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Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
March 3, 2021

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

Absent: None

Guests: None

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 Finance Committee 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 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 January 6, 2021 Finance Committee Meeting

The minutes of the January 6, 2021 Finance Committee meeting were unanimously approved as written.

2. Review and Approval of Year-To-Date 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 January 31, 2021. Mr. Takeuchi discussed the following highlights:

1. January 2021 reported a margin of $1,656,000 versus a budgeted loss of ($3,000). After removing Strategic Use of Reserves (SUR) activity, the actual

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margin from operations remained $1,656,000 versus a budgeted margin of $414,000.

On a year-to-date basis, we have a loss of ($1,154,000) versus a budgeted loss of ($6,137,000). After removing SUR activity, the actual loss from operations is ($912,000) versus a budgeted loss ($2,389,000).

2. Variances between January actual results and the budget include:
   a. A net increase in revenue of $10.0 million due to:
      i. $7.9 million more in premium revenue due to the delay of the Medi-Cal pharmacy carve-out to April 1, 2021. The budget assumed the pharmacy carve-out would be effective January 1, 2021, therefore we projected lower revenue due to the transfer of the pharmacy benefit to the State. Department of Health Care Services (DHCS) built a new pharmacy component into the CY 2021 rates to cover this benefit for the period of January through March 2021.
      ii. $1.7 million more in premium revenue due to the Medi-Cal rate increases effective January 1, 2021. Member months were 4,615 less than budget projections, however the rate increases more than offset the shortfall in member months and drove extra revenue. Adult, Child and SPD member months were 9,207 less than budget, however Adult Expansion member months were 4,702 more than budget. Membership continues to be on an upward trend with new members coming in, however, we are not adding members at quite the same rate as expected per the budget.
      iii. $252,000 more in Hepatitis C revenue. The budget did not assume any Hepatitis C revenue for January as the pharmacy carve-out was expected to happen January 1, 2021.
      iv. $167,000 more in administrative revenue, mostly due to revenue related to the Behavioral Health Integration (BHI) Incentive program.

   b. A net increase in medical expense of $8.7 million due to:
      i. $7.0 million more in pharmacy expense. Much like on the revenue side, the budget assumed the pharmacy carve-out would be effective January 1, 2021, therefore we projected lower medical expense due to the transfer of the pharmacy benefit to the State.
      ii. $1.2 million more in hospital fee-for-service claims. This increase was due to two reasons – 1) December claims volume was lighter due to the holidays pushing more claims into January; and 2) two large inpatient claims totaling $524,000 were received in January (one in the amount of $357,000 from Stanford Medical Center and another in the amount of $167,000 from UCSF Medical Center).
      iii. $309,000 more in Community-Based Adult Services (CBAS) expense. This increase is due to claims lag along with an increase in utilization resulting from the implementation of Temporary Alternative Services (TAS) which allows the CBAS centers to submit claims for telephonic and telehealth CBAS provided to Medi-Cal members during the PHE.

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iv. $279,000 more in Hepatitis C drug expense. The budget did not assume any Hepatitis C revenue for January as the pharmacy carve-out was expected to happen January 1, 2021.
v. $217,000 more in Healthy Workers pharmacy expense. The actual cost was $83.68 pmpm while the budgeted cost was $65.18 pmpm. It is important to note that SFHP receives only $57.67 pmpm in the Healthy Workers rate making the true loss $304,000. SFHP is working with the Human Services Agency to secure a rate increase for the pharmacy benefit effective April 1, 2021.
vi. $103,000 more in Non-Specialty Mental Health (NSMH) expense. This additional cost is due to increasing utilization.
vii. $381,000 less in Health Education expenses. This 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 $433,000 primarily due to:
   i. $289,000 less in Compensation and Benefits due to discontinuing the bonus accrual (the accrual is fully funded for FY 20-21) and not implementing merit increases in FY 20-21.
   ii. $215,000 less in Professional Fees and Consulting. Anticipated external costs related to major projects such as CalAIM and CMS Interoperability have yet to be incurred.
   iii. $135,000 more in Pharmacy Benefits Manager (PBM) fees due to the delay in the Medi-Cal pharmacy carve-out.

Mr. Takeuchi reviewed the chart below highlighting the key income statement categories for January with adjustments for SUR activity in order to show margin or loss from ongoing operations.

