Review of the County of Santa Clara
FY 2020-21 Recommended Budget as Adopted

Prepared for the
Board of Supervisors of the
County of Santa Clara

Prepared by the
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Introduction

This report was developed in light of factors that are particular to the current moment. First, the County has a deficit of about $400 million (range: $300 million to $600 million) in the General Fund. Our understanding is that some County departments have been asked to propose cost reductions for consideration in the current year. We tried to avoid proposing changes to the budget that we thought departments might be likely to propose themselves. In other words, we sought to make this report additive, not duplicative. In some cases, our recommendations would delay certain tasks to future fiscal years. <u>None of our recommendations if implemented would cut actual services currently provided.</u>

Second, important aspects of the County's financial situation in the current fiscal year are still unclear. There could be State or federal actions that could increase or reduce General Fund dollars, or increase or reduce the revenues of Valley Medical Center. A large question mark hangs over the General Fund's single largest source of revenue – property tax receipts. These receipts may be received later than usual or may be reduced, especially in FY 2021-22. Therefore, we've included in this report multiple "informational" items that could potentially be used by the Board to improve cash flow in the short term to enable the County to bridge the gap in the event of slow receipts. These potential cash flow enhancements <u>would not be long-term solutions</u> to the structural deficit.

Third, the pandemic has rapidly shifted the service level demands across many County functions. For example, the average daily population of the jail and the hospitals are much lower than they were a few months ago, and few court trials are being held, but there is a large need for services such as testing and tracing of individuals who may have been exposed to the virus that causes the Covid-19 disease and a large need for "remote" systems, processes and hardware and social services. The current budget has not shifted significant levels of resources from the priorities of six months ago to the priorities of today. This report provides potential mechanisms by which the Board could shift funds.

Fourth, in the last 40 years, the County has faced three major financial crises, with less than a decade between the current one and the end of the last one. The County's financial health is threatened by the growing potential for long droughts, large fires, and other natural disasters, actions of the State and federal government that are adverse to the amount or timing of County revenues. The County's financial health is highly dependent on the financial health of the hospital system. Threats to the hospital system's revenues have increased. Throughout the United States, doctor's offices, hospitals and other medical providers have shed staff, cut pay, or both in response to loss of revenue. VMC's losses in the current year are difficult to predict. Whatever losses are incurred will be paid directly by the General Fund. The County's financial health is highly dependent on the financial health of the hospital system. Threats to the hospital system's revenues have increased. Throughout the United States, doctor's offices, hospitals and other medical providers have shed staff, cut pay, or both in response to loss of revenue. VMC's losses in the current year are difficult to predict. Whatever losses are incurred will be paid directly by the General Fund. This report makes recommendations to address some aspects of these risks.

Lastly, the combination of the structural deficit, the reduction of incarcerated individuals, the need to fight the pandemic as a means to address the economic crisis, the economic crisis itself and the recent reckoning over racism within the criminal justice system, has raised questions about criminal justice funding in many agencies across the country. The current County General Fund budget allocates more money to criminal justice than any other function.

The current budget allocates more General Fund money to criminal justice/law enforcement than any other single area of service. The budget as adopted allocates a net of $634 million to criminal justice/law enforcement this year. Including the unbudgeted $300 million "loan" to Valley Medical Center, the General Fund obligation to health services in the County is nearly $722 million in the current year. (See discussion below regarding the loan.) Both criminal justice and health services categories require extensive capital investment as well.

It is difficult to consider reducing budgetary allocations or actual spending for services that are highly visible, essential, popular, and performed by individuals whose efforts on any given day may be heroic. But the estimated $400 million budget deficit in the General Fund in the current fiscal year may be even larger a year from now. Because criminal justice and health services represent such a large portion of General Fund costs, it will be virtually impossible to reduce the structural deficit without reducing the allocation of funds to criminal justice and health functions. The following page shows all County General Fund obligations by service area in the budget as it was adopted on June 23, 2020. The VMC loan is presented in italics as this amount is not budgeted, varies by month, and may come from General Fund-backed funds other than the General Fund.

Characterization of the General Fund-Backed "Loan" to VMC

From an accounting standpoint, monies loaned/advanced from the General Fund are a General Fund "asset" because they are payable to the General Fund and therefore are part of its resources. If a loan were expected to be repaid in full within the budget fiscal year, we would not have concerns about budgeting the "due loan" asset for spending in that year.

However, the loan from the General Fund and related funds to VMC is not going to be fully repaid in the foreseeable future. In conversations with the Management Audit Division, hospital management has called the loan "permanent." County management has called the loan "forever." Thus, although the loan is technically an "asset" of the lending funds because it is theoretically payable to the lending funds, as a practical matter, the money is not going to be repaid in the foreseeable future.

To repay the loan, VMC would need to generate assets in excess of liabilities in the amount of about twice the loan amount over a long period of time. In other words, VMC would need to significantly cut costs while maintaining revenues or would need to increase revenues while maintaining costs, or some combination of these changes. It would need to generate net "profits" of $300 million to pay back the loan, plus a similar amount to retain for its working capital. We do not believe generation of such profit is possible in the foreseeable future.

Regardless of terminology and technicalities, the bottom line is that the General Fund and associated funds are obligated by a resolution of the Board of Supervisors to furnish up to $300 million to VMC, which has no means to truly repay it.

SUMMARY OF MANAGEMENT AUDIT DIVISION RECOMMENDATIONS

FY 2020-21 BUDGET REVIEW

Item	Budget Unit	Department Name	Revenue/Expenditure Account	Potentially Available for Temporary Gen Fund Borrowing	Expenditure Decreases/(Increases)	Sum of Savings and Potential Borrowing	Est. General Fund Net Savings	Page No.	
1	Multiple	General Fund Depts	Excess Funding of Vacant Positions	0	170,578,424	170,578,424	170,578,424	**11**	
2	Multiple	General Fund Loan to VMC	Available Valley Health Plan Fund Balance	15,000,000	15,000,000	15,000,000	15,000,000	**14**	*
3	Multiple	Various fund balances potentially available for borrowing for General Fund cash flow	Fund balances in General Fund Realignment Trusts and Fire District accounts	239,806,008	0	239,806,008	0	**18, 16**	
4	119	Special Programs	Reserves	0	6,000,000	6,000,000	6,000,000	**20**	
5	135	Facilities and Fleet Department	Fuel and tires	0	794,462	794,462	595,847	**22**	
6	145	Technology Services and Solutions	Excess allocations for projects	0	26,485,647	26,485,647	26,485,647	**23**	
7	240	Department of Correction	Inmate clothing, food and supplies	0	4,000,000	4,000,000	4,000,000	**25**	
8	263	Facilities and Fleet Department	Deferred maintenance program funding - new allocations	0	12,000,000	12,000,000	9,000,000	**27**	
9	263	Facilities and Fleet Department	General Fund transfers for capital projects that have not commenced	0	61,500,000	61,500,000	61,500,000	**29**	
10	263	Facilities and Fleet Department	Unused allocations for selected contracts	0	3,548,670	3,548,670	2,661,503	**31**	
11	420	Emergency Medical	Use of Fund Balance	0	2,109,113	2,109,113	2,109,113	**33**	
12	810	Debt Service	Actual cash	0	290,523	290,523	290,523	**36**	
13	921	Valley Medical Center	Utilities costs	0	774,349	774,349	774,349	**37**	
14	921	Valley Medical Center	Pharmaceutical costs	0	9,866,562	9,866,562	9,866,562	**42**	
	TOTAL			**254,806,008**	**312,947,750**	**552,753,758**	**308,861,967**		

***We classified this as net General Fund savings because it would reduce the actual General Fund loan obligation by this amount.**

The administration asked us to include in this narrative that the need for the loan is due to the “lag” between when costs are incurred and when reimbursement is received. We do not dispute this. When the new hospitals were acquired, salaries and other expenses were due immediately, but there was no money from which to pay these expenses. Reimbursements of a portion of the expenses are received in arrears, but this will be the case always.

Nonetheless, because these dollars are technically a “loan,” they constitute an “asset” of the lending funds, including the General Fund, from an accounting standpoint. The administration budgets for appropriation the “assets” of the funds. By calling the funds a “loan,” the administration has provided the cash to VMC while not diminishing its use of the “asset” for appropriations. Because the administration has appropriated for other purposes the “asset” that is represented by the dollars it has loaned to VMC, the administration objects to our characterization of the monies as “obligated” to VMC. However, as described by the County Executive at the June 23, 2020 meeting of the Board of Supervisors, without the loan, VMC would not be able to make payroll. When funds are required to make current payroll, we view the monies as obligated, even though the accounting “asset” has been appropriated to other needs. The administration asserts that our view of this is “dishonest” because it could get cash from some other, unrelated fund to back up the “asset.” In our view, this is the sort of practice that led to the County having to borrow money to cover payroll during the Great Recession because it ran out of cash. To be clear, we do not believe the County’s cash assets are low today. Even so, we object to the practice of appropriating “assets” that exist only because the County has not acknowledged that the “cash advance” constitutes a de facto transfer to VMC, rather than a “temporary loan.”

We are aware that the loaned amount constitutes an accounting “asset” of the lending funds, that the administration has appropriated the “asset” to other needs, that cash exists somewhere within the County that could be used to back up the asset, and that the funds are necessitated by the time delay from when expense payments are due compared to when expense reimbursements are received. Despite this, we believe it is appropriate to acknowledge the loaned money as an obligation of the lending funds, though the administration does not characterize it as such and objects to our characterization of it as such. In our view, the County General Fund budget and associated funds should appropriate liquid assets such as cash, revenues and short-term receivables. Appropriating a never-to-be-repaid transfer that masquerades as a “temporary loan” lacks transparency. In the interest of transparency, we have represented the loan as an obligation of the lending funds in this report.

We wish to thank the Office of Budget and Analysis and the many departments whose staff assisted us in the development of this report.

The remainder of this report consists of overarching recommendations and specific recommendations pertaining to specific budgetary and non-budgetary allocations. A summary table pertaining to specific allocations follows this page.

