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Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
January 5, 2022

Present: Reece Fawley, Steven Fugaro, MD, Greg Wagner, and Emily Webb

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

Absent: Eddie Chan, Pharm D

Guests: Deneen Hadley, VP Health Plan Strategy, UCSF

Reece Fawley, Chair, Finance Committee, chaired the meeting and introduced Deneen Hadley, VP Health Plan Strategy, UCSF. Mr. Fawley stated that Ms. Hadley would be stepping in as the UCSF representative on the Board when he steps down at the end of June. 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 November 3, 2021 Finance Committee Meeting

The minutes of the November 3, 2021 Finance Committee meeting were unanimously approved as written.

2. Review and Approval of Year-To Date Unaudited Financial Statements and Investment Reports

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

Rand Takeuchi, Director, Accounting, reviewed the year-to-date unaudited financial statements for the period ending November 30, 2021.

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1. November 2021 had a margin of $631,000 versus a budgeted loss of ($653,000). After removing Strategic Use of Reserves (SUR) activity, the actual margin from operations was $730,000 versus a budgeted loss of ($448,000).

   On a year-to-date basis, SFHP has a margin of $2,484,000 versus a budgeted margin of $2,130,000. After removing SUR activity, the actual margin from operations was $2,961,000 versus a budgeted margin of $2,754,000.

2. Reasons for variances between November actual results and the budget include:

   a. A net increase in revenue of $1.3 million due to:
      i. $1.2 million more in Medi-Cal and Healthy Workers premium revenue due to an additional 2,626 member months along with actual premium rates that were 0.8% higher than what was used for the budget projections. Medi-Cal membership mix was also favorable as 90% of the additional member months were in the Adult, Adult Expansion and Seniors and Persons with Disabilities (SPD) categories of aid where the per member, per month (pmpm) premium rates are much higher than the Child and Duals categories of aid.
      ii. $118,000 more in Maternity revenue. We reported 105 maternity events during November versus a budget of 91 maternity events.

   b. A net increase in medical expense of $99,000 due to:
      i. $694,000 more in net capitation as the result of having 2,626 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.
      ii. $523,000 less in fee-for-service claims. Claims volume during the second half of November was less than anticipated, most likely due to the Thanksgiving holiday break. We accrued the first claims check run in December which is our normal practice, however we did not make up for the shortfall in the volume for November. The expectation is that claims expense for December will end up higher than budget.
      iii. $42,000 more in Pharmacy expense. Medi-Cal pharmacy costs were $204,000 above budget but Healthy Workers pharmacy expense came in $162,000 below budget. Our Pharmacy department has been working with Magellan on reductions in drug costs. As a reminder, the Medi-Cal pharmacy benefit will transition to the State effective January 1, 2022.
      iv. $114,000 less in Health Education and Utilization Management costs. This variance is primarily due to timing issues as it is expected that the actual costs will align with the budget as we get further into the fiscal year.

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c. A net decrease in administrative expenses of $188,000 primarily due to lower than expected professional fees and consulting costs. This difference is primarily due to timing as it was anticipated that higher costs would be incurred during the first half of the fiscal year. The expectation is that actual spending will align with the budget as we move further into FY 21-22.

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 2021				FYTD 21-22 THRU NOV			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	163,954	161,328	2,626	1.6%	814,807	800,826	13,981	1.7%
REVENUE	$ 59,872,000	$ 58,588,000	$ 1,284,000	2.2%	$ 323,725,000	$ 425,849,000	$ (102,124,000)	-24.0%
MEDICAL EXPENSE	$ 54,282,000	$ 54,184,000	$ (98,000)	-0.2%	$ 298,190,000	$ 399,874,000	$ 101,684,000	25.4%
MLR	91.7%	93.6%			93.0%	94.7%		
ADMINISTRATIVE EXPENSE	$ 4,911,000	$ 5,099,000	$ 188,000	3.7%	$ 22,889,000	$ 24,053,000	$ 1,164,000	4.8%
ADMINISTRATIVE RATIO	7.2%	7.6%			6.1%	4.8%		
INVESTMENT INCOME	$ (48,000)	$ 42,000	$ (90,000)		$ (162,000)	$ 208,000	$ (370,000)	
MARGIN (LOSS)	$ 631,000	$ (653,000)	$ 1,284,000		$ 2,484,000	$ 2,130,000	$ 354,000	16.6%
ADD BACK: SUR ACTIVITY	$ 99,000	$ 205,000			$ 477,000	$ 624,000		
MARGIN (LOSS) FROM OPERATIONS	$ 730,000	$ (448,000)	$ 1,178,000		$ 2,961,000	$ 2,754,000	$ 207,000	7.5%

On a year-to-date basis through November and after the removal of SUR activity, SFHP is reporting a margin of $2,961,000 which is slightly above budget expectations.

