SAN FRANCISCO HEALTH PLAN
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Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
November 1, 2017

Present: Eddie Chan, Pharm.D., Reece Fawley, Steve Fields, Steven Fugaro, MD, Emily Webb, John Gregoire, John F. Grgurina, Jr., and Nina Maruyama (notetaker)

Absent: None

Guests: Chris Pritchard, Partner, Moss Adams, and Greg Kaplan, Director, Fixed Income, City National Bank

Reece Fawley, Chair, Finance Committee, chaired the meeting.

Call to Order and Public Comment on any matters within the SFHA/SFCHA purview -
There were no public comments.

1. **Approval of Minutes from September 6 , 2017 Finance Committee Meeting**
The minutes of the September 6, 2017 Finance Committee meetings were unanimously approved as written.

2. **City National Bank Discussion on Investments and Environment**

Greg Kaplan, Director, Fixed Income, City National Bank (CNB), attended the Finance Committee meeting to discuss investments and the current environment. Mr. Kaplan presented the slide presentation that was included in the Finance Committee packet for reference. Mr. Kaplan is responsible for the fixed income investments at CNB.
Mr. Kaplan started with an overview of the gross domestic product (GDP). The long-term trend line for the GDP is not likely to change, but there will be some "noise" due to the recent disasters, e.g., hurricanes and fires. Even with the disasters, there is still expected to be a 2-2.5% increase in the GDP. With a slow down in workforce growth, there will be a slow down in the GDP. There has been low unemployment since 2001 and a decrease in under-employment as well. The under-employment rate peaked in 2009 and is down to 8.9%. While there are lots of jobs in service, e.g., retail, there has been less growth in jobs with a high value-add, e.g. manufacturing. This leads to low productivity. There is slack in the labor market, e.g., quality of jobs is not high.
The rate of slack is not inflationary; at 4.2%, it is low.

Mr. Kaplan stated that the core personal consumption expenditures (PCE) is trending down, this is what the federal government cares about because it is not sensitive to "noise," unlike with consumer price index (CPI). The CPI, however, is a key factor for wages, benefits, social security.

What is the impact on SFHP investment? SFHP's investments are lackluster. Twenty percent of the portfolio will mature in next year; as the federal government increases rates, SFHP can reconcile. The committee appreciated Mr. Kaplan's information.

3. Review and Approval of the Annual Independent Audit Report for FY 2016-17

Recommendation: Review and Approval of the Annual Independent Audit Report for FY 2016-17.

Chris Pritchard, Partner, Moss Adams, the independent audit firm hired by SFHP, presented the FY 2016-17 independent financial audit report. The auditors gave SFHP an "Unmodified Opinion," which is the highest opinion available (also known as a "clean opinion"). There were no significant, or material, comments in the Communication to the Governing Board. There were no required or recommended adjustments to the journal entries. The auditors also met with the Finance Committee for a discussion without the CEO, CFO and notetaker present. Upon returning to the Committee, Mr. Fawley informed the CEO and CFO that the Committee and Moss Adams discussed what SFHP could do better, since there were no significant comments from the auditors. Mr. Fawley informed the CEO and CFO that they discussed the importance of protecting against cyberthreats. Moss Adams agreed they would provide information to SFHP staff on a regular basis regarding known threats that could impact SFHP.

The Finance Committee unanimously approved the auditor's report for forwarding to the full Board for approval.

4. Review and Approval of Unaudited Monthly Financial Statement and Investment Reports

Recommendation: Review and approval of unaudited monthly financial statement and investment reports.

John Gregoire, CFO, presented the unaudited monthly financial statement and investment reports investment ending September 30, 2017. (The narrative summaries and financial documents were provided to the Finance Committee for reference.)

