



**Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
May 2, 2018**

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

Absent: Steve Fields

Guests: None

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 March 7, 2018 Finance Committee Meeting

The minutes of the March 7, 2018 Finance Committee meetings were unanimously approved with one correction to Reece Fawley's name ("Mr. Reece" should be "Mr. Fawley" on page 5).

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, was absent due to a planned vacation. In his place, Skip Bishop, Director of Accounting and Rand Takeuchi, Senior Manager, Accounting, presented the year-to-date unaudited financial statement and investment reports for the period ending March 31, 2018. (The narrative summaries and financial documents were provided to the Finance Committee for reference.)

The following are key highlights:

1. March 2018 results produced a loss \$5,129,000 versus a budgeted loss of \$772,000. The majority of the loss was a planned loss due to the Strategic Use of Reserves (SUR) provider payments accrued at \$4,060,000, along with the Board-approved capitation and fee-for-service rate increases that were implemented on January 1, 2018. Excluding SUR payment accrual, the loss would have been \$1,069,000.
2. Variances between actual results and the budget include:
 - a. A large number of members being placed on hold due to delays in completing their annual Medi-Cal redetermination, as well as a decline in members.
 - b. There were 110 fewer Hepatitis C treatment weeks along with a 32% decrease in the Hepatitis C reimbursement rate. The introduction of the lower cost Hepatitis C drug,

Mavyret, was anticipated by DHCS and resulted in the decrease of the Hep C reimbursement rates.

- c. There were \$161,000 more in administrative expenses, mostly in the area of professional fees/consulting and other operating expenses.
3. It is important to note that the FY17-18 budget projected we would record \$58 million in revenue and medical expenses related to the AB85-to-cost provision within the Medi-Cal Expansion category. SFHP received a related \$38 million in October 2017, but since this funding related to prior periods, audit rules required that we record this revenue and related medical expense in June 2017, the previous fiscal year. SFHP expected to receive \$39.2 million in AB85-to-cost funding, which will be paid to Zuckerberg San Francisco General Hospital (ZSFG), as approved by the Board, but has not yet received the funds. At this time, the funds may be received in May or June.
 4. Below is a chart highlighting the key income statement categories with adjustments for SUR and AB 85-to-cost in order to show the margin from ongoing operations for the month of March.

| CATEGORY | -----MAR 2018----- | | | | -----FYTD 17-18 THRU MAR----- | | | |
|----------------------------------|--------------------|---------------|----------------|---------------|-------------------------------|----------------|-----------------|---------------|
| | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) |
| REVENUE | \$ 45,523,000 | \$ 48,298,000 | \$ (2,775,000) | -5.7% | \$ 427,885,000 | \$ 492,729,000 | \$ (64,844,000) | -13.2% |
| LESS: AB85 TO COST | \$ - | \$ - | \$ - | | \$ - | \$ 58,232,000 | \$ (58,232,000) | |
| REVENUE - REVISED | \$ 45,523,000 | \$ 48,298,000 | \$ (2,775,000) | -5.7% | \$ 427,885,000 | \$ 434,497,000 | \$ (6,612,000) | -1.5% |
| MLR | 103.6% | 94.4% | | | 93.1% | 92.7% | | |
| ADMINISTRATIVE EXPENSES | \$ 4,493,000 | \$ 4,333,000 | \$ (160,000) | -3.7% | \$ 38,068,000 | \$ 39,977,000 | \$ 1,909,000 | 4.8% |
| ADMINISTRATIVE RATIO | 8.4% | 7.5% | | | 7.5% | 6.8% | | |
| MARGIN (LOSS) | \$ (5,129,000) | \$ (772,000) | \$ (4,357,000) | 564.4% | \$ (674,000) | \$ 3,342,000 | \$ (4,016,000) | -120.2% |
| OPERATING ADJUSTMENTS: | | | | | | | | |
| FY15-16 SUR PAYMENTS/ACCRUALS | \$ 800,000 | \$ - | | | \$ 1,985,000 | \$ - | | |
| FY16-17 SUR PAYMENTS/ACCRUALS | \$ - | \$ 583,000 | | | \$ 8,151,000 | \$ 7,995,000 | | |
| FY17-18 SUR PAYMENTS/ACCRUALS | \$ 1,260,000 | \$ - | | | \$ 1,260,000 | \$ - | | |
| CY2018 SUR PAYMENTS/ACCRUALS | \$ 2,000,000 | \$ - | | | \$ 2,000,000 | \$ - | | |
| MARGIN FROM OPERATIONS | \$ (1,069,000) | \$ (189,000) | | | \$ 12,722,000 | \$ 11,337,000 | | |
| MLR W/O SUR AND AB85 TO COST | 94.5% | 93.1% | | | 89.9% | 89.8% | | |
| ADMIN RATIO WITHOUT AB85 TO COST | 8.4% | 7.5% | | | 7.5% | 8.0% | | |

