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Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
March 2, 2022

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

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

Absent: Eddie Chan, PharmD

Guests: Deneen Hadley, VP Health Plan Strategy, UCSF

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

Reece Fawley, Chair, Finance Committee, chaired the meeting and identified that Deneen Hadley, UCSF, as a public guest. Mr. Fawley asked for public comments and there were none. Mr. Fawley also welcomed SFHP's incoming CEO, Yolanda R. Richardson. Ms. Richardson thanked the Committee and stated she awaits her start date with eagerness.

1. Approval of Minutes from January 5, 2022 Finance Committee Meeting

The minutes of the January 5, 2022 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.

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Ship Bishop, CFO, reviewed the year-to-date unaudited financial statements for the period ending January 31, 2022.

He stated that the period ending January 31, 2022 reported a margin of $4,809,000 versus a budgeted margin of $392,000. After removing Strategic Use of Reserves (SUR) activity, the actual margin from operations was $4,910,000 versus a budgeted margin of $496,000.

He said the strong results for January were expected, given the rate increases the Department of Health Care Services (DHCS)/Mercer included in the calendar year (CY) 2022 rate development. Base rates increased by 6.7% and DHCS/Mercer included another 5.2% to cover the net additional costs to SFHP for taking responsibility for the hospital risk related to the San Francisco Community Clinic Consortium (SFCCC) members.

On a year-to-date basis, we have a margin of $5,785,000 versus a budgeted margin of $1,075,000. After removing SUR activity, the actual margin from operations was $6,461,000 versus a budgeted margin of $1,908,000.

The variances between January actual results and the budget can be explained by the following:

1. A net increase in revenue of $7.8 million due to:
    a. $7.7 million more in Medi-Cal premium revenue due to an additional 4,669 member months along with the premium rate increases noted above. Membership mix was also favorable as 78% 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 premium rates are much higher than rates for the Child and Duals categories of aid.
    b. $111,000 more in Maternity revenue. We reported 104 maternity events during January versus a budget of 91 maternity events.

2. A net increase in medical expense of $3.3 million due to:
    a. $1.5 million more in net capitation as the result of having 4,669 more member months as well as a more favorable membership mix than what the budget projected. In addition, we have seen strong growth in Kaiser membership. Kaiser is considered a Global Subcontractor and receives 98% of the premium SFHP receives from DHCS which increases SFHP's capitation expense. Increases in capitation expense are offset by the revenue SFHP receives for these additional members.
    b. $1.6 million more in fee-for-service claims. Claims volume during January was higher than anticipated primarily due to increasing membership, slightly higher than expected hospital claims for SFCCC members as well as picking up for lower claims volume in December due to the holidays.

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c. $235,000 more is Community-Based Adult Services (CBAS) expense. This increase is due to the ongoing higher utilization resulting from the implementation of Temporary Alternative Services (TAS) which allows the CBAS centers to submit claims for telephonic and telehealth services provided to Medi-Cal members during the Public Health Emergency (PHE). We expect this trend to continue for the duration of the PHE.

3. A net decrease in administrative expenses of $136,000 primarily due to lower than expected telecommunications and IT systems maintenance infrastructure costs. Some of these differences are due to timing. It is anticipated that actual costs will align more closely to budget projections as we move through the second half of the fiscal year.

Rand Takeuchi, Director, Accounting, reviewed the chart below that highlights the key income statement categories for January with adjustments for SUR activity to show margin or loss from ongoing operations.

	JAN 2022				FYTD 21-22 THRU JAN			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	165,614	160,945	4,669	2.9%	1,145,852	1,123,679	22,173	2.0%
REVENUE	$ 58,100,000	$ 50,250,000	$ 7,850,000	15.6%	$ 458,506,000	$ 534,897,000	$ (76,391,000)	-14.3%
MEDICAL EXPENSE	$ 48,532,000	$ 45,264,000	$ (3,268,000)	-7.2%	$ 419,828,000	$ 500,286,000	$ 80,458,000	16.1%
MLR	84.5%	91.4%			92.6%	94.4%		
ADMINISTRATIVE EXPENSE	$ 4,500,000	$ 4,636,000	$ 136,000	2.9%	$ 32,438,000	$ 33,828,000	$ 1,390,000	4.1%
ADMINISTRATIVE RATIO	6.7%	7.9%			6.0%	5.4%		
INVESTMENT INCOME	$ (259,000)	$ 42,000	$ (301,000)		$ (455,000)	$ 292,000	$ (747,000)	
MARGIN (LOSS)	$ 4,809,000	$ 392,000	$ 4,417,000	1126.8%	$ 5,785,000	$ 1,075,000	$ 4,710,000	438.1%
ADD BACK: SUR ACTIVITY	$ 101,000	$ 104,000			$ 676,000	$ 833,000		
MARGIN (LOSS) FROM OPERATIONS	$ 4,910,000	$ 496,000	$ 4,414,000	889.9%	$ 6,461,000	$ 1,908,000	$ 4,553,000	238.6%

He stated that on a year-to-date basis through January and after the removal of SUR activity, SFHP is reporting a margin of $6,461,000 which is significantly above budget expectations. Now that we have entered the second half of the fiscal year, margins will be steadily increasing due to the CY 2022 Medi-Cal rate increases effective January 1, 2022.