The following are key highlights:

1. September 2017 results produced a margin of $1,512,000 versus a budgeted margin of $469,000.

2. September 2017 results are $1.0 million above budget due to:
   a. Administrative expenses were $775,000 below budget. For budget purposes, it was expected that an annual mailing to Medi-Cal members at a cost of $700,000 would occur in September. As the Department of Health Care Services (DHCS) has delayed revisions to the Medi-Cal Evidence of Coverage document, the new target date for this mailing is now April 2018.
   b. SFHP recorded 35 more maternity events in September than what was projected in the budget. SFHP providers were catching up with their maternity submissions. These extra birth events added $315,000 to Medi-Cal revenue.

3. It is important to note that the FY17-18 budget projected $38 million in revenue and medical expenses during September related to the Assembly Bill (AB) 85 to cost

provision within the Medi-Cal Expansion category. Per AB 85, Designated Public Hospitals (DPHs) are to be reimbursed in amounts no less than cost for applicable services provided to newly eligible Medi-Cal Expansion members. SFHP has received the AB 85 to cost funding, however as this funding relates to FY15-16, audit rules required that we record this revenue and related medical expense in June 2017. It is anticipated that $30.4 million of AB 85 funding will be disbursed to Zuckerberg San Francisco General Hospital during October.

4. Below is a chart highlighting the key income statement categories with adjustments for Strategic Use of Reserves (SUR) and AB 85 to cost in order to show margin from ongoing operations for the month of September.

	---------------------SEP 2017---------------------------					---------------------FYTD 17-18 THRU SEP---------------------------			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)		ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
REVENUE	$ 48,396,000	$ 86,492,000	$ (38,096,000)	-44.0%		$ 147,665,000	$ 183,017,000	$ (35,352,000)	-19.3%
LESS: AB85 TO COST	$ -	$ 38,232,000	$ (38,232,000)			$ -	$ 38,232,000	$ (38,232,000)	
REVENUE - REVISED	$ 48,396,000	$ 48,260,000	$ 136,000	0.3%		$ 147,665,000	$ 144,785,000	$ 2,880,000	2.0%
MLR	89.9%	94.7%				91.6%	92.4%		
ADMINISTRATIVE RATIO	7.3%	4.9%				6.9%	6.4%		
MARGIN (LOSS)	$ 1,512,000	$ 469,000	$ 1,043,000	222.4%		$ 2,711,000	$ 2,522,000	$ 189,000	7.5%
OPERATING ADJUSTMENTS:									
FY15-16 SUR PMTS/ACCRUALS	$ 38,000	$ -				$ 38,000	$ -		
FY16-17 SUR PMTS/ACCRUALS	$ 625,000	$ 625,000				$ 6,002,000	$ 1,875,000		
MARGIN FROM OPERATIONS	$ 2,175,000	$ 1,094,000				$ 8,751,000	$ 4,397,000		
MLR W/O SUR AND AB85 TO COST	88.5%	89.0%				87.5%	89.0%		
ADMIN RATIO WITHOUT AB85 TO COST	7.3%	9.0%				6.9%	8.0%		

PROJECTIONS

Financial projections through March 2018:

1. As of September 30, 2017, SFHP has recorded $7,500,000 (50% of $15,000,000) for the medical groups related to the FY16-17 Strategic Use of Reserves. Also as of September 30, 2017, 75% of the remaining $7,500,000 has been added to the Practice Improvement Program (PIP) program covering the months of January through September 2017. A monthly amount of $625,000 will continue to be added to the PIP program for the period of October through December 2017 for a grand total of $7,500,000.
2. As of September 30, 2017, $14,295,000 was either paid to or accrued for the hospitals related to the FY16-17 Strategic Use of Reserves. It is anticipated another $705,000 will be paid or accrued over the next six months.
3. SFHP received final Medi-Cal rates from the DHCS. These rates are effective for SFHP as of July 2017. The overall impact is an increase of 0.7%. The rate for the Medi-Cal Expansion category of aid decreased by 0.9% which was much less than anticipated.
4. At the September meeting, the Governing Board approved SFHP's recommendation to increase provider capitation and fee-for-service rates for Medi-Cal and Healthy Kids, effective January 1, 2018. The overall weighted average change is an increase of 6.2%. The FY17-18 budget included $13.2 million to cover these increases.