	JAN 2021				FYTD 20-21 THRU JAN			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	151,548	156,163	(4,615)	-3.0%	1,041,683	1,037,119	4,564	0.4%
REVENUE	$ 54,216,000	$ 44,241,000	$ 9,975,000	22.5%	$ 490,826,000	$ 462,947,000	$ 27,879,000	6.0%
MEDICAL EXPENSE	$ 48,427,000	$ 39,715,000	$ (8,712,000)	-21.9%	$ 464,296,000	$ 436,639,000	$ (27,657,000)	-6.3%
MLR	90.8%	91.2%			95.5%	95.3%		
ADMINISTRATIVE EXPENSE	$ 4,138,000	$ 4,571,000	$ 433,000	9.5%	$ 27,966,000	$ 32,737,000	$ 4,771,000	14.6%
ADMINISTRATIVE RATIO	6.1%	8.9%			4.7%	6.1%		
INVESTMENT INCOME	$ 5,000	$ 42,000	$ (37,000)	-88.1%	$ 282,000	$ 292,000	$ (10,000)	-3.4%
MARGIN (LOSS)	$ 1,656,000	$ (3,000)	$ 1,659,000		$ (1,154,000)	$ (6,137,000)	$ 4,983,000	
ADD BACK: SUR ACTIVITY	$ -	$ 417,000			$ 242,000	$ 3,748,000		
MARGIN (LOSS) FROM OPERATIONS	$ 1,656,000	$ 414,000	$ 1,242,000	300.0%	$ (912,000)	$ (2,389,000)	$ 1,477,000	

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On a year-to-date basis through January and after the removal of SUR activity, SFHP is $1,477,000 ahead of budget expectations.

- After removing the Directed Payments funding, premium revenue is above budget by $14.5 million. This is due to:
  - $7.9 million in pharmacy revenue that was not expected as the pharmacy benefit was to be carved out January 1, 2021.
  - A net increase of 4,564 member months. Adult Expansion member months are 34,301 above budget which has a favorable impact on revenue due to the fact that the premium rate for this category of aid is $388 pmpm compared to $293 pmpm for the Adult 19 category and $112 pmpm for the Child 18 category.
  - A Medi-Cal rate increase effective January 1, 2021.
- After removing SUR activity and Directed Payments funding, medical expense is above budget by $17.8 million. This increase can be accounted for as follows:
  - Medi-Cal pharmacy costs are up $9.0 million
  - Capitation and FFS expenses are up $5.7 million
  - Prop 56 supplemental payments are up $2.4 million
  - Healthy Workers pharmacy costs are up $1.3 million
  - CBAS expenses are up $1.1 million
  - Health Education costs are down ($1.7 million)

  Medi-Cal pharmacy costs are up due to the delay in the carve-out. Capitation and FFS expenses are up due to increasing membership as well as some high dollar inpatient hospital claims. Healthy Workers pharmacy costs are higher as the reimbursement rate established in early 2018 in not sufficient to cover current drug costs and associated utilization. SFHP is working with the San Francisco Human Services Agency to secure a rate increase for April 1, 2021. Proposition 56 supplemental payment activity is higher than anticipated, however this is not an issue as SFHP has received more than enough funding to cover these costs. CBAS costs are up due to greater utilization caused by the ongoing public health emergency.

- Overall administrative expense is below budget by $4.8 million. The majority of this decrease is due to the elimination of the monthly bonus accrual, not implementing merit increases 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 July 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 projected an

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increase of approximately 22,000 new members during FY 20-21. Through January, we have added 11,500 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 state of California finances, the State Legislature approved the implementation of a 1.5% rate reduction retroactive to July 2019. This rate reduction was effective for the entire Bridge Period which ran through December 2020. The rate reduction applied to all categories of aid except dual eligible members. SFHP estimated 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. SFHP does not expect DHCS to implement a similar reduction for January through June 2021.

3. The pharmacy benefit carve-out scheduled for January 2021 was delayed until April 2021 and then delayed again to an unspecified date. DHCS will provide an update in May 2021. When implemented, the State would take on the pharmacy benefit through the selected vendor, Magellan, as its Pharmacy Benefits Manager (PBM). With an April 2021 transition, DHCS planned to continue to pay MCPs for pharmacy services. With the April date, SFHP will receive $8 million dollars in additional revenue per month for February and March along with a similar amount for the associated pharmacy expense. With the indefinite postponement, DHCS will continue payments to MCPs until the transition occurs.

