



**Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
June 13, 2018**

Present: Eddie Chan, Pharm D., Reece Fawley, Steve Fields, Steven Fugaro, MD, Emily Webb, John F. Grgurina, Jr., John Gregoire, Skip Bishop, Khanh Pham, Rand Takeuchi, and Nina Maruyama (note taker)

Absent: None

Guests: Karen Andrews, Chief Operations Officer

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. Steve Fields announced that after over 20 years of serving on the Finance Committee, as one of the founding members, he will be stepping down from the Finance Committee. Mr. Fields will, however, still continue as a Governing Board member. The June meeting will be his last Finance Committee meeting. Reece Fawley, Chair, and others on the committee thanked Mr. Fields for his years of dedication and valuable contributions to the SFHP Finance Committee.

- 1. Approval of Minutes from May 2, 2018 Finance Committee Meeting**
The minutes of the May 2, 2018 Finance Committee meeting were approved.
- 2. Review and Approval of Year-To-Date Unaudited Financial Statement and Investment Reports**

Recommendation: Review and approve the year-to-date unaudited financial statement and investment reports.

John Gregoire, Chief Financial Officer, presented the year-to-date unaudited financial statement and investment reports for the period ending April 30, 2018. (The narrative summaries and financial documents were provided to the Finance Committee for reference.)

Mr. Gregoire stated that the April 2018 results produced a loss of (\$529,000) versus a budgeted loss of (\$5,162,000). Drivers that contributed to the financial results for the month were:

- Strategic Use of Reserves (SUR) payments and accruals that were less than anticipated.
- An increase to the Incurred But Not Reported (IBNR) claims reserve based on our actuarial model.
- An increase in hospital and non-specialty mental health fee-for-service claims.

- Favorable revenue adjustments related to the receipt of Proposition 56 enhanced physician payments, non-medical transportation (NMT) and receipt of retroactive Medi-Cal premiums.
- We continue to experience fewer member months due to members placed on hold awaiting completion of the annual redetermination process.
- Lower Hepatitis C utilization than expected in conjunction with rate decreases on treatments. The introduction of the lower cost Hepatitis C drug Mavyret was anticipated by DHCS, therefore the reimbursement rates were decreased accordingly.
- An increase in paid hospital fee-for-service claims related to the implementation of the APR-DRG payment methodology.

Mr. Gregoire stated that on a year-to-date basis SFHP has incurred a loss of (\$1,203,000) versus a budgeted loss of (\$1,820,000).

- This variance is primarily the result of distributing SURs in excess of budget.
- It is important to note that the FY17-18 budget projected we would record \$58 million in revenue and medical expense related to the AB85 to cost provision within the Medi-Cal Expansion category. As of April 30, 2018, no supplemental payments have been received. During the month of May 2018, SFHP will receive \$39.2 million in FY16-17 AB 85-to-cost funding which will be paid to Zuckerberg San Francisco General Hospital.

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 April 2018.

CATEGORY	-----APR 2018-----				-----FYTD 17-18 THRU APR-----			
	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
REVENUE	\$ 49,546,000	\$ 48,295,000	\$ 1,251,000	2.6%	\$ 477,427,726	\$ 541,024,000	\$ (63,596,274)	-11.8%
LESS: AB85 TO COST	\$ -	\$ -	\$ -		\$ -	\$ 58,232,000	\$ (58,232,000)	
REVENUE - REVISED	\$ 49,546,000	\$ 48,295,000	\$ 1,251,000	2.6%	\$ 477,427,726	\$ 482,792,000	\$ (5,364,274)	-1.1%
MLR	94.2%	103.8%			93.2%	93.7%		
ADMINISTRATIVE EXPENSES	\$ 4,365,000	\$ 4,240,000	\$ (125,000)	-2.9%	\$ 42,433,000	\$ 44,217,000	\$ 1,784,000	4.0%
ADMINISTRATIVE RATIO	7.4%	7.3%			7.5%	6.9%		
MARGIN (LOSS)	\$ (529,000)	\$ (5,162,000)	\$ 4,633,000	-89.8%	\$ (1,203,000)	\$ (1,820,000)	\$ 617,000	-33.9%
OPERATING ADJUSTMENTS:								
FY15-16 SUR PAYMENTS/ACCRUALS	\$ -	\$ -			\$ 1,985,000	\$ -		
FY16-17 SUR PAYMENTS/ACCRUALS	\$ -	\$ 583,000			\$ 8,151,000	\$ 8,578,000		
FY17-18 SUR PAYMENTS/ACCRUALS	\$ -	\$ 4,521,000			\$ 1,260,000	\$ 4,521,000		
CY2018 SUR PAYMENTS/ACCRUALS	\$ 1,333,000	\$ -			\$ 3,333,000	\$ -		
MARGIN FROM OPERATIONS	\$ 804,000	\$ (58,000)			\$ 13,526,000	\$ 11,279,000		
MLR W/O SUR AND AB85 TO COST	91.5%	93.1%			90.1%	90.1%		
ADMIN RATIO WITHOUT AB85 TO COST	7.4%	7.3%			7.5%	8.0%		

