Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
March 7, 2018

Present: Eddie Chan, Pharm D., Reece Fawley, Steven Fugaro, MD, Emily Webb, John Gregoire, John F. Grgurina, Jr., Karen Andrews, Skip Bishop, Rand Takeuchi, and Nina Maruyama (notetaker)

Absent: Steve Fields

Guests: None

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 January 3 , 2018 Finance Committee Meeting
The minutes of the January 3, 2018 Finance Committee meetings were unanimously approved.

2. Discussion of Finance Committee Membership
The following was presented to the Finance Committee for discussion only. No action was required.

John Grgurina, Jr, CEO, discussed reviewed the current San Francisco Health Plan (SFHP) Finance Committee members:

1. Reece Fawley, UCSF
2. Emily Webb, Sutter Health
3. Steven Fugaro, MD, SF Marin Medical Society
4. Steven Fields, Progress Foundation
5. Eddie Chan, PharmD, NEMS

The committee has had five members historically and until 2016, included a representative from the Department of Public Health (DPH), the provider with the largest percentage of SFHP membership. When Sue Currin, CEO of Zuckerberg San Francisco General Hospital (ZSFG), retired her seat on the committee was filled by Emily Webb, a non-DPH representative. Barbara Garcia, Director of Health, City and County of San Francisco and Board Vice-Chair, expressed interest in having a representative of DPH participate on the committee again. The following are options for the committee to consider:

1. An odd number of members facilitates voting on issues. In order to maintain an odd number, should the committee add two seats – one for DPH and one for another member?
2. Is there any existing member that wishes to resign from the Committee, due to other commitments?

3. If a DPH representative is added to the committee, should a non-Governing Board member be allowed as the representative? For example, Mr. Fawley initially participated on the Finance Committee as a non-Board member, prior to joining the Board.

Mr. Grgurina also stated that the Finance Committee is not listed in the Board's bylaws. Because of this, the membership of the committee has not been defined with any established, defined membership rules. He welcomed the Committee members to consider these and other suggestions to address the DPH's expressed interest in being added to the committee. When the committee is ready to recommend any changes to the committee membership, we can present a resolution to the Board for approval, as well as an amendment to the bylaws.

3. Review and Approval of Year-To-Date Unaudited Financial Statement and Investment Reports

Recommendation: Review and approval of year-to-date unaudited financial statement and investment reports.

John Gregoire, CFO, presented the year-to-date unaudited financial statement and investment reports investment ending January 31, 2018. (The narrative summaries and financial documents were provided to the Finance Committee for reference.)

The following are key highlights:

1. January 2018 results produced a loss of $607,000 versus a budgeted loss of $989,000. This anticipated loss is due to capitation and fee-for-service rate increases implemented January 1, 2018. These rate increases added $1,046,000 to medical expense in January.

2. Variances between actual versus budget include:
    a. $2,432,000 less in revenue due to:
        i. 3,621 fewer member months mostly due to members placed on hold awaiting completion of the annual redetermination process along with member attrition.
        ii. 152 fewer Hepatitis C treatment weeks along with a 32% decrease in the Hepatitis C reimbursement rate. The introduction of the lower cost Hepatitis C drug Mavyret was anticipated by DHCS, therefore the reimbursement rates were decreased accordingly.
    b. $974,000 less in Pharmacy expense due to 152 fewer Hepatitis C treatment weeks along with lower Hepatitis C drug costs as a result of converting more members to Mavyret.
    c. $1,631,000 less in other medical expenses due to 3,621 fewer member months.
    d. $143,000 less in Administrative expenses.

3. On a year-to-date basis, the FY17-18 budget projected we would record $58 million in revenue and medical expense related to the AB 85 to cost provision within the Medi-Cal Expansion category. SFHP received $38 million in October 2017, however as this funding related to prior periods, audit rules required that we record this revenue and related medical

expense in June 2017. During the month of February 2018, SFHP is expecting to receive $39.2 million in AB85 to cost funding which will be paid to Zuckerberg San Francisco General Hospital.

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 January.

