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

Present: Eddie Chan, Pharm D, Reece Fawley, Steven Fugaro, MD, and Emily Webb

Staff: Skip Bishop, Rand Takeuchi, John F. Grgurina, Jr., and Nina Maruyama (note taker)

Absent: Greg Wagner

Guests: Chris Pritchard and Rianne Suico, Moss Adams Consultants, LLP

Reece Fawley, Chair, Finance Committee, chaired the meeting and identified that there were no 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 September 1, 2021 Finance Committee Meeting

The minutes of the September 1, 2021 Finance Committee meeting were unanimously approved as written.

2. Review and Approval of the Annual Independent Audit Report for FY 2020-21

Recommendation: Review and Approval of the Annual Independent Audit Report for FY 2020-21.

Chris Pritchard, Partner, and Rianne Suico, Partner, Moss Adams Consultants, the independent audit firm hired by SFHP, presented the FY 2020-21

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:

- 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.

Mr. Fawley stated that the Finance Committee has confidence in the Finance department leadership. Mr. Fawley also informed staff that during the Finance Committee members' discussions with the auditors, they discussed the upcoming change in the CEO. With this change, the Finance Committee believed that continuity and stability of the health plan's finances is critical and recommended that the health plan continue with the Moss Adams audit firm to maintain continuity of oversight. The Finance Committee and staff agreed with this suggestion.

The Finance Committee unanimously approved the independent auditor's report for FY 2020-21 for forwarding to the full Governing 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.

Rand Takeuchi, Director, Accounting, reviewed the unaudited monthly financial statements for the period ending September 30, 2021.

1. September 2021 reported a loss of ($3,226,000) versus a budgeted loss of ($947,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations was ($3,133,000) versus a budgeted loss of ($842,000).

   On a year-to-date basis, we have a margin of $520,000 versus a budgeted margin of $3,022,000. After removing SUR activity, the actual margin from operations was $803,000 versus a budgeted margin of $3,337,000.

   In September, we received $22.7 million in Directed Payments funding related to the Bridge Period of July 2019 through December 2020. This funding covered only two of the four types of Directed Payments and covered only July through December 2019. The FY 21-22 budget projected Directed Payments funding of $132.0 million for September which was based on historical patterns. The next wave of funding should bring us much closer to our budget projections. It is important to note that Directed Payments funding is a pass-through to hospital providers and does not impact SFHP's bottom line. As has been the case in previous years, 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 decrease in revenue of $107.6 million due to:
      i. $109.3 million less in Directed Payments funding related to the Bridge Period of July 2019 through December 2020.
      ii. $1.5 million more in Medi-Cal and Healthy Workers premium revenue due to an additional 3,225 member months along with actual premium rates that were 0.8% higher than what was used for the budget projections.
      iii. $133,000 more in Hepatitis C revenue. There were 218 treatment weeks in September versus a budget of 171 treatment weeks.
      iv. $118,000 more in Maternity revenue. We reported 105 maternity events during September versus a budget of 91 maternity events.

   b. A net decrease in medical expense of $31.5 million primarily due to:
      i. $109.3 million less in Directed Payments funding related to the Bridge Period of July 2019 through December 2020.
      ii. $1.6 million more in fee-for-service (FFS) expense. We had five claims payment cycles in September. The budget anticipated higher FFS cost due to the extra payment cycle, however actual paid claims were even greater than expected. When looking at the paid claims data, we saw several high dollar claims submitted by Zuckerberg San Francisco General for services rendered to members enrolled with the University of California, San Francisco (UCSF) and Brown & Toland Medical Group. For example, one

claim totaled $300,000 for a 35-day stay in the intensive care unit at ZSFG.

iii. $766,000 more in net capitation as the result of having 3,225 more member months as well as a more favorable membership mix than what the budget projected. This additional cost is offset by the revenue SFHP received for these additional members.

iv. $1.4 million more in Medi-Cal non-Hepatitis C pharmacy expense. The main driver of this additional expense can be found in the cost for generic drugs. Beginning July 1, 2021, SFHP moved to Magellan for Pharmacy Benefit Management (PBM) services. Results for July through September clearly show that Magellan's cost for generic drugs is higher than the pricing SFHP received through PerformRx. Generic medications represent 89% of all prescription filled. For the first three months of FY 21-22, generics represented 26.4% of total drug costs. This compares to 15.0% for the period of April through June 2021. The largest factor here appears to be network contracting. Magellan is paying Walgreens, our largest retail pharmacy chain, significantly more for generics. Our Pharmacy department is engaged in ongoing discussions with Magellan to better understand the reasons for the higher than expected drug costs. The MLR for September was 103%. SFHP will continue to have responsibility for the pharmacy benefit through December 2021. Beginning in January 2022, the pharmacy benefit will transition to the State.

