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

Present: Reece Fawley, Steven Fugaro, MD, Emily Webb, Greg Wagner, John F. Grgurina, Jr., Skip Bishop, Rand Takeuchi, and Nina Maruyama (note taker)

Absent: Eddie Chan, Pharm D

Guests: Karen Andrews, SFHP Chief Operations Officer, Robert Harder, City National Bank, Chris Pritchard and Rianne Suico, Moss Adams Consultants, LLP

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 5, 2018 Finance Committee Meeting
   The minutes of the September 5, 2018 Finance Committee meeting were approved with no changes.

2. City National Bank Discussion on Investments and Environment
   Robert Harder, City National Bank, provided a market and economic update. Mr. Harder provided a historical view of the economic expansion, unemployment rate and inflation rate. Mr. Harder also reviewed SFHP’s investment portfolio performance. The full presentation slides were included for reference in the Finance Committee packet.

   This was a discussion item only.

3. Review and Approval of the Annual Independent Audit Report for FY 2017-18

   Recommendation: Review and approval of the annual independent auditor’s report for FY 2017-18.

   Chris Pritchard, Partner, Moss Adams, LLC, the independent audit firm hired by SFHP, presented the FY 2017-18 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 SFHP staff
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 
stated that they discussed the importance of protecting against cyber threats, 
fraud and other security threats. Moss Adams agreed they would provide 
information to SFHP staff on a regular basis regarding known threats that could 
impact SFHP.

Mr. Fawley requested that Moss Adams consider using more distinct colors in 
their next report because the color palette used made it difficult to differentiate 
the various types of categories in bar charts.

The Finance Committee unanimously approved the auditor’s report for 
forwarding to the full Board for approval and congratulated the staff on a clean 
audit.

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

**Recommendation:** Review and approve the unaudited monthly financial 
statement and investment reports.

Skip Bishop, CFO, reviewed the financial statements for the period ending 
September 2018. Mr. Bishop discussed the following highlights:

1. September 2018 results produced a margin of $1,190,000 versus a budgeted 
   loss of ($4,000). After removing Strategic Use of Reserves (SUR) activity, 
   the actual margin from operations would be $2,101,000 versus a budgeted 
   margin of $1,621,000.

2. On a year-to-date basis, SFHP had a loss of ($2,170,000) versus a budgeted 
   margin of $547,000. After removing SUR activity, the actual margin from 
   operations was $4,033,000 versus a budgeted margin of $5,425,000.

3. Variances between September actual results and the budget include:
   a. A net decrease in revenue of ($1,858,000) due to:
      i. $1,189,000 less in premium revenue as the result of 2,045 fewer 
         member months. The reasons for the decrease continue to be a 
         combination of members placed on hold awaiting completion of the 
         annual redetermination process along with net terminations. 
         1,307 of these members were in the Adult Expansion category.
      ii. $500,000 less in Hepatitis C revenue as the result of 138 fewer 
          Hepatitis C treatment weeks along with a 3.9% decrease in the 
          Hepatitis C reimbursement rate.
      iii. $96,000 less in Health Homes Program revenue. This new 
          Medi-Cal program is in the ramping up phase.
      iv. $73,000 less in third-party administrative (TPA) revenue. TPA 
          revenue is based on a percentage of capitation. Fewer member 
          months mean less capitation disbursed to providers.
b. A net decrease in medical expense of ($2,845,000) due to:
   i. $919,000 less in fee-for-service claims activity due to slightly lower claims volume. No adjustment to our Incurred But Not Reported (IBNR) accrual was necessary as the IBNR reserve balance is in line with the Milliman model.
   ii. $715,000 less in SUR activity when compared to the budget. The FY18-19 budget anticipated a smoother outflow of SUR funds throughout the fiscal year.
   iii. $687,000 less in pharmacy expense due to fewer business days in September. Pharmacy claims expense typically averages $365,000 per business day. Our budget practice in FY18-19 is to project a per member, per month cost for pharmacy expense, which results in a smoother month-to-month claims expense. There were 19 business days in September which drove actual pharmacy expense lower than what was projected in the budget.
   iv. $417,000 less in capitation expense due to fewer member months.
   v. $107,000 less in vision, mental health and health education expenses.

c. A net decrease in administrative expense of ($194,000). Compensation and benefits were $170,000 higher than projected due to filling some positions earlier than expected. This additional expense was more than offset by $317,000 less in professional fees/consulting and information technology support costs.

d. Below is a chart highlighting the key income statement categories with adjustments for SUR activity in order to show margin from ongoing operations for the month of September. For the first three months of the fiscal year, SFHP was $1,392,000 below budget on margin from operations. After completing a more in-depth analysis, we have found that one-third of the variance was due to margin lost on lower revenue while the remaining two-thirds is due to higher non-Hepatitis C pharmacy costs. We are working with the pharmacy team to understand the increase in pharmacy expense, i.e., higher than expected drug costs, higher than expected utilization, etc.