	----------------------JAN 2018----------------------------				---------------------FYTD 17-18 THRU JAN---------------------------			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
REVENUE	$ 45,871,000	$ 48,303,000	$ (2,432,000)	-5.0%	$ 336,101,000	$ 396,138,000	$ (60,037,000)	-15.2%
LESS: AB85 TO COST	$ -	$ -	$ -		$ -	$ 58,232,000	$ (58,232,000)	
REVENUE - REVISED	$ 45,871,000	$ 48,303,000	$ (2,432,000)	-5.0%	$ 336,101,000	$ 337,906,000	$ (1,805,000)	-0.5%
MLR	93.7%	94.4%			91.7%	92.3%		
ADMINISTRATIVE EXPENSES	$ 4,374,000	$ 4,517,000	$ 143,000	3.2%	$ 29,506,000	$ 31,324,000	$ 1,818,000	5.8%
ADMINISTRATIVE RATIO	8.0%	7.8%			7.4%	6.7%		
MARGIN (LOSS)	$ (607,000)	$ (989,000)	$ 382,000	-38.6%	$ 4,470,000	$ 4,797,000	$ (327,000)	-6.8%
OPERATING ADJUSTMENTS:								
FY15-16 SUR PMTS/ACCRUALS	$ 260,000	$ -			$ 1,185,000	$ -		
FY16-17 SUR PMTS/ACCRUALS	$ -	$ -			$ 7,877,000	$ 3,750,000		
MARGIN FROM OPERATIONS	$ (347,000)	$ (989,000)			$ 13,532,000	$ 8,547,000		
MLR W/O SUR AND AB85 TO COST	93.1%	94.4%			88.9%	89.8%		
ADMIN RATIO WITHOUT AB85 TO COST	8.0%	7.8%			7.4%	8.0%		

PROJECTIONS

Financial projections through July 2018:

1. As of January 31, 2018, 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 January 31, 2018, 100% of the remaining $7,500,000 has been added to the PIP program covering the months of January through December 2017.

2. As of January 31, 2018, $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 by the end of the fiscal year.

3. At the September 2017 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.

4. In October 2017, DHCS reduced Hepatitis C reimbursement rates retroactive to July 2017. SFHP has experienced a 3.2% decrease in Hepatitis C reimbursements for the period of July through December 2017. For the period of January through June 2018, SFHP will see a 32.1% decrease in the reimbursement rate. The total estimated impact for FY17-18 is a decrease of $4.3 million in Hepatitis C revenue. Our Pharmacy department is working closely with SFHP's provider network to increase the use of Mavyret as this is

the new low-cost Hepatitis C drug that is driving the reduction in reimbursement rates. The goal will be to have Hepatitis C drug cost reductions offset the loss in reimbursement revenue.

5. In April 2018, SFHP expects to receive $39.2 million related to Assembly Bill (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. We expect to disburse the full $39.2 million of this AB85 funding to ZSFG in April, pending Governing Board approval in March. For budget purposes, we estimated that $20.0 million in revenue and a similar amount in medical expense related to AB 85 would be recorded in December 2017.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

DHCS TO ESTABLISH MEDI-CAL EXPANSION DUAL RATE RETROACTIVE TO JANUARY 2014

The Medi-Cal Expansion (MCE) category of aid was introduced January 1, 2014. This MCE population included approximately 300 members who were eligible for both Medi-Cal and Medicare (dual eligible members). When the expansion began, DHCS did not establish a separate premium rate for MCE Dual members. DHCS used the MCE Medi-Cal Only premium rate to pay health plans for MCE Dual members.

Medi-Cal premium rates for dual members are typically much lower as Medicare is considered the primary payer while the health plan pays as secondary. For example, the FY17-18 premium rate for a member in the SPD category of aid (Aged or Disabled) is $752.23 while the FY17-18 premium rate for an Aged Dual or Disabled Dual member is $182.22.

DHCS has acknowledged that MCE Dual members should have been paid at a lower premium rate and has informed the health plans of its intention to implement a MCE Dual premium rate retroactive to January 2014. SFHP estimates DHCS will take back approximately $2.7 million in premium revenue. The following chart estimates the impact to providers if SFHP were to move forward with the recovery of capitation.