#	Budget Unit Name	Revenue	Gross Exp.	Exp. Reimb	Net Expenditure	Net GF (Cost)/Value
	Health Services					
0921	*Unbudgeted Loan to VMC*	*0*	*300,000,000*	*0*	*300,000,000*	*(300,000,000)*
0119	Special Programs and Reserves (Mostly VMC)	20,000,000	241,065,011	0	241,065,011	(221,065,011)
0415	Behavioral Health Services Department	465,364,079	600,624,534	(20,071,777)	580,552,757	(115,188,678)
0410	Public Health Department	54,098,571	123,016,799	(3,695,386)	119,321,413	(65,222,842)
0418	Community Health Services	5,327,814	24,302,748	(1,001,378)	23,301,370	(17,973,556)
0420	Emergency Medical Services	4,323,613	6,432,726	0	6,432,726	(2,109,113)
	Health Services Total Rec Budget	**549,114,077**	**995,441,818**	**(24,768,541)**	**970,673,277**	**(421,559,200)**
	Health Services Total GF Commitment	***549,114,077***	***1,295,441,818***	***(24,768,541)***	***1,270,673,277***	***(721,559,200)***
	Law Enforcement					
0235	DOC Contract (Custody staff)	7,238,773	166,609,849	0	166,609,849	(159,371,076)
0246	Probation Department	42,728,654	194,816,469	(402,610)	194,413,859	(151,685,205)
0202	Office of the District Attorney	18,892,901	157,203,329	(15,094,909)	142,108,420	(123,215,519)
0230	Office of the Sheriff	72,417,139	195,779,033	(6,302,305)	189,476,728	(117,059,589)
0414	Custody Health Services	2,827,792	101,084,439	(133,382)	100,951,057	(98,123,265)
0204	Office of the Public Defender	1,319,712	72,503,260	(258,000)	72,245,260	(70,925,548)
0240	Department of Correction (DOC)	3,676,250	69,215,165	(205,794)	69,009,371	(65,333,121)
0210	Office of Pretrial Services	836,623	11,026,969	(80,000)	10,946,969	(10,110,346)
0217	Criminal Justice Systemwide Costs	213,091,897	50,562,797	0	50,562,797	162,529,100
	Law Enforcement Total Rec Budget	**363,029,741**	**1,018,801,310**	**(22,477,000)**	**996,324,310**	**(633,294,569)**
	Internal Services					
0263	Facilities and Fleet Department	4,752,451	305,637,068	(82,071,085)	223,565,983	(218,813,532)
0145	Technology Services and Solutions	450,000	75,761,878	(1,639,750)	74,122,128	(73,672,128)
0107	Office of the County Executive	15,636,290	80,028,233	(642,652)	79,385,581	(63,749,291)
0120	Office of the County Counsel	1,112,446	59,887,680	(26,945,177)	32,942,503	(31,830,057)
0130	Employee Services Agency	2,119,875	43,686,127	(10,111,095)	33,575,032	(31,455,157)
0118	Procurement Department	1,040,000	20,388,838	(645,500)	19,743,338	(18,703,338)
0108	Risk Management	0	2,707,585	(2,752,124)	(44,539)	44,539
	Internal Services Total Rec Budget	**25,111,062**	**588,097,409**	**(124,807,383)**	**463,290,026**	**(438,178,964)**
	Social Services					
0501	Social Services Agency	457,586,540	606,435,467	(524,360)	605,911,107	(148,324,567)
0116	In-Home Supportive Services	130,649,510	236,597,186	0	236,597,186	(105,947,676)
0168	Office of Supportive Housing	23,850,105	74,966,981	(3,277,105)	71,689,876	(47,839,771)
0511	Categorical Aids Payments (Social Services)	130,304,566	172,145,819	0	172,145,819	(41,841,253)
0520	SSA-1991 Realignment	105,858,324	0	0	0	105,858,324
	Social Services Total Rec Budget	**848,249,045**	**1,090,145,453**	**(3,801,465)**	**1,086,343,988**	**(238,094,943)**
	General Public Services					
0115	Assessor	760,150	45,462,363	0	45,462,363	(44,702,213)
0140	Registrar of Voters	12,274,380	38,871,335	0	38,871,335	(26,596,955)
0190	County Communications	1,528,259	30,876,841	(9,988,755)	20,888,086	(19,359,827)
0111	Department of Tax & Collections	10,408,400	30,954,308	(2,667,146)	28,287,162	(17,878,762)
0106	Clerk of the Board	57,873	11,901,958	(51,432)	11,850,526	(11,792,653)
0260	Department of Planning and Development	10,855,940	21,936,548	(111,629)	21,824,919	(10,968,979)
0293	Medical Examiner-Coroner	341,367	7,340,348	0	7,340,348	(6,998,981)
0262	Cons./Environmental Protection Agency	9,148,006	21,339,170	(5,737,343)	15,601,827	(6,453,821)
0114	County Clerk-Recorder's Office	38,520,787	11,468,278	0	11,468,278	27,052,509
	General Services Total Rec Budget	**83,895,162**	**220,151,149**	**(18,556,305)**	**201,594,844**	**(117,699,682)**
	General Revenues, Reserves and Debts					
0910	Appropriations for Contingencies	0	164,658,260	0	164,658,260	(164,658,260)
0810	County Debt Service	5,882,628	80,898,237	(22,445,321)	58,452,916	(52,570,288)
0110	Controller-Treasurer Department	1,546,485,581	31,865,921	(178,039,555)	(146,173,634)	1,692,659,215
	General Rev, Reserves and Debts Total Rec Budget	**1,552,368,209**	**277,422,418**	**(200,484,876)**	**76,937,542**	**1,475,430,667**
	General Fund Recommended Budget Total	**3,421,767,296**	**4,190,059,557**	**(394,895,570)**	**3,795,163,987**	**(373,396,691)**
	General Fund Bud/Non-Bud Total Commitment	***3,421,767,296***	***4,490,059,557***	***(394,895,570)***	***4,095,163,987***	***(673,396,691)***

General Countywide Recommendations

Recently completed labor contracts obligate payment of additional salary and benefit costs in the hundreds of millions of dollars over the current and next few years. The contracts do not contain any provision to postpone the increases in the event of financial crisis. As shown in the excerpt from an SEIU labor contract with the City and County of San Francisco below, such provisions are possible. The provision shown in the excerpt below has been "triggered" by the current San Francisco budget deficit and is currently in force there.

ARTICLE III – PAY, HOURS AND BENEFITS

A. WAGES

254. Represented employees will receive the following base wage increases:

Effective July 1, 2019:	3.0 %
Effective December 28, 2019:	1.0 %

Effective July 1, 2020, represented employees will receive a base wage increase of 3.0%, except that if the March 2020 Joint Report, prepared by the Controller, the Mayor's Budget Director, and the Board of Supervisors' Budget Analyst, projects a budget deficit for fiscal year 2020-2021 that exceeds $200 million, then the base wage adjustment due on July 1, 2020, will be delayed by approximately six (6) months, to be effective December 26, 2020.

Effective December 26, 2020, represented employees will receive a base wage increase of 0.5%, except that if the March 2020 Joint Report, prepared by the Controller, the Mayor's Budget Director, and the Board of Supervisors' Budget Analyst, projects a budget deficit for fiscal year 2020-2021 that exceeds $200 million, then the base wage adjustment due on December 26, 2020, will be delayed by approximately six (6) months, to be effective close of business June 30, 2021.

If the County were to institute "automatic" mechanisms to stop the "bleeding" when the County General Fund has large deficits it would help to preserve cash, staffing and services.

1. We recommend that the administration seek to negotiate future labor agreements that include an "automatic" postponement of wage and benefit increases when the Board of Supervisors adopts a budget with a General Fund operating deficit of more than $200,000,000 in 2020 dollars, indexed to inflation. Wage and benefit increases should be postponed for six to nine months. This would reduce the need for the County to eliminate positions to pay for raises negotiated prior to financial crises. Given how difficult and expensive it is to hire staff, and the severe impacts of job losses on the community and on the ability of the County to deliver services, we believe it would be better for the County to retain personnel by postponing wage and benefit increases than immediately pay those increases at the expense of staffing.

2. The County may wish to request that existing labor contract increases be delayed for at least six months. Such delays would enable savings of tens of millions of dollars in the General Fund in the short term.

3. We are unaware of any provisions for similar deficit-based cost increase delays for County contractors. However, to the extent such provisions are legally and practically feasible, the

County should include similar requirements in future service contracts. More pressingly, the County should consider approaching current contractors to request modification of contracts to delay contractual rate increases in the current fiscal year. Such an effort is also underway in San Francisco.

We make these recommendations in light of the fact that money saved now will lessen the severity of operating cuts in the FY 2021-22 and FY 2022-23 budgets.

General Fund Commitments for Santa Clara Valley Medical Center (VMC) Operations

The proposed General Fund operating subsidy, as shown on page 16 of the Recommended Budget document, is $240,158,466. This is in addition to extension of the "temporary cash advance" obligation of up to $300,000,000, as adopted by the Board of Supervisors on June 23, 2020 (agenda item 21.) As modified by the Board of Supervisors, the cash advance will require Board re-authorization to continue beyond August 2020.

The cash advance is sourced from the General Fund and up to three other funds that derive monies from General Fund transfers. According to the administration's report for agenda item 21, as of April 30, 2020, SCVMC had a cash balance of negative $283,300,000.

Unless operating costs of the hospital system are significantly reduced or there is a significant shift in the American hospital finance model, the "advance" monies are unlikely to be repaid in the foreseeable future.

Although only the $240.2 million subsidy is reflected in the budget, the General Fund obligation inclusive of the loan for the hospital system's operating costs in FY 2020-21 is $540.2 million. This represents 15.8 percent of the General Fund revenues in the budget as adopted. The revenue estimates in the budget as adopted do not factor in potential reduced revenues from State actions. If County revenues are reduced by State or federal actions, or if hospital revenues are reduced by those actions, the share of County funds obligated to the hospital system will be higher.

Prior to the implementation of the Affordable Care Act ("Obamacare"), the General Fund subsidies to the hospital system were often large – sometimes exceeding $250 million per year. This money generally covered the cost of care for uninsured patients. Only a small percentage of the hospitals' costs in recent years is due to the provision of "uncompensated" care because most patients are covered by the Medi-Cal or Medicare insurance programs, and of the others, most have private insurance. Although reimbursement through these programs may be lower than actual costs, the hospital system also qualifies for and receives additional federal monies because so many of its patients are covered by low-reimbursement insurance programs.

While the hospital system provides many benefits to the County and draws most of its funding from other government sources, the General Fund backfills the hospitals' losses in whatever amount the losses become. There is no mechanism to limit or control the hospitals' ability to consume the General Fund's resources. In our opinion, this lack of control potentially threatens the other programs that the County provides that are paid for with general resources. This includes primarily criminal justice services, but also includes basic internal functions, such as maintenance and renovations of County facilities – including hospital system facilities – as well as information technology and other critical internal services. It also potentially limits the County's ability to provide safety-net services in the form of payments to health programs operated by County contractors, General Assistance payments, Senior Nutrition meals, etc.

The hospital system will always provide care to uninsured patients. That care will always be an obligation of County taxpayers through the General Fund. However, in the absence of any type of control over the amount of County resources the hospital system can consume as a result of costs exceeding reimbursements, and delays in receipt of reimbursements, we recommend bringing the cost of reimbursed care in line with hospital revenues.

Changes the Board of Supervisors should consider with regard to funding the SCVMC include:

Immediate:

1. Reducing the General Fund portion of the $300 million "advance." The current "advance" is furnished entirely by the General Fund and funds that are sourced by the General Fund. We recommend obtaining $15 million of the loan from available Valley Health Plan Fund monies as described later in this report. The administration claims that this use might not be legal but has not indicated a particular statute or requirement that it would violate. We are unaware of any prohibition on such use. As we envision this, the existing resolution would be modified to specify that the $15 million be loaned from VHP first, with the remaining $285 million coming from the other lending funds. Amending the resolution would require input and review by County Counsel as to legality. The Board should obviously heed the advice of County Counsel regarding the legality of such loan. To be clear, we oppose use of the funds for purposes other than reducing the General Fund operating subsidy or operating "loan" obligations to the hospital system. Our identification of these available dollars should not be construed as supportive of use of the money for purposes other than that which we have recommended.

2. Establishing a maximum General Fund-sourced annual monetary obligation for the hospital system's losses as a percentage of General Fund revenues. At present, the operating losses and working capital loan are budgeted to consume an amount equal to 15.8 percent of the County's General Fund receipts, and this figure may increase in the current year. Unless capped, it is likely to be larger next fiscal year, particularly if property tax receipts slow or are reduced. We recommend that the Board adopt a resolution capping General Fund commitments in any form (loans, transfers, grants, subsidies, expenditures, expenditure reimbursements) for the hospitals at 20 percent of General Fund budgeted receipts effective in the current year and ongoing. This should include direct movement of money from the General Fund to the hospital funds, as well as movement of General Fund money through intermediary funds that ultimately flow to the hospital operating funds.

3. Except for capital projects that have already been approved by the Board, such as the new mental health facility, or are currently underway, we recommend that the Board adopt a resolution prohibiting use of General Fund monies in any form for new hospital capital projects including acquisitions beginning in the current fiscal year. This should include transfers from the General Fund to intermediary funds that ultimately flow to hospital capital projects or acquisitions. (This report separately recommends reducing General Fund contributions and

reserves in the current budget for six planned capital project categories that are not yet underway.)

Medium- to Long-Term:

4. Relative to the number of non-physician practitioners in the classifications of Physician Assistants and Nurse Practitioners, the hospital system has a large number of Physicians. Of the almost 527 Physician, Physician Assistant, and Nurse Practitioner full-time equivalent (FTE) positions budgeted, almost 415 (79 percent) are Physicians. (Physicians may legally oversee up to four non-physician practitioners.) For each Nurse Practitioner or Physician Assistant full-time equivalent (FTE) position budgeted in FY 2020-21, there are about 3.7 budgeted FTE Physicians. On average, the annual budgeted salaries and benefits of Physicians are $97,440 to $99,322 higher than Nurse Practitioners and Physician Assistants. Put another way, the County General Fund would save about $98,000 per year in <u>gross</u> expenditures for each Physician FTE transitioned to a Nurse Practitioner or Physician Assistant FTE. If the transitioned position provided unreimbursed services exclusively, the entire approximate $98,000 annual savings would be realized. However, since the cost of most care is reimbursed by some type of insurance program, reimbursements would be less for services provided by non-Physician practitioners than services provided by Physicians. For example, Medi-Cal pays about 80 to 85 percent of the Physician rate for services provided by non-physician practitioners. However, because SCVMC non-physician practitioners are compensated at about 76 percent of the Physician rate, there would be a net savings to the County General Fund on average, even taking into account lower reimbursement rates, from greater use of non-physician practitioners. FY 2020-21 budgeted positions and their costs are summarized in the table below.

