# Joint San Francisco Health Authority/San Francisco Community Health Authority
# Minutes of the Finance Committee
# September 4, 2019

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

**Absent:** None

**Guest:** Kyle Edrington, Actuarial Consultant, Edrington Health Consulting (EHC)

Reece Fawley, Chair, Finance Committee, chaired the meeting.

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

Kyle Edrington, an actuarial consultant hired by San Francisco Health Plan (SFHP), attended the meeting to present on the Closed Session item regarding the approach to establish future Medi-Cal provider rates. There were no public comments.

**1. Approval of Minutes from June 12, 2019 Finance Committee Meeting**

The minutes of the June 12, 2019 Finance Committee meeting were approved with no changes.

The Finance Committee adjourned to Closed Session.

**2. Review of Future Medi-Cal Rate-Setting Process**

This item was discussed in closed session.

The Finance Committee resumed in Open Session.

**3. Report on Closed Session Items**

Mr. Fawley reported that no action was taken in Closed Session.

**4. Financials**

**a. Review and Approval of Year-End 2018-19 Unaudited Financial Statements and Investment Reports**

**Recommendation:** Review and approve the year-end 2018-19 unaudited financial statement and investment reports.

Skip Bishop, CFO, reviewed the financial statements for the period ending June 30, 2019. Mr. Bishop discussed the following highlights:

1. June 2019 results produced a loss of ($6,402,000) versus a budgeted loss of ($4,047,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations would be ($971,000) versus a budgeted margin of $69,000. SUR disbursements were projected to be heavy during the fourth quarter of FY18-19.

2. On a year-to-date basis, SFHP reported a loss of ($10,607,000) versus a budgeted loss of ($14,105,000). After removing SUR activity, the actual margin from operations was $5,344,000 versus a budgeted margin of break even.

3. Variances between June actual results and the budget included:
   a) A net decrease in revenue of ($45,120,000) due to:
      - $43,500,000 in Directed Payments funding was not received in June. Disbursement of this pass-through funding to the Medi-Cal managed care plans was delayed until September 2019.
      - $993,000 less in premium revenue as the result of 3,488 fewer member months. The reasons for the decrease continue to be members no longer qualifying due to increased income, an increase in the City of San Francisco minimum wage to $15 per hour and members leaving San Francisco due to the high cost of living. Of the overall decrease in member months, 3,060 of these members were in the Adult Expansion category.
      - $455,000 less in Hepatitis C revenue as the result of 124 fewer Hepatitis C treatment weeks along with a 3.9% decrease in the Hepatitis C reimbursement rate.
      - $68,000 less in Maternity revenue as the result of eight fewer maternity events.
      - $104,000 less in third-party administrative fees which can be attributed to the decrease in membership.

   b) A net decrease in medical expense of $42,664,000 due to:
      - $43,500,000 in Directed Payments funding was not received in June as expected.
      - $1,315,000 more in SUR activity than budget.
      - $37,000 more in capitation and fee-for-service expense.

- $516,000 less in pharmacy expense. Non-Hepatitis C pharmacy expense was $133,000 greater than budget due to slightly higher than expected costs for specialty drugs. This increase in non-Hepatitis C pharmacy expense was more than offset by $649,000 less in Hepatitis C drug costs due 124 fewer treatment weeks along with the introduction of a lower cost generic form of Epclusa.

c) A net increase in administrative expense of $251,000. This variance is due to the way in which SFHP must record pension costs as outlined by GASB 68 accounting rules.

4. 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 June.

| | ----------------------JUN 2019---------------------------- | | | | ----------------------FYTD 18-19 THRU JUN---------------------------- | | | |
|---|---|---|---|---|---|---|---|---|
| CATEGORY | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) |
| REVENUE | $ 47,603,000 | $ 92,724,000 | $ (45,121,000) | -48.7% | $ 603,282,000 | $ 666,369,000 | $ (63,087,000) | -9.5% |
| MEDICAL EXPENSE | $ 49,964,000 | $ 92,628,000 | $ 42,664,000 | 46.1% | $ 563,813,000 | $ 629,378,000 | $ 65,565,000 | 10.4% |
| MLR | 106.6% | 100.8% | | | 94.9% | 95.9% | | |
| ADMINISTRATIVE RATIO | 8.2% | 3.8% | | | 7.4% | 6.6% | | |
| MARGIN (LOSS) | $ (6,402,000) | $ (4,047,000) | $ (2,355,000) | -58.2% | $ (10,607,000) | $ (14,105,000) | $ 3,498,000 | 24.8% |
| OPERATING ADJUSTMENTS: | | | | | | | | |
| FY15-16 SUR PMTS | $ 105,000 | $ - | | | $ 1,192,000 | $ - | | |
| FY16-17 SUR PMTS/ACCRUALS | $ - | $ - | | | $ - | $ - | | |
| FY17-18/CY2018 SUR PAYMENTS/ACCRUALS | $ 323,000 | $ 4,116,000 | | | $ 8,316,000 | $ 14,105,000 | | |
| FY18-19 SUR PMTS/ACCRUALS | $ 5,003,000 | $ - | | | $ 6,443,000 | $ - | | |
| TOTAL SUR | $ 5,431,000 | $ 4,116,000 | | | $ 15,951,000 | $ 14,105,000 | | |
| MARGIN FROM OPERATIONS | $ (971,000) | $ 69,000 | $ (1,040,000) | -1507.2% | $ 5,344,000 | $ - | $ 5,344,000 | |
| MLR W/O SUR PMTS | 95.0% | 96.3% | | | 92.2% | 93.7% | | |