	------CAPITATION RECOVERY----	
	RETROACTIVE TO	RETROACTIVE
PROVIDER	JAN 2014	12 MONTHS
ZUCKERBERG SFG (CHN AND NEMS)	$ 951,614	$ 211,985
CLINICAL PRACTICE GROUP (CPG)	$ 431,469	$ 92,864
NEMS (CPMC AND ZSFG)	$ 237,189	$ 35,156
CPMC	$ 166,712	$ 20,130
CHINESE HOSPITAL	$ 66,842	$ 13,795
SFCCC	$ 55,656	$ 11,806
CCHCA	$ 55,153	$ 10,558
BROWN & TOLAND	$ 21,097	$ 6,158
HILL PHYSICIANS	$ 12,278	$ 5,880
	$ 1,998,010	$ 408,332

At this time, SFHP does not have a recommendation of how to handle this DHCS rate action. SFHP will propose a recommendation at the May 2018 Finance Committee and Governing Board meetings. Current options under consideration include:

1. A retroactive recovery of MCE capitation back to January 2014.
2. A retroactive recovery of MCE capitation for the most recent twelve months.
3. No retroactive recovery of MCE capitation; however, this would be done only for this specific issue and not precedent setting in the event the state were to implement future retroactive reductions.

Committee members stated that should SFHP take back only 12 months rather than going back to 2014, it should be made clear to the provider community that such an action is a one-time exception and that should the State retroactively recoup funds for a period greater than one year again, SFHP will recoup funds from providers from the same period.

The Finance Committee unanimously approved the year-to-date unaudited financial statements and investment income reports for the period ending January 31, 2018 as presented, for forwarding to the full Governing Board for approval.

The meeting adjourned to Closed Session

4. Review and Approval of Proposed Medi-Cal Rates Reduction for the Medi-Cal Expansion Rate Category

This item was discussed in closed session.

5. Review and Approve Payment Changes to Zuckerberg San Francisco General Hospital Related to AB 85 to Cost Funding

This item was discussed in closed session.

6. Review and Approval to Authorize CEO to Contract with Dignity Health Systems

This item was discussed in closed session.

The meeting was resumed in Open Session.

7. Report by Chair 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 proposed Medi-Cal rate reductions for the Medi-Cal Expansion rate category.
- **b.** Approved the recommendation for payment changes to Zuckerberg San Francisco General Hospital Related to AB85-to-cost funding.
- **c.** Approved recommendation to authorize the CEO to contract with Dignity Health System at the same rates and terms as with SFHP's other contracted hospital systems.

8. Review and Approval of Proposal for Strategic Use of Reserves for CY2018

<u>Recommendation #1</u>: Practice Improvement Program (PIP) Enhancement

SFHP recommends the Finance Committee approve the following recommendations for the Calendar Year 2018 Strategic Use of Reserves (SUR): (A detailed memo was provided in the Board packet.)

1) Establish the designated reserve allocation of an additional $8 million for professional services to bolster resources available in the Practice Improvement (PIP).
2) Determine allocation for each entity based on membership as of January 2018.
3) Provider funding will be added to high-priority 2018 PIP measures. Each PIP participant will continue improvement work on the measures(s) selected from the FY16-17 SUR PIP Enhancement.
4) PIP participants will receive payments contingent upon improvement in the target measure or meeting measure thresholds. Payment will be aligned with PIP timelines, with 25% of available funding to be disseminated each quarter in 2018 unless requested otherwise by the provider group and approved by SFHP. Unearned funds from the first three quarters will be rolled over to the fourth quarter.
5) Provide payments directly to providers and groups too small to participate in PIP.

