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SAN FRANCISCO HEALTH PLAN
Here for you

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

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

Absent: None

Guests: Chris Pritchard and Rianne Suico, Moss Adams Consultants, LLP, and Robert Harder, City National Bank

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

Due to the COVID-19 public health emergency and in accordance with Governor Newsom's Executive Order N-29-20, San Francisco Health Authority and San Francisco Community Health Authority Governing Board Members attended this meeting via teleconference. The meeting was closed to in-person public attendance, but the public was provided with the conference line to attend if interested. This precaution was taken to protect members of the Governing Board, staff and the public. The Finance Committee members and staff of the San Francisco Health Plan (SFHP) attended the meeting via video conference.

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

1. Approval of Minutes from September 2, 2020 Finance Committee Meeting

The minutes of the September 2, 2020 Finance Committee meeting were unanimously approved as written.

2. Review and Approval of the Annual Independent Audit Report for FY 2019-20

Recommendation: Review and Approval of the Annual Independent Audit Report for FY 2019-20.

Chris Pritchard, Partner, and Rianne Suico, Senior Manager, Moss Adams Consultants, the independent audit firm hired by SFHP, presented the FY 2019-20 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.

Ms. Suico reviewed the following key points of the audit report:

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- Over the years, SFHP has been very consistent, which is a testament to management's ability to produce financial statements without material error.
- All reported receivables and assets were properly supported and appropriate.
- All payments and liabilities were appropriated accounted.
- Assumptions and information used by SFHP's actuary for the Incurred But Not Reported (IBNR) were tested and all liabilities were reasonably stated.
- All capitation payments to providers were properly supported.
- Recording of operational expenses were in accord with accounting policies and principles.
- Trends were consistent with expectations, without any unusual spikes.
- SFHP's tangible net equity (TNE), which is a measure of an organization's financial health, was very strong.
- There were no disagreements with SFHP's management.

The consultants discussed that the audit went well. The only comment was that SFHP should increase oversight of vendors, with a specific mention of WageWorks, a vendor for the City Option program.

Mr. Fawley stated that the Finance Committee has confidence in the Finance department leadership and recommended the Committee approve the Moss Adams independent audit report.

The Finance Committee unanimously approved the independent auditor's report for FY 2019-20 for forwarding to the Board for approval.

3. Review and Approval of Unaudited Monthly 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 September 30, 2020. Mr. Bishop discussed the following highlights:

1. September 2020 reported a loss of ($1,662,000) versus a budgeted loss of ($1,636,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations would remain ($1,662,000) versus a budgeted loss of ($1,220,000).

   On a year-to-date basis, we have a loss of ($2,127,000) versus a budgeted loss of ($3,784,000). After removing SUR activity, the actual loss from operations remains ($2,127,000) versus a budgeted loss ($2,388,000).

   In September, we received $133.9 million in Directed Payments funding related to FY 18-19. The FY 20-21 budget projected Directed Payments funding would be $120.6 million for September. For FY 20-21, we projected a total of $137.0 million in Directed Payments – 88% in September 2020 and 12% in March 2021. It is likely

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we will exceed this total when the next payment is received in March 2021. The Department of Health Care Services (DHCS) and the Department of Managed Health Care (DMHC) allow Directed Payments funding to be treated as revenue and medical expense.

2. Variances between September actual results and the budget include:

   a. A net increase in revenue of $14.7 million due to:
      i. $13.3 million more in Directed Payments funding related to FY 18-19.
      ii. $1.6 million more in premium revenue due to 4,050 more member months when compared to the budget. Membership has been on an upward trend with new members coming in along with members not placed on hold. Due to the COVID-19 pandemic, DHCS has discontinued negative actions such as disenrollments and holds in the Medi-Cal program. Adult Expansion member months were 5,332 more than budget, which brought in $2.0 million in additional revenue.
      iii. $124,000 less in Hepatitis C revenue as the result of 48 fewer treatment weeks.
      iv. $70,000 less in Maternity revenue as the result of eight fewer maternity events.

