

Hospital Enterprise Fund

Health Services

David K. Culberson, *Hospital Chief Executive Officer*

Enterprise Fund	2017-2018 Actual	2018-2019 Adjusted	2019-2020 Requested	2019-2020 Recommended	Increase/ (Decrease)
Expenditures					
<i>Salaries & Benefits</i>	\$228,212,596	\$249,326,461	\$252,570,989	\$252,570,989	\$3,244,528
<i>Services & Supplies</i>	127,985,380	118,064,481	122,817,452	122,817,452	4,752,971
<i>Centrally-Budgeted Expenses</i>	0	9,263,789	7,188,401	7,188,401	(2,075,388)
<i>Other Charges & Uses</i>	527,147	164,142	137,697	137,697	(26,445)
<i>Fixed Assets</i>	10,266,035	29,832,400	10,706,639	10,706,639	(19,125,761)
<i>Operating Transfers Out</i>	0	20,000,000	20,000,000	20,000,000	0
<i>Total Appropriations</i>	\$366,991,158	\$426,651,273	\$413,421,178	\$413,421,178	(\$13,230,095)
Earned Revenues By Source					
<i>Interest/Rents</i>	\$2,736,563	\$2,461,625	\$2,359,979	\$2,359,979	(\$101,646)
<i>Aid From Other Governments</i>	107,245,112	46,783,586	56,666,688	56,666,688	9,883,102
<i>Miscellaneous Revenues</i>	0	0	2,043,903	2,043,903	2,043,903
<i>Operating Transfers In</i>	2,138,053	16,039,238	4,638,053	4,638,053	(11,401,185)
<i>Hospital Special Revenues</i>	278,532,025	339,408,708	347,712,555	347,712,555	8,303,847
<i>Fund Balance</i>	(23,660,595)	21,958,116	0	0	(21,958,116)
<i>Total Revenues</i>	\$366,991,158	\$426,651,273	\$413,421,178	\$413,421,178	(\$13,230,095)
Net County Cost	\$0	\$0	\$0	\$0	\$0
Staffing					
<i>Allocated Positions</i>	1,297.0	1,367.0	1,394.0	1,394.0	27.0
<i>Temporary (Full-Time Equivalent)</i>	388.2	422.7	477.7	477.7	55.0
<i>Total Staffing</i>	1,685.2	1,789.7	1,871.7	1,871.7	82.0

- Fixed assets amount reflects only depreciation expense in 2017-2018.
- Operating Transfers In includes a General Fund Contribution of \$2,138,053.

Purpose

San Joaquin General Hospital (SJGH) and San Joaquin County Clinics (SJCC) provide comprehensive and accessible health care services to citizens of San Joaquin County, specialized health care delivery programs not otherwise available in the community, and organized health care programs and services for public and private organizations. SJGH also provides education and training programs for physicians and paramedical personnel, and initiates and participates in community-wide health care planning. SJGH ensures effective business management, operates in a cost-effective manner, and maximizes collections for services rendered.

California Welfare and Institutions Code Section 17000 mandates the provision of medical care to the indigent

population of the County. The Board of Supervisors determines the level of service provided. Although the County is not mandated to own and operate a hospital, once the institution is established, services must be delivered according to various laws and regulations.

Board Strategic Priorities 2019-2020 through 2021-2022

The 2019-2020 recommended budget for SJGH focuses on the implementation of the Board Strategic Priorities as adopted by the Board on April 9, 2019. The Board Strategic Priorities for fiscal years 2019-2020 through 2021-2022 are a continuation of the Board's original five key priorities established in 2015. The Board has updated and augmented the goals associated with these strategic priorities to reflect

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the Board's direction related to water issues, health, collaboration, and homelessness. The following highlights provide an overview of several projects, programs, and activities administered by SJGH.

Ensure Fiscal Responsibility

SJGH continues to operate within its available revenue, with a recommended budget for 2019-2020 that requires only the minimum \$2.1 million annual Maintenance of Effort contribution from the County General Fund. Activities planned for 2019-2020 will continue to focus on maintaining financial stability for both SJGH and SJCC.

The achievement of Trauma Center status provides SJGH a clinical program that is unique in the County, serves the area residents in an efficient and optimal manner, and reinforces SJGH's position as a valuable community asset.

In 2019-2020, SJGH's continued operation of primary care clinics through SJCC, the County's Federally Qualified Health Center Look-Alike (FQHC-LAL), will be evaluated for operational efficiency and sustainability.

