

**City and County of San Francisco**

**Department of Public Health**



**London N. Breed,  
Mayor**

**Drew Murrell,  
Chief Financial Officer**

**MEMORANDUM**

November 19, 2024

To: President Laurie Green and Honorable Members of the Health Commission

Through: Dr. Grant Colfax, Director of Health  
Jenny Louie, Chief Operating Officer

From: Drew Murrell, Chief Financial Officer 

RE: Revenue and Expenditure Projection Report – Fourth Quarter FY 2023-24

This report presents the fourth quarter statement of revenues and expenditures for the department of Public Health (DPH) for fiscal year 2023-24. These figures are based on revenue recognized and expenses incurred for the fiscal year beginning July 1, 2023. Figures reported include balances based on actual revenues and expenditures through June 30, 2024. At the end of the fiscal year, the department maintains net general fund surplus of \$147.9 (5.9%) million comprised of expenditure savings of \$23.9 million (0.9%) and revenue surplus of \$124.0 million (7.0%).

The surplus includes \$32.3 million of combined surplus from the Mayor’s mid-year reduction instructions and encumbrance closeouts assumed as part of the Board of Supervisors budget review in June. Additionally, \$18.6 million from surplus revenues has been deposited into DPH’s Management Reserve pursuant to DPH reserve policy.

Fourth Quarter Projected FY 2023-24 Surplus/(Deficit) (in Millions)

Fourth Quarter Report (\$ millions)	Revenue			Expenditure			Total
	Revised Budget	Current Projection	Surplus/ (Deficit)	Revised Budget	Current Projection	Surplus/ (Deficit)	Surplus/ (Deficit)
HGH - Zuckerberg SF General	\$ 1,124.7	\$ 1,239.5	\$ 114.7	\$ 1,212.1	\$ 1,210.4	\$ 1.7	\$ 116.4
HLH - Laguna Honda Hospital	\$ 220.0	\$ 176.9	\$ (43.1)	\$ 328.8	\$ 326.5	\$ 2.3	\$ (40.8)
HBH - Behavioral Health	\$ 277.1	\$ 319.9	\$ 42.9	\$ 376.3	\$ 370.1	\$ 6.3	\$ 49.1
HPC - Primary Care	\$ 60.7	\$ 73.5	\$ 12.8	\$ 128.4	\$ 125.9	\$ 2.4	\$ 15.2
HJH - Jail Health	\$ 0.7	\$ 0.7	\$ (0.0)	\$ 43.6	\$ 43.1	\$ 0.5	\$ 0.5
HNS - Health Network including HAH	\$ 19.2	\$ 20.6	\$ 1.4	\$ 176.5	\$ 172.7	\$ 3.8	\$ 5.1
HPH - Public Health Division	\$ 35.6	\$ 32.5	\$ (3.1)	\$ 88.1	\$ 84.1	\$ 4.0	\$ 0.9
HAD - DPH Operations	\$ 43.8	\$ 42.2	\$ (1.5)	\$ 165.6	\$ 162.7	\$ 3.0	\$ 1.4
<b>Total Operating</b>	<b>1,781.8</b>	<b>1,905.9</b>	<b>124.0</b>	<b>2,519.4</b>	<b>2,495.5</b>	<b>23.9</b>	<b>147.9</b>
<b>Less Savings Per Mid Year Instruction &amp; BLA Cuts</b>			<b>(23.0)</b>			<b>(9.3)</b>	<b>(32.3)</b>
		<b>Reserve Deposit</b>	<b>(18.6)</b>				<b>(18.6)</b>
		<b>Surplus/Deficit</b>	<b>\$ 82.4</b>			<b>\$ 14.6</b>	<b>\$ 97.0</b>

