DATE: May 12, 2020
TO: Board of Supervisors
FROM: John Cookinham, Chief Financial Officer, SCVHHS
SUBJECT: Health System COVID-19 Appropriation Modification

RECOMMENDED ACTION

Approve Request for Appropriation Modification No. 202 - $55,250,000 increasing revenue and expenditures in the Santa Clara Valley Medical Center Hospitals and Clinics budget, relating to emergency response funding for COVID-19. (4/5 Vote)

FISCAL IMPLICATIONS

The recommended action would increase the Santa Clara Valley Medical Center Hospitals and Clinics (SCVMC) Adopted budget by $55.25 million (one-time).

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>VMC at Bascom</td>
<td>47,000,000</td>
<td>32,000,000</td>
</tr>
<tr>
<td>VMC at Bascom Subsidy</td>
<td>(15,000,000)</td>
<td>-</td>
</tr>
<tr>
<td>VMC-O'Connor</td>
<td>3,500,000</td>
<td>18,500,000</td>
</tr>
<tr>
<td>VMC-O'Connor Subsidy</td>
<td>15,000,000</td>
<td>-</td>
</tr>
<tr>
<td>VMC-Saint Louise</td>
<td>4,750,000</td>
<td>4,750,000</td>
</tr>
<tr>
<td><strong>Budget Adjustment</strong></td>
<td><strong>55,250,000</strong></td>
<td><strong>55,250,000</strong></td>
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The recommended action recognizes potential one-time 2020 Federal CARES Act funding of $100.95 million. This includes approximately $60.7 million from the Health Care Providers Relief Fund and $40.25 million from the FEMA Disaster Relief Fund. The recommended action also addresses the reduction in non-COVID-19 patient volume and revenue by reducing the budget for patient revenue by $60.7 million. Lastly, the recommended action addresses projected shortfalls in the services and supplies budget of O’Connor Hospital (VMC-O’Connor) and Saint Louise Regional Hospital (VMC-Saint Louise). Addressing this projected deficit entails transferring $15 million in general fund subsidy from Santa Clara Valley Medical Center (VMC at Bascom) to VMC-O’Connor and budgeting expected prior
year Medicaid revenue of $15 million.

<table>
<thead>
<tr>
<th>Revenue</th>
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</thead>
<tbody>
<tr>
<td>Health Care Providers Relief Fund</td>
<td>60,700,000</td>
</tr>
<tr>
<td>FEMA Disaster Relief Fund</td>
<td>40,250,000</td>
</tr>
<tr>
<td><strong>2020 Cares Act Funding</strong></td>
<td><strong>100,950,000</strong></td>
</tr>
<tr>
<td>Patient Revenue Reduction</td>
<td>(60,700,000)</td>
</tr>
<tr>
<td>Prior year Medicaid Revenue</td>
<td>15,000,000</td>
</tr>
<tr>
<td><strong>Budget Adjustment</strong></td>
<td><strong>55,250,000</strong></td>
</tr>
</tbody>
</table>

SCVMC expects to be partially reimbursed by federal disaster relief revenues for COVID-19 related health services and related impact. SCVMC and the Controller-Treasurer’s Office have established financial tracking mechanisms related to the County’s response to the COVID-19 pandemic and the County will actively seek reimbursement of costs from new and existing sources of funds at both the state and federal levels. The recommended action adds the necessary costs and an equal amount of federal disaster relief revenue.

**REASONS FOR RECOMMENDATION**

SCVMC is bringing this appropriation modification to add costs, budget, and federal revenues for COVID-19. The COVID-19 emergency has required significant expenditures to provide patient services and prepare the health system to meet a potential surge in patient needs. SCVMC has purchased beds, ventilators, and other equipment to accommodate additional inpatient volume related to the emergency. Direct payroll costs for temporary employees and overtime have increased, as have costs for pharmaceuticals, personal protective equipment, and other supplies. These reasonable expenditures to protect safety during the emergency are eligible for reimbursement under federal disaster relief programs.

As part of the response to the emergency, SCVMC has temporarily suspended non-essential services, including most types of surgeries and non-urgent procedures. Outpatient services have been reduced, with services at some clinics curtailed in order to reassign clinical staff to support patient services related to COVID-19. As a result of these changes and other factors related to the emergency, overall patient volume has declined sharply since mid-March.

The strategic realignment and prioritization of resources and services reflects the health system’s and the whole community’s success in responding effectively to COVID-19. Unfortunately, it has also resulted in a reduction in patient revenue. SCVMC projects a loss of approximately $1 million per day. Revenues are declining but SCVMC is still maintaining their fixed costs, including salaries and benefits costs.