- After removing the Directed Payments funding, premium revenue is above budget by $7.1 million. This is due to:
  - An overall net increase of 13,981 member months. Member months for the Adult, Adult Expansion and 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 $7.8 million. This increase can be accounted for as follows:
  - Capitation expenses are up $3,370,000
  - FFS expenses are up $2,434,000
  - Medi-Cal non-Hep C pharmacy expenses are up $1,640,000
  - Hepatitis C expenses are up $ 684,000
  - Healthy Workers pharmacy expenses are down ($ 328,000)

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- Overall administrative expense is below budget by $1,164,000. Most 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 align with the budget more closely 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 May 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 Zuckerberg San Francisco General Hospital 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 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 from July 2021 through November 2021, but not received as of November 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 500 members for December. With some upcoming enrollment changes in certain aid code groups due to CalAIM's Mandatory Managed Care Enrollment, which will be effective on January 1, 2022, SFHP expects to add another 3,000 members. This will increase our Medi-Cal membership to approximately 158,000 members.

   It is important to note that with the Public Health Emergency expected to end in April 2022, SFHP anticipates that Medi-Cal membership will begin to gradually decrease during CY 2022 as members will be placed on hold or terminated due to no longer qualifying for the program.

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3. The Medi-Cal pharmacy benefit was carved out effective January 1, 2022. This aligns with how SFHP prepared its FY 21-22 budget, i.e., we would have responsibility for this benefit through December 2021. The long-term plan has been for the State to take on this benefit and has selected 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 on January 1, 2022, SFHP implements Enhanced Care Management (ECM), Community Supports (formerly known as In Lieu Of Services (ILOS)), and Major Organ Transplants (MOT). 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. Draft rates for MOT were released in November. ECM and MOT benefits will be subject to a risk corridor with DHCS, which will limit SFHP's exposure to gains and losses.

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

Investment Reports

Mr. Takeuchi briefly reviewed the investment reports that were provided to the Finance Committee in the packet. Mr. Fawley asked if the projections are that SFHP will see a return of 2% again or will returns remain flat. Mr. Takeuchi stated that returns are expected to remain flat.

Greg Wagner asked where the year-to-date variances are explained in a narrative. Mr. Takeuchi acknowledged that the year-to-date narrative was missing from the memo for the November financials. He stated the explanation of variances on a year-to-date basis will be included next time and going forward.

The Finance Committee complimented the Finance team on the excellent work demonstrated by the tight variance between the budgeted and actual expenses and revenues to date.

The Finance Committee unanimously approved the year-to-date unaudited financial statements and investment reports ending November 30, 2021, for forwarding to the full Governing Board for approval.

DocuSign Envelope ID: 4B3164B9-0E12-46DB-9378-955B8B8A7FD1

3. Review and Approval of Contract with Reinsurance Vendor

Recommendation: SFHP recommends to contract with a reinsurance vendor for calendar year (CY) 2022 with the rates as proposed.

Mr. Bishop walked the Finance Committee through the options from the reinsurance vendor. He reviewed that SFHP purchases reinsurance to protect SFHP from losses due to high-cost professional and hospital claims and encounters. SFHP has been with our current broker, RGA, and reinsurance carrier since CY 2015.

Mr. Bishop reviewed the following four options for the CY 2022 renewal:

Option #1 – Renew under existing policy terms with no changes. Annual reinsurance premiums would decrease by 2.0% or $91,000.

Option #2 – Renew under existing policy terms and include coverage for major organ transplants. Annual reinsurance premiums would increase by 0.7% over current rates, or $33,000.