4. In December, SFHP received final rates for CY 2021. Overall, SFHP received an increase of approximately 4.3% plus the return of the 1.5% Bridge Period rate reduction (1.3% actual). 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 several Strategic Use of Reserves (SUR) programs along with retroactive adjustments implemented by DHCS totaling $12.7 million.

5. Proposition 56 – This program will continue for the remainder of this fiscal year as well as FY 21-22. Proposition 56 provides 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

RECAP OF STRATEGIC USE OF RESERVES (SUR) PROGRAMS

Since FY 2004-05, SFHP has committed to a total of $124.4 million in Provider Distributions and SURs.

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Prior to implementing a formal Strategic Use of Reserves program, SFHP's Governing Board approved annual Provider Distributions. From FY 2004-2005 through FY 2013-2014, Provider Distributions totaled $34.7 million. In the last five fiscal years, the Governing Board approved six Strategic Use of Reserves programs for FY 15-16, FY 16-17, FY 17-18, CY 2018, FY 18-19 and FY 19-20. These distributions total $89.7 million.

The table on the next page is a summary of SUR funding remaining to be disbursed. The remaining Practice Improvement Program (PIP) SUR amount of $2,028,030 has been accrued. The SUR balance of $6,183,099 will be recorded as medical expense when paid. Although SFHP excludes this SUR activity when tracking ongoing financial performance, it is important to note that SFHP will most likely continue to report losses overall until all SUR funding commitments have been disbursed. The projected timing of disbursements for the $6.2 million is as follows:

- FY 20-21 $1.4 million
- FY 21-22 $2.4 million
- FY 22-23 $2.4 million

	----------REMAINING BALANCE----------		
CATEGORY	**PIP SUR**	**SUR**	
MEDICAL GROUP	**FY17-18 & FY18-19**	**FY17-18 & FY18-19**	**TOTAL**
CHINESE COMMUNITY HEALTH CARE ASSN	$ 747,635	$ -	$ 747,635
BROWN & TOLAND MEDICAL GROUP	$ 496,761	$ 3,252	$ 500,013
SFHN - PRIMARY CARE	$ 273,084	$ 162,676	$ 435,760
HILL PHYSICIANS	$ 313,688	$ -	$ 313,688
HEALTHRIGHT 360	$ 108,490	$ -	$ 108,490
UCSF MEDICAL GROUP	$ 79,281	$ -	$ 79,281
BAART COMMUNITY HEALTHCARE	$ 5,676	$ -	$ 5,676
ST. ANTHONY MEDICAL CLINIC	$ 2,726	$ -	$ 2,726
SOUTH OF MARKET HEALTH CENTER	$ 689	$ -	$ 689
	$ 2,028,030	$ 165,928	$ 2,193,958
HOSPITALS			
ZUCKERBERG SAN FRANCISCO GENERAL HOSPITAL	$ -	$ 502,872	$ 502,872
CALIFORNIA PACIFIC MED CTR & CPMC MISSION BERNAL	$ -	$ 409,669	$ 409,669
UCSF MEDICAL CENTER	$ -	$ 129,679	$ 129,679
CHINESE HOSPITAL	$ -	$ 35,006	$ 35,006
DIGNITY-ST. MARY'S MEDICAL CENTER	$ -	$ 10,000	$ 10,000
DIGNITY-ST. FRANCIS HOSPITAL	$ -	$ 10,000	$ 10,000
	$ -	$ 1,097,226	$ 1,097,226
RETENTION/TARGETED INTERVENTIONS			
CHIROPRACTIC/MEMBER INCENTIVES	$ -	$ 2,469,945	$ 2,469,945
HOME BASED CARE (ADVANCED PRIMARY CARE-MEDZED)	$ -	$ 2,000,000	$ 2,000,000
PROJECT OPEN HAND -MEDICALLY TAILORED MEALS	$ -	$ 400,000	$ 400,000
DOULA PROGRAM WITH DPH	$ -	$ 50,000	$ 50,000
	$ -	$ 4,919,945	$ 4,919,945
	$ 2,028,030	**$ 6,183,099**	**$ 8,211,129**

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Skip Bishop, CFO, reviewed the medical loss ratio (MLR) for Healthy Workers, which showed 101%. He stated that due to the HW rate and SFHP's takeover of the pharmacy benefit several years ago, HW runs at a loss of approximately $300,000 per month. With appreciation to Greg Wagner, Mr. Bishop stated that SFHP will be receiving a rate increase for HW. The new rate will be $588 pmpm, effective April 1, 2021. The pharmacy component of the rate will increase from $58 pmpm to $93 pmpm. ZSFG's rate will increase from $353 pmpm to $438 pmpm. Mr. Bishop explained that this would bring the MLR down to 98%.

