SAN FRANCISCO HEALTH PLAN

Here for you

Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
March 4, 2020

Present: Eddie Chan, Pharm D, Reece Fawley, Steven Fugaro, MD, Skip Bishop, John F. Grgurina, Jr., Kaliki Kantheti, Rand Takeuchi, and Nina Maruyama (note taker)

Absent: Greg Wagner and Emily Webb

Guests: None

Reece Fawley, Chair, Finance Committee, chaired the meeting. Mr. Fawley asked for public comments and there were none.

Call to Order and Public Comment on any matters within the SFHA/SFCHA purview

1. Approval of Minutes from January 8, 220 Finance Committee Meeting

The minutes of the January 8, 2020 Finance Committee meeting were approved with one correction.

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

Skip Bishop, CFO, and Rand Takeuchi, Director, Accounting, reviewed the financial statements for the period ending January 2020. Mr. Bishop discussed the following highlights:

1. January 2020 reported a loss of ($3,832,000) versus a budgeted loss of ($2,388,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations would be ($3,554,000) versus a budgeted loss of ($2,110,000).

    a. The budget anticipated that January would produce a loss due to heavy fee-for-service claims activity which would include five claims check runs plus a seasonal claims catch-up from a lighter December. Actual fee-for-service claims were $717,000 above our budget projections. In addition, we recorded a $743,000 reduction in revenue due to the impact of the

Medi-Cal deceased member audit. This audit covered the period of September 2011 through June 2018.

2. On a year-to-date basis, SFHP has a loss of ($1,144,000) versus a budgeted loss of ($7,326,000). The FY19-20 budget assumed $4.6 million in SUR funding would be disbursed in July. Providers qualified for these SUR dollars earlier than expected so the funds were paid in June and included in FY18-19 medical expense. After removing SUR activity, the actual margin from operations would be $2,145,000 versus a budgeted margin of $214,000.

3. Variances between January actual results and the budget include:

    a. A net increase in revenue of ($1,585,000) due to:
        i. $371,000 less in premium revenue due to changes in the membership mix. Member months were 1,302 less than budget, mostly due to retroactive adjustments related to December 2019 membership.
        ii. $743,000 reduction in revenue due to the impact of the Medi-Cal deceased member audit.
        iii. $274,000 less in Hepatitis C revenue as the result of 101 fewer treatment weeks.
        iv. $95,000 less in Maternity revenue as the result of 11 fewer maternity events.
        v. $102,000 less in third-party administrative fees which can be attributed to a decrease in CHN membership and related capitation plus the phase-out of the Healthy Kids line of business.

    b. A net increase in medical expense of $544,000 due to:
        i. $717,000 more in fee-for-service expense, primarily in the area of inpatient hospital claims paid under the All Patients Refined-Diagnosis Related Groups (APR-DRG) methodology. SFHP will be retaining the services of Varis, LLC, to conduct an independent review of APR-DRG claims and identify potential overpayments. This claims audit work is expected to begin in March 2020.
        ii. $14,000 less in pharmacy expense. Our Pharmacy department continues to do an excellent job of managing our drug spend to stay within budget parameters. Through January, non-Hepatitis C drug costs are $1,772,000 below budget.
        iii. $43,000 less in non-specialty mental health costs due to slightly lower than expected utilization, especially during the first half of January.
        iv. $116,000 less in health education costs. This variance is the result of timing issues with actual spend versus projections. It is expected that actual spending will be more in line with budget expectations as we get closer to year-end.

c. A net decrease in administrative expenses of $489,000 due to:
    i. $387,000 less in Compensation and Benefits due to more open positions than anticipated plus the impact of GASB 68 adjustments.
    ii. $102,000 less when combining Professional Fees/Consulting and systems support costs.

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 January.