   b. A net increase in medical expense of $15.2 million due to:
      i. $13.3 million more in Directed Payments funding related to FY 18-19.
      ii. $1.1 million more in capitation expense due primarily to increasing membership. The additional revenue generated by increasing membership offset this cost.
      iii. $489,000 more in fee-for-service claims. September was expected to be a heavy month for claims due to five payment cycles. The budget anticipated this additional activity and resulting professional and hospital pmpm costs were in line. The two areas where costs exceeded the budget were Community-Based Adult Services claims and supplemental payments for qualifying Proposition 56 services.
      iv. $267,000 more in Healthy Workers pharmacy expense. The actual cost was $83 pmpm while the budgeted cost was $65 pmpm. It is important to note that SFHP receives only $58 pmpm in the Healthy Workers rate.
      v. $260,000 more in Medi-Cal non-Hepatitis pharmacy expense. This increase is due to more members as the actual pmpm cost was in line with the budget.
      vi. $216,000 less in Health Education expenses. This is a timing difference. Actual costs will align with the budget in the upcoming months.

   c. A net decrease in administrative expenses of $458,000 due to:
      i. Anticipated external costs related to major projects such as CalAIM and CMS Interoperability have yet to be incurred.

The following chart highlights the key income statement categories for September with adjustments for SUR activity in order to show margin or loss from ongoing operations.

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	SEP 2020				FYTD 20-21 THRU SEP			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	148,150	144,100	4,050	2.8%	438,682	428,936	9,746	2.3%
REVENUE	$ 184,402,000	$ 169,647,000	$ 14,755,000	8.7%	$ 283,400,000	$ 267,028,000	$ 16,372,000	6.1%
MEDICAL EXPENSE	$ 181,819,000	$ 166,604,000	$ (15,215,000)	-9.1%	$ 273,120,000	$ 257,141,000	$ (15,979,000)	-6.2%
MLR	99.0%	98.6%			97.1%	97.0%		
ADMINISTRATIVE EXPENSE	$ 4,262,000	$ 4,720,000	$ 458,000	9.7%	$ 12,537,000	$ 13,796,000	$ 1,259,000	9.1%
ADMINISTRATIVE RATIO	2.0%	2.4%			3.7%	4.4%		
INVESTMENT INCOME	$ 17,000	$ 41,000	$ (24,000)	-58.5%	$ 130,000	$ 125,000	$ 5,000	4.0%
MARGIN (LOSS)	$ (1,662,000)	$ (1,636,000)	$ (26,000)		$ (2,127,000)	$ (3,784,000)	$ 1,657,000	
ADD BACK: SUR ACTIVITY	$ -	$ 416,000			$ -	$ 1,396,000		
MARGIN (LOSS) FROM OPERATIONS	$ (1,662,000)	$ (1,220,000)	$ (442,000)		$ (2,127,000)	$ (2,388,000)	$ 261,000	

On a year-to-date basis through September and after the removal of SUR activity, SFHP is $261,000 ahead of the budget. SFHP is concerned, however, that we are above budget on member months, but have not produced a positive margin.

- After removing the Directed Payments funding, premium revenue is above budget by $3.1 million. This is due to a net increase of 9,746 member months. Adult Expansion member months are 13,714 above budget, which is a positive development. The premium rate for this category of aid is $381 pmpm compared to $257 pmpm for the Adult 19 category and $113 pmpm for the Child 18 category.
- After removing SUR activity and Directed Payments funding, medical expense is above budget by $4.2 million. This increase can be accounted for as follows:
  - Capitation expenses are up $2,500,000
  - Prop 56 supplemental payments are up $ 909,000
  - Healthy Workers pharmacy costs are up $ 571,000
  - CBAS expenses are up $ 444,000
  - Health Education costs are down ($ 215,000)
- Overall administrative expense is below budget by $1.3 million. The majority of this decrease is due to lower costs in the areas of professional services and information technology services. In addition, the budget included dollars for major projects that have not been incurred yet, i.e., CalAIM and CMS Interoperability.

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PROJECTIONS

Mr. Bishop reviewed the following financial projections through March 2021:

1. Due to the impact of the COVID-19 pandemic, SFHP anticipates continued increases in Medi-Cal membership over the next six months. After working with our actuary, sister plans and the county of San Francisco to gather information to help us develop estimates for the upcoming months, SFHP expects to add approximately 22,000 new members during FY 20-21. These new members would be spread across the Adult, Child and Adult Expansion categories of aid.