FY 2020-21 Positions and Costs for SCVMC
<u>Physician and Non-Physician Practitioners</u>

Position	Budgeted Full Time Equivalent	Salaries and Benefits	Budgeted Positions	Average cost per FTE
Nurse Practitioner	72.8	$ 22,115,223	78.0	$ 303,780.5
Nurse Practitioner - A	8.6	$ 2,876,317	10.0	$ 334,455.5
Nurse Practitioner - B	2.0	$ 690,000	2.0	$ 345,000.0
Nurse Practitioner - C	2.0	$ 689,316	2.0	$ 344,658.0
Physician Asst - PC	26.8	$ 8,191,767	27.0	$ 305,662.9
Physician-VMC	414.6	$ 167,118,339	451.0	$ 403,102.8
Total/Average	**526.8**	**$ 201,680,962**	**570.0**	**$ 382,856.1**

There would be gross and net savings from provision of an increased amount of care through Physician Assistant and Nurse Practitioner positions rather than Physicians. To ensure the long-term health of the County General Fund, we recommend that the Board of Supervisors request that the administration prepare proposals for the Board's consideration no later than December 2020 for transitioning over time at least 100 of the 415 Physician FTEs to non-physician practitioners. Implementation of such a transition plan would save several million dollars per year, all in the General Fund and all ongoing (not one time.) In addition to savings from salaries and benefits, there could also be other financial benefits. For example, 2018 data from the Medical Group Management Association suggests that non-physician practitioners are more productive than Physicians and thus generate additional revenue. Such a transition would likely take several years.

Long Term:

Assuming $15 million of the $300 million loan is taken from Valley Health Plan excess funds, the maximum County obligation for the cash advance would be $285 million. We recommend amending the cash advance resolution in August 2020 to reduce the maximum amount each year by $10 million, beginning in 2022-23. If enforced, this would reduce the annual General Fund obligation from $300 million to $205 million by the end of the decade as shown below. This would force the hospital system to implement cost reductions and/or increase productivity and/or revenues, and would free $90 million of General Fund dollars by the end of the decade for other County needs. The administration will assert that because the "lag" in receipts will always exist, changes to net costs f the hospital by reducing costs or increasing productivity/revenues will make no difference. This is simply false. The definition of "working capital" is the difference between the current "assets" and current expenses. Spending less than the revenue that comes in is the source of all working capital. By building its own working capital, VMC could reduce its reliance on the County "working capital loan."

Proposed Annual SCVMC Cash Advance Max Obligation (General Fund Sources) by Fiscal Year							
2022-23	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**
275,000,000	265,000,000	255,000,000	245,000,000	235,000,000	225,000,000	215,000,000	205,000,000

Changes the Board of Supervisors should consider with regard to funding the criminal justice functions include:

1. Carrying out functions that do not require "sworn" staff with "civilian" staff in the Sheriff's Office. This is similar to the recommendation regarding having care administered in the hospital by non-physician practitioners where feasible. The Board of Supervisors should seek a "civilianization" plan from the Sheriff. If no plan is furnished, the Board should reduce the Sheriff's budget by an amount reasonably commensurate with the budget that would be required if several dozen positions were "civilianized." Any change in the Sheriff's operation would likely require consent of plaintiff's counsel and/or the federal court.

2. This report includes some budget recommendations related to reduced institutional costs stemming from the lower volume of inmates. However, we have avoided proposals to reduce staff in the County's custodial operations due to the federal remedial plans governing adult custodial operations. However, because institutional populations have declined significantly since February, there may be ways to safely reduce institutional staff responsible for individuals in Juvenile Hall, the Ranch, the mail jail and Elmwood." Any change in the Sheriff's operation would likely require consent of plaintiff's counsel and/or the federal court. Our separate report regarding staffing of Juvenile Hall will be issued soon.

Multiple General Fund Departments	Multiple Pages

Expenditure Account 5107000 **Salary Savings Factor**

County Executive Recommended	Management Audit Proposed	Expenditure Decrease
($110,397,580)	**($280,976,004)**	**$170,578,424**

The FY 2020-21 Recommended Budget includes 21,260.56 full-time equivalent (FTE) positions, of which 2,491.55 FTEs, or 11.72 percent, were vacant as of June 1, 2020.

- This <u>includes</u> 15.00 primarily correctional deputy and correctional deputy cadet positions FTEs which are funded for only part of the year during training. It <u>also includes</u> 6.00 Finance Agency Administration FTEs that are being transferred from the Controller-Treasurer Department to other offices within the Finance Agency.
- This <u>excludes</u> 79.00 new proposed FTEs in the Recommended Budget, and the offices of the Board of Supervisors.

Funding for the 2,491.55 vacant FTEs in the Recommended Budget totals $422,954,044. Because these positions are vacant, and therefore will not spend some or all of the budget for their pay and benefits, the Office of Budget and Analysis reduces total salary and benefit appropriations for some budget units. This reduction is called the salary savings factor and is shown in the column "Budgeted Deduction to Account for Vacancies" on the attached table.

The reduction totals ($110,397,580) in the Recommended Budget, for a net budget of $312,556,464 for vacant positions. The administration reduced the General Fund salaries by six percent, the maximim permitted under Board policy.

When many positions are vacant, departments often must use overtime, plus temporary staff, to carry out the work. The Countywide Recommended Budget for temporary staff, overtime and other pay that is not part of the cost of regular salaries is $143,357,681. Therefore, the total amount of funding requested for vacant positions and their replacements Countywide is $422.9 million, minus $110.4 million in budgeted "salary savings," plus $143.4 million for overtime and temporary staff, for a total of $455.9 million.

Many departments spend far more than their annual appropriations for overtime and temporary staff. For example, FY 2019-20 actual expenditures for overtime and temporary staff totaled $281,528,198. We adjusted this amount downward to account for departments that fund these costs with a combination of General Fund and other funds. That is, based on their respective FY 2020-21 General Fund shares of gross expenditures, we estimated that only $114,757,297 was attributable to the General Fund. Deducting this estimated actual from the total $455.9 million available for vacant positions and their replacements, yields a net excess amount of $341.2 million. We believe that all of this net excess is appropriated from the General Fund, either directly or through internal charges. Our proposal is to reduce this projected excess by half to $170.6 million by increasing the salary savings factor for General Fund salary and benefits by the same amount. This proposal is shown on the attached table.

Our recommendation is to allocate half of this estimated surplus to other one-time General Fund needs. This would leave an estimated $170,578,424, as “cushion” for capital projects, unanticipated changes in vacancies and other factors throughout General Fund departments. This estimated “cushion” includes General Fund dollars allocated to non-General Fund departments, which are also part of the true surplus.

Budget Unit	Department	FY 2019-20 Recommended Budget						FY 2019-20 Actual Spending	Management Audit FY 2020-21 Estimated		
		Budgeted Funded Vacant FTEs	Budgeted Regular Salaries and Benefits for Positions that are Vacant	Budgeted Deduction to Account for Vacancies	Net Funding for Vacant Positions	Budget for OT / Temporary	Net Combined Funding to Backfill Vacancies	OT and Temps Actual	Estimated General Fund Share of OT and Temps	Estimated Amount of Actual Future Salary Savings	Estimated General Fund Share of Excess Funding
0106	Clerk of the Board of Supervisors	4.00	$ 448,702	$ (199,897)	$ 248,805	$ 20,182.00	$ 268,987	$ 90,843	$ 90,843	$ 178,144	$ 178,144
0107	County Executive	30.00	$ 5,213,563	$ (1,677,787)	$ 3,535,776	$ 1,458,500.00	$ 4,994,276	$ 208,800	$ 208,800	$ 4,785,476	$ 4,785,476
0108	Risk Management	3.00	$ 524,429	$ (75,632)	$ 448,797	$ 73,902.00	$ 522,699	$ 41,555	$ 6,554	$ 516,145	$ 516,145
0110	Controller-Treasurer	18.00	$ 2,937,127	$ (728,712)	$ 2,208,415	$ 19,768.00	$ 2,228,183	$ 211,409	$ 211,409	$ 2,016,774	$ 2,016,774
0111	Department of Tax and Collections	16.00	$ 1,657,893	$ (680,221)	$ 977,672	$ 132,942.00	$ 1,110,614	$ 264,386	$ 264,386	$ 846,229	$ 846,229
0114	Clerk-Recorder	4.00	$ 435,680	$ (264,912)	$ 170,768	$ 472,690.00	$ 643,458	$ 141,414	$ 141,414	$ 502,044	$ 502,044
0115	Office of the Assessor	32.00	$ 4,815,968	$ (1,558,360)	$ 3,257,608	$ 272,235.00	$ 3,529,843	$ 305,863	$ 305,863	$ 3,223,980	$ 3,223,980
0118	Procurement	32.00	$ 5,977,574	$ (760,016)	$ 5,217,558	$ 32,955.00	$ 5,250,513	$ 255,132	$ 255,132	$ 4,995,381	$ 4,995,381
0119	Special Programs			$ (12,000,000)	$ (12,000,000)		$ (12,000,000)	$ -	$ -	$ (12,000,000)	$ (12,000,000)
0120	County Counsel	27.00	$ 6,185,272	$ (1,759,188)	$ 4,426,084	$ 11,033.00	$ 4,437,117	$ 133,019	$ 133,019	$ 4,304,098	$ 4,304,098
0130	Employee Services Agency	27.00	$ 4,430,972	$ (1,189,849)	$ 3,241,123	$ 74,592.00	$ 3,315,715	$ 378,237	$ 378,237	$ 2,937,478	$ 2,937,478
0135	Fleet Services	10.00	$ 1,320,151		$ 1,320,151	$ 69,682.00	$ 1,389,833	$ 196,032	$ -	$ 1,389,833	$ 1,389,833
0140	Registrar of Voters	7.00	$ 962,867	$ (335,305)	$ 627,562	$ 5,187,138.00	$ 5,814,700	$ 8,493,050	$ 8,493,050	$ (2,678,350)	$ (2,678,350)
0145	Information Services Department	190.00	$ 40,485,026	$ (4,256,526)	$ 36,228,500	$ 368.00	$ 36,228,868	$ 2,889	$ 2,889	$ 36,225,979	$ 36,225,979
0168	Office of Affordable Housing	11.00	$ 1,731,672	$ (73,590)	$ 1,658,082	$ 20,000.00	$ 1,678,082	$ 126,553	$ 126,553	$ 1,551,529	$ 1,551,529
0190	County Communications	30.50	$ 4,670,405	$ (705,979)	$ 3,964,426	$ 1,673,502.00	$ 5,637,928	$ 2,029,134	$ 2,029,134	$ 3,608,794	$ 3,608,794
0200	Child Support Services	10.00	$ 1,413,966	$ (887,682)	$ 526,284	$ 301,000.00	$ 827,284	$ 632,932	$ -	$ 827,284	$ 827,284
0202	Office of the District Attorney	28.00	$ 5,063,015	$ (5,373,727)	$ (310,712)	$ 414,719.00	$ 104,007	$ 2,081,544	$ 2,081,544	$ (1,977,537)	$ (1,977,537)
0204	Public Defender	15.00	$ 2,642,562	$ (2,808,550)	$ (165,988)	$ 640,575.00	$ 474,587	$ 903,259	$ 903,259	$ (428,672)	$ (428,672)
0210	Pretrial Services	2.00	$ 256,050	$ (159,323)	$ 96,727	$ 279,680.00	$ 376,407	$ 196,048	$ 196,048	$ 180,359	$ 180,359
0230	Office of the Sheriff	162.50	$ 29,922,060	$ (3,230,989)	$ 26,691,071	$ 9,300,598.00	$ 35,991,669	$ 15,758,531	$ 15,758,531	$ 20,233,138	$ 20,233,138
0235	Department of Correction Contract	60.00	$ 11,710,872	$ (6,415,614)	$ 5,295,258	$ 12,840,824.00	$ 18,136,082	$ 31,151,777	$ 31,151,777	$ (13,015,695)	$ (13,015,695)
0240	Department of Correction	50.50	$ 5,693,598	$ (1,407,258)	$ 4,286,340	$ 3,207,423.00	$ 7,493,763	$ 3,070,882	$ 3,070,882	$ 4,422,881	$ 4,422,881
0246	Probation	51.50	$ 8,840,250	$ (6,417,963)	$ 2,422,287	$ 2,631,557.00	$ 5,053,844	$ 9,344,658	$ 9,344,658	$ (4,290,814)	$ (4,290,814)
0260	Planning and Development	10.00	$ 1,783,570	$ (578,765)	$ 1,204,805	$ 11,000.00	$ 1,215,805	$ 72,137	$ 72,137	$ 1,143,668	$ 1,143,668
0261	Environmental Health	11.00	$ 1,941,232	$ -	$ 1,941,232	$ 254,860.00	$ 2,196,092	$ 380,851	$ 76,034	$ 2,120,058	$ 2,120,058
0262	Agriculture and Environmental Mgmt	10.00	$ 1,306,554	$ (544,768)	$ 761,786	$ 133,731.00	$ 895,517	$ 353,703	$ 353,703	$ 541,814	$ 541,814
0263	Facilities Department	37.00	$ 5,309,611	$ (1,870,276)	$ 3,439,335	$ 390,231.00	$ 3,829,566	$ 1,786,671	$ 1,786,671	$ 2,042,895	$ 2,042,895
0293	Medical Examiner-Coroner	4.00	$ 608,980	$ (212,842)	$ 396,138	$ 300,616.00	$ 696,754	$ 260,329	$ 260,329	$ 436,425	$ 436,425
0410	Public Health	53.00	$ 8,982,946	$ (3,036,122)	$ 5,946,824	$ 277,135.00	$ 6,223,959	$ 2,670,331	$ 2,670,331	$ 3,553,628	$ 3,553,628
0411	Vector Control	6.50	$ 843,377		$ 843,377	$ 23,040.00	$ 866,417	$ 43,780	$ 10,933	$ 855,484	$ 855,484
0414	Custody Health	40.10	$ 7,888,848		$ 7,888,848	$ 6,770,834.00	$ 14,659,682	$ 14,345,752	$ 14,345,752	$ 313,930	$ 313,930
0415	Behavioral Health	154.00	$ 23,137,479	$ (2,488,091)	$ 20,649,388	$ 3,715,086.00	$ 24,364,474	$ 3,398,511	$ 3,398,511	$ 20,965,963	$ 20,965,963
0418	Community Health	7.00	$ 1,043,416	$ (550,596)	$ 492,820	$ 416,859.00	$ 909,679	$ 1,036,286	$ 1,036,286	$ (126,607)	$ (126,607)
0420	Emergency Medical Services	0.50	$ 46,678	$ (130,951)	$ (84,273)	$ 3,465.00	$ (80,808)	$ 128,729	$ 128,729	$ (209,537)	$ (209,537)
0501	Social Services Agency	241.00	$ 34,297,499	$ (17,770,988)	$ 16,526,511	$ 8,576,488.00	$ 25,102,999	$ 14,399,347	$ 14,399,347	$ 10,703,652	$ 10,703,652
0603	Roads	40.00	$ 5,624,452	$ (2,000,000)	$ 3,624,452	$ 1,249,524.00	$ 4,873,976	$ 743,041	$ -	$ 4,873,976	$ 4,873,976
0610	County Library	35.00	$ 3,902,929	$ (2,491)	$ 3,900,438	$ 3,851,271.00	$ 7,751,709	$ 1,483,363	$ 561,496	$ 7,190,213	$ 7,190,213
0710	Parks and Recreation	27.00	$ 3,998,759	$ (600,000)	$ 3,398,759	$ 1,276,819.00	$ 4,675,578	$ 2,521,054	$ -	$ 4,675,578	$ 4,675,578
0725	Valley Health Plan	66.00	$ 11,874,901	$ (177,423)	$ 11,697,478	$ 947,796.00	$ 12,645,274	$ 781,037	$ 3,525	$ 12,641,749	$ 12,641,749
0921	Valley Medical Center	928.45	$ 163,023,139	$ (27,467,187)	$ 135,555,952	$ 76,023,061.00	$ 211,579,013	$ 161,105,329	$ 499,532	$ 211,079,481	$ 211,079,481
TOTAL		**2,491.55**	**$ 422,954,044**	**$ (110,397,580)**	**$ 312,556,464**	**$ 143,357,681**	**$ 455,914,145**	**$ 281,528,198**	**$ 114,757,297**	**$ 341,156,848**	**$ 341,156,848**
MGT AUDIT REC		**2,491.55**	**$ 422,954,044**	**$ (280,976,004)**	**$ 312,556,464**	**$ 143,357,681**	**$ 455,914,145**	**$ 281,528,198**	**$ 114,757,297**	**$ 341,156,848**	**$ 170,578,424**