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>ACTUAL</th>
<th>BUDGET</th>
<th>FAV (UNFAV)</th>
<th>% FAV (UNFAV)</th>
<th>ACTUAL</th>
<th>BUDGET</th>
<th>FAV (UNFAV)</th>
<th>% FAV (UNFAV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUE</td>
<td>$ 47,651,000</td>
<td>$ 49,509,000</td>
<td>($1,858,000)</td>
<td>-3.8%</td>
<td>$ 143,920,000</td>
<td>$ 148,652,000</td>
<td>($4,732,000)</td>
<td>-3.2%</td>
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<tr>
<td>MLR</td>
<td>90.6%</td>
<td>93.1%</td>
<td></td>
<td></td>
<td>94.7%</td>
<td>92.9%</td>
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<tr>
<td>ADMINISTRATIVE RATIO</td>
<td>7.3%</td>
<td>7.3%</td>
<td></td>
<td></td>
<td>7.2%</td>
<td>7.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MARGIN (LOSS)</td>
<td>$ 1,190,000</td>
<td>($4,000)</td>
<td>$ 1,194,000</td>
<td>29850.0%</td>
<td>($2,170,000)</td>
<td>$ 547,000</td>
<td>($2,717,000)</td>
<td>-496.7%</td>
</tr>
</tbody>
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OPERATING ADJUSTMENTS:
- FY15-16 SUR PMTS
- FY16-17 SUR PMTS/ACCRLS
- FY17-18/CY2018 SUR PAYMENTS/ACCRUALS

MARGIN FROM OPERATIONS | $ 2,101,000 | $ 1,621,000 | $ 480,000 | 29.6% | $ 4,033,000 | $ 5,425,000 | ($1,392,000) | -25.7% |

MLR W/O SUR PMTS | 88.6% | 89.8% |             |            | 90.3% | 89.6% |             |            |
PROJECTIONS

Financial projections through March 2019:

1. As of September 30, 2018, SFHP has added $7,500,000 to the Practice Improvement Program (PIP) for CY2018 covering the months of January through September 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 for professional providers. The remaining $2,500,000 will be accrued monthly through December 2018.

2. SFHP received final Medi-Cal rates from the Department of Health Care Services (DHCS). These rates were effective July 2018. The overall impact was an increase of 4.2%. The rate for the Medi-Cal Adult Expansion category of aid increased by 9.7% which was an extremely favorable development for the health plan and its providers.

3. SFHP will be increasing provider capitation rates effective January 1, 2019. The weighted average increase is 4.2%.

4. Hepatitis C reimbursement rates were reduced again effective July 2018. The rate reduction for non-340B was 3.9% ($155 per treatment week) while the rate reduction for drugs purchased under 340B rules was 3.3% ($99 per treatment week). With these rate reductions, SFHP is running at break even on Hepatitis C activity through September.

5. The overall premium rate for the Healthy Workers program increased 21.7% effective July 1, 2018. SFHP has implemented new capitation rates for the San Francisco Health Network (SFHN) and San Francisco Behavioral Health Services (SFBHS).

6. There will be a FY18-19 Rate Range Intergovernmental Transfer (IGT) program for eligible governmental funding entities. Total estimated funding available is $28.7 million. SFHP worked with the eligible governmental entities to determine the level of participation and submitted its proposal to DHCS. This funding should be received in early 2019.