2. In response to the COVID-19 pandemic and the effect it is having on state of California finances, the State Legislature approved the implementation of a 1.5% rate reduction retroactive to July 2019. This rate reduction is effective for the entire Bridge Period which runs through December 2020. The rate reduction applies to all categories of aid except dual eligible members. SFHP estimates the impact of this rate reduction to be $3.3 million for the period of July through December 2020. This revenue loss was built into the FY 20-21 budget.

3. Beginning January 2021, the pharmacy benefit will be carved out of Medi-Cal managed care. The State will take on this benefit and has selected Magellan as its Pharmacy Benefits Manager (PBM). For the period of January through June 2021, SFHP will see a revenue reduction of $44 million and an expense reduction of $43 million. This carve-out of the pharmacy benefit was built into the FY 20-21 budget.

4. In September, SFHP received preliminary rates for CY 2021. Although these rates look promising, the rates do not include adjustments for Low Acuity Non-Emergent (LANE) ER visits, risk adjustment and the population acuity adjustment. All three of these adjustments will reduce the preliminary rates. Our actuary believes that after these adjustments are incorporated into the rate-setting process, we may see an overall 3.2% increase, however this is only an estimate. SFHP does not expect to see final rates until late December.

5. Proposition 56 – this program will continue for FY 20-21 and will provide enhanced payments to medical groups for qualifying physician services, supplemental payments for developmental screenings, adverse childhood experiences screenings, trauma screenings, family planning services and value-based payments related to a variety of health care quality measures.

6. Directed Payments – SFHP received $133.9 million in Directed Payments funding during September. These funds were disbursed to Zuckerberg San Francisco General, UCSF and private hospitals.

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HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

As a result of the COVID-19 pandemic, Medi-Cal membership has been increasing for all SFHP providers and this trend is expected to continue throughout FY 20-21. The table below shows how membership and capitation have changed between March 2020 and September 2020. Please note that the capitation amounts for September 2020 reflect the impact of the reduction in the Duals capitation rate effective July 2020. The impact of this rate change across all capitated providers was a reduction of 0.9%.

Overall Medi-Cal membership has increased by 8.7%. The percentage change in membership and the percentage change in capitation will not be equal due to membership mix. For example, providers receive more capitation for Adult Expansion and SPD members and less capitation for Adult 19 and Child 18 members.