General Fund Loan to Hospitals	**Unbudgeted Cash**

General Fund and three affiliated funds	**Unbudgeted Loan**	
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$300,000,000	**$285,000,000**	**($15,000,000)**
Valley Health Plan Fund		**Unbudgeted Loan**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Increase**
$0	**$15,000,000**	**$15,000,000**

In both FY 2019-20 and FY 2020-21, the Board of Supervisors authorized a "loan" of up to $300 million to cover the costs of hospital operations that exceed the hospital's revenues. The loaned money was necessitated by start-up costs following the acquisition of multiple hospitals and their staff in 2019. Per the resolution approved in 2019-20, the money for the loan comes from the General Fund and/or three other funds that are themselves funded by transfers from the General Fund. Actual loan amounts have varied and have shifted among the four funds. It is in addition to the budgeted $241 million operating subsidy from the General Fund, and the costs of various hospital capital projects that are funded by the General Fund directly or through affiliated funds. Although the loan is purported to be "temporary,"[1] unless there is a major change in the funding of American hospitals, it is unlikely to be repaid during the tenure of any current member of the Board of Supervisors.

This report includes proposals to permanently reduce the effect of the loan on the General Fund. This section proposes to immediately reduce the General Fund loan amount by $15 million by requiring that $15 million of the loan come from surplus monies in the Valley Health Plan (VHP) Fund. This would require modification of the existing Board resolution. It would leave the General Fund and its associated funds responsible for no more than $285 million in any given year at the current loan amount.

A 2010 analysis prepared by County Counsel's office that states that the County can legally borrow money from the VHP Fund. The $15 million is available in the VHP Fund without affecting its legal requirements for available monies or the VHP operations, as described below. Despite this opinion, the administration has claimed that lending of the funds may not be legal. We advise that the Board to confer on this matter

[1] The Board of Supervisors originally approved this line of credit on June 4, 2019 with the understanding that it was a temporary loan needed to assist the hospitals during the initial transition phase but that all amounts would be repaid with interest on or before June 30, 2020. On June 23, 2020, the administration requested a year-long extension; the Board approved the extension only through August 2020 to permit this use of the funds to be considered alongside other County needs. At that time, the Board was advised that the hospitals would not be able to make their payroll obligations without the loan. We have a separate proposal in this report intended to reduce the hospitals' payroll costs without reducing services.

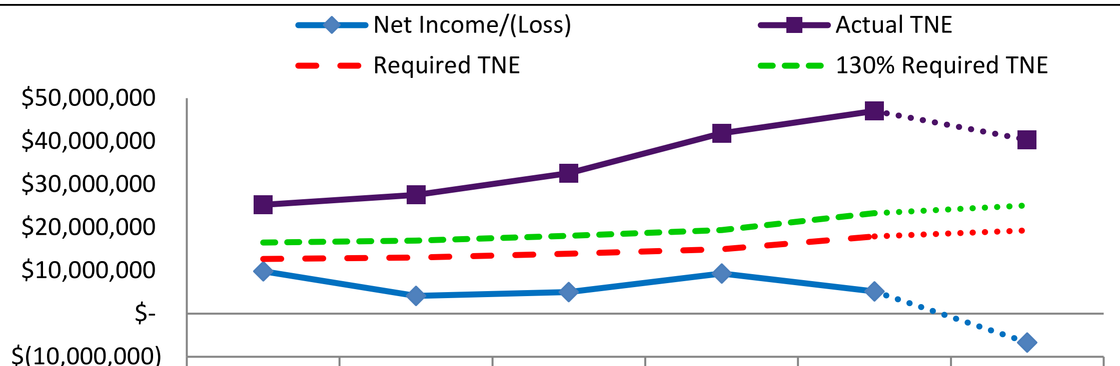
with County Counsel. We can furnish the previous legal opinion on request. In the event that the Board does not direct that the available VHP funds be used to offset a portion of the $300 million in County loans to VMC, we do not recommend using the monies for other purposes. Our recommendation for the funds is exclusively to offset a portion of the General Fund loan.

Valley Health Plan (VHP or Plan) is a Knox-Keene licensed health care service plan and is required to comply with Health and Safety Code section 1340 et seq. and Title 28 California Code of Regulations (CCR) section 1300.75 et seq. Both the Health and Safety Code and the CCR require health plans to maintain certain levels of financial reserves to avoid a situation in which an insurer may become insolvent due to unforeseen financial challenges. VHP submits quarterly and annual financial statement reports to the Department of Managed Health Care (DMHC), which regulates the managed care industry in California. Pursuant to the provisions contained in Title 28 of the CCR, health plans must demonstrate fiscal soundness through compliance with minimum reserve requirements defined in the CCR as “Tangible Net Equity” (TNE).[2]

VHP’s TNE requirement is based on a calculation of medical expense and revenue, which determines the amount of risk the Plan is responsible for. This calculation weighs against factors such as what portion of the business is capitated to providers (shifting the financial risk to the provider) and what portion is paid out on a fee-for-service basis (which keeps the risk at the Plan). A review of VHP’s annual financial statements on file with the DMHC for FY 2016 through FY 2020 reveals that not only has the Plan exceeded its minimum TNE requirement in each year, but it also has built up a reserve of $47 million as of June 30, 2020 or 262 percent above statutory requirements as illustrated in the figure on the following page. If VHP’s reserves fall below 130 percent of the TNE, VHP must report this to the state and will be placed on a financial “watch list.”

[2] In general, HMOs and most other forms of managed care are regulated by the California Department of Managed Health Care (DMHC) pursuant to the provisions of the Knox-Keene Health Care Service Plan Act of 1975. The reserve requirement is defined in terms of "tangible net equity" (TNE), or an insurer's net equity (the amount by which total assets exceed total liabilities), with some adjustments (for example, the deduction of intangible assets such as goodwill). Each insurer has a minimum TNE threshold that is determined based on a combination of factors including the amount of an insurer's premium revenues and expenditures.

VHP's Operating Gains/(Losses) & Tangible Net Equity, Actual vs. Required



	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Projected
Net Income/(Loss)	$9,831,595	$4,097,673	$5,039,964	$9,286,435	$5,149,578	$(6,682,595)
Actual TNE	$25,258,261	$27,546,934	$32,586,898	$41,873,333	$47,022,911	$40,340,316
Required TNE	$12,693,211	$13,034,097	$13,885,637	$14,929,454	$17,923,551	$19,312,050
130% Required TNE	$16,501,174	$16,944,325	$18,051,329	$19,408,290	$23,300,616	$25,105,665

Source: Auditor's analysis of DMHC Financial Statements and SAP data for FY 2020 & 2021

As shown in the figure above, VHP's reserves have well exceeded 130 percent of TNE for at least five years, a trend the Management Audit Division expects will continue in the next fiscal year. While the Recommended Budget for FY 2020-21 assumes VHP will incur an operating loss of $6.7 million (which has not occurred in several years based on the Plan's historical actuals), even under this conservative scenario, we project that the Plan would end FY 2020-21 with a TNE of $40.3 million compared to a TNE requirement of $19.3 million, an excess of $21 million or 208 percent above DMHC's requirement. At 130 percent of the required TNE, VHP would still be left with over $15.2 million of "cushion."

In addition to the TNE requirement, VHP must maintain a minimum cash-to-claims ratio of 0.75 to mitigate liquidity risk and large claims. VHP's actual cash-to-claims ratio from FY 2015-16 through FY 2019-20 averaged 1.80 and has never fallen below 1 as shown below.

VHP's Historical Cash-to-Claims Ratio

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020*
Cash	107,123,963	118,074,475	147,124,530	146,021,699	142,931,697
Unpaid Claims and IBNR	60,361,258	67,137,511	58,500,437	84,253,137	97,668,980
Cash-to-Claims Ratio	1.77	1.76	2.51	1.73	1.46

*Actual claims data for FY 2020 was only available on DMHC's website through March 31, 2020.

To mitigate the General Fund's exposure to the hospital system's operating losses, especially given the County's current and projected fiscal situation, the Management Audit Division recommends that the authorizing resolution for the loan be amended to require the first $15 million of the loan come from the Valley Health Plan Enterprise Fund (Fund 0380) as a "Lending Fund" to the Recipient Funds, which include VMC Fund (Fund 0060), O'Connor Hospital Fund (Fund 0062), and St. Louise Hospital Fund (Fund 0063) and the amount to be drawn from the General Fund (Fund 0001), the Cash Reserve Fund (Fund 0010), the General Capital Improvements Fund (Fund 0050), and the Accumulated Capital Fund (Fund 0455) be responsible for a not-to-exceed combined total of $285 million. The total available cash advance amount would remain $300 million under this proposal.

