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Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
January 6, 2021

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: None

Reece Fawley, Chair, Finance Committee, chaired the meeting and asked if there were any 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 Finance Committee, staff members and the public. The Finance Committee members and staff members 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 November 4, 2020 Finance Committee Meeting

The minutes of the November 4, 2020 Finance Committee meeting were unanimously approved as written.

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

Recommendation: Review and Approval of Year-To-Date Unaudited Financial Statements and Investment Reports

Rand Takeuchi, Director, Accounting, reviewed year-to-date unaudited financial statements for the period ending November 30, 2020. Mr. Takeuchi discussed the following highlights:

1. November 2020 reported a margin of $508,000 versus a budgeted margin of $298,000. After removing Strategic Use of Reserves (SUR) activity, the actual

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margin from operations would remain $508,000 versus a budgeted margin of $714,000.

On a year-to-date basis, we have a loss of ($1,323,000) versus a budgeted loss of ($3,815,000). After removing SUR activity, the actual loss from operations is ($1,311,000) versus a budgeted loss ($1,586,000).

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

   a. A net increase in revenue of $193,000 due to:
      i. $155,000 more in premium revenue. Member months were 1,358 less than budget projections, however the mix of overall membership resulted in net additional revenue. Adult, Child and Seniors and Persons with Disabilities (SPD) member months were 5,919 less than budget, however Adult Expansion member months were 4,842 more than budget. The more favorable Adult Expansion premium rate helped to offset less premium in the other categories of aid. Membership continues to be on an upward trend with new members coming in along with members not placed on hold. Due to the public health emergency (PHE) created by the COVID-19 pandemic, the Department of Health Care Services (DHCS) has discontinued negative actions, e.g., holds and disenrollments for Medi-Cal beneficiaries.
      ii. $88,000 more in Maternity revenue as the result of 10 more maternity events.
      iii. $50,000 less in Hepatitis C revenue as the result of 16 fewer treatment weeks.

   b. A net increase in medical expense of $891,000 due to:
      i. $445,000 more in capitation expense due to changes in membership mix. Although we saw fewer members months in November, the capitation associated with the growth in Adult Expansion members exceeded the capitation expected in the Adult and Child categories of aid. The additional revenue generated by increasing membership offset the additional capitation expense.
      ii. $403,000 more in fee-for-service claims. The two areas where costs exceeded the budget were Community-Based Adult Services claims and supplemental payments for qualifying Proposition 56 services.
      iii. $54,000 more in Healthy Workers pharmacy expense. The actual cost was $69 pmpm while the budgeted cost was $65 pmpm. It is important to note that SFHP receives only $58 pmpm in the Healthy Workers rate. SFHP is working with the San Francisco Department of Public Health (SF DPH) and the Human Services Agency (HSA) to secure a rate increase for the pharmacy benefit.
      iv. $122,000 more in Medi-Cal non-Hepatitis C pharmacy expense. This increase is due to slightly higher utilization.
      v. $347,000 more in Non-Specialty Mental Health claims. This increase is due to a lag in claims submission. Total claims for October were $137,000 less than budget. When combining both October and November, the average per month cost is in line with FY 20-21 trending.

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vi. $480,000 less in health education expenses. An invoice from Milliman Care Guidelines (MCG) for $255,000 was reclassified from medical expense to prepaid expense. SFHP made a one-year commitment to use MCG technology for utilization management decision-making. The remaining difference is due to timing. Actual costs are expected to align with the budget in the upcoming months.

c. A net decrease in administrative expenses of $888,000 due to:
   i. $200,000 reduction in monthly administrative costs as the result of discontinuing the bonus accrual. As no bonus was paid for FY 19-20, the bonus accrual is fully funded for FY 20-21.
   ii. $159,000 less in areas such as telecommunications, software licensing, software support and maintenance as well as other infrastructure costs.
   iii. $70,000 less in costs related to seminars and education, meetings, and travel.
   iv. Anticipated external costs related to major projects such as CalAIM and CMS Interoperability have yet to be incurred.