SFHP MEDI-CAL MEMBERSHIP								
	SEP 2020		MAR 2020		MEMBERS		CAPITATION	
PROVIDER	MEMBERS	CAPITATION	MEMBERS	CAPITATION	INCREASE	%	INCREASE	%
HOSPITALS								
ZUCKERBERG SAN FRANCISCO GENERAL	62,065	$ 8,577,937	56,423	$ 7,958,485	5,642	10.0%	$619,452	7.8%
CALIFORNIA PACIFIC MEDICAL CENTER	37,403	$ 2,758,689	35,338	$ 2,663,795	2,065	5.8%	$ 94,894	3.6%
UCSF (FEE-FOR-SERVICE)	12,423	$ -	11,655	$ -	768	6.6%	$ -	
KAISER	10,893	$ 1,387,280	9,208	$ 1,176,742	1,685	18.3%	$210,538	17.9%
CHINESE HOSPITAL	9,177	$ 943,673	8,601	$ 896,444	576	6.7%	$ 47,229	5.3%
CALIFORNIA PACIFIC MEDICAL CENTER/ST. LUKE'S (FFS)	3,114	$ -	2,989	$ -	125	4.2%	$ -	
	135,075	$ 13,667,579	124,214	$ 12,695,466	10,861	8.7%	$972,113	7.7%
MEDICAL GROUPS								
CLINICAL PRACTICE GROUP	55,606	$ 3,775,534	50,829	$ 3,521,437	4,777	9.4%	$254,097	7.2%
UCSF (FEE-FOR-SERVICE)	12,423	$ -	11,655	$ -	768	6.6%	$ -	
KAISER	10,893	$ 1,387,280	9,208	$ 1,176,742	1,685	18.3%	$210,538	17.9%
CHINESE COMMUNITY HEALTH CARE ASSOCIATION	5,273	$ 420,020	5,043	$ 405,922	230	4.6%	$ 14,098	3.5%
JADE MEDICAL GROUP	3,904	$ 321,759	3,558	$ 300,079	346	9.7%	$ 21,680	7.2%
HILL PHYSICIANS	1,631	$ 119,076	1,543	$ 111,938	88	5.7%	$ 7,138	6.4%
BROWN & TOLAND MEDICAL GROUP	1,483	$ 127,002	1,446	$ 120,622	37	2.6%	$ 6,380	5.3%
	91,213	$ 6,150,671	83,282	$ 5,636,740	7,931	9.5%	$513,931	9.1%
SAN FRANCISCO COMMUNITY CLINIC CONSORTIUM								
NORTH EAST MEDICAL SERVICES	43,862	$ 4,522,088	40,932	$ 4,301,331	2,930	7.2%	$220,757	5.1%
MISSION NEIGHBORHOOD HEALTH CENTER	6,986	$ 217,845	6,365	$ 200,331	621	9.8%	$ 17,514	8.7%
HEALTHRIGHT 360	3,087	$ 157,845	3,055	$ 158,527	32	1.0%	$ (682)	-0.4%
SOUTH OF MARKET HEALTH CENTER	2,008	$ 106,925	1,824	$ 99,259	184	10.1%	$ 7,666	7.7%
SAN FRANCISCO COMMUNITY HEALTH CENTER	747	$ 32,611	608	$ 26,953	139	22.9%	$ 5,658	21.0%
ST. ANTHONY'S MEDICAL CLINIC	700	$ 28,544	663	$ 28,464	37	5.6%	$ 80	0.3%
NATIVE AMERICAN HEALTH CENTER	587	$ 23,473	501	$ 21,004	86	17.2%	$ 2,469	11.8%
BAART	249	$ 12,709	219	$ 12,046	30	13.7%	$ 663	5.5%
	58,226	$ 5,102,040	54,167	$ 4,847,915	4,059	7.5%	$254,125	5.2%
UNAFFILIATED								
MARIN CITY HEALTH & WELLNESS CENTER	473	$ 14,644	406	$ 12,493	67	16.5%	$ 2,151	17.2%
DR. THANH QUOC TRAN	336	$ 14,077	310	$ 13,228	26	8.4%	$ 849	6.4%
	809	$ 28,721	716	$ 25,721	93	13.0%	$ 3,000	11.7%
TOTAL SFHP	135,075		124,214		10,861	8.7%		

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Investment Reports

Mr. Takeuchi reviewed the investment reports that were provided to the Finance Committee in the packet.

The Finance Committee unanimously approved the unaudited monthly financial statements and investment reports ending September 2020, for forwarding to the full Governing Board for approval.

4. Review and Approval of Payment of CalPERS Unfunded Liability

Recommendation: SFHP recommends approval to pay the entire projected amount of SFHP's CalPERS pension unfunded accrued liability estimated to be $478,512, which is projected forward to June 30, 2021.

If approved, payment will be made by November 15, 2020.

John F. Grgurina, Jr., CEO, reviewed the background to the Finance Committee. (A detailed memo was provided in the Board packet.)

The Government Accounting Standards Board (GASB) Statement number 27 is in reference to an accounting standard for pension by State and Local Government Employers. It specifies that an employer's fiscal years ending on or after 2015 must accrue for unfunded pension liabilities.

SFHP is a government employer in the CalPERS Miscellaneous Pooled Plans for the defined benefit pension plan known as 2% @ 55 for employees with hire dates prior to January 1, 2013 (Classic Miscellaneous Plan) and 2% @ 62 for employees with hire dates after December 31, 2012 (PEPRA Miscellaneous). According to CalPERS, SFHP's projected unfunded accrued liability as of June 30, 2021 is as follows:

• Classic Miscellaneous Plan	$ 349,346
• PEPRA Miscellaneous Plan	$ 129,166
Total unfunded accrued liability	$ 478,512

When projecting how future year pension obligations will be met, CalPERS assumed a 7.0% annual rate of return on its investment portfolio. CalPERS achieved an 6.7% return for the year ending June 30, 2019. As CalPERS missed the target of 7.0%, our pension accounts now have unfunded liability balances.