Pursuant to Government Code section 25252, it is legally permissible for the Board to "transfer money from one fund to another, as the public interest requires…if the board of supervisors has authority over each fund." In 2010, the Management Audit Division requested an analysis from County Counsel of whether the County General Fund may borrow, temporarily, from funds held by the County, which were set aside for specific purposes. In that analysis, County Counsel indicated that legally, the County could borrow from the Valley Health Plan Fund (Fund 0380). Pursuant to this opinion, we urge the Board to consider supplanting $15 million of General Fund cash being tied up in the working capital loan to the hospitals with $15 million of VHP's cash.

Additional Information

Per the previous County Counsel opinion, there are other funds that could in theory be tapped for loans to the General Fund. One of these contains Parks funds, which are already earmarked as "emergency cash" monies. Two other funds – one for Los Altos Hills County Fire District and the other for the Central Fire District – are legally permissible for temporary borrowing by the General Fund because according to the opinion the Board of Supervisors is responsible for these monies. We do not recommend tapping these funds at this time due to the extensive unmet needs for fire prevention and basic fire services across the County, as documented in our audits of multiple County fire districts in 2005 and 2019. Nonetheless, given the unusual immediate fiscal needs created by the expansion of County services in 2019, the ongoing pandemic and the deepening economic recession, we want to ensure the Board understands its full range of options for managing these crises. Actual and estimated balances in the two fire funds as of July 2020 are shown below. The amounts in the table below are shown in the master table in this report combined with the 2011 "realignment" balances that, in theory, could be tapped with a change in State law.

Funds Eligible for GF Borrowing					
				Cash Balance	
CCO Memo	**Fund #**	**Fund Type**	**FY 2020 Actual**	**FY 2021 YTD Actual**	**FY 2021 Projected**
CFD Maintenance	1524	Special Revenue	67,285,681.18	61,666,873.44	60,001,190.44
LAHFD	1606	Special Revenue	24,285,119.12	24,259,822.63	23,764,658.63
		Total	**91,570,800.30**	**85,926,696.07**	**83,765,849.07**

2011 Realignment Funds
Multiple General Trust Funds **Informational**

In 2011 the California Legislature "realigned" the responsibility of several public safety and human service programs from the State to the County. This change came with funding that is generally restricted to payment for provision of the "realigned" service. These monies are held in General Fund Trust accounts that *are not available for general use*. These accounts, their ending balances as of June 30, and their projected balances by the close of the current fiscal year, are shown below. (This list excludes funds held in trust for non-County entities.)

Figure 1 – Actual and Projected Ending Balances for 2011 Realignment General Fund Trusts

	Ending Balances	
	FY 2019-20	**Projected FY 2020-21**
Fund 439 - Behavioral Health Subaccount	$102,919,925	$89,216,998
Fund 443 - Enhancing Law Enforcement Activity Subaccount	$26,692,458	$32,469,954
Fund 416 - Protective Svcs Subaccount (Suppt Svcs Acct)	$10,288,200	$10,288,200
Fund 437 - Juvenile Justice Subaccount	$8,788,655	$10,242,239
Fund 433 - Community Corrections Subaccount	$12,138,037	$8,838,037
Fund 429 - Mental Health Subaccount	$1,701,533	$1,701,533
Fund 414 - District Attorney Subaccount	$1,505,730	$1,663,872
Fund 434 - Trial Court Security Subaccount	$1,619,326	$1,619,326
Total	$165,653,864	$156,040,159

FY 2019-20 Ending Fund Balances calculated by running SAP Report: ZSLP001.
FY 2020-21 Projected Ending Balances calculated by running SAP Report: ZFMP003, adding the annual budgeted revenues and subtracting budgeted expenses, and adding the resulting value to the fund balance as of July 1, 2020.

Although these funds are not available for general use under existing law, we note that in most cases, balances are flat or growing, as shown in the grey highlight in the table above, including in accounts that fund services that are likely to be affected, at least temporarily, by the COVID-19 pandemic, the recession or both. The balances in these subaccounts are collectively worth an estimated $156 million by year end, and the funds may be restricted to services that are not experiencing a strong demand during the next year or longer. It does not make sense to us to hold large sums of money for services that are not realistically necessary even as some community needs are without sufficient funding. Depending on the level of community need, and the extent of financial effects from COVID-19, the recession and potential State and federal funding changes, we recommend that the Board of Supervisors keep these funds in mind. If there is an urgent need, the Board may wish to consider requesting permission from the State to allow the ability to borrow from these funds temporarily. For example, the County might be in need of cash in the short term if property tax payments come in slowly. Additionally, the Board may wish to consider requesting a change in the law to allow for *one-time use* of a portion of these unused fund balances to address unmet community needs due to COVID-19 testing, tracing or treatment and/or the recession. Alternatively, it may be possible to obtain permission to use funds in a manner that simply expands the definition of care or treatment, such as by providing low-income families with high-speed internet and laptops to enable individuals to access services, attend school, obtain treatment, work remotely, or otherwise manage their crisis circumstances.

Reserve Account 5705000			**Reserves for Future Operations**
	County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
5702000 Gen. Reserve-Spec Dis	**$5,000,000**	**$0**	**($5,000,000)**
5705000 Future Operations	**$4,469,519**	**$3,469,519**	**($1,000,000)**
Total	**$9,469,519**	**$3,469,519**	**($6,000,000)**

Reserves are created when the Administration anticipates needing funds for an item but is not able to fully vet the need and create a detailed line-item budget prior to publishing the budget document, which explains each need. The FY 2020-21 Recommended Budget for Budget Unit (BU) 119 includes a $9,469,519 appropriation for various reserves, including a General Fund allocation of $4,469,519 to GLA 5705000-Future Operations and a $5 million allocation to GLA 5702000-Special Districts, a misnomer for the projected debt service associated with financing the construction of the Adolescent Psychiatric Facility and Behavioral Health Services Center. The Office of Budget and Analysis (OBA) provided the separate line items comprising each account, which are as illustrated in the table below.

Composition of Reserves in FY20-21 Recommended Budget for BU 119

	5705000	**5702000**	**Reserves**
Reserve for Vietnamese Amer. S.C. Operations	1,000,000		1,000,000
Reserve for Board Inventory Items	2,500,000		2,500,000
Reserve for Federal and State Budget Impacts	66,419		66,419
Reserve for County Facility Security Enhancements	903,100		903,100
Hospital Debt Service		5,000,000	5,000,000
Total	**$4,469,519**	**$5,000,000**	**$9,469,519**

Source: Office of Budget and Analysis (OBA)

Reserves for Future Operations (GLA 5705000)

As illustrated in the table above, GLA 5705000 includes a $1 million General Fund allocation "to an ongoing reserve for the net cost of operating the new Vietnamese American Service Center (VASC)," which is being proposed on the grounds that the VASC will be opening during 2021 with a projected operating shortfall. As described on pg. 100 of the recommended budget document, the FY 2020-21 operating costs for the VASC are estimated at $6.4 million and the revenues at about $5.4 million, resulting in an estimated net General Fund cost of approximately $1 million.

However, a review of the project schedule presented by the Facilities and Fleet Department (FAF) to the Children, Seniors and Families Committee (CSFC) on April 23, 2020 indicates that construction of the VASC is scheduled for completion in mid-June of 2021, with final occupancy anticipated in mid-September (see below).

County of Santa Clara VASC
Project Schedule

	Feb 2020 Report	Current Status
Milestones		
Design Start	2/20/2018	2/20/2018
Design End	4/22/2019	4/22/2019
Construction Start	11/4/2019	11/4/2019
Construction End	6/15/2021	6/15/2021
Move-in / Project Closeout	9/15/2021	9/15/2021

Source: FAF Status Report for Children, Seniors and Families Committee, April 23, 2020

As this facility will not be operational until at least FY 2021-22, the $1 million operating deficit anticipated by the Administration is unnecessary and should be removed from the current-year appropriations.

Reserves for Special Districts (GLA 5702000)
In addition to the Reserve for Future Operations budgeted in GLA 5705000, the Recommended Budget as adopted appropriated $5 million to GLA 5702000, which is a reserve for Special Districts per the County's chart of accounts. In response to our inquiry regarding the nature of this reserve and workpapers documenting its computation, OBA advised that the reserve is for debt service on hospital bonds the County plans to issue for the construction of the Adolescent Psychiatric Facility and Behavioral Health Services Center.

In its May 28, 2020 Semi-Annual Report on the status of Capital Projects to the Finance and Government Operations Committee (FGOC), FAF reported the project is in the design phase, which is anticipated to be completed in January of 2021. However, a review of the invoices and charges made to this project as of June 30, 2020, indicates that it is actually in the programming or "pre-design" phase, with 38.5 percent of the work completed to date. While it's possible that the project will be ready to begin construction in six months due to the architectural team "proceeding with the design along a fast track" as indicated in the 10-Yr CIP, it is highly unlikely given the disruptions caused by the impending health crisis and the amount of time it takes to develop the design and prepare construction documents.

Further, page 4 of the CIP shows a bond sale for this project occurring in FY 2021-22, not FY 2020-21, and the Finance Agency confirmed that it is not expecting to issue any debt for this project in FY 2020-21. Accordingly, the Management Audit Division recommends eliminating the $5 million reserve for hospital debt service in GLA 5702000 in the current year.

Multiple Expenditure Accounts			**Vehicle Fleet Costs**
	County Executive Recommended	**Management Audit Proposed**	**Expenditure Decreases**
Exp. Acct. 5285100 Bulk Fuel	**$4,479,462**	**$4,000,000**	**$ 479,462**
Exp. Acct. 5230200 Tires	**515,000**	**200,000**	**315,000**
Total:	**$ 4,994,462**	**$ 4,200,000**	**$ 794,462**

The Fleet budget unit is responsible for purchase and maintenance of County vehicles. This includes purchasing fuel and tires for County vehicles. According to the department, in FY 2019-20, the County spent less on fuel and tires than budgeted because vehicles are being used less as a result of changes to County operations to manage COVID-19, which occurred only during the last quarter of FY 2019-20. Total year-end non-personnel (Object 2) expenditures for FY 2019-20 were $724,554 less than budgeted. The table below shows the budgeted vs actual amounts for the fuel and tire expenditure accounts in FY 2019-20.

FY 2019-20 Budgeted vs Actual Costs: Fuel & Tires

	FY 2019-20 Budget	**FY 2019-20 Actual**	**Difference**	**Percent Difference**
Bulk Fuel	$4,478,495	$4,035,716	$442,779	90%
Tires	520,068	204,923	315,145	39%
Total	**$4,998,563**	**$4,240,639**	**$757,924**	**85%**

Source: SAP

As shown above, total actual spending on fuel and tires consumed 85 percent of budgeted costs. Our recommended reduction assumes that pandemic related restrictions on activities continue through the next fiscal year and therefore proposes to reduce the requested increases to fuel and tire expenditures in FY 2020-21 to roughly FY 2019-20 actual amounts. We assume that the pandemic related restrictions in FY 2020-21 will last longer than the three-month period that impacted the FY 2019-20 budget.

Expenditure Account 5851000		**One-Time Funded Project-General Fund**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$42,406,100	**$15,920,453**	**$26,485,647**

The Technology Services and Solutions Department's General Fund Recommended FY 2020-21 budget as adopted for Services and Supplies (Object 2) is $75,167,347. Of this amount, $42,406,100 (56 percent) is allocated for One-Time Funded Projects. In addition, the Department anticipates rolling over $55,004,863 in unexpended funds for One Time Funded Projects from prior fiscal years into FY 2020-21. As shown in the table below, the recommended FY 2020-21 budget plus the anticipated rollover amount from prior fiscal years will give the Department a General Fund allocation of an estimated $97,410,963 for One-Time Funded Projects in FY 2020-21.

General Fund Budget for One-Time Funded Projects, FY 2020-21

FY 2020-21 Recommended	$42,406,100
Anticipated Rollover from Prior FYs	$55,004,863
Total Amount for FY 2020-21	**$97,410,963**

Source: SAP (recommended budget) and Department records (rollover)

The Department never fully expends its budget for General Fund One-Time Funded Projects

The Department has a history of significantly underspending on Other Expenses (Object 2) and on One Time Funded Projects in particular. Each year since FY 2016-17, the Department has had an unexpended balance of $56 to $88 million dollars in Object 2.

Original Budget, Modified Budget, and Actual Expenditures in Services and Supplies (Object 2)

General Fund	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**
Original Budget	$66,673,801	$45,124,632	$63,790,720	$45,493,363	$75,167,347
Modified Budget	80,102,696	96,284,770	133,017,026	119,622,096	
Actual Expenditures	23,887,764	33,932,906	44,470,395	55,497,921	
Encumbrance	168,930	2,625		6,554,883	
Unexpended Balance	**$56,046,001**	**$62,349,239**	**$88,546,631**	**$64,327,537**	

Source: SAP

Each year, the Department rolls over between $14.7 and $81.5 million dollars of previously unspent funding for One Time Funded Projects.