**5.** Administrative expenses were $217,000 above budget:

a. Compensation and benefits were $2,646,000 above budget due to GASB 68 accounting rules SFHP must follow related to the recording of CalPERS pension costs.

b. Other administrative expense categories such as insurance, marketing, contract vendor fees and information technology support costs were $2,429,000 below budget.

During FY18-19, we were required to expense prior year Analytic Data Warehouse costs of $1.2 million that we expected to capitalize. Even with these additional costs, overall administrative expenses ended the year only $217,000 above budget.

## PROJECTIONS

Financial projections through December 2019:

1. As of June 2019, SFHP added $1,667,000 to the Practice Improvement Program (PIP) related to the FY18-19 Strategic Use of Reserves (SUR) program. A total of $5 million was added to the CY2019 PIP for professional providers. The CY2019 PIP runs for 18 months this period, therefore the remaining $3,333,000 will be accrued over the period of July 2019 through June 2020.
2. Beginning July 2019, SFHP received a 0.8% increase in Medi-Cal premium payments from DHCS.
3. Hepatitis C reimbursement rates were reduced effective July 2019. The rate reduction for non-340B 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 has reduced the Hepatitis C rates as lower cost generic drugs continue to enter the marketplace. Even with these rate reductions, SFHP expects to achieve at least break even as members are transitioned to the lower cost generic drugs and pharmacy rebates are increased.
4. As stated in previous months, during FY19-20, DHCS will be working with the Medi-Cal managed care plans on four Directed Payment programs related to rate year FY17-18.

## HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

### SFHP Cash Flow Considerations

For cash planning purposes, SFHP follows the DHCS payment schedule, which indicates Medi-Cal premiums will be received by the end of the month of coverage, or no later than the 10th of the following month. Under this payment schedule, funds are received before capitation is paid. Excess cash reserves held in the Liquid Management Portfolio account are used to fund ongoing expenses such as weekly claims disbursements, semi-monthly pharmacy claims disbursements, payroll and other administrative expenses.

SFHP averages 45 to 60 days of cash on hand to fund ongoing operations. This would be in line with the SFHP Reserve Policy which states that the reserve balance will be no more than two months of premium revenue, currently $94 million.

Beginning in 2012, SFHP worked with its banking partner, City National Bank, to establish a $40 million line of credit to be available in the event of delays with receipt of Medi-Cal premiums from DHCS. SFHP had not drawn down on the line of credit until July 2019 when it was necessary to use $25 million to cover the cash shortfall created by a delay in the receipt of the May 2019 premium payments.

Premium payments are released by the State Controller's Office (SCO). The current mode of payment to SFHP is by check mailed to City National Bank. In the case of the May premium payments, an incorrect address was used and the checks never arrived at the bank. SFHP had to request a reissue of the checks which delayed receipt and necessitated a draw down on the line of credit. As a result, SFHP incurred interest expense of approximately $17,000.

Over the years, SFHP has made multiple requests to switch the mode of payment from check by mail to ACH transfer; however our efforts have been unsuccessful. The DHCS response to our most recent request stated all Medi-Cal managed care plans would be converted to ACH within the next 18 to 24 months. SFHP is exploring options for an interim solution.

Steven Fugaro, MD, stated that he finds the analyses provided by the Finance staff to be very helpful.

The Finance Committee unanimously approved the year-end 2018-19 unaudited financial statements and investment reports for forwarding to the full Board for approval.