Below is a chart highlighting the key income statement categories for November with adjustments for SUR activity to show margin or loss from ongoing operations.

	NOV 2020				FYTD 20-21 THRU NOV			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	149,315	150,673	(1,358)	-0.9%	738,790	726,996	11,794	1.6%
REVENUE	$ 50,752,000	$ 50,559,000	$ 193,000	0.4%	$ 385,472,000	$ 367,410,000	$ 18,062,000	4.9%
MEDICAL EXPENSE	$ 46,428,000	$ 45,537,000	$ (891,000)	-2.0%	$ 367,353,000	$ 348,123,000	$ (19,230,000)	-5.5%
MLR	92.7%	91.3%			96.1%	95.6%		
ADMINISTRATIVE EXPENSE	$ 3,878,000	$ 4,766,000	$ 888,000	18.6%	$ 19,670,000	$ 23,310,000	$ 3,640,000	15.6%
ADMINISTRATIVE RATIO	6.4%	8.2%			4.3%	5.5%		
INVESTMENT INCOME	$ 62,000	$ 42,000	$ 20,000	47.6%	$ 228,000	$ 208,000	$ 20,000	9.6%
MARGIN (LOSS)	$ 508,000	$ 298,000	$ 210,000		$ (1,323,000)	$ (3,815,000)	$ 2,492,000	
ADD BACK: SUR ACTIVITY	$ -	$ 416,000			$ 12,000	$ 2,229,000		
MARGIN (LOSS) FROM OPERATIONS	$ 508,000	$ 714,000	$ (206,000)	-28.9%	$ (1,311,000)	$ (1,586,000)	$ 275,000	

On a year-to-date basis through November and after the removal of SUR activity, SFHP is $275,000 ahead of the budget expectations. Although a margin is reported for November, we remain cautious due to the uncertainty around membership and rates for CY 2021.

- After removing the Directed Payments funding, premium revenue is above budget by $4.7 million. This is due to a net increase of 11,794 member months. Adult Expansion member months are 24,140 above budget which is a positive development due to the fact that 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.

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- After removing SUR activity and Directed Payments funding, medical expense is above budget by $8.1 million. This increase can be accounted for as follows:
  - Capitation expenses are up $4,559,000
  - Medi-Cal non-Hep C pharmacy costs are up $1,445,000
  - Prop 56 supplemental payments are up $1,284,000
  - Healthy Workers pharmacy costs are up $ 872,000
  - CBAS expenses are up $ 772,000
  - Health Education costs are down ($ 832,000)
- Overall administrative expense is below budget by $3.6 million. The majority of this decrease is due to the elimination of the monthly bonus accrual and lower costs in the areas of professional services and information technology services. In addition, the budget included dollars for major projects which have not been incurred yet, i.e., CalAIM and CMS Interoperability.

PROJECTIONS

Mr. Takeuchi reviewed the following financial projections through May 2021:

1. Due to the impact of the COVID-19 pandemic, SFHP anticipates continued increases in Medi-Cal membership over the next six months. We project an increase of approximately 22,000 new members during FY 20-21. Through November, we have added 10,000 new members. These new members have been spread across the Adult, Child and Adult Expansion categories of aid. We will continue to watch membership growth very closely as we begin to develop projections for FY 21-22.

2. In response to the COVID-19 pandemic and the effect it is having on the finances of the State of California, 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. The pharmacy benefit carve-out scheduled for January 2021 has been delayed until April 2021. The State will take on this benefit and has selected Magellan as its Pharmacy Benefits Manager (PBM). For the period of April through June 2021, SFHP will see a revenue reduction of $22 million and an expense reduction of $21 million. This carve-out of the pharmacy benefit was projected to happen on January 1, 2021 and the impact 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 risk adjustment and the population acuity adjustment. 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.