v. $119,000 more in Hepatitis C drug expense. We had 218 treatment weeks versus a budget of 171 weeks, or an increase of 47 weeks. In addition, the budget assumed 39% of the treatment weeks would be under 340B pricing which is lower cost. For September, only 1% of the actual treatment weeks were under 340B pricing. Limiting the purchasing under 340B rules is actually a benefit to SFHP due to the fact that SFHP pays the same for the Hepatitis C drug, but receives a lower reimbursement from the State. The entity with whom we have the 340B special pricing arrangement retains the spread.

vi. Healthy Workers pharmacy expense was slightly higher than budget expectations, i.e., $1,073,000 in drug costs versus a budget of $1,009,000. On a pmpm basis, the actual cost was $90.82 versus a budget of $86.42. Although actual expense exceeded the budget, SFHP had a margin of $33,000 as we receive $93.61 pmpm in the Healthy Workers rate for pharmacy.

vii. $84,000 more in Non-Specialty Mental Health (NSMH) expense as utilization continues to be higher than expected.

viii. $82,000 more is Community-Based Adult Services (CBAS) expense. This increase is due to higher utilization resulting from the implementation of Temporary Alternative Services (TAS) which allows the CBAS centers to submit claims for CBAS services that

were delivered telephonically and as telehealth services during the Public Health Emergency (PHE). The PHE is expected to last until the end of December 2021.

c. A net increase in administrative expenses of $169,000 primarily due to:
   i. $267,000 less in all non-compensation administrative expense categories. This difference is primarily due to timing as it was anticipated that more professional fees/consulting services and system maintenance/infrastructure costs would be incurred in the earlier part of the fiscal year. The expectation is that actual spending will align with the budget as we move further into FY 21-22.
   ii. $98,000 more in Compensation, Benefits and GASB 68 costs. The budget assumed a staff attrition factor of 10%. The actual attrition factor for September continues to run slightly less than 10%.

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

	SEP 2021				FYTD 21-22 THRU SEP			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	163,415	160,190	3,225	2.0%	487,711	478,743	8,968	1.9%
REVENUE	$ 82,654,000	$ 190,174,000	$ (107,520,000)	-56.5%	$ 204,689,000	$ 308,879,000	$ (104,190,000)	-33.7%
MEDICAL EXPENSE	$ 81,032,000	$ 186,248,000	$ 105,216,000	56.5%	$ 190,618,000	$ 291,851,000	$ 101,233,000	34.7%
MLR	98.8%	98.3%			94.0%	95.1%		
ADMINISTRATIVE EXPENSE	$ 4,746,000	$ 4,915,000	$ 169,000	3.4%	$ 13,548,000	$ 14,131,000	$ 583,000	4.1%
ADMINISTRATIVE RATIO	5.0%	2.2%			5.7%	3.9%		
INVESTMENT INCOME	$ (102,000)	$ 42,000	$ (144,000)	-342.9%	$ (3,000)	$ 125,000	$ (128,000)	-102.4%
MARGIN (LOSS)	$ (3,226,000)	$ (947,000)	$ (2,279,000)	-240.7%	$ 520,000	$ 3,022,000	$ (2,502,000)	-82.8%
ADD BACK: SUR ACTIVITY	$ 93,000	$ 105,000			$ 283,000	$ 314,000		
MARGIN (LOSS) FROM OPERATIONS	$ (3,133,000)	$ (842,000)	$ (2,291,000)	-272.1%	$ 803,000	$ 3,336,000	$ (2,533,000)	-75.9%

On a year-to-date basis through September and after the removal of SUR activity, SFHP is reporting a margin of $803,000 which is $2.5 million less than budget expectations.

- After removing the Directed Payments funding, premium revenue is above budget by $5.1 million. This is due to:
  - An overall net increase of 8,968 member months. Member months for the Adult, Adult Expansion and Seniors and Persons with Disabilities (SPD) categories of aid are all above budget which has a favorable impact on revenue due to the fact that the premium

rates for these members are much higher than the premium rates for Child and Dual members.
    - A Medi-Cal rate increase effective January 1, 2021 that was 0.8% greater than budget expectations.