**b. Approval of Year-to-Date July 2019 Unaudited Financial Statements and Investment Reports**

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

Skip Bishop, CFO, explained that the financial results were disappointing for July. He explained that SFHP would be proceeding cautiously and would continue to monitor the financials carefully and identify reasons the results were falling short. This effort will include an in-depth review of fee-for-service claims activity. Mr. Bishop reviewed the details of the financial statements for the period ending July 2019, with the following highlights:

1. July 2019 results produced a loss of ($918,000) versus a budgeted loss of ($6,117,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations would be ($640,000) versus a budgeted loss of ($1,279,000). For budget purposes, we assumed $4,838,000 in FY18-19 SUR funding would be disbursed in July. These funds were disbursed in June. The budget also assumed five claims disbursement cycles in July. FY18-19 accruals pushed the majority of this claims expense into June.

2. Variances between July actual results and the budget include:
   a) A net decrease in revenue of ($84,000) due to:
      i. $280,000 less in premium revenue. Actual member months exceeded the budget by 464, however the mix of member month variances between categories of aid resulted in less premium revenue than expected. The reasons for the decrease continue to be members no longer qualifying due to increased income, an increase in the San Francisco minimum wage to $15 per hour and members leaving San Francisco due to the high cost of living.
      ii. $60,000 more in Hepatitis C revenue as the result of 30 more Hepatitis C treatment weeks.
      iii. $175,000 more in Maternity revenue as the result of 25 more maternity events.
      iv. $39,000 less in third-party administrative fees which can be attributed to the decrease in membership.

   b) A net decrease in medical expense of $5,103,000 due to:
      i. $4,838,000 less in SUR activity when compared to the budget.
      ii. $167,000 less in net capitation and fee-for-service expense.
      iii. $98,000 less in pharmacy expense. Non-Hepatitis C pharmacy expense was $154,000 less than budget due to slightly lower than expected utilization.

   c) A net decrease in administrative expense of $243,000. The month of July followed the typical pattern for administrative expenses, i.e., the 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.

3. 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 July.

| | ----------------------JUL 2019---------------------------- | | | | ----------------------FYTD 19-20 THRU JUL---------------------------- | | | |
|---|---|---|---|---|---|---|---|---|
| CATEGORY | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) | ACTUAL | BUDGET | FAV (UNFAV) | % FAV (UNFAV) |
| REVENUE | $ 48,386,000 | $ 48,470,000 | $ (84,000) | -0.2% | $ 48,386,000 | $ 48,470,000 | $ (84,000) | -0.2% |
| MEDICAL EXPENSE | $ 45,397,000 | $ 50,500,000 | $ 5,103,000 | 10.1% | $ 45,397,000 | $ 50,500,000 | $ 5,103,000 | 10.1% |
| MLR | 95.3% | 105.9% | | | 95.3% | 105.9% | | |
| ADMINISTRATIVE RATIO | 6.9% | 7.3% | | | 6.9% | 7.3% | | |
| MARGIN (LOSS) | $ (918,000) | $ (6,117,000) | $ 5,199,000 | 85.0% | $ (918,000) | $ (6,117,000) | $ 5,199,000 | 85.0% |
| OPERATING ADJUSTMENTS: | | | | | | | | |
| FY15-16 SUR PMTS | $ - | $ - | | | $ - | $ - | | |
| FY16-17 SUR PMTS/ACCRUALS | $ - | $ - | | | $ - | $ - | | |
| FY17-18/CY2018 SUR PAYMENTS/ACCRUALS | $ - | $ - | | | $ - | $ - | | |
| FY18-19 SUR PMTS/ACCRUALS | $ 278,000 | $ 4,838,000 | | | $ 278,000 | $ 4,838,000 | | |
| TOTAL SUR | $ 278,000 | $ 4,838,000 | | | $ 278,000 | $ 4,838,000 | | |
| MARGIN FROM OPERATIONS | $ (640,000) | $ (1,279,000) | $ 639,000 | 50.0% | $ (640,000) | $ (1,279,000) | $ 639,000 | 50.0% |
| MLR W/O SUR PMTS | 94.7% | 95.7% | | | 94.7% | 95.7% | | |

## PROJECTIONS

Financial projections through January 2020:

1. As of July 2019, SFHP added $1,944,000 to the Practice Improvement Program (PIP) related to the FY18-19 Strategic Use of Reserves (SUR) program.

2. Effective July 2019, SFHP's Medi-Cal premium rates increased by a weighted average of 0.8%.

3. 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 has reduced the Hepatitis C rates as lower cost generic drugs continue to enter the marketplace. Even with these rate reductions, SFHP expects to achieve at least break even as members are transitioned to the lower cost generic drugs and pharmacy rebates are increased.