5. SFHP expects to receive $39.2 million in February 2018 related to AB 85 funding intended to bring the public hospital, Zuckerberg San Francisco General Hospital (ZSFG), up to cost for services provided to the Medi-Cal Expansion population during FY16-17. The estimated distribution to ZSFG is $33.9 million. For budget purposes, we estimated that in December 2017 SFHP would receive $20.0 million in revenue and distribute a similar amount in medical expense related to AB 85.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Capitation, Fee-For-Service and Reciprocity Rates Changes Approved for January 1, 2018

At the September 15, 2017 meeting, the Finance Committee and Governing Board approved increasing provider capitation and fee-for-service rates for Medi-Cal and Healthy Kids, effective January 1, 2018. The overall weighted average change is an increase of 6.2%. The range for SFHP providers is an increase of 5.4% to 7.9%. The range is due to the differences in the distribution of membership by aid category.

For capitated providers, each provider group's actual overall rate change will differ based on their own membership in each of the Medi-Cal categories of aid and Healthy Kids. Each provider group is paid the same for each aid code category. The differences in the distribution of membership by aid category, however, can cause differences in per member per month rates as well as overall funding changes.

For fee-for-service providers, SFHP will move to the All Patients Refined-Diagnosis Related Group (APR-DRG) methodology for pricing inpatient hospital claims and 140% of the Medi-Cal Fee Schedule (MCFS) for outpatient facility claims. APR-DRG is the generally accepted method for paying claims for Medi-Cal beneficiaries and is how the state pays for inpatient services to non-managed care, fee-for-service Medi-Cal members. APR-DRG will be the floor for SFHP's fee-for-service providers. University of California San Francisco (UCSF) will move to APR-DRG rates and 140% of the MCFS effective January 1, 2018. Sutter-California Pacific Medical Center (CPMC) facilities providing services to Hill Physicians and Brown & Toland members moved to APR-DRG rates and 140% of the MCFS effective July 1, 2017.

Effective January 1, 2018, SFHP reciprocity rates for services provided to SFHP members will also move to APR-DRG rates for inpatient services and 140% of the MCSF for outpatient facility services. Details of projected impact on medical groups was reviewed and included in the Finance Committee packet.

The Finance Committee unanimously approved the unaudited monthly financial statements and investment income reports for the period ending September 30, 2017, as presented, for forwarding to the full Governing Board for approval.

5. Review and Approval of $13.6 Million from Health Plan Reserves for FY17-18 Hospital and Physician Practice Improvement Program and Strategic Use of Reserves for Member-Focused Services

Recommendation: SFHP recommends the approval of $13.6 million from the Strategic Use of Reserves (SUR) for distribution in FY 2017-18 and FY 2018-19 to support contracted hospitals, professional services, and member benefits/services to improve member care.

John F. Grgurina, Jr., CEO, reviewed the recommendation for the Strategic Use of Reserves (SUR) for FY2017-18 and FY 2018-19 to the Finance Committee. (A detailed memo was provided in the Board packet.)

The Finance Committee unanimously approved the use of $13.6 million from the SUR for distribution in FY 2017-18 and FY 2018-19 to support contracted hospitals, professional services, and member benefits/services to improve member care. The recommendation will be forwarded to the full Governing Board.

The meeting adjourned to closed session

6. Review and Approval of Proposal for an Alternative Payment Model Contract Amendment with University of California, San Francisco

This item was discussed in closed session.

7. Review and Approval of Payment of Expenses and Tax Penalties for Executive Team Due to Taxable Income Errors Reported for Calendar Year 2016

This item was discussed in closed session.

The meeting was resumed in Open Session.

8. Report on Closed Session Action Items

Mr. Fawley reported that the Finance Committee took the following actions in Closed Session for forwarding to the full Governing Board:

a. Approved the CEO to develop and executive an alternative payment model contract amendment with University of California, San Francisco, to meet the requirements of DHCS.
b. Approved the payment of expenses and tax penalties for Executive Team incurred due to taxable income errors by the vendor reported for calendar year 2016.

9. Adjourn

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Reece Fawley, Secretary