- 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:
    - Medi-Cal non-Hep C pharmacy expenses are up $2,788,000
    - Capitation expenses are up $2,548,000
    - FFS expenses are up $2,215,000
    - Hepatitis C expenses are up $ 555,000

- Overall administrative expense is below budget by $583,000. The majority of this decrease is due to lower costs in the areas of professional services and information technology services. The lower costs are due to timing differences as actual spending is expected to more closely align with the budget as we move through the fiscal year. Overall administrative expense savings has been partially offset by increases in Compensation, Benefits and GASB 68 costs due to a slightly lower attrition rate than what was used for budgeting purposes.

PROJECTIONS

Mr. Bishop reviewed the following financial projections through March 2022.

1. Beginning in July 2021, hospital risk for 16,000 San Francisco Community Clinic Consortium (SFCCC) members became the responsibility of SFHP. SFHP no longer pays capitation to ZSFG for these members. SFHP will be responsible for all in-network and out-of-network hospital services under a fee-for-service arrangement – All Patient Refined Diagnosis Related Groups (APR-DRG) for inpatient services and 140% of the Medi-Cal Fee Schedule (MCFS) for outpatient facility services. Primary care and specialty care services remain under capitation. It is estimated that this new risk will cost SFHP approximately $16 million to $20 million per year which is built into the FY 21-22 budget. Our draft CY 2022 Medi-Cal rates confirm that DHCS and Mercer have included this added cost in the CY 2022 Medi-Cal rate development process which means SFHP has to absorb the costs only for the period of July through December 2021.

   SFHP expects the fee-for-service claims cost to exceed the capitation savings by approximately $1.5 million per month. Due to the normal pattern of claims lag, SFHP has increased its Incurred But Not Reported (IBNR) claims reserve in an amount equal to its projected exposure in order to cover the anticipated claims incurred July through September, but not received as of September 30, 2021.

2. SFHP started the new fiscal year with 2,400 more Medi-Cal members versus what was anticipated in the budget. Due to the ongoing COVID-19 pandemic, SFHP anticipates adding another 2,000 members through December 2021. With some upcoming changes in the Medi-Cal eligibility rules, SFHP expects to add another 3,000-4,000 members in early 2022. This will increase our Medi-Cal membership to approximately 160,000 members.

   It is important to note that with the State's intention to lift the Public Health Emergency by December 31, 2021, SFHP anticipates that Medi-Cal membership will gradually decrease during CY 2022, as members will be placed on hold or terminated due to no longer qualifying for the program.

3. The Medi-Cal pharmacy benefit is scheduled to be carved out effective January 2022. This aligns with how SFHP prepared its FY 21-22 budget, i.e., we would have responsibility for this benefit through December 31, 2021. The State takes over this benefit on January 1, 2021 with Magellan as its Pharmacy Benefits Manager (PBM). This will be viewed as a positive development as drug costs have increased now that Magellan is our PBM.

4. Beginning in January 1, 2022, SFHP will take responsibility for Enhanced Care Management (ECM), Community Supports, formerly known as In Lieu Of Services (ILOS) and major organ transplants. Multiple teams within SFHP have been working for several months to prepare for these new programs. Draft rates for ECM and Community Supports were released in early October. We are still waiting on draft rates for major organ transplants from DHCS.

5. Proposition 56 – this program will continue for all of 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

Medi-Cal Pharmacy Costs

Mr. Bishop reviewed the analysis prepared by Lisa Ghotbi, Director of Pharmacy, which was provided in the Finance Committee packet. The analysis focused on potential causes for increases in pharmacy costs.

Investment Reports

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

The Finance Committee unanimously approved the monthly financial statements and investment reports ending September 30, 2021, for forwarding to the full Governing Board for approval.

4. Semi-Annual Compliance Report

Nina Maruyama, Chief Officer, Compliance and Regulatory Affairs, provided highlights of the semi-annual Compliance Report that was included in the Finance Committee packet for the period from May 2021 through October 2021.

Included in the report was a follow-up item from the May 2021 Finance Committee, during which a Board member suggested that SFHP increase measures to ensure that staff do not have conflicts of interest when contracting with vendors. Mr. Maruyama highlighted that SFHP took steps to strengthen processes to prevent conflicts of interest at all staff levels when contracting. The procurement policy and procedures have been revised to include steps at the beginning of the procurement process to have staff at all levels consider and disclose any potential conflicts of interest with potential and selected vendors. Staff with any potential conflicts would not be allowed to participate in any portion of the vendor selection and management process. This new policy became effective on September 1, 2021.

The Finance Committee Adjourned to Closed Session.

5. Review Draft Calendar Year 2022 Medi-Cal Rates for San Francisco Health Plan

This item was discussed in closed session.

The Finance Committee Resumed to Open Session.

6. Report by Chair on Closed Session Action Items

7. Adjourn

_____
Reece Fawley, Secretary/Treasurer