4. During FY19-20, DHCS will be working with the Medi-Cal managed care plans on four Directed Payment programs related to rate year FY17-18.

## HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

### RECAP OF STRATEGIC USE OF RESERVES PROGRAMS

***Since FY2004-2005, SFHP has committed to a total of $122.3 million in Provider Distributions and SURs.***

Prior to implementing a formal Strategic Use of Reserves (SUR) program, SFHP's Governing Board approved annual provider distributions. From FY2004-2005 through FY2013-2014, provider distributions totaled $34.7 million.

In the last four fiscal years, the Governing Board approved five SUR programs for FY15-16, FY16-17, FY17-18, CY2018 and FY18-19. These distributions total $87.6 million.

Below is a summary of each SUR program (additional details were provided in the memo to the Finance Committee).

| | Total Approved | Remaining To Be Paid |
|---|---|---|
| FY15-16 Strategic Use of Reserves | $15,000,000 | $258,671 |
| FY16-17 Strategic Use of Reserves | $30,000,000 | $1,401,310 |
| FY17-18/CY2018 Strategic Use of Reserves | $29,600,000 | $6,921,352 |
| FY18-19 Strategic Use of Reserves | $13,000,000 | $8,225,000 |
| Total | $87,600,000 | $16,806,333 |

Greg Wagner asked about the budgeted loss in July. Mr. Bishop explained that budgeted loss was due to the SUR activity. The SUR payments, however were paid and booked in June. Even with that, the budget was off by $640,000. Mr. Bishop explained that the operational budget, however, looked good.

The Finance Committee unanimously approved the year-to-date unaudited monthly financial statements and investment reports for the period ending July 31, 2019, for forwarding to the full Board for approval.

**5. Review and Approval of FY18-19 Year-End Staff Bonus**

**Recommendation:** SFHP completed FY18-19 successfully by achieving an organization score of 80% for the success criteria approved by the Governing Board. It is recommended that the Finance Committee and Governing Board consider approval of the following items:

1) With the FY18-19 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 80%.

Mr. Grgurina informed the Finance Committee that their role regarding the FY18-19 staff bonus was to determine if the SFHP FY18-19 financial position supports the staff bonus as budgeted. He informed the committee that the SFHP financial year ended with a positive margin of $5.3 million in operations, after removing the SUR activity.

Given this year-end financial performance, he stated his recommendation to the committee was to approve the SFHP financial position to be sufficient to pay the staff bonuses that were budgeted for FY18-19.

Based on these results in FY18-19, the Finance Committee unanimously approved the recommendation to the Governing Board that the FY18-19 financial position meets the sufficient requirement to pay the staff bonuses that were budgeted for FY18-19.

**6. Review and Approval of Contracting Approach with Coordination of Benefits Vendor, HMS**

**Recommendation:** SFHP recommends the Finance Committee approve the SFHP contract approach with the coordination of benefits vendor, HMS.

**Background:**
One of SFHP's FY14-15 Success Criteria was to develop and implement strategies to strengthen our processes. This included the procurement and implementation of an "Other Health Coverage (OHC)" vendor to provide coordination of benefits and recovery services. SFHP reported to the Board in September 2015 that it met this goal by selecting and contracting with HMS in February 2015.

When selected, HMS projected the Medical and Pharmacy Recovery Potential would be approximately $1.3 million in a year. HMS receives a recovery fee of 22%. As an example, if $1.3 million is recovered, HMS would be paid 22%, or $286,000 in a year.

Since inception of the program, HMS has recovered $13.6 million and has earned recovery fees of $3.0 million. For CY2019 through June, HMS has received recovery fees totaling $862,387. We anticipate that HMS' total recovery fees for CY2019 will exceed $1.0 million. Recovery fees in the prior years were $405,299 for CY2016, $819,469 for CY2017 and $909,905 for CY2018. On a going forward basis, recoveries and fees is anticipated to be less as HMS is using claims payment data that is much more current. In future years, it is not expected that HMS will receive more than $1.0 million in fees in a given calendar year.

With the contract policy adopted by the Board in March 2015, contracts with a value of over $1 million requires approval by the Board.

We recommend the Finance Committee approve SFHP to continue with its contract with HMS for coordination of benefits and recovery services. Also per the Board-adopted policy, after five years the contract would be presented to the Board for review and approval.

The Finance Committee did not have any issues and unanimously approved the recommendation to continue the HMS contract for forwarding to the Governing Board.

## 7. Adjourn

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Reece Fawley, Secretary