Option #3 – Renew under existing policy terms and include coverage for gene and cell therapy drugs. Annual reinsurance premiums would increase by 14.8% or $667,000.

Option #4 – Renew under existing policy terms and include coverage for major organ transplants and gene and cell therapy drugs. Annual reinsurance premiums would increase by 17.5% or $792,000.

Reinsurance premiums for CY 2021 will be approximately $4.5 million. Under the options outlined above, premiums for CY 2022 would range from $4.4 million to $5.3 million.

The final recovery percentages for CY 2019 and CY 2020 will be in the range of 80% to 85%. For CY 2021, the final recovery percentage is expected to be in the range of 75% to 80%. Reinsurance companies target their premiums to achieve a 70% to 75% loss ratio.

SFHP is working with our Pharmacy department, other Local Health Plans, and the reinsurance broker to evaluate adding coverage for gene and cell therapy drugs. These drugs are very expensive and not part of the Medi-Cal pharmacy carve-out to DHCS. Should we choose to add this coverage, the additional premium would affect the hospital portion of the reinsurance policy.

Mr. Bishop recommended Option 1. With the risk corridor with DHCS, there is no need to include major organ transplants in the reinsurance policy. He also stated that for gene and cell therapy, it is expected that utilization would be very low, so it did not seem necessary to include the therapy in the policy.

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The Finance Committee agreed and unanimously approved the contract for reinsurance, with Option 1, for forwarding to the full Governing Board for approval.

4. Review Option to Purchase Employee Health Benefits from CalPERS

The following information was presented to the Finance Committee for information only. No action was needed at this time.

Brian Gentner, Director, Human Resources, reviewed SFHP's research into purchase of employee health benefits through CalPERS.

Mr. Gentner stated that SFHP has decided to suspend the pursuit of CalPERS Health Benefits because of high costs of the insurance premiums provided through CalPERS, as well as costs associated with Public Employees' Hospital and Medical Care Act (PEMHCA) requirements.

He stated that the option was explored because SFHP's ability to maintain a non-Kaiser option remains in jeopardy as the majority of our employee population continues to select Kaiser as their health plan of choice despite the employee cost ($0) being equal for both the Kaiser and the Aetna HMO products. Currently, we have a 60/40 split between Kaiser/Aetna, and most medical insurance providers are not interested in providing a quote for us because they would like to either have our entire population or a large majority (60%+) of it. Given all these factors, we felt an obligation to investigate moving to CalPERS as a non-Kaiser option.

He met with a representative from CalPERS to get an overview of the CalPERS medical insurance offerings and below is a summary of the findings:

Pro:

- CalPERS health insurance pool would have no minimum participation requirements.
- Employees would have a wider choice of plans at different price points based on geographical locations.

Con:

- Premium Costs/Fees
    - Premiums increased significantly for 2022 and their lowest cost HMO is now roughly $300 per member per month above our lowest HMO offering though Kaiser. This would translate to a $700,000 increase in annual costs.
    - Additional administration fee would be added to total costs of premiums.
- Public Employees' Hospital and Medical Care Act (PEMHCA) Requirements

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- Requires us to offer the same medical benefits to our retirees along with mandatory subsidies that increase over time. This would make it very difficult to project costs.
- Requirement to offer medical plans up to a month earlier than our current practice, as well as maintain them for up to two months after an employee separates from SFHP, which would also increase our costs.

Mr. Gentner stated that he would continue to research alternative medical insurance plan options/policies to allow us to maintain a non-Kaiser option. He states SFHP would be able to keep the current plan options, Kaiser and Aetna, for the next year or two if premiums remain reasonable.

Mr. Fawley asked if this would be reviewed each year and Mr. Grgurina confirmed that they would review the CalPERS health benefit option annually.

The Finance Committee thanked Mr. Gentner for the review.

The Finance Committee Adjourned to Closed Session.

5. Review Status of Medi-Cal Rate Changes for Provider Contracts

This item was discussed in Closed Session.

The Finance Committee Resumed to Open Session.

6. Report by Chair on Closed Session Action Items

Mr. Fawley stated there were no action items in Closed Session.

7. Adjourn

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Reece Fawley
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Reece Fawley, Secretary/Treasurer