PROJECTIONS

Financial projections through September 2018:

1. As of March 31, 2018, SFHP has added \$2,000,000 to the Practice Improvement Program (PIP) for CY2018, covering the months of January through March 2018. This accrual is related to the recently approved CY2018 SUR totaling \$16 million. 50% of this SUR will be allocated to professional providers, with all \$8 million added to the CY2018 PIP program. The remaining \$6 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. In October 2017, DHCS reduced Hepatitis C reimbursement rates retroactively to July 2017. SFHP experienced a 3.2% decrease in Hepatitis C reimbursements for the period from July through December 2017. For the period from January through June 2018, SFHP expects a 32.1% decrease in the reimbursement rate from DHCS. 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. Non-Mavret drugs cost about \$6,200/week and Mavret costs about \$3,200/week. 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).
4. In April 2018, SFHP expects to receive \$39.2 million 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 FY16-17. We expect to disburse the full \$39.2 million of this AB85 funding to ZSFG in April. For budget purposes, we estimated that \$20 million in revenue and a similar amount in medical expense related to AB85 would have been recorded in December 2017, but it appears the actual funds will be received in May or June.
5. There are four Directed Payment programs in place for FY17-18:
 - Proposition 56 – enhanced payments to medical groups for qualifying physician services. Utilization at Federally Qualified Health Centers (FQHCs) and Rural Health Centers (RHCs)¹ is excluded. SFHP expected to receive funding for July 2017 through March 2018 by the end of April. The first round of disbursements is expected to occur in May.
 - Public Hospital Enhanced Payment Program – available to Designated Public Hospitals (DPHs) and UC Systems. DHCS will instruct SFHP how much to pay to ZSFG and UCSF. Utilization at FQHCs and RHCs is excluded (see previous note regarding RHCs). 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.
 - Private Hospital Directed Payments – available to private hospitals. DHCS will instruct SFHP how much to pay to the private hospitals. Utilization at FQHCs and RHCs is excluded (see previous note regarding RHCs). Payments will be based on actual utilization as reported in claims and encounter activity. The timing of payment is not known at this time.

¹ DHCS' description of the payment includes RHCs. However, there are no RHCs in San Francisco.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

RECAP OF STRATEGIC USE OF RESERVES PROGRAMS

In the last three fiscal years, the Governing Board approved four Strategic Use of Reserves (SUR) programs for FY15-16, FY16-17, FY17-18 and CY2018. These distributions total \$74.6 million. Below is a summary of each program.

| | | <u>Total Approved</u> | <u>Remaining to be Paid</u> |
|---------|---------------------------|------------------------------|------------------------------------|
| FY15-16 | Strategic Use of Reserves | \$15,000,000 | \$ 2,889,000 |
| FY16-17 | Strategic Use of Reserves | \$30,000,000 | \$ 4,772,000 |
| FY17-18 | Strategic Use of Reserves | \$13,600,000 | \$12,340,000 |
| CY2018 | Strategic Use of Reserves | <u>\$16,000,000</u> | <u>\$16,000,000</u> |
| Total | | \$74,600,000 | \$36,001,000 |