Mr. Gregoire reviewed the financial projections through October 2018:

1. As of April 30, 2018, SFHP added \$3,333,000 to the Practice Improvement Program (PIP) for CY2018 covering the months of January through April 2018. This accrual is related to both the FY17-18 SUR and the CY2018 SUR. A total of \$10 million will be added to the CY2018 PIP program for professional

providers. The remaining \$6.7 million will be accrued monthly through December 2018.

2. Effective January 1, 2018, SFHP implemented provider capitation and fee-for-service rates for the Medi-Cal and Healthy Kids lines of business. The overall weighted average increase was 6.2%. The FY17-18 budget included \$13.2 million to cover these increases. These increased rates will continue into FY18-19.
3. At the end of April, DHCS released draft rates for FY18-19. It appears SFHP will see increases in some categories of aid while rates for other categories of aid will decrease. Most notably, the Adult Expansion rate is set to increase by 9.7% effective July 2018. SFHP will continue to analyze the rates from DHCS and will bring a provider rate change proposal to the September 2018 Governing Board meeting for a January 1, 2019 start date.
4. In October 2017, DHCS reduced Hepatitis C reimbursement rates retroactive to July 2017. SFHP 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. On a year-to-date basis, the Hepatitis C MLR is 88.3%. Our Pharmacy department continues to work 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. At this time, Mavyret is used in over 80% of the Hepatitis C treatment weeks. DHCS recently informed the Medi-Cal health plans that Hepatitis C reimbursement rates will be reduced again effective July 2018. The rate reduction for non-340B will be 3.9% (\$150 per treatment week) while the rate reduction for drugs purchased under 340B rules will be 3.3% (\$100 per treatment week).

The Finance Committee approved the financials and investment reports as presented for forwarding to the full Board for approval.

3. Review and Approval of Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2018-2019

Recommendation: SFHP recommended approval of the Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2018-2019.

Mr. Grgurina stated that there would be a Board decision at September 2018 meeting regarding the Medi-Cal Provider rate changes based on July 2018 rates, which SFHP expected to receive from DHCS in late July.

Mr. Grgurina introduced Skip Bishop, Director, Accounting Services, Rand Takeuchi, Sr. Manager, Accounting, and Khanh Pham, Sr. Budget and Accounting Analyst ("Finance team"). Mr. Grgurina, Mr. Gregoire and the Finance team provided the Finance Committee with a review of the proposed FY18-19 budget. (Documents were incorporated into the Finance Committee materials by reference.)

Mr. Grgurina referred the Committee to the summary provided at the beginning of the presentation, followed by a detailed Appendix. Mr. Grgurina asked if the committee liked the format, or if the committee preferred not to receive the details in the Appendix. Mr. Fawley stated that all pages provided to the committee are helpful. Mr. Grgurina thanked the committee for the feedback and stated they will continue to provide the same level of detail for the budget.

The following key budget assumptions for the proposed budget were presented:

- 1) Growth versus FY 18-19:
 - a. Revenue Growth: 10%
 - b. Medical Expense Growth: 12%
 - c. Member Month Reduction (all LOBs): -2%
 - d. SFHP Staffing for the Health Plan lines of business – no change
 - e. SFHP Staffing for third-party administration business, e.g., Healthy San Francisco: four FTEs

- 2) Provider rate changes to be proposed in September:
 - a. SFHP will recommend provider rate changes based on DHCS rates effective July 2018.
 - b. Overall Medical Loss Ratio (MLR) of 96%.
 - c. SFHP administration at 6.6%.

