

**Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
June 7, 2017**

Present: Eddie Chan, Pharm.D., Reece Fawley, Steven Fugaro, MD,
Emily Webb, John Gregoire, John F. Grgurina, Jr., Deena Louie, and
Nina Maruyama (note taker)

Absent: Steve Fields

Guests: None

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

Approval of Agenda

The Committee unanimously approved the Finance Committee agenda.

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

- 1. Approval of Minutes from May 3, 2017 Finance Committee Meeting**
The minutes of the May 3, 2017 Finance Committee meetings were approved as written.
- 2. Review and Approval of Year-To-Date Unaudited Financial Statements and Investment Reports**

Recommendation: Review and approval of unaudited monthly financial statements and investment reports as presented.

John Gregoire, CFO, presented the monthly unaudited financial statements for the period ending April 2017. (The narrative summary and financial documents were provided to the Finance Committee and are incorporated by reference.)

1. April 2017 results produced a margin of \$2,632,000 versus a budgeted margin of \$1,909,000.
2. April 2017 results are above budget due to:
 - a. \$287,000 less in medical expenses, mainly in the area of non-Hepatitis C pharmacy expenses.
 - b. \$284,000 less in administrative expenses, primarily in the area of compensation and benefits.
3. Other significant items affecting the April results included:
 - a. San Francisco Health Plan (SFHP) paid \$226,000 to providers related to FY15-16 Strategic Use of Reserves (SUR).
 - b. 100 maternity events versus 90 events in March and 84 events in February.
 - c. Due to provider contract amendments effective January 1, 2017, providers received rate increases in their capitation rates to align with SFHP rate increases

from DHCS. The contract amendments that were effective on January 1, 2017 also eliminated the AIDS rate category. DHCS had eliminated the AIDS rate category for SFHP effective July 1, 2016, but SFHP continued to pay the rate due to contracts in effect through December 31, 2016.

4. Below is a chart highlighting the key income statement categories with adjustments to show the margin from ongoing operations for the month of April and FY16-17 year to date.

CATEGORY	-----APRIL 2017-----				-----FYTD 16-17 THRU APR-----			
	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
REVENUE	\$ 47,654,000	\$ 54,253,000	\$ (6,599,000)	-12.2%	\$ 475,380,000	\$ 534,086,000	\$ (58,706,000)	-11.0%
MLR	88.5%	90.3%			93.2%	90.2%		
ADMINISTRATIVE RATIO	6.3%	6.3%			6.7%	6.8%		
MARGIN (LOSS)	\$ 2,632,000	\$ 1,909,000	\$ 723,000	37.9%	\$ 949,000	\$ 16,309,000	\$ (15,360,000)	-94.2%
OPERATING ADJUSTMENTS:								
FY15-16 SUR PMTS	\$ 226,000				\$ 9,725,000			
FY16-17 SUR PMTS	\$ 625,000				\$ 10,000,000			
MARGIN FROM OPERATIONS	\$ 3,483,000				\$ 20,674,000			
MLR W/O SUR PMTS	86.7%				89.0%			

Financial projections through October 31, 2017:

1. By June 30, 2017, SFHP planned to disburse \$7,500,000 (half of \$15,000,000) to the medical groups related to the FY16-17 Strategic Use of Reserves (SUR). An additional \$3,750,000 was to be added to the PIP program covering the months of January through June 2017. A monthly amount of \$625,000 is expected to continue to be added to the PIP program for the period of July through December 2017 for a total of \$15,000,000.
2. A proposal to disburse an additional \$15,000,000 Strategic Use of Reserves to the hospitals was presented to the Governing Board at the May 2017 meeting. This proposal was approved and it was anticipated that \$13,500,000 (90%) will be disbursed by June 30, 2017.
3. By June 30, 2017, SFHP projected to pay an additional \$1,300,000 to providers for the FY15-16 SUR.
4. SFHP received preliminary Medi-Cal rates from DHCS. These rates were to be effective July 2017. The overall impact was an increase of 0.8%. The rate for the Medi-Cal Expansion category of aid decreased by only 0.6% which was an extremely favorable development for the health plan and its providers.
5. SFHP expects to receive \$38.2 million in September 2017 related to Assembly Bill (AB) 85 funding intended to bring the public hospital (ZSFG) up to cost for services provided to the Medi-Cal Expansion population during FY15-16. For budget purposes, we assumed \$38.2 million in revenue and a similar amount in medical expenses; however SFHP is waiting for further information from DHCS on our ability to count it as part of the medical loss ratio. An answer from DHCS was expected in late summer 2017.