The continued partnership with the California Department of Corrections and Rehabilitation (CDCR) allows SJGH to maintain this important service line while assisting SJGH in attracting new physicians, nurses, ancillary, and other support personnel to service both CDCR and all community patients.

Promote Good Governance and Increase Organizational Capabilities

SJGH's organizational capabilities are enhanced through use of the Cerner and PeopleSoft Health Information System and Cerner Electronic Health Record, which were implemented in March 2018. The systems help SJGH document patient care, order tests, and communicate results in a more efficient manner than previous systems. This investment in technology has a profound impact on the way work processes are performed and the way health care teams collaborate. A nurse staffing module has also been implemented to accept data from Cerner regarding acuity and quantity of patients, and to recommend appropriate staffing levels for optimal care.

Construction of the Phase II Expansion Project was completed in spring 2019. Following installation of equipment, testing of systems, final Office of Statewide Health Planning and Development approval, and certification by licensing agencies, the new inpatient building is scheduled to be occupied in fall 2019. This facility will provide 45 replacement beds for the 1932 Towers building that due to seismic requirements, may no longer house inpatient beds after December 31, 2019.

In April 2018, the American College of Surgeons visited SJGH to perform a site survey for Trauma Center Level III

validation. A verification report was subsequently received in July 2018 confirming SJGH's trauma center status. The current Trauma Center Designation Agreement (A-18-430) with the San Joaquin County Emergency Medical Services Agency is valid until August 31, 2021.

Major Budget Changes

Salaries & Employee Benefits

- \$2,494,929 Salary and benefits adjustments.
- \$3,935,029 Add 31 new positions.
- \$725,118 Transfer six positions from Public Health Services for Hazelton Clinic.
- (\$1,065,000) Delete ten vacant positions.
- (\$2,845,548) Decrease in extra-help costs.

Services & Supplies

- \$3,242,821 Increase in medical and laboratory supplies.
- \$2,026,405 Increase in professional services costs to reflect actual experience.
- \$574,154 Increase in membership costs.
- \$458,904 Increase in technology maintenance costs.
- \$371,300 Increase in recruitment costs.
- (\$1,681,005) Decrease in facility maintenance and related supplies.
- (\$245,114) Decrease in clothing and food costs.

Centrally-Budgeted Expenses

- \$653,270 Increase in data processing charges.
- (\$1,503,766) Decrease in Workers' Compensation and Medical Malpractice insurance costs.
- (\$1,223,004) Cost Allocation Plan adjustment.

Revenues

- \$40,250,900 Increase in revenue from insurance companies and CDCR.

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|------------------|-------------------------------------------------------------------------------------------|---------------|-------------------------------------------------------|
| ➤ \$3,703,962 | Increase in Medicare revenue. | ➤ \$1,499,867 | Inpatient Pharmacy relocation. |
| ➤ \$2,955,591 | Increase in private pay and charity revenue. | ➤ \$1,139,500 | Disaster recovery data center. |
| ➤ \$2,616,000 | Increase in revenue from Quality Incentive Program (QIP). | ➤ \$1,010,700 | Cloud computing backup data management equipment (2). |
| ➤ \$2,500,000 | Increase in realignment revenue. | ➤ \$972,400 | Clinical data exchange software (4). |
| ➤ \$2,488,750 | Increase in revenue from Enhanced Payment Program (EPP). | ➤ \$750,000 | Trauma Bay upgrade. |
| ➤ \$2,043,903 | Medi-Cal Graduate Medical Education (GME) funding. | ➤ \$500,000 | Observation Unit implementation. |
| ➤ \$1,104,783 | Increase in Assembly Bill (AB) 915 funding for unreimbursed Medi-Cal outpatient services. | ➤ \$300,000 | Magnetic Resonance Imaging architectural/engineering. |
| ➤ \$405,500 | Increase in Public Hospital Redesign and Incentives in Medi-Cal (PRIME) funding. | ➤ \$245,400 | Mass spectrometry equipment. |
| ➤ \$274,517 | Increase in Medi-Cal managed care supplemental payment. | ➤ \$215,500 | Cerner clinical modules. |
| ➤ (\$42,810,747) | Decrease in Medi-Cal revenue. | ➤ \$200,000 | Cardiac Cath Lab replacement. |
| ➤ (\$3,274,224) | Decrease in Global Payment Program (GPP) revenue. | ➤ \$200,000 | Domestic water filtration system. |
| ➤ (\$1,511,004) | Decrease in physician State Plan Amendment (SPA) payment. | ➤ \$150,000 | Benton Hall building improvements. |
| ➤ (\$673,448) | Decrease in grant funding. | ➤ \$150,000 | Dietary/Cafeteria building replacement. |
| ➤ (\$541,649) | Decrease in Senate Bill (SB) 1732 reimbursement for capital construction costs. | | |
| ➤ (\$476,006) | Decrease in AB 85 Medi-Cal rate range payment. | | |
| ➤ (\$227,161) | Decrease in services provided to other County departments. | | |
| ➤ (\$101,646) | Decrease in interest income. | | |
| ➤ (\$21,958,116) | Decrease in use of fund balance. | | |