- 3) FY 18-19 Revenue – Key Points
 - a. Premium Revenue up 12%.
 - b. Total budget including HSF/SFCMRA/HK is \$676 million.
 - c. Per Member Per Month Revenue up 12% (largely due to IGTs and Directed payments)
 - FY 18-19 \$378 pmpm
 - FY 17-18 \$338 pmpm

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 2018-2019 as presented, for forwarding to the full Board for approval.

The Finance Committee adjourned to Closed Session.

4. Review and Approval of Proposed Contract and Rates for Pharmacy Benefit Manager

This item was discussed in closed session.

5. Review and Approval of Proposal to Adjust Provider Rates for the Medi-Cal Expansion Dual Eligibles

This item was discussed in closed session.

6. Review of Health homes Program Provider Rates

This item was discussed in closed session.

7. Review and Approval of Increase for Community Based Adult Services Rates

This item was discussed in closed session.

The meeting was resumed in Open Session.

8. 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 contract and rates for Pharmacy Benefit Manager.
- b. Approved the proposal to adjust provider rates for the Medi-Cal Expansion Dual Eligible.
- c. Reviewed the Health Homes Program Provider rates.
- d. Approved a 20% increase for Community Based Adult Services rates to be effective on July 1, 2018.

9. Review and Approval of Appointment of Resolution 18-02 to Revise the Membership of the Finance Committee

Recommendation: Approval of Resolution 18-02 to revise the membership of the Finance Committee of the San Francisco Health Authority and San Francisco Community Health Authority.

Mr. Grgurina briefly reviewed the Resolution 18-02 revisions of the Finance Committee membership. A copy of resolution 18-02 was provided in the Board packet.

The Finance Committee unanimously approved Resolution 2018-02 to revise the membership of the Finance Committee of the San Francisco Health Authority and San Francisco Community Health Authority for forwarding to the full Board for approval.

10. Review and Approval of Appointment of New Member to the Finance Committee

Recommendation: SFHP recommends the approval of the appointment of Greg Wagner, CFO, Department of Public Health, to the Finance Committee.

Background

Per SFHP Bylaws, Section 5.14, Committees of the Governing Board, members of the Finance Committee are appointed by the Governing Board by resolution or motion. With the approved Resolution 18-02, the membership of the Finance Committee allows for a non-Governing Board individual to be appointed to the Committee.

Currently, there are five members of the Finance Committee. One of the committee's long-time members, Steve Fields, stated he would step down from the committee. With this opening, the committee needs to appoint a new member. Mr. Grgurina stated that an individual that represents the

San Francisco Health Network and Department of Public Health would provide an important perspective since they represent our largest provider in the SFHP network. He stated he recommends the Finance Committee appoint Greg Wagner, the Chief Financial Officer, of the San Francisco Department of Public Health. He is responsible for the Department's \$1.6 billion budget, which is the largest among all of the City's departments. He was previously the Mayor's Budget Director, including during the period of the recession in the late 2000's. He has also worked at the San Francisco Planning and Urban Research Association. He has a Master's in Public Policy from the University of California, Berkeley, and a Bachelor's degree from the University of Wisconsin-Madison. We have worked with Mr. Wagner for the past seven years and believe his experience, knowledge and collaborative approach would make him a very valuable addition to the Finance Committee.

Mr. Grgurina recommended the Finance Committee approve the appointment of Mr. Wagner to the Finance Committee. He also thanked Mr. Fields for serving on the Finance Committee for over 20 years as one of the organization's original Finance Committee members. Mr. Fields has provided invaluable and insightful contributions, particularly from the perspective of the organization's history, founding principles and growth.

The Finance Committee unanimously approved Mr. Wagner appointment to the Finance Committee, for forwarding to the full Board for approval.

11. Review Proposal to Require Data Submissions to Continue

The following agenda item is provided to the Finance Committee as a discussion item only. No action was necessary.

Beginning with dates of service January 1, 2019, SFHP will begin collecting "paid amount" information on encounter data from SFHP's delegated medical groups (DMGs) to ensure encounter and related data that are submitted to our reinsurance carrier's underwriting group are completed accurately for use in setting premiums and determining recoveries for SFHP and our participating insured providers. The Finance team discussed the reasons for the need to have the participating DMGs submit encounter data with pricing.

Reece Fawley, Secretary