Mr. Gregoire reviewed that a major impact has been pharmacy expenses, particularly Hepatitis C treatment expenses and revenue. He stated we expect a 4% decrease in the rate. The Finance Committee requested a memo to review the significant aspects of the federal "mega" regulations, such as impact to SFHP operations.

The Finance Committee unanimously approved the monthly financial statements and investment reports for the period ending April 30, 2017, as presented and recommended

forwarding to the full Governing Board for approval.

3. Review and Approval of Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2017-2018

Recommendation: SFHP recommended approval of the Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2017-2018.

John Grgurina, Jr., CEO, stated that there would be a Board decision at September 2017 meeting regarding the Medi-Cal Provider rate changes based on July 2017 rates, which SFHP expected to receive from Department of Health Care Services (DHCS) in late July.

Mr. Grgurina and Mr. Gregoire gave the Finance Committee a review of the proposed FY17-18 budget. (Documents were incorporated into the Finance Committee materials by reference.) SFHP Finance staff members, Skip Bishop, Director of Accounting, Rand Takeuchi, Manager, Accounting, and Khanh Pham, Senior Budget and Reporting Analyst, joined the meeting for the budget presentation.

The following are the key budget assumptions:

- 1) Growth versus FY 16-17:
 - a. Revenue Growth 10.8%
 - b. Medical Expense Growth 17.1%
 - c. Member Month Growth 0.6%
 - d. SFHP Staffing Growth -1.7%

- 2) Provider rate changes to be proposed in September:
 - a. SFHP will recommend provider rate changes based on DHCS rates effective July 2017.
 - b. Overall Medical Loss Ratio (MLR) of 95.0%. Includes \$24.4 million from SUR.
 - c. SFHP administration at 6.7% (FY 16-17 approved budget 6.7%, FY 16-17 projected to be 7.1%)

- 3) FY 17-18 Revenue – Key Points
 - a. Premium Revenue up 12.2%.
 - b. Total budget including HSF/HK is \$645.1 million.
 - c. Per Member Per Month Revenue up 11.4% (largely due to AB85 funds)
 - FY 17-18 \$351 pmpm
 - FY 16-17 \$315 pmpm

- 4) Tangible Net Equity (TNE) reserve requirements grow due to increased revenue:
 - a. TNE FY 16-17 \$10.8 Million
 - b. TNE FY 17-18 \$13.6 Million

Mr. Fawley asked whether the Medi-Cal rate increases in September would be sustainable. Mr. Grgurina stated they would be as long as there were no major changes to the Affordable Care Act. Mr. Fawley recommended that the message to providers about the rate changes clearly states that the rate increase may be temporary.

Mr. Grgurina stated the budget was a break-even budget, but shows an \$11 million loss due to the proposed SUR. Mr. Gregoire provided an overview of the projected

expenses, stating administration costs are budgeted at 6.9%. An increase in pharmacy expenses is budgeted, along with a projected reduction in the Hepatitis C treatment payment rate. Healthy Kids and Healthy San Francisco are not expected to change in a significant way. SFHP overall membership is expected to be steady. Mr. Gregoire proceeded to review the projected revenue, stating that revenue is projected to increase approximately 12% due to the AB 85 pass-through funds. If there are any significant changes caused by the efforts to repeal/replace the Affordable Care Act (ACA), the budget would need to be revisited and revised as appropriate.

Mr. Gregoire also explained the investment projections and discussed potential investment options and overdraft protections for the Committee's future consideration. Mr. Fawley agreed that it would be important to maximize dollars when expenses were expected to continue to increase in the future.

The Committee members asked if it would be likely that any significant changes as a result of potential federal legislative changes would impact SFHP in at least two years. Mr. Grgurina stated that any changes would likely become effective in 2020 at the earliest since Senate proposals indicate changes would not be effective until 2021 or 2022. The Senate proposals also included a phased-down approach to the decrease in federal:state participation, e.g., 90:10, 80:20, 70:30, over a period of time, rather than an immediate change from 90:10 to 50:50.

After reviewing the budget in detail, the Finance Committee unanimously approved the Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2017-2018 as presented, for forwarding to the full Board for approval.

The meeting was adjourned to Closed Session.

4. Review and Approval of Proposed Changes to Contracted Medical Group Reciprocity Rates for Contracted Hospitals

This item was discussed in closed session.

The meeting resumed in Open Session.

5. Report on Closed Session Action Items

Reece Fawley, Chair, reported that no actions were taken during the Finance Committee Closed Session.

6. Adjourn

Reece Fawley, Secretary