



**Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
September 6, 2017**

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

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 June 7, 2017 Finance Committee Meeting

The minutes of the June 7, 2017 Finance Committee meetings were approved as written.

The meeting adjourned to closed session

2. Review and approval of Medi-Cal and Healthy Kids Provider Rate Change

This item was discussed in closed session.

3. Review of Proposed Changes to Contracted Medical Group Reciprocity Rates for Contracted Hospitals

This item was discussed in closed session.

4. 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.

The meeting was adjourned to Open Session.

The meeting was resumed in Open Session.

5. 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 increases to Medi-Cal and Healthy Kids provider capitation and fee-for-service rates. 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 effective date is January 1, 2018.
- b. Approved the proposed changes to contracted medical group reciprocity rates among SFHP's network facilities to 100% of Medi-Cal fee-for-service (FFS) rates, i.e., using All Patient Refined Diagnosis Related Group (APR-DRG) grouper methodology to pay inpatient services and 140% of Medi-Cal FFS rates to pay outpatient services, effective on January 1, 2018.
- c. Approved the disbursement of \$10,451,966 of excess Assembly Bill (AB) 85 to cost funding to Zuckerberg San Francisco General (ZSFG) Hospital, upon receipt of funds by SFHP, to cover uncompensated costs for providing care to its Adult Expansion (MCE) population during FY15-16.

6. Review and Approval of Year-End 2016-17 and Year-To-Date July 2017 Unaudited Financial Statements and Investment Income Reports

Recommendation: Review and approval of year-end 2016-17 and year-to-date July 2017 unaudited financial statements and investment income reports.

John Gregoire, CFO, presented the year-end unaudited financial statements and investment income reports for the year ending June 30, 2017 and period ending July 31, 2017. (The narrative summaries and financial documents were provided to the Finance Committee and are incorporated by reference.)

1. June 2017 pre-audit results produced a loss of \$9,791,000 versus a budgeted margin of \$1,394,000. Potential changes to the June results in the audited may include adjustments to the reserve for Incurred But Not Reported (IBNR) claims reserve and adjustments to pension costs to comply with GASB 68 rules. Other potential adjustments include the recording of Adult Expansion revenue related to the AB 85 25% rate range, as well as additional revenue and medical expense related to AB 85 to cost funding earmarked for the public hospital. SFHP is in discussions with its independent auditor firm, Moss Adams, to determine the proper accounting treatment for these transactions for the audited report.
2. June 2017 results were below budget due to:
 - a. FY16-17 Strategic Use of Reserves (SUR) payment of \$7.9 million to SFGH paid through June capitation.
 - b. FY16-17 SUR payments of \$2.2 million to UCSF and Chinese Hospital.
 - c. FY16-17 SUR PIP accrual of \$625,000 for Professional Providers.
 - d. FY12-13 Provider Grant payment of \$500,000 to SFHN.
3. Other significant items affecting the June results included:
 - a. SFHP paid \$146,000 to providers related to FY15-16 Strategic Use of Reserves (SUR).

- b. 107 maternity events versus 125 in May, 100 in April, 90 in March and 84 in February.
 - c. Effective January 1, 2017, providers received rate increases in their capitation to align with how SFHP is paid by DHCS. Provider rates were increased by an overall weighted average of 1.5%. The range in rate changes for SFHP providers was a decrease of 0.4% to an increase of 5.9%. The range was due to differences in the distribution of membership by category of aid.
4. The following chart highlights the key income statement categories with adjustments to show a margin from ongoing operations for the month of June and FY16-17 year to date.