| <u>PROVIDER STRATEGIC USE OF RESERVES FY15-16</u> | | | |
|--|----------------|-----------------|----------------|
| | SUR | | |
| HOSPITAL | FY15-16 | PAYMENTS | BALANCE |
| CHINESE HOSPITAL | \$ 605,412 | \$ 544,871 | \$ 60,541 |
| CPMC | \$ 1,807,173 | \$ 1,781,715 | \$ 25,458 |
| S.F. GENERAL (CHN AND NMS) | \$ 3,939,009 | \$ 3,138,076 | \$ 800,933 |
| ST. LUKE (HILL AND BROWN & TOLAND) | \$ 517,530 | \$ 310,518 | \$ 207,012 |
| UCSF MEDICAL CENTER | \$ 630,876 | \$ 567,790 | \$ 63,086 |
| TOTAL DISTRIBUTION - HOSPITAL | \$ 7,500,000 | \$ 6,342,970 | \$ 1,157,030 |
| | | | |
| | SUR | | |
| PROFESSIONAL | FY15-16 | PAYMENTS | BALANCE |
| CCHCA | \$ 605,412 | \$ 435,895 | \$ 169,517 |
| NEMS | \$ 1,922,515 | \$ 1,563,001 | \$ 359,514 |
| CPG | \$ 1,847,754 | \$ 1,373,497 | \$ 474,257 |
| SFHN | \$ 1,632,622 | \$ 1,353,769 | \$ 278,853 |
| SFCCC | \$ 343,291 | \$ 304,063 | \$ 39,228 |
| HILL PHYSICIANS | \$ 262,299 | \$ 157,379 | \$ 104,920 |
| BROWN & TOLAND | \$ 255,231 | \$ - | \$ 255,231 |
| UCSF MEDICAL GROUP | \$ 630,876 | \$ 580,280 | \$ 50,596 |
| TOTAL DISTRIBUTION - PROFESSIONAL | \$ 7,500,000 | \$ 5,767,884 | \$ 1,732,116 |
| | | | |
| TOTAL DISTRIBUTION | \$ 15,000,000 | \$ 12,110,854 | \$ 2,889,146 |
| DISTRIBUTION % TO DATE | | 80.7% | |

| <u>PROVIDER STRATEGIC USE OF RESERVES FY16-17</u> | | | |
|--|----------------|-----------------|----------------|
| | SUR | | |
| HOSPITAL | FY16-17 | PAYMENTS | BALANCE |
| CHINESE HOSPITAL | \$ 1,165,703 | \$ 1,049,133 | \$ 116,570 |
| CPMC | \$ 3,586,515 | \$ 3,227,864 | \$ 358,652 |
| S.F. GENERAL (CHN AND NMS) | \$ 7,949,596 | \$ 7,949,596 | \$ - |
| ST. LUKE (HILL AND BROWN & TOLAND) | \$ 999,281 | \$ 899,353 | \$ 99,928 |
| UCSF MEDICAL CENTER | \$ 1,298,905 | \$ 1,169,015 | \$ 129,891 |
| TOTAL DISTRIBUTION - HOSPITAL | \$ 15,000,000 | \$ 14,294,960 | \$ 705,040 |
| | | | |
| | SUR | | |
| PROFESSIONAL | FY16-17 | PAYMENTS | BALANCE |
| CCHCA | \$ 1,165,695 | \$ 582,848 | \$ 582,847 |
| NEMS | \$ 3,952,018 | \$ 3,293,348 | \$ 658,670 |
| CPG | \$ 3,727,828 | \$ 2,795,871 | \$ 931,957 |
| SFHN | \$ 3,180,590 | \$ 2,128,759 | \$ 1,051,831 |
| SFCCC | \$ 675,699 | \$ 514,435 | \$ 161,264 |
| HILL PHYSICIANS | \$ 490,184 | \$ 326,789 | \$ 163,395 |
| BROWN & TOLAND | \$ 509,090 | \$ 275,757 | \$ 233,333 |
| UCSF MEDICAL GROUP | \$ 1,298,896 | \$ 1,014,763 | \$ 284,133 |
| TOTAL DISTRIBUTION - PROF (PIP ENHANCEMENT) | \$ 15,000,000 | \$ 10,932,570 | \$ 4,067,430 |
| | | | |
| TOTAL DISTRIBUTION | \$ 30,000,000 | \$ 25,227,529 | \$ 4,772,471 |
| DISTRIBUTION % TO DATE | | 84.1% | |