## Key highlights:

1. *Improvement at Year-End Compared to Third Quarter:* The fourth quarter surplus of \$147.2 (5.9%) million represents a \$27.2 million (1.1%) improvement compared to the third quarter projected surplus of \$120.7 million (4.7%). Some of the major changes compared to the third quarter include:
  - An increase of \$22.4M in surplus revenue from the projected third quarter surplus for a total surplus of \$124.0 million:
    - \$12.9 million of increased Behavioral Health revenue due primarily to accelerated billings for Short-Doyle Medi-Cal in order to reduce legacy balances in preparation for transition to EPIC electronic health billings in May 2024.
    - \$9.4 million of increased revenue at Laguna Honda Hospital due primarily to a better-than-expected rate of collection on open accounts (\$6.5 million) and an increase in prior year settlements from third quarter projections of \$2.4 million.
    - \$5.1 million of increased revenue in Community Primary Care primarily due to finalization of an FQHC rate setting audit.
    - These revenue increases were partially offset by a \$5.0 million net decrease in revenue at Zuckerberg San Francisco General Hospital (ZSFG) due to:
      - \$12.8 million increase in Medi-Cal Waiver revenue primarily due to better-than-expected 2023 Global Payment Program revenue.
      - \$7.4 million decrease in Medi-Cal Prior Year Cost Report settlements.
      - \$5.8 million decrease in Medi-Cal Managed Care Supplemental revenue primarily due to an overpayment recovery related to the 2021 Enhanced Payment Program (EPP) Claim
      - \$4.6 million in combined decrease related to 340B Pharmacy, Medi-Cal GME and Capitation revenue.
  - An increase of \$4.8 million in expenditure savings from the third quarter for a total year end savings of \$23.9 million across all divisions. Total savings include \$9.3 million in Mayor's mid-year savings instructions and budget legislative analyst directed purchase orders savings initiatives. The \$4.8 million improvement in savings from the third quarter is due primarily to a lower-than-expected non-personnel spending as a result of contract delays.
2. *Transfers to Hospitals:* As in previous years, the fourth quarter report figures reflect year-end balancing to ensure expenditure line items are neutral. This balancing required transfers into Laguna Honda Hospital and Zuckerberg General Hospital operating funds from DPH general fund as described below.
  - Laguna Honda Hospital received transfers that totaled \$10.0 million primarily for non-personnel costs for registry to support staffing and consulting support for the recertification effort.

- Zuckerberg San Francisco General received a total of \$54.1 million to offset increased spending in professional services and material and supplies resulting from increased inflationary costs, increased census, and reduced patient flow, including registry costs to support the high census levels in the hospital. On average, daily census in the current year is approximately 9.6% higher than FY 2021-22 and 1.3% higher than FY 2022-23.
3. *Management Reserve Deposits:* Pursuant to Section 12.6 of the Annual Appropriations Ordinance, DPH maintains a Revenue Management Reserve, \$18.6 million was added to the management reserve bringing the FY 2023-24 year-end balance to \$148.9 million. This equals 5% of total budgeted Medi-Cal, Medicare and Patient revenues in FY 2024-25 and FY 2025-26. Balances are detailed at the end of this memo.

**Zuckerberg San Francisco General Hospital:** ZSFG projects a year-end combined surplus of \$116.4 million (9.6%) comprised of a \$114.7 million (10.2%) revenue surplus and \$1.7 million (0.1%) in expenditure savings. These ending numbers compare to a projected third quarter surplus of \$110.2 million (9.3%) comprised of a \$119.7 million (10.8%) revenue surplus offset by a \$9.5 million expenditure deficit (0.8%).

The revenue surplus of \$114.7 million is comprised as follows:

- \$71.9 million surplus revenue due to better-than-expected patient revenue, which includes \$12.5 million surplus due to a prior year settlements. This amount represents a reduction from the third quarter expected surplus of \$7.4 million largely due to a prior year FQHC audit settlement and a pending pharmacy settlement that was previously projected but not yet received.
- \$30.6 million surplus in Medi-Cal waiver revenue due to:
  - \$23.8 million surplus related to prior year Disproportionate Share Hospital and Safety Net Care Pool settlements and \$15.1 million surplus related to prior year interim settlement related to the Global Payment Program (GPP) consistent with third quarter projections.
  - This surplus is offset by an \$8.3 million shortfall in current year GPP revenue representing a \$12.8 million improvement from third quarter projections due to an increase in the number of claimable services.
- \$12.9 million surplus in Medi-Cal Managed Care Supplemental revenue primarily due to better than expected growth the Quality Improvement Program (QIP). This amount is \$5.8 million reduced from the third quarter projection of \$18.6 million as a result of the state recalculating Enhanced Payment Program (EPP) non-federal share related to calendar years 2020 and 2021.
- \$10.4 million of improvement in other Medi-Cal primarily driven by \$17.6 million expected surplus in Medi-Cal GME due to additional prior year settlements, partially offset by \$5 million in higher-than-expected current year IGT requirement.