| CATEGORY | -----JUN 2017----- | | | | -----FYTD 16-17 THRU JUN----- | | | |
|------------------------|--------------------|---------------|-----------------|---------------|-------------------------------|----------------|-----------------|---------------|
| | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) |
| REVENUE | \$ 47,719,000 | \$ 54,649,000 | \$ (6,930,000) | -12.7% | \$ 571,517,000 | \$ 643,191,000 | \$ (71,674,000) | -11.1% |
| MLR | 112.5% | 90.9% | | | 94.7% | 90.7% | | |
| ADMINISTRATIVE RATIO | 8.5% | 6.6% | | | 6.9% | 6.7% | | |
| MARGIN (LOSS) | \$ (9,791,000) | \$ 1,394,000 | \$ (11,185,000) | -802.4% | \$ (7,891,000) | \$ 16,771,000 | \$ (24,662,000) | -147.1% |
| OPERATING ADJUSTMENTS: | | | | | | | | |
| FY15-16 SUR PMTS | \$ 146,000 | | | | \$ 9,871,000 | | | |
| FY16-17 SUR PMTS | \$ 10,793,000 | | | | \$ 21,418,000 | | | |
| MARGIN FROM OPERATIONS | \$ 1,148,000 | | | | \$ 23,398,000 | | | |
| MLR W/O SUR PMTS | 89.0% | | | | 89.1% | | | |

PROJECTIONS

Financial projections through December 2017:

1. As of June 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 June 30, 2017, 50% of the remaining \$7,500,000 was added to the PIP program covering the months of January through June 2017. A monthly amount of \$625,000 was or will be added to the PIP program for the period of July through December 2017 for a grand total of \$7,500,000.
2. As of June 30, 2017, \$3,750,000 was added to the Practice Improvement Program (PIP) covering the months of January through June 2017. A monthly amount of \$625,000 was or will be added to the PIP program for the period of July through December 2017 for a grand total of \$7,500,000.
3. A proposal to disburse an additional \$15,000,000 Strategic Use of Reserves to the hospitals was approved by the Governing Board at the May 2017 meeting. As of June 30, 2017, a total of \$10,168,000 (68%) was disbursed to the hospitals.
4. SFHP received final Medi-Cal rates from DHCS. These rates were effective for SFHP as of July 2017. The overall impact was an increase of 1.0%. The rate for the Medi-Cal Expansion category of aid decreased by 0.9% which is an extremely favorable development for the health plan and its providers.

- SFHP expects to receive \$38.2 million in September 2017 related to AB85 funding intended to bring the public hospital (SFGH) 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 expense.

Mr. Gregoire presented the year-to-date unaudited financial statements and investment reports for the period ending July 31, 2017. (The narrative summary and financial documents were provided to the Finance Committee and are incorporated by reference.)

- July 2017 results produced a loss of \$1,442,000 versus a budgeted margin of \$982,000.
- July 2017 results are below budget due to:
 - FY16-17 Strategic Use of Reserves (SUR) accrual of \$4.2 million for CPMC and St. Luke's hospitals.
 - \$787,000 less in administrative expenses. The month of July followed the typical pattern for administrative expenses, i.e., carryover of expenses from June was virtually eliminated and expenses tend to be budgeted a little heavier in the early months of the fiscal year.
- Below is a chart highlighting the key income statement categories with adjustments to show margin from ongoing operations for the month of July.

| CATEGORY | -----JUL 2017----- | | | | -----FYTD 17-18 THRU JUL----- | | | |
|---------------------------|--------------------|---------------|----------------|---------------|-------------------------------|--------------|----------------|---------------|
| | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) |
| REVENUE | \$ 48,556,000 | \$ 48,260,000 | \$ 296,000 | 0.6% | \$ 48,556,000 | \$48,260,000 | \$ 296,000 | 0.6% |
| MLR | 97.0% | 90.3% | | | 97.0% | 90.3% | | |
| ADMINISTRATIVE RATIO | 6.3% | 7.9% | | | 6.3% | 7.9% | | |
| MARGIN (LOSS) | \$ (1,442,000) | \$ 982,000 | \$ (2,424,000) | -246.8% | \$ (1,442,000) | \$ 982,000 | \$ (2,424,000) | -246.8% |
| OPERATING ADJUSTMENTS: | | | | | | | | |
| FY15-16 SUR PMTS | \$ 625,000 | \$ 625,000 | | | \$ 625,000 | \$ 625,000 | | |
| FY16-17 SUR PMTS/ACCRUALS | \$ 4,127,000 | \$ - | | | \$ 4,127,000 | \$ - | | |
| MARGIN FROM OPERATIONS | \$ 3,310,000 | \$ 1,607,000 | | | \$ 3,310,000 | \$ 1,607,000 | | |
| MLR W/O SUR PMTS | 83.9% | 92.5% | | | 83.9% | 92.5% | | |

PROJECTIONS

Financial projections through January 2018:

- As of July 31, 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 July 31, 2017, 58% of the remaining \$7,500,000 was added to the Practice Improvement Program (PIP) covering the months of January through July 2017. A monthly amount of \$625,000 will continue to be added to the PIP program for the period of August through December 2017 for a grand total of \$7,500,000.