<u>Recommendation #2:</u> Hospital Improvements

SFHP recommends the Finance Committee approve the following recommendations for the Calendar Year 2018 SUR:

1) Establish the designated reserves allocation of $8 million for contracted hospitals to supplement support to contracted hospitals to improve member care in the three focus areas identified in the initial FY 17-18 hospital SUR program (approved in November 2017).
2) Determined allocations for each entity based on proportion of enrollment as of January 2018.
3) SFHP proposes to provide either a 12-month rate increase for FY17-18 or a grant to hospitals that submit proposals with 10% of SUR funding at risk based on agreed upon

outcomes. The hospital will choose its payment methodology for the additional SUR funding.

4) Hospitals will be invited to submit grant proposals that will be approved by SFHP leadership. Upon approval of grant submissions, 90% of funds will be disbursed. The remaining 10% will be disseminated at the end of the project, based on percent of objectives completed.

The Committee approved the recommendations as presented unanimously for forwarding to the full Board for approval.

9. Annual Review of CY2017 SFHP Administrative Contracts

Karen Andrews, COO, presented the following overview of the past calendar year's administrative contracts over $100,000:

- In 2017, there were nine contracts whose total spend was over $1,000,000. Eight contracts complied with the Governing Board-approved SFHP Contract Approval policy. One contract was out of compliance with the Governing Board-approved policy and will be brought to the Board for review and approval in May 2018.
- The following contracts over $1 million were either approved by the Governing Board or were grandfathered, i.e., existed prior to March 2015.
    - SFHP Staff Benefits:
        - Aetna Life Insurance for Health Benefits
        - Kaiser Permanente Health Benefits
        - CalPERS Defined Pension Plan
        - CalPERS 457
        - 401(a) pension plan through ICMA-RC
    - RSC Insurance Brokerage – stop loss premiums
    - 50 Beale St LLC – main office rent
    - KP, LLC – vendor for printed member material mailings. (KP, LLC is the company's name, and it is NOT Kaiser Permanente, nor related to Kaiser).
    - Perform Rx – pharmacy benefit manager administrative fees

There was one contract that exceeded $1 million that had not been brought to the Board for approval. Change Healthcare Solutions, LLC (CHC) provides technical expertise and project management resources for ITS and Operations in support of regulatory mandates and strategic priorities.

What happened with the CHC Contract?

The CHC contract was used by two separate executives and multiple units at SFHP. CHC provides technical configuration expertise for Operations. In the Operations area, CHC consultants were used more extensively than anticipated to backfill management and staff positions in the Performance and Process Improvement (PPI) department. PPI had three significant staff departures: 1) Director position, who left for an out-of-state job; 2) a manager, who has been on extended leave; and 3) another manager, who left for another position.

Due to these staffing limitations, CHC was contracted to support projects and routine work activities. The CHC consultants enabled SFHP to maintain our internal service level agreements (SLA), support project success measures and timelines, and provide seasoned resource to help onboard our new team members.

As of today, the Business Solutions team in PPI is fully staffed. We have implemented a robust on-boarding and training plan to ensure our team has the skills to be successful. Technical training started in February.

Operations will be eliminating the remaining contract resources as our projects go live and activities are completed. The need for contractor resources next fiscal year is highly dependent on the project workload and skills needed.

ITS is the second area that uses CHC consultants. ITS uses CHC consultants on the following projects: 1) Provider Portal implementation; 2) virtual desktop infrastructure (VDI) project; 3) Provider Directory Phase 2; 4) Health Homes Program; 5) security remediation; and 6) network/application performance monitoring tool.

Why did we not catch the contract exceeding the $1 million threshold?
Because the CHC invoices were dispersed among multiple units across two separate executives, and filling the vacancies for the team in PPI took longer than expected, we were not aware that the total contract for SFHP exceeded $1 million.

What are we doing to make sure this does not occur in the future?
The Finance unit will run quarterly lists of contract spend (similar to the list included with this memo) and project year-end totals that will be distributed to all executives, which will provide an early warning sign of contracts that approach $1 million. That will allow time for SFHP to bring those contracts to the Governing Board for approval.

This items was presented for discussion only. No action was taken.

10. Semi-Annual Compliance Report
Nina Maruyama, Officer, Compliance and Regulatory Affairs, presented the semi-annual Compliance Report to the Committee. No action was required.

11. Adjourn

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Reece Fawley, Secretary