- \$11.0 million in partially offsetting revenue shortfalls comprised of \$9.8 million in decreased revenue from the 340b revenue due primarily to pending expanded contract authority for specialty pharmacy services and a \$1.2 million shortfall due to lower than expected capitation revenue due to increased out of network costs.

Expenditure savings of \$1.7 million as a result of reallocating ZSFG salary savings and budget transfers totaling \$54.1 million from other DPH operating funds primarily due to increased registry usage, and underlying inflationary factors.

**Laguna Honda Hospital (LHH):** LHH ends the year with a \$40.8 million net budget deficit comprised of a \$43.1 million (19.6%) revenue deficit partially offset by expenditure savings of \$2.3 million (0.6%). The net deficit represents a \$12.1 million improvement from the \$52.9 million projected third quarter deficit comprised of \$52.5 million and \$0.5 million in revenue and expenditure deficits, respectively. Despite the improvement relative to third quarter projections Laguna Honda endured revenue shortfalls throughout FY2023-24 due to Medi-Cal and Medicare recertification.

**Behavioral Health Services (BHS)** ends the year with a surplus of \$49.1 million comprised of a \$42.9 million (15.5%) revenue surplus and \$6.3 million (1.7%) in expenditure savings. This represents an increase of \$9.0 million from the projected third quarter surplus comprised of \$12.9 million in revenue improvement partially offset by \$3.8 million in lower-than-expected expenditure savings.

The \$49.1 million revenue surplus is due primarily to a \$29.7 million increase in Medi-Cal revenue comprised of \$16.9 million and \$11.7 million increases in Mental Health and Drug Medi-Cal billing, respectively. These billing improvements represent marginal increases from projected third quarter totals and are due in part to accelerated billing required for the transition to EPIC electronic health records in mental health services. The revenue surplus is further increased by one-time releases of multiple prior year settlements totaling \$12.2 million increase in prior year settlements

The \$6.3 million (1.7%) in expenditure savings represents a \$3.8 million decrease from the third quarter projected savings. Savings are comprised primarily of \$4.3 million in savings from non-personnel services due primarily to savings from \$3.3 million in unspent dual diagnosis contract budget carried forward from FY2022-23. Due to delays in site acquisition this one-time balance was repurposed and budgeted in FY 2024-25 for site renovation. The remainder of savings is comprised primarily of personnel budget savings.

**Primary Care (PC)** ends the year with a total surplus of \$15.2 million comprised of a \$12.8 million (21.0%) revenue surplus and \$2.4 million (1.9%) in expenditure savings. This represents an increase of \$4.4 million from the projected third quarter savings comprised of \$3.7 million and \$0.7 million in increased surplus and expenditure savings, respectively.

The \$12.8 million revenue surplus is primarily due to QIP revenue above budget (\$8.7 million) consistent with third quarter projections due to increased reporting options to maximize draw down of funds. The remainder of revenue improvement is attributable to \$4.2 million of improvements above budget from patient and capitation revenue.

The \$2.4 million in expenditure savings is due primarily to \$2.3 million in personnel savings, including 0.5 million of savings reserved as part of Mayor's Office mid-year budget instructions.

**Jail Health Services:** Jail Health projects a surplus from expenditure savings of \$0.5 million (1.2%) in comprised primarily of \$0.4 million in personnel savings.

**Health Network Services (HNS):** The HNS division ended the year with an overall \$5.1 million surplus comprised of \$1.4 million (7.1%) revenue surplus and \$3.7 million (2.1%) in expenditure savings. The \$1.4 million revenue surplus is due primarily to \$1.8 million better-than-expected patient revenues from Whole Person Integrated Care (WPIC) and Health at Home, a \$0.9 million deficit in County-based Medi-Cal Administrative Activities (CMAA) revenue as a result of decreased eligible time-study staff hours reported. These surpluses were partially offset by a \$0.9 million deficit in Healthy San Francisco (HSF) Revenues reflecting ongoing reductions in HSF enrollments as more people enroll in SF Covered MRA and SFMRA options with extended eligibility.