2. As of July 31, 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 were effective for SFHP as of July 2017. The overall impact was an increase of 0.7%. The rate for the Medi-Cal Expansion category of aid decreased by 0.9%, which was an extremely favorable development for the health plan and its providers.
4. Based on the DHCS rates, SFHP anticipates increasing provider capitation and fee-for-service rates, effective January 1, 2018. The FY17-18 budget included \$13.2 million to cover these increases. A rate change proposal follows this agenda item.
5. SFHP expects to receive \$38.2 million in September 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 FY15-16. For budget purposes, we assumed \$38.2 million in revenue and a similar amount in medical expense.

The following items were also discussed due to impacts to the health plan and/or providers:

Medicaid “Mega” Regulations

In May 2016, the Centers for Medicare and Medicaid Services (CMS) released a series of regulations meant to modernize the Medicaid program and provide a single set of standards for Medicaid programs across all states, commonly referred to as the “Mega Regs.” The regulations span a broad array of subjects and have required a series of changes to the San Francisco Health Plan (SFHP) contract with the Department of Health Care Services (DHCS). Over the course of the past several months, DHCS has begun to issue guidance to the health plans on the new Final Rule requirements that are in addition to, or different from, current Medi-Cal requirements. DHCS guidance may be provided to SFHP through DHCS All-Plan Letters (APL), Contract Amendments, Deliverable Guidance Documents, Topic Workgroup, or other DHCS material documents or correspondence.

The Mega Regs will also mean changes to the current DHCS contract. DHCS has submitted a new contract for Medi-Cal managed care plans to the CMS and is waiting for CMS approval. Currently, the DHCS has issued requirements on the following 12 Mega Reg areas, which have operational impact to SFHP:

- Medicare Coordination of Benefits Agreement with CMS
- Medi-Cal Fee-For-Service Data for PCPs
- Member Written Materials
- Member Evaluation Tool (MET)/Health Information Form (HIF)
- Network Adequacy & Availability
- Credentialing
- Program Integrity-Data Certification
- Subcontracts
- Pharmacy Drug Utilization Reviews (DUR)
- Medical Loss Ratio (MLR)/Management Information System (MIS)
- Overpayment Recoveries

At the time of preparing the FY17-18 budget, we did not have many specifics as to what would be required to meet these new regulations. The FY17-18 budget includes \$1,359,000, which was related to \$677,000 for internal and external resources, and \$682,000 to cover costs related to revising and distributing new member materials. All of these budgeted costs were included in administrative expenses. Additional costs estimates will be prepared as more requirements for the Mega Regs become available.

The Finance Committee unanimously approved the year-to-date unaudited financial statements and investment reports for the year-ending June 30, 2017 and the period ending July 31, 2017, as presented and recommended forwarding to the full Governing Board for approval.

7. Review and Approval of SFHP FY 16-17 Organizational Score and FY16-17 Year-End Staff Bonus

Recommendation: SFHP finished FY16-17 successfully by achieving an organization score of 92% for the success criteria approved by the Governing Board. It is recommended that the Finance Committee consider approval of the following items:

- 1) With the FY16-17 financial position meeting the sufficient requirement to pay the staff bonus and bonus funds were budgeted in the year-end statements, approval of distribution of staff bonuses, according to the organizational score and individual performance.
- 2) Approval of organization score of 92% (details provided in the table below and on subsequent pages).

The Finance Committee unanimously approved the position that the SFHP FY16-17 financial position met the sufficient requirement to pay the staff bonus and bonus funds that were budgeted for FY16-17 and approved the organization score of 92% (details were provided in the Finance Committee packet) as presented and recommended forwarding to the full Governing Board for approval.

8. Adjourn

Reece Fawley, Secretary