7. During FY18-19, DHCS will be working with the Medi-Cal managed care plans on four Directed Payment programs related to rate year FY17-18:
   a) Proposition 56 – enhanced payments to medical groups for qualifying physician services. Utilization at Federally Qualified Health Centers (FQHCs) is excluded. Two rounds of disbursements were made during August and September.
   b) Public Hospital Enhanced Payment Program – available to Designated Public Hospitals (DPHs) and UC Systems. DHCS will instruct SFHP on how much to pay to ZSFG and UCSF. Utilization at FQHCs is excluded. Payments will be based on actual utilization as reported in claims and encounter activity. The timing of payment is estimated to be late FY18-19 or early FY19-20.
   c) Public Hospital Quality Incentive Pool - available to DPHs and UC Systems. DHCS will instruct SFHP how much to pay to ZSFG and UCSF.
Utilization at FQHCs is excluded. Payments will be based on how the DPHs and UC Systems are performing against 20 to 25 quality measures. The timing of payment is estimated to be late in FY18-19.

d) Private Hospital Directed Payments – available to private hospitals. DHCS will instruct SFHP how much to pay to the private hospitals. Utilization at FQHCs is excluded. Payments will be based on actual utilization as reported in claims and encounter activity. The timing of payment is not known at this time.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Provider Rate Changes Effective on January 1, 2019

Based on the overall Medi-Cal premium rate increase SFHP received for FY18-19, the Governing Board approved a capitation rate increase effective January 1, 2019. The overall weighted average increase will be 4.2%. The range for SFHP providers is an increase of 1.7% to 4.5%. The range is due to the differences in the distribution of membership by aid category.

For the capitated providers, the actual overall rate change for each provider group will differ based on membership in each of the Medi-Cal categories of aid. Each provider network is paid the same rate by 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.

Overall estimated provider rate increases based on May 2018 enrollment:

- SFHP overall: 4.2%
- Zuckerberg San Francisco General: 4.5%
- Clinical Practice Group: 4.5%
- San Francisco Community Clinic Consortium: 4.2%
- NEMS: 4.0%
- Jade Medical Group: 4.0%
- CPMC: 3.8%
- CCHCA: 3.7%
- Chinese Hospital: 3.7%
- Brown & Toland Medical Group: 2.4%
- Hill Physicians: 1.7%

Rates for the fee-for-services providers (UCSF and CPMC/St. Luke’s) will not change. These providers will continue to be paid under APR-DRG rules.

Since the variance between actual vs budgeted revenues is dependent on Medi-Cal member months, Dr. Fugaro sked if it would be possible to provide member month projections. The Finance Committee unanimously approved the unaudited monthly financial statements and investment reports for the period ending September 30, 2018, for forwarding to the full Board for approval.
5. **Review and Approval of 2019 Practice Improvement Program (PIP) Funding and Fiscal Year Alignment**

**Recommendation:**

1. SFHP recommends that the Finance Committee and Governing Board approve the continuation of previous Practice Improvement Program (PIP) funding with capitation withholds in the amounts of 18.5% for Medi-Cal and 5% for Healthy Kids.

2. SFHP also recommends aligning the PIP with the fiscal year calendar, beginning FY 2020-21. This recommendation is strongly supported by PIP participants because it will better support participants’ organizational planning and budgeting. SFHP proposes operationalizing the 2019 program year as an 18-month cycle, lasting from January 1, 2019 to June 30, 2020, and resuming the 12-month cycle beginning July 1, 2020.

**Background:**

The Practice Improvement Program (PIP) is SFHP’s pay-for-performance incentive program for Medi-Cal clinics and medical groups to achieve improvements in system and health outcomes. Funding is sourced from withholding a percentage from the provider’s capitation rates, which has historically been 18.5% of Medi-Cal and 5% of Healthy Kids professional capitation rates. The PIP funding has been an effective incentive to achieve quality performance measures among the medical groups.

SFHP’s PIP has been run on a calendar year basis (January-December) since its inception. SFHP’s operations and budgeting is on a fiscal year basis (July – June). This difference has caused administrative complications for staff that manage the PIP, as well as for our participating medical groups. SFHN requested SFHP to move the PIP year to align with the July – June fiscal year. We discussed this change with our PIP-participating medical groups and all supported the change.

Therefore, to simplify monitoring of medical groups’ performance and distribution of PIP payments, SFHP recommends moving the PIP to follow SFHP’s fiscal year. To make this transition, the upcoming PIP would be an 18-month program, from January 1, 2019 through June 30, 2020. The 12-month cycle would resume on July 1, 2020.

The Finance Committee members agreed it would be a positive change to align the program year to the SFHP fiscal year. The Finance Committee unanimously approved to continue to withhold the current percentages from the medical groups’ capitation to fund PIP for the 18-month period of January 1, 2019 through June 30, 2020 for forwarding to the full Board for approval.

6. **Adjourn**

Reece Fawley, Secretary