This payment will be treated as Prepaid Pension Expense for FY 20-21. The Prepaid Pension Expense will be amortized and recorded as an administrative expense during FY 21-22.

CalPERS is offering the following options to pay off the unfunded accrued liability:

1) Pay it back over a 20-year period with annual interest payments of 7.0% (this is the assumed annual investment rate of return CalPERS is using for all pension

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funds). This would mean total payments of $911,158 (interest payments would be $411,911 of this total amount).
2) Pay it back over a 15-year period with annual interest payments of 7.0%. This would mean total payments of $794,869 (interest payments would be $295,622 of this total amount).
3) Pay it all in one payment now.

Mr. Grgurina recommended paying the entire amount now for the following reasons:

1) It is financially advantageous to pay the entire amount to avoid the annual 7.0% interest payments totaling $295,622 over 15 years versus keeping the cash in our Liquid Management Portfolio account at a current annual investment return of 0.10%.
2) Because of SFHP's strong financial balance sheet, we currently have the cash to pay off the entire amount now.
3) Paying off the unfunded accrued liability would place SFHP's CalPERS pension funding level at approximately 100% (currently at 97.4%).

CalPERS has reported a preliminary 4.7% net return on investments for the 12-month period ending June 30, 2020. The next annual valuation reports are expected to be available in July 2021, at which time CalPERS will provide an update of pension funding levels.

The Finance Committee unanimously approved the full payment of CalPERS unfunded accrued liability for forwarding to the full Governing Board for approval.

5. City National Bank Discussion on Investments and Environment

Robert Harder, City National Bank, discussed investments and environment. (Detailed PowerPoint slides were provided in the Finance Committee packet.)

6. Semi-Annual Compliance Report

Nina Maruyama, Officer, Compliance and Regulatory Affairs, provided the semi-annual compliance report for November 2020 to the Finance Committee. (A full report was provided in the Board packet.)

Staff Training

The foundation of the compliance and program integrity program is fraud, waste, and abuse (FWA) education and training. Every SFHP employee, contracted medical provider, vendor and member is responsible for participating in the detection and prevention of fraud, waste, or abuse and compliance with HIPAA. In April 2020, a new, revamped training was implemented and was received well by staff. 100% of staff completed the training by May 31, 2020. The training requires all employees to pass a post-test with at least an 80% passing rate. The training is also provided to all new hires, who must complete the training within 30 days of hire.

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Policies and Procedures

During the past several months, the following policies and procedures related to HIPAA and FWA were reviewed and updated:

- Confidentiality of Medi-Cal Information
- Members' Right to Authority or Deny Use of PHI
- Designated Record Set
- Privacy Impact Assessment
- Physical and Security Assessment
- Responding to State Inquiries about Member Complaints
- Fraud and Abuse Prevention and Investigation
- Protecting Member PHI
- Member Access and Request to Amend PHI

The following policies and procedures related to ITS security and HIPAA compliance were also reviewed and updated:

- SFHP Cell Phone Device
- Internet Security
- Systems and Service Vendor Acquisition and Replacement
- Access and Utilization of Enrollment Data from DHCS
- Protection from Malicious Software and Patch Management
- Information Risk Management
- Access Control
- Disaster Recovery
- Log-In Monitoring and System Logging
- Disposal and Data Destruction
- System Security Review and Host-Based Intrusion Detection
- SharePoint Security and Ownership
- Incident Response
- Emergency Mode Operations
- Change and Integrity Control
- Administrative Access Controls for Trading Partner and Transaction Data

A new policy regarding Remote Work Security was also created to reinforce the importance of HIPAA compliance as staff work remotely.

Compliance and Regulatory Affairs and ITS staff work collaboratively throughout the year to ensure compliance with these policies and procedures.

Adjourn

DocuSigned by:
Reece Fawley
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Reece Fawley, Secretary/Treasurer