Fixed Assets/Capital Improvement

- \$1,873,271 Medical and information technology equipment.
- \$1,500,001 Capital contingency amount.

Program Discussion

The 2019-2020 recommended SIGH budget totals \$413,421,178, which is a decrease of \$13,230,095 from the 2018-2019 adjusted budget. This change mainly reflects decreases in capital expenditures, extra-help costs, facility maintenance, insurance, and Cost Allocation Plan adjustments, offset by salary and benefits adjustments, the net addition of 27 full-time positions, and increases in costs for medical supplies, professional services, memberships, and technology maintenance contracts. Approximately \$10.7 million for capital expenditures is budgeted for 2019-2020, reflecting a decrease of \$19.1 million from 2018-2019. Funding for capital items includes an allowance of approximately \$1.5 million to address unanticipated capital needs during the year.

The recommended budget adds 31 new full-time positions, transfers 6 existing allocations from the Public Health Services budget to SJGH reflecting SJCC's operation of the Hazelton Clinic, and deletes 10 vacant positions, for a net increase of 27 positions.

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New positions include:

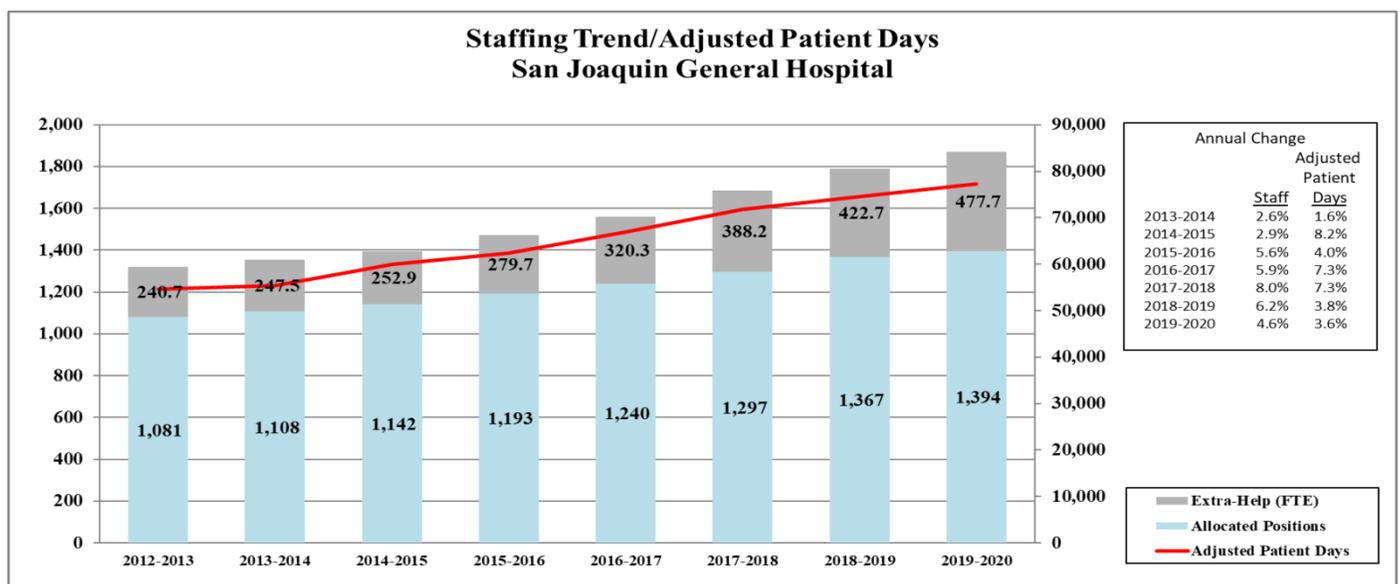
- Physicians (3) - Needed for increasing cardiology and clinic workload.
- Outpatient Clinic Assistants (5) - Supportive duties for clinic providers to increase productivity.
- Clinical Social Workers (2) - Assistive social services for patients and families.
- Office Assistant - Clerical support for clinics.
- Staff Nurses (9) - Conversion of extra-help and outside nursing workforce to full-time positions.
- Dialysis Patient Care Technician - Increasing dialysis treatment workload and coverage for extended hours.
- Speech Therapist - Evaluation and treatment of speech/language and swallowing disorders-critical for stroke patients.
- Hospital Attendant - Patient transportation and support services.
- Assistant Medical Records Administrator - Additional supervision for medical records.
- Storekeeper - Perform inventory maintenance for supplies and equipment.
- Business Analysts (2) - Data analysis for regulatory performance, quality of care improvements, and patient financial services.
- Department Applications Analyst - Support revenue cycle activities.