	---JAN 2020---				---FYTD 19-20 THRU JAN---			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	136,620	137,922	(1,302)	-0.9%	971,737	975,984	(4,247)	-0.4%
REVENUE	$ 45,827,000	$ 47,412,000	$ (1,585,000)	-3.3%	$ 455,513,000	$ 409,719,000	$ 45,794,000	11.2%
MEDICAL EXPENSE	$ 45,866,000	$ 45,322,000	$ (544,000)	-1.2%	$ 429,333,000	$ 388,102,000	$ (41,231,000)	-10.6%
MLR	101.6%	97.2%			95.4%	96.0%		
ADMINISTRATIVE EXPENSE	$ 4,156,000	$ 4,644,000	$ 488,000	10.5%	$ 28,791,000	$ 30,110,000	$ 1,319,000	4.4%
ADMINISTRATIVE RATIO	7.7%	8.3%			5.2%	6.1%		
INVESTMENT INCOME	$ 363,000	$ 166,000	$ 197,000	118.7%	$ 1,467,000	$ 1,167,000	$ 300,000	25.7%
MARGIN (LOSS)	$ (3,832,000)	$ (2,388,000)	$ (1,444,000)		$ (1,144,000)	$ (7,326,000)	$ 6,182,000	
ADD BACK: SUR PAYMENTS AND ACCRUALS	$ 278,000	$ 278,000			$ 3,289,000	$ 7,540,000		
MARGIN FROM OPERATIONS	$ (3,554,000)	$ (2,110,000)	$ (1,444,000)		$ 2,145,000	$ 214,000	$ 1,931,000	
MLR W/O SUR PMTS	101.0%	96.6%			94.6%	94.1%		

On a year-to-date basis through January and after the removal of SUR activity, SFHP is $1,931,000 above budget on margin. This improvement over budget projections is due to favorable changes in membership mix (2,644 more SPD member months than anticipated), the 1.7% Medi-Cal rate increase related to the population acuity adjustment and greater than expected reinsurance recoveries related to prior years.

- Overall net revenue is above budget by $45,794,000. After removing the impact of Directed Payments, net revenue is still up $195,000. We are down 4,247 member months, however the impact of more SPD member months and the 1.7% rate increase for the population acuity adjustment has us slightly ahead on revenue.
- Overall medical expense is above budget by $41,231,000. After removing the impact of Directed Payments and SUR activity, medical expense is $117,000 below budget.
- Overall administrative expense is below budget by $1,319,000. Slightly lower Compensation and Benefits costs, favorable GASB 68 adjustments, lower than expected Professional Fees and Consulting plus the $277,000 PBM implementation credit recorded in November 2019 represent the majority of this savings.

Mr. Bishop stated that February is looking better, with a projected positive margin of approximately $300,000. Mr. Fawley asked about Varis and whether there may be overpayment of claims due to the APR-DRG payment methodology. Mr. Bishop stated that it was a possibility and that in order to determine whether the payment was correct, there would be a review of medical charts and match the medical chart data with the billed codes. This is the review that Varis would perform. Mr. Bishop stated that the increase in the change in the rules regarding the use of the sepsis-related APR-DRG code triggered the review. The review will also include the claims handled for Zuckerberg San Francisco General, too, so the review will support the oversight of our third-party administrative function for San Francisco Health Network (SFHN). Mr. Fawley stated that UCSF will be interested in the results.

Stephen Fugaro, MD, asked why there were 2,600 more member months than budgeted. John F. Grgurina, Jr, stated that it may be attributed to Medi-Cal members in the Seniors and Persons with Disabilities aid code categories, which are usually stable.

Mr. Grgurina also informed the Finance Committee that SFHP would likely see an increase in membership starting in 2021 because of the Department of Health Care Services (DHCS) CalAIM program to carve in long-term care, major organ transplants and the requirement to implement a dual eligible special needs plan in 2023.

Mr. Fawley asked about the carve in of major organ transplants and how this would be paid. He stated that DHCS needs to also address the purchasing of the organs, which is a separate payment, as well as living donor transplants. Mr. Grgurina stated that he will follow up with Mr. Fawley to obtain more details and will bring up this issue at the DHCS rate group meeting. Mr. Grgurina stated he would also discuss this issue with Board member, Emily Webb, with the California Pacific Medical Center.