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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.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Future Medi-Cal Rates

Beginning with calendar year 2021, DHCS has transitioned its Medi-Cal rate-setting cycle from a fiscal year basis to a calendar year basis. New rates will be effective on January 1, 2021. Although the preliminary rates shared with SFHP appear to be favorable, DHCS still needs to apply a risk adjustment as well as a population acuity adjustment which will decrease the rates. DHCS has stated it will release final CY 2021 rates at the end of December.

Due to the COVID-19 pandemic and its impact on the State of California finances, the Administration and State Legislature passed a budget that included a 1.5% retroactive rate reduction for the Bridge Period of July 2019 through December 2020. This retroactive rate reduction decreased SFHP's Medi-Cal revenue by $9.3 million.

Given that there is the possibility for another retroactive rate reduction in the FY 21-22 state budget, we will propose to the Finance Committee and Governing Board at the March 2021 meeting to set aside 1.5% of the potential rate increase and place this amount into a reserve to cover the potential claw back by DHCS. If State finances improve and DHCS does not implement a 1.5% rate reduction, SFHP will release the reserve into income by June 30, 2021.

As SFHP looks ahead to future changes coming to Medi-Cal Managed Care, we recognize the need for the health plan to rebuild its reserves that have been reduced by retroactive adjustments implemented by DHCS. In recent years, SFHP has absorbed the following:

• 1.5% rate reduction (July 2019 through December 2020)	$9.3 million
• Adult Expansion Duals take-back (May 2018)	$2.4 million
• Deceased members take-back (March 2020)	$1.0 million
	$12.7 million

As you will recall, in each of these three circumstances SFHP recommended and the Finance Committee and Governing Board approved not to make retroactive recoveries from providers. The table on the next page shows how providers would have been impacted had SFHP not absorbed these take-backs by DHCS.

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PROVIDER	1.5% RATE REDUCTION JUL 2019 - DEC 2020	DECEASED MEMBER AUDIT MAR 2020	ADULT EXPANSION DUALS TAKE-BACK MAY 2018	TOTAL
HOSPITALS				
ZUCKERBERG SAN FRANCISCO GENERAL	$ 1,991,442	$ 418,055	$ 173,122	$ 2,582,619
UCSF MEDICAL CENTER	$ 757,563	$ -	$ -	$ 757,563
CPMC	$ 679,370	$ 34,014	$ 19,852	$ 733,236
CHINESE HOSPITAL	$ 221,421	$ 12,200	$ 13,878	$ 247,499
CPMC MISSION BERNAL	$ 195,700	$ -	$ -	$ 195,700
	$ 3,845,496	$ 464,269	$ 206,852	$ 4,516,617
MEDICAL GROUPS				
NORTH EAST MEDICAL SERVICES	$ 1,106,095	$ 23,431	$ 33,108	$ 1,162,634
CLINICAL PRACTICE GROUP	$ 847,700	$ 83,885	$ 75,896	$ 1,007,481
UCSF MEDICAL GROUP	$ 298,756	$ 32,260	$ -	$ 331,016
CHINESE COMMUNITY HEALTHCARE ASSOCIATION	$ 97,984	$ 10,850	$ 10,604	$ 119,438
JADE MEDICAL GROUP	$ 76,363	$ -	$ -	$ 76,363
BROWN & TOLAND MEDICAL GROUP	$ 31,756	$ 8,468	$ 4,973	$ 45,197
HILL PHYSICIANS	$ 29,717	$ 1,798	$ 5,386	$ 36,901
	$ 2,488,370	$ 160,692	$ 129,967	$ 2,779,029
SFCCC				
MISSION NEIGHBORHOOD HEALTH CENTER	$ 61,118	$ 2,284	$ 2,450	$ 65,852
HEALTHRIGHT 360	$ 41,445	$ 3,121	$ 4,480	$ 49,046
SOUTH OF MARKET HEALTH CENTER	$ 26,290	$ 4,018	$ 1,236	$ 31,544
ST. ANTHONY MEDICAL CLINIC	$ 7,476	$ 717	$ 309	$ 8,502
SAN FRANCISCO COMMUNITY HEALTH CENTER	$ 7,256	$ -	$ 222	$ 7,478
NATIVE AMERICAN HEALTH CENTER	$ 5,797	$ 356	$ 444	$ 6,597
BAART	$ 3,115	$ 40	$ 239	$ 3,394
	$ 152,498	$ 10,536	$ 9,380	$ 172,414
UNAFFILIATED				
DR. TRAN	$ 3,502	$ 132	$ 194	$ 3,828
DR. KHONG	$ -	$ 496	$ 71	$ 567
MARIN CITY HEALTH AND WELLNESS	$ 3,439	$ -	$ -	$ 3,439
	$ 6,941	$ 628	$ 265	$ 7,834
TOTAL	$ 6,493,305	$ 636,125	$ 346,464	$ 7,475,894