Original Budget, Modified Budget, and Actual Expenditures for One-Time Funded Projects

General Fund	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**Average**
Original Budget	$52,710,892	$24,520,657	$36,139,493	$17,288,208	
Mid-Year Budget	67,421,134	72,713,971	103,603,213	98,806,109	
Rollover Amount	**$14,710,242**	**$48,193,314**	**$67,463,720**	**$81,517,901**	***$52,971,294***

Source: SAP

The Department does not expend its rolled over funds every year, and the rollover amount has grown each year since FY 2016-17. In FY 2019-20, 32 one-time funded projects, with a Modified Budget total of $8.6 million of General Fund dollars, had zero spending during the year. According to the Department, projects were delayed during FY 2019-20 due to (a) the hospital acquisitions and the subsequent Epic rollout and infrastructure upgrades; (b) the move to Tasman; (c) COVID-19 related activities; and (d) Department vacancies. During our reviews of the Department's budget during FY 2016-17, FY 2017-18, and FY 2018-19, in addition to our 2017 audit of the Department, the Management Audit Division has consistently observed the Department's difficulty in utilizing the full amounts of appropriated monies for One-Time Funded Projects in past budget years.

Based on historical spending in Services and Supplies, the Management Audit Division does not expect the Department to fully expend the $42.4 million in FY 2020-21 One-Time Funded Project budget, plus the anticipated project rollover amount of $55.0 million. The Management Audit Division is therefore proposing a reduction in the General Fund One-Time Funded Project budget of $26,485,647, or 50 percent of the Department's four-year average rollover amount for General Fund One-Time Funded Projects. This reduction will still provide the Department with a budget of approximately $70.9 million for One-Time Funding Projects, including the anticipated rollover funding. This also does not include funding from sources other than the General Fund which may be allocated to these projects.

General Fund One-Time Funded Projects, Revised Recommendation

Management Audit Division Recommendation	$15,920,453
Anticipated Rollover from Prior FYs	$55,004,863
Total Amount for FY 2020-21	**$70,925,316**

Proposed reductions will not impact newly proposed projects

The FY 2020-21 budget as adopted plus the anticipated rollover amount from prior fiscal years will give the Department a budget of $97,410,963 of General Fund dollars for One-Time Funded Projects in FY 2020-21. For the $42.4 million in One-Time Funded Project funding in FY 2020-21, the Department anticipates that funds will be spent, encumbered, or "earmarked," meaning that the Department demonstrates that funding is available so that Procurement can begin a formal solicitation, during FY 2020-21. In other words, the $42.4 million is unlikely to be fully spent in FY 2020-21 but reportedly is budgeted so that the Department can begin procurement. Using the $55.0 million in anticipated rollover, the Department will have sufficient funds to cover the costs for newly proposed projects, as well as continue spending on continuing projects.

Multiple Expenditure Accounts			**Inmate Supplies**
	County Executive Recommended	**Management Audit Proposed**	**Expenditure Decreases**
Exp. Acct. 5210180 Food - Staples	**$4,109,953**	**$1,109,953**	**$3,000,000**
Exp. Acct. 5210200 Misc. Food	**450,000**	**400,000**	**50,000**
Exp. Acct. 5215150 Household Exp	**843,300**	**243,300**	**600,000**
Exp. Acct. 5200030 Inmate Clothing	**485,413**	**135,413**	**350,000**
Total:	**$5,888,666**	**$1,888,666**	**$4,000,000**

The Department of Corrections' budget unit 240 accounts for non-sworn costs of the County's custody operations. The table below shows the actual non-personnel expenditures, the average daily inmate population, and the actual costs per inmate.

Actual Expenses Per Inmate

Year	**Avg. Population**	**Inmate Expenses**	**$ Per Inmate**
FY 2017-18	3,316	$21,524,571	$6,492
FY 2018-19	3,305	27,251,911	8,246
FY 2019-20	3,261	25,066,584	7,687
3 Year Avg.	**3,294**	**$24,614,355**	**$7,475**

Notes: Average population sourced from the Board of State & Community Corrections; FY 2019-20 average values and through March 2020. "Inmate Expenses" refers to actual total non-personnel spending, excluding inmate medical.

As shown above, over the past three fiscal years, the County had an average inmate population of 3,294 inmates costing an average of $7,475 per inmate, excluding the cost of County employees.

The County had an average of 2,070 inmates in custody in July 2020, which is 1,224 fewer inmates than the three-year average population noted average. Due to COVID-19, the Sheriff's Office has reduced the inmate population by releasing sentenced misdemeanor inmates, delaying scheduled sentences, and greater use of diversions programs. This has resulted in a historically low inmate population.

Based on the current conditions of the pandemic, we expect the inmate population to remain low for at least the first six months of the FY 2020-21 and therefore expect the average daily population within the jails to be 2,682 inmates (an average of the July 2020 population and the three year average population noted above). We applied the average three-year spending per inmate of $7,475 derived in the table above and, to account for contingencies, escalate the cost per inmate by 10%, resulting in a projected cost per inmate of $8,222 in FY 2020-21. We then multiplied that cost per inmate by the expected average inmate population of 2,682 for FY 2020-21. Based on these calculations, we project the Department of Corrections' actual non-personnel spending will be approximately $22 million, or approximately $4 million less than the recommended FY 2020-21 budget. Our proposed reductions will not impact services to inmates. Rather, they align the Department of Corrections' budget with its policy of minimizing the inmate population.

Budget Unit 263 – Fund 0050
FY 2020-21 Deferred Maintenance Backlog Program **Page 216**

Expenditure Account 5530200			**Capital Project Services & Supplies**
	County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
One-Time Deferred Maintenance Program Appropriation	**$12,000,000**	**$0**	**($12,000,000)**
Rollover of Uncommitted Deferred Maintenance Program Balances approved 6/23/2020	**$26,735,897(1)**	**$26,735,897**	**($0)**
Total FY 2020-21	**$38,735,897**	**$26,735,897**	**($12,000,000)**

(1) As approved on June 23, 2020 meeting via Agenda Item 190.

The County Executive's FY 2020-21 Recommended Budget proposes a one-time allocation of $12 million for the Deferred Maintenance Program, which supports building and system maintenance projects and unanticipated repair and capital replacement needs. This allocation is funded by General Fund transfers to the Capital Improvement Fund (50) maintained by Budget Unit 263, Facilities and Fleet (FAF). The Fund 50 Capital Program also includes Bond, General Capital, Planning, Energy, and Security Projects that are not included in this discussion.

The $12 million allocation for deferred maintenance projects noted above is in addition to "left-over" funds from prior budget years that the Board of Supervisors re-appropriated to FY 2020-21 in a separate action on June 23, 2020 (Agenda Item 190). As shown in Table 1 below, FAF exercises less than half of its spending authority in a given year and requests that remaining surpluses at year-end be rolled over to the next fiscal year. The "committed" column in the chart is funds that are contractually obligated for payment (encumbered.)

Table 1: History of Growing Surplus Funds in the Deferred Maintenance Program

Fiscal Year	Re-Appropriated Surplus Funds from Prior FY	Modified Budget	Actuals Spent	Committed	Year-End Surplus	Surplus as % of Actuals & Commitments
14-15	5,523,802	13,711,199	7,987,542	1,166,224	4,557,433	50%
15-16	4,557,433	12,981,972	6,912,815	581,014	5,488,142	73%
16-17	5,488,142	19,241,539	7,649,873	1,281,986	10,309,679	115%
17-18	10,309,679	27,391,666	7,798,148	1,467,704	18,125,814	196%

18-19	18,125,814	31,593,518	3,246,760	3,595,373	24,751,385	362%
19-20	24,751,385	38,041,645	7,670,516	3,635,232	26,735,897	236%

While Deferred Maintenance Program funding is annually budgeted based on a formula and surplus or unused funds are retained by FAF through annual rollovers, which are typically approved by the Board of Supervisors in late June, re-appropriation items receive little scrutiny as part of the year-end close and are not presented to the Board concurrent with new funding requests. Thus, while the Board has budgeted $12 million for deferred maintenance and unanticipated repair and replacement needs, the Department actually has $38.7 million to use for these purposes, based on the carryover of $26.7 million from FY 2020 to FY 2021 approved by the Board on June 23, 2020.

Based on a historical analysis of the Deferred Maintenance Program spending, we project that expenditures for FY 2021 will likely reach $8.1 million and commitments will slightly exceed $4.0 million. Even under the most conservative assumptions, the maximum financial obligation the Deferred Maintenance Program will incur is estimated to be no more than $18.6 million. This falls well short of the $26.7 million already re-budgeted to next year and does not necessitate a new $12.0 million appropriation as included in the Recommended Budget.

Therefore, the Management Audit Division proposes that the $12.0 million appropriation in the Recommended FY 2020-21 budget for the Deferred Maintenance Program be returned to the General Fund to help address the estimated $400 million deficit in the short term. We are aware that County facilities require a greater level of upkeep than is occurring. If implemented, this recommendation will not change the actual amount of maintenance carried out on County facilities but would align the budget with the actual amount of maintenance that occurs.

Budget Unit 263

Facilities and Fleet Department – Capital Projects **Page 215**

Fund 1 - General Fund

Expenditure Account 5610110 **IC - Transfers Out**

County Executive	Management Audit	Expenditure
Recommended	**Proposed**	**Decrease**
$134,628,075	$73,128,075	$61,500,000

Fund 50 - General Capital Improvements

Revenue Account 4920120 **IC - Transfers In**

County Executive	Management Audit	Revenue
Recommended	**Proposed**	**Decrease**
$148,382,889	$117,382,889	($31,000,000)

Expenditure Account 5530200 **Capital Proj. Svc.**

County Executive	Management Audit	Expenditure
Recommended	**Proposed**	**Decrease**
$732,598,563	$701,598,563	$31,000,000

Fund 455 - Accumulated Capital Outlay

Revenue Account 4920120 **IC - Transfers In**

County Executive	Management Audit	Revenue
Recommended	**Proposed**	**Decrease**
($80,703,075)	($50,203,075)	($30,500,000)

Expenditure Account 5704000 **Capital Dev. Reser.**

County Executive	Management Audit	Expenditure
Recommended	**Proposed**	**Decrease**
$30,500,000	$0	$30,500,000

The Facilities Department is responsible for the flow of funding to capital projects. The recommended FY 2020-21 budget includes $134.6 million in General Fund transfers to fund capital projects. The requested General Fund transfer is distributed to two other funds, the General Capital Improvements Fund and the Accumulated Capital Outlay Fund. We recommend rescinding General Fund transfers to at least six capital projects that have not yet started construction and therefore could be delayed. The table below details the projects that are pre-construction that we are proposing to delay.

Pre-Construction Capital Projects Funded in FY 2020-21

#	Pre-construction projects	Funding
2	allCove Office Improvements	2,000,000
13	Oakland Road Warehouse	3,000,000
17	Reserve for Future Medical Office Building Acquisitions	20,500,000
18	Reserve for Jail Projects	10,000,000
21	Silver Creek Properties	2,000,000
22	TB and Refugee Clinic at 1996 Lundy Ave	24,000,000
6	**Total**	**$61,500,000**

Sources: Project Status May 28, 2020 sourced from May 28, 2020 Semi-Annual Report on Capital Projects to FGOC. Project amounts are listed in the FY 2020-21 Recommended Budget Book.
Note: the" #" indicates the project's listed number in the FY 2020-21 Recommended Budget Book, beginning on page 215.

As shown above, six projects that have not yet begun construction are budgeted to receive $61.5 million in General Fund transfers in FY 2020-21. We recommend that the Board of Supervisors delay these projects until the County's financial condition improves. A description of these projects may be found starting on page 215 of the recommended budget book for FY 2020-21.

Multiple Expenditure Accounts			Building Operations Contracts
	County Executive Recommended	Management Audit Proposed	Expenditure Decreases
Exp. Acct. 5235540 Archit Contract	**$3,886,048**	**$3,000,000**	**$886,048**
Exp. Acct. 5235580 Mech Contract	**3,449,389**	**1,500,000**	**1,949,389**
Exp. Acct. 5235640 Environ Restore	**1,013,233**	**300,000**	**713,233**
Total:	**$8,348,670**	**$4,800,000**	**$3,548,670**

The Facilities budget unit is responsible for maintaining County property. As shown below, the department consistently underspends its non-personnel budget.