| <u>PROVIDER STRATEGIC USE OF RESERVES FY17-18</u> | | | |
|--|----------------|-----------------|----------------|
| | SUR | | |
| GROUP | FY17-18 | PAYMENTS | BALANCE |
| HOSPITALS | \$ 6,800,000 | \$ - | \$ 6,800,000 |
| | | | |
| PROFESSIONAL - MEDICAL GROUPS | \$ 6,800,000 | \$ 1,260,000 | \$ 5,540,000 |
| | | | |
| TOTAL DISTRIBUTION | \$ 13,600,000 | \$ 1,260,000 | \$ 12,340,000 |
| DISTRIBUTION % TO DATE | | 9.3% | |
| | | | |
| | | | |
| <u>PROVIDER STRATEGIC USE OF RESERVES CY2018</u> | | | |
| | SUR | | |
| GROUP | CY2018 | PAYMENTS | BALANCE |
| HOSPITALS | \$ 8,000,000 | \$ - | \$ 8,000,000 |
| | | | |
| PROFESSIONAL - MED GROUPS (PIP ENHANCEMENT) | \$ 8,000,000 | \$ - | \$ 8,000,000 |
| | | | |
| TOTAL DISTRIBUTION | \$ 16,000,000 | \$ - | \$ 16,000,000 |
| DISTRIBUTION % TO DATE | | 0.0% | |

SFHP is approximately \$30 million above the reserve level of two months of capitation. SFHP will distribute more SUR payments to providers. This will also bring the administrative percentage down.

Overall, though, Mr. Bishop stated we are where we expected with the financials. The Finance Committee requested that “losses” be presented with brackets in the monthly memo to the Committee.

Mr. Takeuchi reviewed the investment reports. SFHP’s investment results are overall a 2% gain. Under the old investment plan, SFHP only received earnings credits. Mr. Takeuchi reviewed the process for managing the funds on a daily, weekly basis with the bank. SFHP is now earning approximately \$1.5 million (\$1.98 million in dividends, but need to back out the interest, resulting in \$1.5 million).

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

3. Review and Approval of Proposed Medi-Cal Rate Reduction for the Medi-Cal Expansion Rate Category

This item was discussed in closed session.

4. Review and Approval of Contract with Seton Medical Center

This item was discussed in closed session.

The meeting was resumed in Open Session.

5. 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 to take no action on the Medi-Cal Expansion rates at this time.
- b. Approved the CEO to enter into a contract with Seton Medical Center under the same contract terms and payment as other contracted hospitals.

6. Review Status of Contract with Change Health Care Consulting

The following was presented to the Finance Committee as a discussion item only.

Karen Andrews, COO, provided a status report of the contract with Change Health Care (CHC) Consulting. During the annual review of administrative contracts over \$100,000 with the Finance Committee and Governing Board at the March meetings, we reviewed the contract with the vendor CHC, which provides technical expertise and project management resources for ITS and Operations in support of regulatory mandates and strategic priorities. We stated that the CHC contract was used in CY2017 by two separate executives and multiple units at SFHP and tracking the total contract spend was not reviewed on a routine basis, until the end of the calendar year, when it was determined that the total spend in CY2017 exceeded \$1 million.

As a follow up to the March meetings, we stated we would review the projected spend for CY2018 and determine whether the projection would exceed the \$1 million threshold. Ms. Andrews stated that she and ITS project the following need for the CHC contractor resources during CY2018, which will be just under \$700,000.

| Change Healthcare Solutions, LLC | Projection |
|---|-------------------|
| FY 17-18: January 2018 thru December 2018 | |
| January 2018 thru March 2018 Actual Incurred | \$402,772 |
| Projected Spend 4/18 - 6/18 for ITS and Operations | \$108,000 |
| Projected Spend 7/18 – 12/18 for ITS and Operations | \$189,000 |
| TOTAL PROJECTED SPEND FOR CHC in CY 2018 | \$699,772 |

She stated that use of CHC would be decreasing in Operations and use in ITS will remain flat. With a new process to review contract spending on a quarterly basis and projecting year-end totals, she stated SFHP would have an early warning of any contracts that appear to be approaching \$1 million and a system to identify contracts that require Governing Board approval in a timely manner.

The Finance Committee did not have any questions.

7. Adjourn

Reece Fawley, Secretary