- Department Information Systems Analysts (2) - Maintain databases and build tools for data monitoring.
- Departmental Personnel Analyst - Personnel-related activities for increasing workforce.

The recommended budget includes a net increase of 55.0 full-time equivalent (FTE) extra-help staff, reflecting growth in nursing, technicians/specialists, aides, and clerical areas; partially offset by decreases in non-patient areas such as dietary, laundry, and terminal room cleaning. Although the projected FTEs increase, budgeted costs actually decrease by approximately \$2.8 million, reflecting a correction from the prior year's budget amount. It is anticipated that the recommended increases in full-time staff and extra-help will help to limit overtime costs and eventually reduce the need for supplemental staffing.

Staff Recruitment Efforts

Out of the 1,367 full-time positions allocated to SJGH in 2018-2019, only 91 positions (6.66%) were vacant as of April 30, 2019. Within those amounts, there were 32 (7.98%) vacant Registered Nurses (RNs) out of 401 total allocated RN positions. This rate is slightly improved from June 2018, when SJGH had 30 (8.47%) vacant RN positions out of 354 allocations. Staff continues to work on hiring RNs and other clinical ancillary staff, including diagnostic imaging technicians. Until the vacancies are filled, full-time staff and extra-help are being augmented by use of supplemental staffing to perform these critical tasks.



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FQHC-LAL Clinics

SJCC operates FQHC-LAL clinics located in French Camp, Stockton, and Manteca. Efforts are currently underway to improve financial performance of the clinics by increasing productivity, improving revenue cycle operations (i.e., ensuring proper billing and timely collections for services rendered), and reducing locum tenens (temporary) physician coverage. SJGH and SJCC management are in the process of evaluating each clinic's activity and performance in order to develop recommendations on continued viability.

Revenues

The 2019-2020 recommended budget of \$413.4 million is supported by \$313.1 million in net patient revenue and \$100.3 million in non-patient revenue.

In 2019-2020, net patient revenue is projected to increase by \$4.1 million from the 2018-2019 adjusted budget amount of \$309.0 million. This change is due to increasing volumes in the SJCC clinics, and continued growth in the Trauma Program and CDCR.

Payer Mix

The 2019-2020 projected payer mix is based on actual experience through December 31, 2018, as follows:

Payer Mix	Hospital/ Hospital- Based Clinics	FQHC Clinics
<i>Medi-Cal</i>	53.6%	87.4%
<i>Medicare</i>	17.3%	8.2%
<i>CDCR</i>	15.8%	0.0%
<i>Insurance</i>	10.3%	1.6%
<i>Private Pay/Indigent</i>	3.0%	2.8%
<i>Total</i>	100.0%	100.0%

Non-Patient Revenue

Revenue projected to be received by SJGH in 2019-2020 through Federal, State, and local funding sources that are not directly related to patient care represents approximately 24.3% of total revenue. The recommended budget includes supplemental funding of \$100.3 million, including \$2.1 million provided by the County General Fund.