Total Services and Supplies Budget vs. Actual Spending

FY	Serv & Supplies Budget	Actual Spending	Difference
2016-17	90,210,850	84,538,678	5,672,173
2017-18	98,048,060	93,430,052	4,618,008
2018-19	104,392,853	94,623,664	9,769,189
2019-20	127,698,908	111,958,463	15,740,445

Source: SAP

The department maintains contracts with service providers, such as mechanics and other specialized trades, on an as-needed basis to complete building repairs and maintenance. For the past two fiscal years, actual spending on these contracts has been less than budgeted, which has contributed to the department's overall underspending in the non-personnel budget noted in the table above. The table below summarizes actual spending on three large accounts for contract service providers that have consistent underspending.

Actual Spending on Select Building Operations Contract Accounts

	Archit Contract Svc	Mech Contract Svc	Environ Restore Svc
FY 2018-19 Actuals	2,552,011	1,648,349	498,837
FY 2019-20 Actuals	3,302,940	1,427,608	94,377
2 Year Avg. Actuals	**2,927,476**	**1,537,978**	**296,607**
FY 2020-21 Rec. Budget	3,886,048	3,449,389	1,013,233

Source: SAP

As shown above, the two-year average spending on architectural contract services, mechanics contract services, and environmental restoration services is significantly less than the proposed FY 2020-21 budget. We therefore recommend that the expenditure budget for these accounts in FY 2020-21 be reduced to the average expenditures over the prior two fiscal years. The proposed $3.5 million reduction in these accounts is still less than the department's unspent non-personnel budget in each of the past four fiscal years. Therefore, if the department required additional spending authority for these building operations contracts, it could redirect spending from other accounts in the non-personnel budget, including its budget for utilities, which was underspent by $1.4 million, on average, over the prior two fiscal years. If implemented, this budget reduction would not, therefore, reduce any actual services.

Budget Unit 420	
Emergency Medical Services	**Page 428**

<u>EMS Trust Fund (0363)</u>

Expenditure Account 5610110 — **IC - Transfers Out**

County Executive Recommended	Management Audit Proposed	Expenditure Increase
$2,827,663	$4,936,776	$2,109,113

<u>General Fund (0001)</u>

Revenue Account 4920120 — **IC - Transfers In**

County Executive Recommended	Management Audit Proposed	Revenue Increase
$2,827,663	$4,936,776	$2,109,113

The Emergency Medical Services Agency (EMS) imposes fines and penalties against first responders and Rural/Metro West, a contracted medical-transport and ambulance provider, for late responses to an emergency as required by contract. Prior to 2001, monies from these assessments were deposited into the General Fund and were available to offset the operating costs of the Emergency Medical Services (EMS) Agency of the Public Health Department (Budget Unit 410). Subsequently, "to avoid any perception of conflict of interest," a new provision was added to the County's contract with then-vendor American Medical Response-West (AMR-West), wherein EMS fines and penalties would be deposited into a trust fund to support EMS system improvements, rather than into a revenue account to support EMS Agency operations.

Records from the County's financial system indicate that in May of 2003, an EMS Fines & Penalties Trust Fund (Fund 0363 or Trust Fund) was created "to receive fines and penalties from vendors whose performance is not meeting the requirements of the contract." Fund resources would "be expended in a manner that benefits the EMS system determined by the County." The original contract required half of first responder penalties to be used on first responder programs, services, and equipment except when "… the EMS system is presented with actual or reasonably projected substantial financial hardship." In 2011, the Board of Supervisors approved a strategic plan that allocates at least 20 percent of the prior year's revenues to the EMS Fund reserve.

In FY 2017-18, the EMS Agency spun off from Public Health into its own department (Budget Unit 420) within the Santa Clara Valley Health and Hospital System (SCVHHS). As part of the transition, 18.5 FTE positions, net expenditures and revenues, and the EMS Trust Fund that were budgeted in BU 410 shifted to BU 420. This change effectively shifted EMS personnel costs to the General Fund, despite the Agency's growing Trust Fund balance. The revenue generated from fines and penalties is now deposited into Fund 0363 and allocated based on recommendations from the EMS Advisory Committee and the Executive Director of the SCVHHS. At its April 29, 2020 meeting, the Health and Hospital Committee (HHC) approved a revised spending plan for the EMS Trust Fund, which was incorporated into the FY 2020-21 Recommended Budget adopted by the Board on June 23, 2020.

Because this plan was prepared in April, actual revenues, and expenditures for the last few months of FY 2020 were based on projections. Based on these projected revenues and expenditures, the department estimated the Trust Fund balance to be $12,180,486 by June 30, 2020. However, based on actuals obtained by the Management Audit Division from SAP following the close of the fiscal year, the actual ending balance in Fund 0363 as of June 30, 2020 was $12,787,563, or $607,078 higher. The department overestimated both revenues and expenditures, the former by $347,156 and the later by $954,234 compared to actuals, as illustrated in Table 1 below.

Table 1
EMS Fines & Penalties Trust Fund (0363) Status
FY 2020 Actual and FY 2021 Projected

	FY2020 Actual			**FY2021 Projected**	
	June Actual	Department Est (Apr-20)	Variance	HMR	Department (Apr-20)
Trust Fund Balance, Beginning	**$14,002,103**	**$14,002,103**	**$0**	**$12,787,564**	**$12,180,486**
Total Revenues	483,141	830,297	(347,156)	753,750	753,750
Total Expenditures	(1,697,680)	(2,651,914)	(954,234)	(2,827,663)	(2,827,663)
Trust Fund Balance, Ending	**$12,787,564**	**$12,180,486**	**$607,078**	**$10,713,651**	**$10,106,573**

More importantly, however, is that the HHC approved placing the entire $10.1 million fund balance projected to be available in FY 2021 into a reserve for "significant strategic or long-range projects that benefit the EMS system, as approved by the Board of Supervisors" while increasing funding for existing positions by over $1 million using these one-time resources. Such reserve is orders of magnitude greater than 20 percent of the prior year's revenue (see Table 1 above) and the Board of Supervisors and the SCVHHS Executive director have the prerogative to dedicate these funds to ongoing operations when a financial hardship occurs in the County. The Management Audit Division believes that due to the ongoing health crisis and uncertain financial state of the County, the financial hardship contemplated in the original agreement which established Fund 0363 now exists.

The General Fund support necessary to continue the operations of the EMS Agency in FY 2020-21 equals $2.1 million according to the County Executive's Recommended Budget. This amount is based on gross expenditures of $6.4 million, $2.8 million of which are reimbursed by transfers in from Fund 0363, and revenues of $4.3 million. Annually, over 90 percent of the transfer in budget is used to fund contract services that, on average, have been overbudgeted by $1.5 million since the department's reorganization in FY 2017-18. Ideally, the County would not use General Fund dollars to pay for services which have a dedicated funding source in which there is a large amount of excess funds. The EMS Fund currently has excess cash of over $12 million, which could be used to cover most of the proposed FY 2020-21 General Fund outlay for EMS.

Therefore, we recommend that rather than reserving over $10 million in the EMS Trust Fund as envisioned in the current budget, the General Fund cost of $2.1 million be offset by an increased transfer in of the same amount from the EMS Trust Fund. This action would still leave about $8.5 million of excess cash in the fund, or 1.73 times the amount of projected FY 2020-21 expenditures as illustrated in Table 2 below.

Table 2
EMS Fines & Penalties Trust Fund (0363)
Actual and Projected Balances by Fiscal Year

	Actual	Actual	Actual	Actual	Rec
	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Beginning Balance	$11,205,003	$11,208,191	$14,033,130	$14,002,103	$12,787,564
Total Revenues & Transfers In	2,412,287	4,199,764	1,578,511	483,141	753,750
Total Expenditures & Transfers Out	(2,409,099)	(1,374,826)	(1,609,538)	(1,697,680)	(4,936,776)[1]
Ending Balance	**$11,208,191**	**$14,033,130**	**$14,002,103**	**$12,787,564**	**$8,604,538**
Ending Balance/ Expenditures (%)	465%	1021%	870%	753%	174%
Unrestricted cash	11,173,957	13,972,284	13,922,580	12,730,700	8,547,674
Unrestricted as % of expenditures	464%	1016%	865%	750%	173%

[1] Represents $2,827,663 already included in the Recommended Budget (see Table 1) plus $2,109,113 to offset the proposed General Fund outlay for EMS.

Budget Unit 810
County Debt Service **Page 251**

Multiple Accounts			**General Description**
	County Executive Recommended	**Management Audit Proposed**	**Net Change**
Fund 0045-Justice Facilities			
4301100 Interest-Deposits	**$0**	**$290,523**	**$290,523**
5610110 IC - Transfers Out	**$0**	**$290,523**	**($290,523)**
Total – Fund 0045	**$0**	**$0**	**$0**
Fund 0001, CC2111			
4580200 FED - Other Funds	**$1,087,062**	**$1,087,062**	**$0**
4920120 IC - Transfers In	**$4,795,566**	**$5,086,089**	**$290,523**
Total – Fund 0001	**$5,882,628**	**$6,173,151**	**$290,523**
Total GF Revenue (pg. 251)	**$5,882,628**	**$6,173,151**	**$290,523**

The Debt Service Budget Unit (BU 810) in the Finance Agency sells bonds on behalf of County agencies as well as other public entities (e.g. school districts, special districts). The FY 2020-21 Recommended Budget for General Fund debt service in BU 810 is $80,898,237. Of this amount, $22,445,321 or 28 percent is reimbursable from non-general fund sources. However, in the course of our review, we identified approximately $290,523 of available cash on hand in a debt service fund (Fund 0045) that has been inadvertently overlooked by the Debt Group since FY 2015-16. This cash can return to the General Fund and be used to offset the County's debt service obligation for certain bond payments.

Fund 0045-Justice Facilities is a debt service fund created in 1986 to make payments due on bonded debt issued for Elmwood and Court Facilities. The General Fund currently services debt due on the Series 2014 O Lease Revenue Bonds, which refunded previous bonds whose proceeds financed the construction of a courthouse and other related justice facilities. The principal and interest payment due on these bonds in FY 2020-21 is $1,533,650, which is part of the $80,898,237 noted above. The Debt Group agrees that Fund 0045 should return all the remaining cash balance to the General Fund for debt service payments and indicated that it will work with the Office of Budget and Analysis (OBA) to transfer the cash balance we identified to the appropriate fund center (CC 2111, BU 810) and close Fund 0045 in FY 2021.

We support this action and set forth a sample matrix of accounts that would ensure the benefit of this cash balance accrues to the General Fund in the coming fiscal year.

Budget Unit 921
SCVMC Hospitals & Clinics **Page 444**

Multiple Accounts (Funds 60, 62 and 63)			**Utilities**
	County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
5290100 Utilities	**$20,988**	**$171**	**($20,817)**
5290110 Utilities - Electricity	**$11,327,810**	**$10,724,519**	**($603,292)**
5290120 Utilities - Natural Gas	**$2,818,193**	**$2,321,070**	**($497,123)**
5290130 Utilities - Water	**$901,010**	**$1,247,893**	**$346,883**
Total	**$15,068,001**	**$14,293,652**	**($774,349)**
General Fund subsidy	**$240,158,466**	**$239,384,117**	**($774,349)**

Utility costs for the Santa Clara Valley Medical Center Hospitals and Clinics (SCVMC), including the recently acquired health facilities reported in Fund 62 and Fund 63, are budgeted in four different accounts within Budget Unit 921 (BU 921), as specified above. In aggregate, the costs for these utility accounts are projected to increase by $1,118,159 (8 percent) over the budgeted amount for FY 2020, and by $1,675,608 (13 percent) over actual expenditures as of June 30, 2020. On a line-item level, electricity is up $1,279,506 (13 percent) over current year actuals, natural gas is up $643,474 (30 percent), and water is down $268,199 (23 percent). The Recommended Budget proposed no changes to appropriations for utilities at VMC Bascom (Fund 60), a 28 percent increase for O'Connor (Fund 62), and a 31 percent increase for St. Louise and De Paul Health Center (Fund 63) as described further below.

In March of 2019, the County acquired depreciable assets of O'Connor Hospital, St. Louise Regional Hospital, and De Paul Health Center (DHC) from Verity and capitalized them on June 30, 2019. With the acquisition, the Hospital System gained approximately 887,487 gross building square feet,[1] of which 841,577 sq. ft. were occupied and allocated to Fund 62 and 63 based on FAF's Cost Plan Occupancy Report for FY 2021. Since the new facilities were capitalized in FY 2019, baseline expenditures for FY 2021 already include the added costs resulting from this increase in space. As such, it is reasonable to conclude that the primary variable affecting utility costs in the FY 2020-21 Recommended Budget is commodity price inflation rather than load growth from new facilities going online.