Investment Reports

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

The Finance Committee unanimously approved the year-to-date unaudited financial statements and investment reports ending November 2020, for forwarding to the full Governing Board for approval.

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3. Review and Approval of Contract with Reinsurance Vendor

Recommendation: SFHP requests the Finance Committee approve the recommendation to the Governing Board to renew the contract with RGA Reinsurance Company for CY 2021. The overall premium will decrease because of the Medi-Cal pharmacy benefit transitioning to the State effective April 1, 2021. Deductible levels will remain the same - $110,000 for Professional services and $375,000 for Hospital services.

Mr. Bishop reviewed the background to the Board and reviewed the memo that was emailed with the vendor's proposal, which was not available at the time the packet was sent in advance of the Board meeting.

As background, Mr. Bishop stated that SFHP purchases reinsurance to protect from losses due to high-cost professional, hospital and pharmacy claims and encounters. SFHP's current broker, Re-Solutions, requested quotes from several carriers offering reinsurance coverage. SFHP received quotations from Odyssey Re (Connecticut), Berkley Re (Connecticut) and Ironshore (Massachusetts). The quotations were not competitive. When compared to the current rates with RGA, Berkley Re was 77% higher, Odyssey Re was 69% higher and Ironshore was 65% higher. Re-Solutions contacted an additional nine carriers, but all declined to submit a quote.

The total CY 2020 premiums are estimated to be approximately $4.2 million. For Hospital services, SFHP and participating providers will see a 3.1% decrease in premiums for the SPD and Dual populations. Premiums for the Adult, Child, Adult Expansion and Healthy Workers members will remain the same as CY 2020. For Professional services, SFHP and participating providers will see a 36.9% decrease in premiums for the SPD and Dual populations. Premiums for the Adult, Child, Adult Expansion and Healthy Workers members will increase by 2.4%.

Mr. Bishop stated requested approval of the recommendation to renew the contract with RGA Reinsurance Company for CY 2021. The overall premium will decrease as a result of the Medi-Cal pharmacy benefit transitioning to the State effective April 1, 2021. Deductible levels will remain the same - $110,000 for Professional services and $375,000 for Hospital services.

With the Finance Committee approved to have the recommendation forwarded to the Board for approval.

4. Review and Approval of $150,000 Grant to San Francisco Community Clinic Consortium (SFCCC) to Purchase Personal Protective Equipment for SFCCC Provider Network

Recommendation: San Francisco Health Plan (SFHP) recommends the approval of a $150,000 grant to the San Francisco Community Clinic Consortium (SFCCC) to purchase Personal Protect Equipment (PPE) and other related needs during the COVID-19 public health emergency for the SFCCC providers.

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John F. Grgurina, Jr., CEO, reviewed the background with the Finance Committee. To provide ongoing support to the SFHP provider network as the public health emergency continues, SFHP recommends an additional $150,000 grant to the SFCCC. SFCCC would be responsible for purchasing and distributing the items to the SFCCC network and other SFHP providers. Of the grant funds, SFCCC would be allowed up to $30,000 for administrative expenses.

Earlier this year, the Governing Board approved two grants of $300,000 to SFCCC to assist with the purchase PPE for SFCCC clinics, as well as other SFHP providers outside of SFCCC. The PPE purchased and distribute by SFCCC included over 300,000 gloves of various sizes and 50,000 N95 masks that were distributed to all SFCCC clinics and other SFHP providers including Chinese Community Health Care Association, Jade Medical Group, Brown and Toland, Hill Physicians and Chinese Hospital.