PROJECTIONS

Mr. Bishop shared highlights of the financial projections through July 2020:

1. As of January 2020, SFHP has added $3,611,000 to the PIP program related to the FY18-19 Strategic Use of Reserves (SUR) program. A total of $5 million will be added to the CY2019 PIP program for professional providers. The CY2019 PIP actually runs for 18 months, therefore the remaining $1,389,000 will be accrued over the period of February through June 2020.

2. Effective July 2019, SFHP’s Medi-Cal premium rates were increased by a weighted average of 0.8%. In September 2019, DHCS informed SFHP that premium rates will be increased 1.7% as the result of a population acuity

adjustment. This increase is retroactive to July 2019 and will deliver an additional $8 million in revenue for FY19-20.

3. DHCS is transitioning to calendar year rate-setting therefore there will be no Medi-Cal premium rate adjustments effective July 2020. The next premium rate adjustments will be implemented in January 2021.

4. Hepatitis C reimbursement rates were reduced effective July 2019. The rate reduction for non-340B Hepatitis C drugs was 30.9% ($1,169 per treatment week) while the rate reduction for drugs purchased under 340B rules was 23.3% ($683 per treatment week). DHCS reduced the Hepatitis C rates as lower cost generic drugs continue to enter the marketplace. SFHP is slightly above break-even as members have been transitioning to the lower cost generic drugs and pharmacy rebates have increased.

5. Proposition 56 – enhanced payments to medical groups for qualifying physician services. SFHP continues to make disbursements for FY18-19 as well as FY19-20. Effective January 2020, Prop 56 expanded to include supplemental payments for developmental screenings and adverse childhood experiences screenings.

6. The remaining $20 million in Directed Payments funding related to FY17-18 is expected to be received in March 2020. This funding covers the Enhanced Payment Program (EPP), Quality Incentive Pool (QIP) and Private Hospital Directed Payments (PHDP).

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Medi-Cal Deceased Member Audit

As reported to the Finance Committee at the last meeting, DHCS released the results of its deceased member audit. The audit concluded that DHCS overpaid SFHP $983,748 in capitation for the period from September 2011 through June 2018. SFHP recorded an accrual in the amount of $241,000 at June 30, 2019 to cover the estimated exposure. The remaining liability of $742,748 was recorded in January 2020.

Medi-Cal eligibility is handled by the individual counties and reported to DHCS. In turn, DHCS reports eligibility to the Medi-Cal Managed Care Plans (MMCPs) on a daily and monthly basis. DHCS transmits a full file to the MMCPs at the end of each month. This file contains a list of eligible members for the following month. For example, on January 29, 2020, SFHP received a full file containing a list of eligible members for the month of February 2020. This file is the basis for the premium payment made to SFHP.

The DHCS recovery of $983,748 consisted of several components:

- Revenue to SFHP $651,051

- SB 208 Intergovernmental Transfer (IGT) $141,970
- Hospital Quality Assurance Fees (HQAF) $ 54,250
- Adult Expansion AB85 to Cost $ 39,625
- Managed Care Organization (MCO) tax $ 33,677
- Rate Range Intergovernmental Transfer $ 28,715
- Adult Expansion AB85 75% Rate Range $ 18,991
- ACA 1202 Increased Payments for Primary Care Providers $ 8,180
- Adult Expansion AB85 25% Rate Range $ 6,359
- Directed Payments $ 886
- Proposition 56 $ 44

$983,748

The potential impact to providers of a take-back of capitation and related supplemental payments would be as follows:

Zuckerberg San Francisco General	$418,055
Clinical Practice Group	$ 83,885
CPMC	$ 34,014
UCSF	$ 32,260
NEMS	$ 23,431
Chinese Hospital	$ 12,200
SFCCC	$ 11,164
CCHCA	$ 10,850
Brown & Toland	$ 8,468
Kaiser	$ 5,553
Hill Physicians	$ 1,798
	$641,678
MCO Tax	$ 33,677
ACA 1202	$ 8,181
Proposition 56	$ 44
SFHP – other medical expenses	$300,168
	$983,748

Deceased Member Audit Recovery Options:

1. A retroactive recovery of capitation and other supplemental payments back to September 2011.
2. No retroactive recovery of capitation and other supplemental payments, except from Kaiser.

