Options will include various expenditure reduction proposals to shift funding to under-budgeted personnel costs, and commitment of revenue growth to address the deficit.

## RECOMMENDATIONS

1. Amend the proposed ordinance to reduce the revenue appropriation by \$1,222,000, which would (a) reduce the General Fund Reserve appropriation from \$4,314,849 to \$3,092,849; and (b) the total requested appropriation from \$46,079,000 to \$44,857,000.
2. Amend the proposed ordinance to reduce the expenditure appropriation by \$1,222,000, which includes reducing: (a) San Francisco General Hospital Fringe Benefits by \$550,000, from \$4,490,000 to \$3,940,000; (b) Laguna Honda Hospital Salaries by \$522,000, from \$5,850,000 to \$5,328,000; and (c) Laguna Honda Hospital Materials and Supplies by \$150,000, from \$2,914,000 to \$2,764,000.
3. Approve the proposed ordinance as amended.