In addition to PPE, the proposed grant to SFCCC would give SFCCC the discretion to purchase the items below to enhance the providers' clinical management of COVID-19 suspected and COVID-19 infected patients:

1) Purchase of point-of-care rapid COVID tests that can be administered in a physician's office or at home; and

2) Purchase of home pulse-oximeters to give to selected patients diagnosed with COVID to enhance self-monitoring and communication to providers of potential clinical deterioration.

SFHP recognizes the COVID-19 pandemic has caused financial and other resource constraints throughout our network and recommends approval of the $150,000 grant and allow SFCCC the flexibility to purchase PPE and the other COVID-19 tests and pulse-oximeters needed by SFCCC providers to serve SFHP members during the public health emergency. SFCCC would also like to fund health centers' expansion and implementation of nutrition programs for patients with food insecurity and identified health conditions that place them at risk for adverse health events. Up to $50,000 would be allowed for the food insecurity program.

The Finance Committee unanimously approved the recommendation of a $150,000 grant to the SFCCC to purchase PPE, other related needs, including the expansion of the nutrition program, during the COVID-19 public health emergency for the SFCCC providers, for forwarding to the full Board for approval.

5. CalPERS Replacement Benefit Plan Description and Update

Brian Gentner, Director of Human Resources, and Mr. Bishop provided background regarding the agenda item to the Finance Committee. This item was presented for discussion only.

SFHP is a government employer in the California Public Employees' Retirement System (CalPERS) Miscellaneous Pooled Plans for the defined benefit pension plan known as

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2% @ 55 for employees with hire dates prior to January 1, 2013 and 2% @ 62 for employees with hire dates after December 31, 2012.

Internal Revenue Code (IRC) section 415(b) is a federal provision that limits the amount of the annual retirement benefit an individual can be paid from a tax-qualified defined benefit pension plan such as CalPERS.

CalPERS, in accordance with Government Code section 21750 and Title 2 of the Code of Regulations section 589, established a Replacement Benefit Plan (RBP) to ensure that individuals are provided with retirement and other related benefits that are commensurate with the benefits that would have been received had the benefits not been limited due to IRC 415(b).

A CalPERS employer becomes a participating RBP employer whenever any eligible former employee is paid a retirement allowance that exceeds the annual dollar limit set under IRC 415(b). For example, the annual dollar limit for calendar year 2020 is $230,000 at age 62 years.

The RBP requires an eligible employee's former employer(s) to pay the pension benefit in excess of the IRC limit. This liability would be calculated on an annual basis and shared by the eligible employee's former employer(s) based on service time. The RBP would remain in effect for the lifetime of the eligible employee and/or their spouse if designated by the employee.

SFHP engaged Bartel Associates LLC (Bartel) to determine if any SFHP employees would be subject to the RBP. Bartel's review concluded two employees would be eligible for the RBP. Based on the calculations performed by Bartel in July 2020, SFHP's share of the annual RBP liability is estimated to be approximately $67,000.

No Finance Committee is needed at this time. Given the complexities and financial impact of the RBP, SFHP will schedule a separate meeting with the Finance Committee to discuss the RBP in greater detail. SFHP will invite Mary Beth Redding, Vice President of Bartel Associates LLC, to attend the meeting.

The Finance Committee Adjourned to Closed Session.

6. Review of Future Medi-Cal Rate Changes for Provider Contracts

This item was discussed in closed session.

7. Review Contract Change for Zuckerberg San Francisco General Hospital to Fee-for-Service Payments for SFCCC Clinics Members

This item was discussed in closed session.

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The Finance Committee resumed in Open Session.

8. Report by Chair on Closed Session Action Items.

The Chair reported that there were no action items in Closed Session.

Adjourn

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Reece Fawley
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Reece Fawley, Secretary/Treasurer