Mr. Fawley asked if there was any concern with the cash-on-hand metric at 31 days. Mr. Bishop stated that there was no concern with 31 days of cash-on-hand.

Investment Reports

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

Mr. Fawley stated it appears that finances are in good condition with and without strategic use of reserves and doing well compared to budget. He also stated that it is important that SFHP prepare to build reserves when it takes on the hospital risk for the Consortium clinics. He pointed out that SFHP has done very well with the five to six percent administrative costs and reserve levels compared to commercial plans. Steven Fugaro, MD, stated he was pleasantly surprised with the financial condition of SFHP and Mr. Wagner also stated he believed there was a good comfort level with the SFHP finances.

The Finance Committee unanimously approved the year-to-date unaudited financial statements and investment reports ending January 31, 2021, for forwarding to the full Governing Board for approval.

3. Annual Review of SFHP Administrative Contracts

The following is presented to the Finance Committee and Governing Board for discussion only. No action is required.

Kaliki Kantheti, Chief Operations Officer, provided the Board with a history of the SFHP administrative contracts. At the March 4, 2015 SFHP Governing Board meeting, the Board approved a policy to require Board approval for administrative contracts with a value of $1 million or more. Additionally, with the approval of this policy, SFHP staff agreed to provide the Governing Board with a list of contracts valued at over $100,000 on an annual basis.

In keeping with this policy, Ms. Kantheti reviewed the 48 contracts from calendar year 2020 that were valued at $100,000 or greater.

- In 2020, there were ten contracts whose total spend was over $1 million. All contracts complied with the Governing Board-approved SFHP Contract Approval policy.

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- The contracts were either approved by the Governing Board or were grandfathered, i.e., existed prior to the March 2015 policy:
    - SFHP Employee Benefits:
        - Aetna Life Insurance for Health Benefits
        - Kaiser Permanente Health Benefits
        - CalPERS Defined Pension Plan
        - CalPERS 457
        - 401(a) pension plan through Great-West Life
- RSC Insurance Brokerage – stop-loss premiums
- 50 Beale St., LLC – main office rent agreement
- KP, LLC – vendor for printed member material mailings. (KP, LLC is the company's name and it is NOT Kaiser Permanente, nor related to Kaiser.)
- Perform Rx – pharmacy benefits manager administrative fees
- Edifecs, Inc.

In addition to presenting new contracts valued above $1 million to the Board for approval, SFHP staff also determines if a contract previously valued under $1 million approaches actual costs above $1 million that will require Board approval. If approaching $1 million, the executive responsible for the contract will present the contract to the Board for approval. At this time, there does not appear to be a contract to bring to the Board for approval.

Ms. Kantheti noted for the Finance Committee that in January 2021 SFHP implemented a new contract amendment with Tactical Telesolutions to conduct inbound and outbound call center functions related to assisting members with making appointments for the COVID-19 vaccine. The vendor operates a call center with agents that speak English, Cantonese, Spanish, Russian, Vietnamese and potentially Tagalog, if needed. SFHP is working closely with the medical leadership at the San Francisco Health Network to provide call center support as the County identifies the populations eligible for vaccines. If the call center is needed through the end of the calendar year, this contract may cost close to $800,000, but it depends on the number of agents used. We will provide the Board with an update on the cost of this contract at the May Board meeting. Emily Webb asked if the call center is available to all SFHP members. Ms. Kantheti replied that it is available to all, but only according to the phased call campaigns.

The Finance Committee adjourned to Closed Session.

4. Review and Approval of No Changes to Medi-Cal Provider Rates

This item was discussed in closed session.

The Finance Committee resumed the Open Session.

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5. Report by Chair on Closed Session Action Items

Mr. Fawley reported that the Finance Committee approved the recommendation to not take any actions on provider rates for forwarding to the full Governing Board for approval.

Adjourn

DocuSigned by:
Reece Fawley
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Reece Fawley, Secretary/Treasurer