City and County of San Francisco **Department of Public Health**

London N. Breed,
Mayor

Greg Wagner,
Chief Operating Officer

MEMORANDUM

To: Honorable Cecilia Chung, Chair, Health Commission Finance and Planning Committee

From: Greg Wagner, Chief Operating Officer

Date: June 30, 2022

During the June meeting of the Health Commission's Finance and Planning Committee meeting, DPH Business Office staff reported to the committee that the department was working with Baker Places to resolve financial challenges at the agency. Staff committed to follow up at the July meeting with additional information.

As you know, Baker Places (BP) is a major provider of behavioral health services in San Francisco and a key partner to DPH. The agency is contracted by DPH to operate 215 behavioral health beds and serve 2,000 clients annually. It is under shared management with Positive Resource Center (PRC).

PRC/BP has been working with DPH and other City agencies for multiple years on financial challenges within the organization, and related to services performed under contract with DPH. These conversations accelerated over the past fiscal year as PRC/BP escalated concerns about the increasing urgency and severity of its financial concerns. In October of 2021, BP/PRC met with the City Controller's Office and projected a $4 million annual funding shortfall, citing in its report the following primary causes: "Contracts have not been updated to respond to external pressures on system of care (cost per UOS, etc.); Limitations on Medi-Cal billing (Drug-Medi-Cal); Greater challenges in raising private funds during COVID."

DPH, PRC/BP and the Controller's Office have worked together intensively over the last year in response to these challenges. The City Controller's Office hired an outside financial consulting firm to develop financial analysis and projections needed to fully understand the causes and potential solutions to the financial issues. DPH has also converted all of BP's contracts from fee-for-service to cost-reimbursement to directly address the agency's concerns about the cost per unit of service delivered and limitations on Medi-Cal billing. In February 2022, PRC/BP notified DPH that it intended to begin winding down the Joe Healy program based on an estimated financial shortfall of $795,939. DPH asked the Controller's Office to accelerate its financial analysis of the Joe Healy program and responded by March with a plan to reallocate contract funding to cover the program's deficit. DPH has implemented a wide range of other technical assistance and administrative actions, including delaying the repayment of the FY 2021-22 Initial Payment, renegotiating repayment of audit settlements owed to the City, accelerating invoice processing and payment, and holding multiple "deep-dive" meetings with the Controller's Office and PRC/BP on the financial data from the City-commissioned financial report.

All of these actions were part of a plan to address short-term financial issues during the current year, allowing time for the Controller's Office to complete its contracted financial analysis as scheduled in June, 2022 and develop a roadmap to restructure PRC/BP's contracts during FY 2022-23. Until May, 2022, DPH was working under the understanding that by closing PRC/BP's deficit for Joe Healy and taking the administrative actions described above, that PRC/BP would have sufficient funding available through at least July, 2022 when the Initial Payment and annual contract funding for the following year would become available. This was our understanding even as DPH brought contract documents for PRC/BP to the Health Commission and Board of Supervisors in late Spring.

However, in May, 2022, PRC/BP informed DPH that even with the planning and remedial actions described above, it had a large cash flow shortfall and the organization would likely be unable to meet its payroll and other financial obligations through July, 2022. While DPH was aware of the agency's financial problems, the severity and immediacy of this cash shortfall came as a surprise.

In order to preserve access to critical services, DPH worked quickly with other City agencies to propose an emergency grant agreement to provide one-time funding of $3.2 million to PRC/BP. The grant was contingenct on further financial planning to ensure continuity of services and PRC/BP's financial solvency. While this was an extremely unusual request, given the immediacy of the issue DPH staff felt it had no other choice in order to prevent potential short-term impacts to services. These events were unfolding when staff alerted the Health Commission Finance and Planning Committee in early June, leading to the July 5 Committee hearing. Legislation was submitted to the Board of Supervisors, along with a request for an expedited hearing on June 14, 2022.

At the Board of Supervisors hearing, given the unusual nature of the request and the importance of the services under discussion, Supervisors raised several questions about the history of events and plans going forward to ensure a financially sustainable model preserving critical behavioral health services. Board members expressed a preference to reduce the amount and shorten the timeline of the grant, so the department and PRC/BP could return to provide more information and answer specific questions at a future hearing before deciding whether to approve additional funding. Ultimately, the Board made the decision to award a grant of $1.25 million and requested additional discussions and information after the August recess. The department believes this revised amount will be sufficient to bridge the agency's cash shortfall between now and the FY 2022-23 initial contract payment scheduled for August. DPH is grateful for the support from the Mayor's Office and Board of Supervisors for these programs. Staff will continue to work with PRC/BP, the Controller's Office and the Board of Supervisors on next steps, and will continue to update the Health Commission as needed.

DPH is fully committed to continue working with PRC/BP to ensure City residents have continued access to high-quality, financially sustainable services.

Attachments: List of PRC and Baker Places contracts with DPH.