Realignment Revenue

Realignment revenue is allocated based on sales tax and vehicle license fees collected by the State. AB 85 legislation allows the State to take 80% of the County's net savings realized from implementation of the Affordable Care Act up to the amount of realignment revenue allocated. As a conservative approach, SJGH assumes revenues received will

be taken back by the State and therefore sets the funds aside as a reserve liability on the balance sheet pending determination of the actual take-back amount. This process is generally completed two years after close of the respective fiscal year. Realignment revenue for 2019-2020 is estimated at \$20.1 million and amounts received will be held as a reserve within the Hospital Enterprise Fund until the final take-back amount has been determined. Based on actual experience, reconciliation of prior year realignment revenue is projected to result in a net amount of \$2.5 million to be recognized during 2019-2020.

Medi-Cal 2020 - Section 1115 Waiver

The 2015-2020 Social Security Act Section 1115 Medi-Cal Waiver has two components that provide supplemental funding to SJGH: 1) PRIME for those patients with Medi-Cal coverage; and 2) GPP for the remaining uninsured.

The PRIME program requires SJGH to achieve specific targets in nine project areas to take full advantage of the supplemental PRIME funding and optimize patient health outcomes. PRIME funding decreased in 2018-2019 and will decrease again in 2019-2020. It is anticipated that PRIME supplemental funding will not be continued if a Waiver is negotiated in 2020. Any such supplemental payments for improved patient care and proper population health management in the future are expected to be through risk-sharing arrangements with Medi-Cal managed care health plans. The 2019-2020 budget includes \$13.0 million in PRIME funding for SJGH.

The GPP, which replaced Disproportionate Share and Safety Net Care Pool funding, establishes a Statewide pool of funding for the remaining uninsured. The funding distribution methodology is designed to provide incentives for Designated Public Hospital systems to move from high-cost, avoidable services to preventative services, similar to PRIME. The GPP is a pilot program that runs through 2020. SJGH anticipates receiving \$18.3 million in 2019-2020 through meeting GPP incentive thresholds.

Medicaid Managed Care Rule

The Medicaid Managed Care Rule became effective July 1, 2017. The Rule is divided into two parts: 1) Directed Payments, which include the Enhanced Payment Program (EPP) and the Quality Incentive Program (QIP); and 2) Non-Directed Payments, comprised of the Traditional Rate Range and the AB 85 Medicaid Coverage Expansion (MCE) Rate Range.

EPP is a pooled approach with a pro-rata distribution to five classes of providers. To meet the criteria for EPP, SJGH will work with its contracted managed care health plans, Health Plan of San Joaquin and Health Net, on data collection and

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reporting. The California Association of Public Hospitals (CAPH) estimates that SJGH is eligible to earn \$19.9 million from EPP in 2019-2020; however, SJGH has conservatively budgeted \$17.4 million (87% of the CAPH estimate).

QIP funds are earned by meeting metrics for up to 20 core measures, out of a total of 26 measures across the following categories: primary care, specialty care, inpatient care, and resource utilization. To determine if the metrics have been met, SJGH will work with the managed care health plans to obtain and report the data. QIP uses a pooled approach to distribute funding not earned by the various providers. CAPH estimates that SJGH will be eligible to earn \$13.0 million from QIP for 2019-2020; however, SJGH has conservatively budgeted \$9.2 million (70% of the CAPH estimate).

The Traditional Rate Range and the AB 85 MCE, rely on a voluntary relationship with the managed care health plans. IGTs are used to draw down Federal funding and SJGH is required to work with the managed care health plans to develop contracts for distribution of funds. In 2019-2020, SJGH is budgeted to receive \$8.8 million and \$8.0 million, respectively from these funding sources.

Reserve Policies

In the last few years, SJGH recognized a large growth in fund balance, which enabled major capital projects to proceed without incurring additional debt. With the completion of the Cerner/PeopleSoft implementation and the Phase II Replacement Project, the fund balance is returning to more typical levels. The estimated fund balance at June 30, 2019 is \$169.3 million, including the following reserves:

Fund Balance at June 30, 2019 (millions)	\$169.3
<i>Tower Replacement</i>	(9.2)
<i>Designated for Capital</i>	(10.5)
<i>AB 85 Take-Back Reserve</i>	(30.2)
<i>Medicare/Medi-Cal Claim Reserve</i>	(20.4)
<i>Waiver Settlement Reserve</i>	(20.9)
Remaining Funds Available for Operations	\$78.1

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Revenue Summary (From Audited Financial Statements)