The \$3.7 million in expenditure savings is due primarily to \$2 million savings in salaries and fringes due to vacant positions and \$1.7 million in non-personnel services savings primarily from \$1.5 million in contract savings from program carry forwards not implemented due to changes to plans for how to contract.

**Population Health Division (PHD):** PHD ended the year with a \$0.9 million net surplus comprised of \$4 million (4.6%) in expenditure savings partially offset by a \$3.1 million (-8.7%) revenue deficit.

The \$3.1 million revenue shortfall is primarily due to a \$1.7 million deficit in patient revenues due primarily to billing less than budget in the Adult and Immunization and Travel Clinic (AITC) and the Public Health Lab (PHL). PHL's conversion to EPIC required a review and re-enrollment of billing authorities for all payers (Medicare, Medi-Cal, Managed Medicare and Medi-Cal plans and commercial payers) to allow for PHL charges to be billed. All necessary steps have been completed, and PHL began billing for services in July 2024. Additionally, PHD recognized a \$1.7 million revenue deficit in Environmental Health licenses, permits, and other fees due to fewer-than-expected licenses, and permits than budgeted.

PHD's \$4 million in expenditure savings is due primarily to \$2.4 million in salaries and fringes savings which includes \$2 million in salaries budget reserved as part of the Mayor's Office's mid-year budget instructions. Additionally, the division recognized \$1.1 million in contract

savings, \$0.3 million in work order savings and \$0.2 million in project liquidations savings from the Dream Keepers Initiative (DKI).

**Public Health Administration** reports a net surplus of \$1.4 million comprised of \$1.5 million revenue deficit (3.4%) and \$3 million (1.8%) expenditure savings.

The \$1.5 million revenue shortfall represents the shortfall in County-based Medi-Cal Administrative Activities (CMAA) due to lower-than-expected eligible time-study staff hours reported.

The \$3 million expenditures savings is due to:

- \$2.3 million salary savings due to due to higher-than-expected indirect cost recovery from grants. Salary savings includes \$0.1 million reserve for Mayor's Office mid-year salary budget reduction.
- \$0.2 million savings in Controller work order.
- \$0.4 million IT project savings services from Department of Technology work order.

### **Comments on the Financials**

- As in previous fiscal years, this report assumes no variance from budget in 1991 State Realignment revenues. As these revenues affect multiple departments, they are monitored and projected centrally by the City Controller's Office and reported separately in the Controller's 6-Month Report.
- Section 12.6 of the administrative provisions of the Annual Appropriation Ordinance authorizes the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future reductions or audit adjustments associated with funding allocations for indigent health services. This provision was adopted by the Board of Supervisors to smooth volatile state and federal revenues that can lead to large variances between budgeted and actual amounts due to unpredictable timing of payments, major changes in projected allocations, and delays in final audit settlements.

Consistent with this policy the Controller's Office deposited \$18.6 million necessary to reach the 5% cap based on the two-year budgeted revenues with an ending balance of \$148.9 million.

**DPH Revenue Management Reserve as of Q4 2023-24**

<b>Budgeted Revenues</b>	<b>Medi-Cal</b>	<b>Medicare</b>	<b>Patient Revenues</b>	<b>Less IGT</b>	<b>Annual total</b>
FY 2024-25	1,187,704,523	272,578,518	162,893,099	(105,619,445)	1,517,556,695
FY 2025-26	1,130,712,122	268,134,158	166,989,070	(105,619,445)	1,460,215,905
			<b>Total Revenues Over Two Years</b>		<b>2,977,772,600</b>
				<b>Starting Reserve Balance as of FY 23-24</b>	<b>130,282,707</b>
				<b>Additional Q4 Deposit</b>	<b>18,605,923</b>
				<b>Ending Balance</b>	<b>148,888,630</b>
				<b>Reserve Balance as a Percentage of Two Year Medi-Cal, Medicare, and Patient Revenues</b>	<b>5.00%</b>