These options are to be discussed by the Finance Committee and Governing Board later in the meeting.

Rand Takeuchi, Director, Accounting, reviewed the investment reports. He stated that we expected $2 million in returns, but we would likely fall short. The

Finance Committee stated that the unaudited statements and investment reports looked good.

The Finance Committee unanimously approved the unaudited monthly financial statements and investment reports for forwarding to the full Board for approval.

The Finance Committee adjourned to closed session.

3. Review and Approval of Medi-Cal Rate Changes for Provider Contracts

This item was discussed in closed session.

The Finance Committee resumed to opened session.

4. Report by Chair on Closed Session Action Items

Mr. Fawley reported that the Finance Committee approved the Medi-Cal rate changes for the SFHP Provider Contracts as recommended.

5. Review and Approval of Decision Not to Recover Funds from Medical Groups and Capitated Hospitals for Deceased Medi-Cal Enrollee Capitation Recoupments by the Department of Health Care Services

Recommendation: SFHP recommends not to recover capitation and other supplemental payments from providers that are related to the recently completed Medi-Cal deceased member audit, except for Kaiser. Kaiser receives premiums rates that are 98% of SFHP's Medi-Cal premium rates.

This recommendation is not intended to be precedent-setting. Recommendations on any future recoveries of premium payments made by DHCS will be based on each unique set of circumstances.

As stated earlier in the meeting, DHCS overpaid SFHP $983,748 in capitation for the period from September 2011 through June 2018. SFHP recorded an accrual in the amount of $241,000 at June 30, 2019 to cover the estimated exposure. The remaining liability of $742,748 was recorded in January 2020.

Mr. Bishop reviewed the following two options for the SFHP provider network**:**

1. A retroactive recovery of capitation and other supplemental payments back to September 2011.
2. No retroactive recovery of capitation and other supplemental payments, except for Kaiser. Kaiser receives premiums rates that are 98% of SFHP's Medi-Cal premium rates.

   Mr. Bishop stated that SFHP does not recommend option #1 because it would create a hardship for the Federally Qualified Health Centers (FQHCs) and the Department of Public Health (DPH). He stated that SFHP recommends the

Finance Committee and Governing Board approve Option #2, to not recover capitation and other supplemental payments from the medical groups, except for Kaiser. Kaiser receives premiums rates that are 98% of SFHP's Medi-Cal premium rates. This recommendation would not be intended to be precedent-setting. Recommendations on any future recoveries of premium payments made by the DHCS will be based on each unique set of circumstances.

Mr. Fawley stated his appreciation for the thoughtful approach and consideration for the SFHP providers. Mr. Takeuchi stated that going forward, SFHP expects DHCS to have a more timely process for reconciliation.

The Finance Committee unanimously approved to forward the recommendation for option #2 to the full Governing Board for approval.

6. Review and Approval of Contracts with Three Vendors, Insight Global, DevCool, and NTT, for ITS Staffing Agencies

Recommendation: SFHP is recommended to sign, or amend the current, Master Service Agreements with Insight Global, DevCool, and NTT for staff augmentation support.

Mr. Grgurina stated that SFHP proposes to contract with three vendors for the following purposes:

- When an IT resource would be needed, the job requirements and skill set needed would be sent to all three vendors.
- The best presented resource based on the ability to meet the job requirements and price would be awarded the statement of work.
- Occasionally, a firm other than these three may be used for a specialized skill set.
- Mr. Grgurina stated that it was likely that the total combined spend with the three vendors would be above $1 million in 2020 or that the spend with a single vendor could be above $1 million in 2020, resulting the need to present the contracting approach to the Finance Committee and the Governing Board for approval. The approach would encourage ongoing competition for the best service and price.