	-----Actual-----			Est./Act. 2018-2019	Projected 2019-2020
	2015-2016	2016-2017	2017-2018		
Total Hospital Revenue	\$328,997,263	\$370,973,824	\$432,869,908	\$416,051,057	\$413,421,178
Net Patient Revenue	\$234,575,314	\$273,279,147	\$298,506,710	\$309,300,142	\$313,141,532
Non-Patient Revenue					
AB 915	\$2,853,383	\$2,257,998	\$2,837,936	\$5,817,140	\$3,133,111
SB 1732	3,333,619	3,629,912	5,854,319	3,546,847	3,379,316
Realignment	20,005,978	24,428,466	18,764,664	24,906,282	22,599,846
AB 85 Realignment Diversion	(18,984,966)	(19,892,104)	(18,764,664)	(19,702,101)	(20,099,846)
DSH/GPP Funding	19,776,461	16,081,025	21,131,035	21,530,000	18,260,000
DSH-Outpatient	92,679	50,340	27,300	27,300	23,076
Physician SPA	2,262,070	3,861,827	4,244,282	3,486,912	1,975,912
Managed Care Intergovernmental Transfer (IGT)	7,721,720	3,721,130	30,227,553*	8,481,250	8,842,529
Quality Incentive Program	N/A	N/A	6,540,001	6,540,000	9,156,000
Enhanced Payment Program	N/A	N/A	19,910,000	14,932,500	17,421,250
AB 85 Rate Range	13,858,065	17,023,129	10,244,824	8,568,012	8,005,244
DSRIP/PRIME	20,472,253	21,916,617	15,661,128	14,824,229	13,047,500
Electronic Medical Record (EMR) Incentive Payment	1,962,031	(510,721)**	0	0	0
AB 1383 Hospital Fee***	3,512,655	3,899,007	2,108,234	689,592	0
Medi-Cal GME Direct & Indirect	N/A	N/A	N/A	976,370	2,043,903
Grants and Contract Income	10,240,592	15,177,054	8,456,106	5,401,685	5,849,184
Other County Departments	980,022	1,931,752	2,245,864	2,144,589	2,144,589
Interest Income	1,197,334	1,981,192	2,736,563	2,442,255	2,359,979
County Contribution	5,138,053	2,138,053	2,138,053	2,138,053	2,138,053
Total Non-Patient Revenue	\$94,421,949	\$97,694,677	\$134,363,198	\$106,750,915	\$100,279,646
% of Total Hospital Revenue	28.7%	26.3%	31.0%	25.7%	24.3%

*Managed Care revenue received for multiple fiscal years in 2017-2018.

**EMR incentive payment ended in 2016-2017.

***Hospital Fee replaced by Quality Incentive Program.

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Workload Data

	-----Actual-----			Est./Act. 2018-2019	Projected 2019-2020
	2015-2016	2016-2017	2017-2018		
<i>Inpatient (Average Daily Census)</i>					
<i>Medical/Surgical</i>	33.9	36.4	38.9	37.3	39.3
<i>Medical Guarded Unit</i>	19.9	20.7	20.6	20.8	21.0
<i>Intensive Care/Cardiac Care</i>	12.2	12.1	10.5	12.3	14.0
<i>Pediatrics</i>	3.2	4.0	3.0	4.5	3.9
<i>Obstetrics</i>	12.4	13.6	11.8	12.4	12.5
<i>Intensive Care Nursery</i>	13.2	14.4	13.0	11.5	12.0
<i>Progressive Care Unit</i>	21.6	21.3	20.6	28.1	25.9
<i>Total Inpatients</i>	116.4	122.5	118.4	126.9	128.6
<i>Newborn Nursery</i>	8.3	9.9	8.6	8.9	8.5
<i>Outpatient (Visits)</i>					
<i>FQHC-LAL</i>	93,367	97,185	98,236	109,794	117,025
<i>Specialty Care Clinics</i>	45,823	50,058	50,855	50,204	52,464
<i>Subtotal Clinic</i>	139,190	147,243	149,091	159,998	169,489
<i>Dialysis</i>	27,043	24,827	26,417	25,454	26,075
<i>Rehabilitation Therapies</i>	24,181	30,972	38,610	25,982	25,929
<i>Emergency Room</i>	45,254	45,716	48,135	49,816	49,850
<i>Subtotal Non-Clinic Outpatient</i>	96,478	101,515	113,162	101,252	101,854
<i>Total Outpatients</i>	235,668	248,758	262,253	261,250	271,343
<i>Average Patients per Day</i>					
<i>Emergency Department</i>	124	125	132	136	137
<i>Clinics</i>	455	471	481	508	536