Revenue loss associated with the emergency is reimbursable under various federal programs. The recommended action reduces patient revenue by $60.7 million and replaces it with new federal disaster relief revenue. This amount represents the estimated lost revenue through April 30. SCVMC expects to receive this revenue under the CARES Act Provider Relief Fund. We expect additional support will be available to cover lost revenue for May and June, and we hope to include this in a subsequent appropriation modification when details of federal disaster relief revenue programs become clearer.
The recommended action adds $15 million to the services and supplies budget at VMC-O’Connor. In FY 19-20, VMC-O’Connor has had a high vacancy rate in staffing and has had to use contract/registry Resident Nurses (RN) and other clinical staff to backfill and meet both daily and COVID-19 related needs. Registry RN costs, which have been close to zero for SCVMC in recent years, have accounted for nearly a third of total services and supplies expenses at VMC-O’Connor through March of this fiscal year. In recent months, VMC-O’Connor leadership and the Employee Services Agency (ESA) have worked hard to recruit and hire RNs and have filled essentially all vacant codes; the RN vacancy rate now reflects only typical turnover. Still, the heavy reliance on nurse registry earlier in the year has resulted in VMC-O’Connor approaching their FY 19-20 Adopted Budget for services and supplies. An increase is necessary to enable VMC-O’Connor to pay vendors through the end of the fiscal year. The additional services and supplies budget would be covered by a transfer of hospital subsidy from VMC at Bascom, which has benefitted from favorable prior year adjustments to Medicaid revenue.

The recommended action increases the services and supplies budget at VMC-Saint Louise by $3 million. This one-time action is needed because current year expenditures are projected to exceed their services and supplies budget. The deficit is primarily driven by medical or professional services and fees, contract services, maintenance costs, and most recently by COVID19 related expenditures.

**CHILD IMPACT**

The recommended action will have no/neutral impact on children.

**SENIOR IMPACT**

The recommended action will have no/neutral impact on seniors.

**SUSTAINABILITY IMPLICATIONS**

The recommended action will have no/neutral sustainability implications.

**BACKGROUND**

COVID-19 was first detected in Wuhan, China in December 2019. The CDC considers the virus to be a very serious public health threat, in part because much remains unknown. The number of reported cases of COVID-19 has escalated dramatically over a short period of time, and the World Health Organization has declared the outbreak to be a global health emergency.

The County had its first confirmed case of COVID 19 on January 31, 2020. The Director of Emergency Services and the Health Officer of the County proclaimed a local emergency on February 3, 2020, as authorized by Government Code section 8630 and Santa Clara County Ordinance Code Section A8-9, and based on conditions of extreme peril and the imminent and proximate threat to public health relating to COVID-19. The Board of Supervisors ratified the local emergency and local health emergency on February 10, 2020.

On March 16, 2020, the County of Santa Clara (along with several other bay area counties) issued a legal order directing residents to shelter at home, which was extended and is expected to last until at least May 31, 2020. The order was followed by an indefinite
Executive Order from Governor Newsom, which directs all Californians to stay home except as necessary to maintain or access critical systems and services.

The County has activated its Emergency Operations Center and its Medical Health Joint Operations Center to manage its response to this crisis. These centers are staffed continuously by personnel who have been diverted from their normal job duties and Administration expects this to continue for an extended period of time. Staff in these operations centers are coordinating the County’s response to this crisis with state and federal agencies.

The County has also activated its Continuity of Operations Plan to ensure essential services are provided throughout this crisis. The County has closed all nonessential services.

The CARES act, existing Federal Emergency Management Agency (FEMA) programs, the large Federal COVID-19 economic relief package, changes to Medicare and Medicaid programs and other new initiatives all provide funding to support the County and its health system during the emergency. The leadership and staff in the CSC Health System are reviewing these programs for funding opportunities, and we expect to add additional Federal revenue to the budget prior to the end of FY2020, as potential revenue can be more thoroughly evaluated.

**CONSEQUENCES OF NEGATIVE ACTION**

SCVMC would not have sufficient budget to cover increased expenses associated with the COVID-19 emergency.

**STEPS FOLLOWING APPROVAL**

The Clerk of the Board of Supervisors will notify Matthew Harrington in SCVMC Finance.

**ATTACHMENTS:**

- F85.202 COVID19 revised 5.1.20 (PDF)