The Finance Committee unanimously approved the recommendation for the contracting approach for forwarding to the full Governing Board for review and approval.

7. Review and Approval of Contract Approach with Edifecs, a Health Care Data Interchange Vendor

Recommendation: SFHP recommends the Finance Committee and Governing Board approve SFHP to contract with health care data interchange vendor, Edifecs, with an expected value of over $1,000,000 in 2020.

Mr. Grgurina stated that SFHP has contracted with Edifecs since 2014. Currently SFHP uses Edifecs software and expertise to maintain CAQH CORE1 compliance, encounter management, and electronic data interchange (EDI), testing. By June 2020, SFHP will be implementing Edifecs Smart Trading solution to improve and consolidate SFHP's EDI capabilities. SFHP's current EDI solution was built internally and is maintained by SFHP staff. The Smart Trading solution will allow SFHP to better serve providers, increase data accuracy, maintain compliance, and allocate SFHP resources to other project work. In addition, Edifecs is the top contender in an RFP process to select an interoperability platform to comply with the expected federal interoperability regulations (final selection of a vendor is pending).

In 2018, SFHP Edifecs contracts and statements of work totaled $161,545.80. In 2019, encounter management was added and a real-time eligibility improvement project increased the total expense to $464,340.65. In 2020, implementing the Edifecs Smart Trading solution will bring the total Edifecs expense to approximately $1,000,000. If Edifecs is selected as the interoperability vendor, the total expense with Edifecs will be between $1,500,000 and $1,800,000.

Mr. Grgurina stated recommended the Finance Committee approve SFHP to continue contracting with Edifecs for EDI, encounter management, interoperability, and compliance software and services. The Finance Committee unanimously approved the recommendation for forwarding to the full Governing Board for review and approval.

8. Review and Approval of Contracts with KP, LLC, for Printing Services

Recommendation: SFHP recommends the Governing Board approve a five-year extension of the contract with our current print, ID card and mail house vendor, KP LLC, for all lines of business

Mr. Grgurina stated that the pricing specified in the proposed five-year contract will remain unchanged from our existing pricing, representing no increase in print and mailhouse pricing for a total of eight years. For context, the approximate annual spend for the Medi-Cal and the Healthy Workers HMO programs is $1.5 million and for the third-party administrator lines of business is $0.85 million, totaling $2.35 million annually. Although we have greatly increased our print volume due to mandated mailing and absorbed annual postal rate increases over the past three years, the launch of "go green" annual mailing campaign has allowed us to keep total costs down by enabling our members to opt-out of paper copies of the Medi-Cal annual mailing.

The Finance Committee unanimously approved the recommendation to extend the contract for forwarding to the full Governing Board for review and approval.

9. **Review and Approval od Proposal for Undistributed Strategic Use of Reserves and Practice Improvement Program (PIP) Funds**

Recommendation: SFHP recommends the Finance Committee approve the use of undistributed dollars from previous Practice Improvement Program (PIP) and Strategic Use of Reserves (SUR) totaling $1.76 million.

Mr. Grgurina stated that these investments would support SFHP providers and improve quality of care. (Detailed memo was provided in the Board packet.)

Mr. Fawley stated his support and that it was nice that SFHP redesignate the funds for use by providers, rather than the funds going back to the plan.
The Finance Committee unanimously approved the recommendation for forwarding to the full Governing Board for review and approval.

10. **Annual Review of SFHP Administrative Contracts**

This item was presented to the Finance Committee for discussion only.

Kaliki Kantheti, Officer, Operations, reviewed the list of administrative contracts in calendar year 2019 that exceeded $100,000 for review by the Finance Committee. The Finance Committee did not identify any issues.

11. **Adjourn**

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Reece Fawley, Secretary