[1] As reported in the Official Statement document to investors who purchased the Series 2019 A and A-T Lease Revenue Bonds that financed the County's purchase of the hospitals. The difference in gross versus occupied square footage is attributable to the County's limited partnership interest in an office building at O'Connor for which it did not receive consideration.

To evaluate the reasonableness of SCVMC's proposed budget for utilities, the Management Audit Division compared projected expenditures for each utility type shown above to estimates developed for these accounts by Facility and Fleet's (FAF) Utility Management group for most County facilities and to energy prices published by the Bureau of Labor Statistics (BLS) and forecasts prepared by the US Energy Information Administration (EIA). FAF's projections are developed from a baseline amount reflecting expenditures in previous years, plus an estimated cost for any new buildings that will be added or eliminated, and an adjustment for anticipated rate increases.

To arrive at our independent projection, we start with actual expenditures as of June 30, 2020 in the three funds[2] that comprise BU 921's operating funds. As stated earlier, no new facilities are coming online for the hospitals in FY 2021 so no adjustments for additional utility costs from square footage increases are included in the forecast. Next, we applied a 7 percent price inflation to all the utility line items, which we believe is conservative. The average price data published by the Bureau of Labor Statistics (BLS) for the San Francisco-Oakland-Hayward metropolitan area from 2017 to 2020 suggests this figure is closer to 4 percent for electricity and 2 percent of natural gas, which is corroborated by the rate increases anticipated by FAF. Water rates published by San Jose Water Company, the investor-owned utility that provides water to most of the South Bay, indicate a 2.09 percent average rate increase for the typical customer for calendar years 2019-2021, while FAF assumes 6 percent.

Furthermore, the July edition of US Energy Information Administration's (EIA) Short-Term Energy Outlook caveats that energy market projections "remain subject to heightened levels of uncertainty because mitigation and reopening efforts related to the 2019 novel coronavirus disease (COVID-19) continue to evolve." Some energy prices (e.g. natural gas) are at their lowest point ever due to reduced demand and declining energy consumption, a trend that has been exacerbated by the spread of COVID-19 and one that is unlikely to reverse until economic conditions become more favorable in 2021. We believe that the 7 percent inflation factor discussed in the paragraph above provides buffer room for a 3 percent[3] uncertainty factor and note that actual utility expenditures can be re-examined as part of the mid-year budget review, at which point the economic outlook should be clearer.

The Management Audit Division therefore believes that the monies budgeted for utilities in BU 921 should be reduced by $774,349 as described in more detail below.

Fund 60 – VMC Bascom

The cost of utilities for VMC at Bascom is budgeted in BU 921, Fund 60 under three accounts as illustrated in Table 1. Occupying 3,582,991 gross square feet, the average cost per square foot for electricity, natural gas, and water in the FY 2020 modified budget was $2.80/sq. ft. compared to actuals of $2.72/sq. ft.

[2] These funds are Fund 60, 62, and 63.

[3] Over the 4 percent average rate increase projected by FAF for all utility classes.

Table 1: Budgeted and Actual Utility Costs for VMC Bascom Campus by Commodity Account

	FY 2020 Budget		**FY 2020 Actuals**		**FY 2021 REC Budget**	
Account	Total $	$/Sq. Ft.	Total $	$/Sq. Ft.	Total $	$/Sq. Ft.
5290110 Utilities - Electricity	$7,613,686	$2.12	$7,304,026	$2.04	$7,613,686	$2.12
5290120 Utilities - Natural Gas	2,036,693	0.57	1,626,760	0.45	2,036,693	0.57
5290130 Utilities - Water	386,185	0.11	808,347	0.23	386,185	0.11
Total	**$10,036,564**	**$2.80**	**$9,739,133**	**$2.72**	**$10,036,564**	**$2.80**

As illustrated above, the Recommended Budget proposes no increases to the utilities budget for VMC at Bascom even though water costs appear grossly underbudgeted compared to electricity and natural gas. Based on actual expenditure trends in these accounts for fiscal years 2017 through 2020 and applying a conservative inflation rate of 7 percent, we project that aggregate utility costs in Fund 60 will exceed the amount in the Recommended Budget by approximately $357,977 or $0.10/sq. ft. assuming no changes in square footage (see discussion on the first page). Table 2 breaks out this projection by commodity account and $/sq. ft.

Table 2: Management Audit's FY 2021 Projected Utility Costs for VMC Bascom Campus

	FY 2021 Baseline Budget		**FY 2021 Projection High-End**		**Over/(Under) FY 2021 REC Budget**	
Account	Total $	$/Sq. Ft.	Total $	$/Sq. Ft.	Total $	$/Sq. Ft.
5290110 Utilities - Electricity	$7,304,026	$2.04	$7,795,560	$2.18	$181,874	$0.05
5290120 Utilities - Natural Gas	1,626,760	0.45	1,736,235	0.48	(300,458)	(0.08)
5290130 Utilities - Water	808,347	0.23	862,746	0.24	476,561	0.13
Total	**$9,739,133**	**$2.72**	**$10,394,541**	**$2.90**	**$357,977**	**$0.10**

To better reflect the likely actuals this fiscal year, we recommend the utilities budget for Fund 60 be augmented by $357,977 as illustrated in Table 2 above.

<u>Fund 62 –O'Connor</u>

The FY 2020 budget for utilities at O'Connor is in a general GLA account - 5290100 Utilities, while actuals are in the same accounts as those at VMC Bascom. Thus, a line-item comparison of the current budget to the FY 2021 Recommended Budget was not possible. However, based on a similar analysis of actuals as for VMC Bascom, and utilizing the gross square footage allocated to

Fund 62 in FAF's Cost Plan Occupancy Report, we project that aggregate utility costs in Fund 62 will not exceed $2,934,844 or $4.38/sq. ft., which is $772,530 or $1.15/sq. ft. less than the amount in the Recommended Budget assuming no changes in square footage. Table 3 breaks out this projection by commodity account and $/sq. ft.

Table 3: Management Audit's FY 2021 Projected Utility Costs for O'Connor Hospital

	FY 2021 Baseline Budget		FY 2021 Projection High-End		Over/(Under) FY 2021 REC Budget	
Account	Total $	$/Sq. Ft.	Total $	$/Sq. Ft.	Total $	$/Sq. Ft.
5290100 Utilities	$160	<$0.01	$171	<$0.01	($106)	<$0.01
5290110 Utilities - Electricity	2,172,517	3.24	2,318,720	3.46	(567,432)	(0.85)
5290120 Utilities - Natural Gas	369,731	0.55	394,612	0.59	(114,530)	(0.17)
5290130 Utilities - Water	207,384	0.31	221,341	0.33	(90,462)	(0.14)
Total	**$2,749,793**	**$4.11**	**$2,934,844**	**$4.38**	**($772,530)**	**($1.15)**

To better reflect the likely actuals this fiscal year, we recommend the utilities budget for Fund 62 be reduced by $772,530 as illustrated in Table 3 above.

<u>Fund 63 – St. Louise Hospital and De Paul Health Center</u>
The FY 2020 budget for utilities at St. Louise and De Paul Health Center (DHC) is in a general GLA account - 5290100 Utilities, while actuals are in the same accounts as those at VMC Bascom and O'Connor. Thus, a line-item comparison of the current budget to the FY 2021 Recommended Budget was not possible. However, based on a similar analysis of actuals as for VMC Bascom and O'Connor, and utilizing the gross square footage allocated to Fund 63 in FAF's Cost Plan Occupancy Report, we project that aggregate utility costs in Fund 63 will not exceed $964,268 or $4.43/sq. ft., which is $359,795 or $1.65/sq. ft. less than the amount in the Recommended Budget assuming no changes in square footage. Table 4 breaks out this projection by commodity account and $/sq. ft.

Table 4: Management Audit's FY 2021 Projected Utility Costs for St. Louise Hospital and DHC

	FY 2021 Baseline Budget		FY 2021 Projection High-End		Over/(Under) FY 2021 REC Budget	
Account	Total $	$/Sq. Ft.	Total $	$/Sq. Ft.	Total $	$/Sq. Ft.
5290100 Utilities	$0	$0.00	$0	$0.00	($20,711)	($0.10)
5290110 Utilities - Electricity	571,761	3.24	610,239	2.80	($217,733)	(1.00)
5290120 Utilities - Natural Gas	178,228	0.55	190,222	0.87	($82,136)	(0.38)

5290130 Utilities - Water	153,478	0.31	163,806	0.75	($39,216)	(0.18)
Total	**$903,468**	**$4.11**	**$964,268**	**$4.43**	**($359,795)**	**($1.65)**

To better reflect the likely actuals this fiscal year, we recommend the utilities budget for Fund 63 be reduced by $359,795 as illustrated in Table 4 above.

Budget Unit 921 – All Funds

The aggregate impact of the recommendations presented in Tables 2 through 4 on the Recommended Budget for utilities in BU 921 is summarized in Table 5.

Table 5: Management Audit Proposed vs County Executive Recommended FY 2021 Budget

	Fund 60	**Fund 62**	**Fund 63**	**All Funds**
Account	VMC Bascom	O'Connor	St. Louise & DHC	BU 921
5290100 Utilities	$0	($106)	($20,711)	($20,817)
5290110 Utilities - Electricity	181,874	(567,432)	(217,733)	(603,292)
5290120 Utilities - Natural Gas	(300,458)	(114,530)	(82,136)	(497,123)
5290130 Utilities - Water	476,561	(90,462)	(39,216)	346,883
Total	**$357,977**	**($772,530)**	**($359,795)**	**($774,349)**

Adoption of these recommendations would yield a net savings of nearly three-quarters of a million dollars for the County's hospitals and enhance the accuracy of the budget. This savings should be returned to the General Fund in the form of a reduced General Fund subsidy to the hospital system.

12 Pharmaceutical Accounts		**Inpatient, Outpatient, Custody**
County Executive	**Management Audit**	**Expenditure**
Recommended	**Proposed**	**Decrease**
$281,901,768	**$272,035,206**	**$9,866,562**

The chart below shows the list of the 12 accounts we reviewed for pharmaceutical expenses budgeted by Valley Medical Center for its inpatient, outpatient and custody health medications. The amounts below that are in the FY 2020-21 budget are inconsistent with the work papers furnished to us by VMC personnel for the pharmacy budget.

Valley Medical Center Pharmacy Line Items	FY 2020-21 Budget
Pharmacy-Out-Patient Pharmacy	$ 149,501,955
Medical Supplies - Pharmaceutical PHS-OP	$ 36,279,525
Medical Supplies - Pharmaceutical WAC-OP Pricing	$ 26,199,428
Medical Supplies - Pharmaceutical PHS-CRX	$ 26,017,319
Medical Supplies - Pharmaceutical GPO-IP	$ 16,206,809
Medical Supplies - Pharmaceutical WAC-IP Pricing	$ 9,353,868
Medical Supplies - Pharmaceutical PHS-IP/OP	$ 6,485,131
Medical Supplies - Pharmaceutical GPO-OP	$ 6,125,704
Medical Supplies - Pharmaceutical GPO-CRX	$ 5,225,211
Hospital Supplies - Non Medical-Containers (Pharm)	$ 379,419
Medical Supplies - Other Pharmaceuticals	$ 70,210
Medical Supplies - Pharmaceutical WAC-CRX	$ 57,189
Total	**$ 281,901,768**

As such, it was not possible to conduct a detailed analysis of the assumptions underlying each line item. However, pharmacy personnel report that:

1. The budget for medications for custodial patients across the County, including the main jail, Elmwood Correctional Center and Juvenile Hall and the Ranch, was based on an assumed average daily population of 3,800. Given the actual reduction in the incarcerated population, we do not believe the average daily incarcerated population will exceed 3,000 in FY 2020-21. We note that the figures for persons in custody are different in the hospital system's records (EPIC) versus the custodial department's records (such as the Sheriff's Office.)

2. VMC estimates a five percent reduction in average daily census at each hospital location in FY 2020-21 as a result of the reduction in service levels due to COVID-19. However, the projections for outpatient drug expenses in FY 2020-21 assume a straight-line projection of visits based on the number of visits during the first 9 months of FY 2019-20 (through March 2020), before the impact of COVID-19. As a result, this projection does not take into account any reduction, even temporary, of outpatient clinic services utilization due to COVID-19.

Because the assumptions upon which the budgeted figures were based exclude realistic estimates of changes in custodial and outpatient drug needs due to COVID-19, we recommend a small reduction of 3.5 in the overall pharmaceutical allocation of $281.9 million, for a budgetary savings of $9,866,562. We recommend realizing this savings through a reduction of the General Fund subsidy to the hospital system.