The large variances in revenue and medical expense are primarily due to the impact of the Directed Payments (DP) and Intergovernmental Transfer (IGT)) funding programs. These programs provide additional revenue streams for our hospital providers. As DHCS financial reporting rules allow plans to record this funding as revenue and medical expense, there is no bottom-line impact to SFHP. The timing of when this funding is released to the plans is hard to predict. For budget purposes, we projected DP and IGT funding based on historical patterns.

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We budgeted $132.0 million of DP funding to come in during September 2021, however we only received $22.7 million. With regard to IGT funding, we did not anticipate receiving funding until June 2022, however $15.9 million came in during December 2021. In a call with DHCS back in January, DHCS stated that we will see additional DP funding in April 2022 and October 2022. The amount of funding was not known at the time of the call.

After removing the Directed Payments funding, premium revenue is above budget by $17.0 million. This is due to:

- An overall net increase of 22,173 member months. 83% of the additional member months are in the Adult, Adult Expansion and SPD categories of aid 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.
- Rate increases DHCS/Mercer included in the CY 2022 rate development. Base rates increased by 6.7% and DHCS/Mercer included another 5.2% to cover the net additional costs to SFHP for taking responsibility for the hospital risk related to the San Francisco Community Clinic Consortium (SFCCC) members.

After removing SUR activity, Directed Payments and IGT funding, medical expense is above budget by $13.1 million.

Overall administrative expense is below budget by $1,390,000. The majority of this decrease is due to lower costs in the areas of lease and insurance costs, marketing costs and professional services. The lower costs are due more to timing differences as actual spending is expected to align more closely with the budget as we move through the second half of the fiscal year.

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

1. SFHP expects to report strong margins through June 2022 due to the Medi-Cal rate increases that were effective January 1, 2022. The anticipated margins will help SFHP rebuild its reserve balance that was depleted by covering several retroactive rate adjustments implemented by DHCS that resulted in a return of $12.7 million to DHCS. At the time, SFHP recommended and the Finance Committee and Governing Board approved not to make retroactive recoveries from providers, but rather to use reserves to cover these takebacks.

2. 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 for these members. SFHP is 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

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and specialty care services remain under capitation. Original estimates showed this new risk would cost SFHP approximately $18 million to $20 million per year. With SFCCC membership now at 19,400 members as of January 2022, this new risk will cost $23 million to $27 million per year. CY 2022 Medi-Cal rate increases that SFHP received will cover this additional cost.

Now that we have seven months of experience with this new risk, we can begin to see that claims paid along with Incurred But Not Reported (IBNR) estimates are coming in close to expectations. Due to the normal pattern of claims lag, SFHP has increased its IBNR claims reserve to cover the anticipated claims incurred July through January, but not received as of January 2022.

3. SFHP started the new fiscal year with 2,400 more Medi-Cal members versus what was anticipated in the budget. This differential has grown to 7,000 members through January 2022. Due to the ongoing Public Health Emergency, SFHP anticipates adding another 1,500 members through April 2022. 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 mid-April 2022, Medi-Cal membership will begin to gradually decrease during the second half of CY 2022 as members will again be placed on hold or terminated due to no longer qualifying for the program.

4. Beginning in January 2022, SFHP has taken on responsibility for Enhanced Care Management (ECM), Community Supports (CS), and Major Organ Transplants (MOT). Multiple teams within SFHP worked for several months to prepare for these new programs. Final rates for ECM, CS and MOT were released at the end of January. It is important to note that the ECM and MOT benefits will be subject to a risk corridor 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. It is important to note that the value-based payments portion of the Proposition 56 program will end June 30, 2022. All other Proposition 56 programs will continue at least through December 2022.

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

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Mr. Fawley commented that it has been a difficult fiscal year for the Finance team to project and budget revenue and expenses with the increased fee-for-service risk for ZSFG and unexpected rate increase. Mr. Fawley complimented the Finance staff for their good work. He also stated his firm agreement to build the reserves during this time. The Finance Committee unanimously approved the year-to-date unaudited financial statements and investment reports ending January 30, 2022, for forwarding to the full Governing Board for approval.

3. Annual Review of SFHP Administrative Contracts

Kaliki Kantheti, COO, reviewed the administrative contracts for discussion only. She reviewed the policy that was approved by the Board at the March 4, 2015 SFHP Governing Board meeting. The policy established that SFHP staff would obtain Board approval for administrative contracts with a value of $1 million or more. Additionally, the policy states SFHP staff are 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 list of SFHP contracts valued at $100,000 or more in 2021. (List was provided in the Finance Committee packet.) The following are the highlighted contracts:

- In CY 2021, there were ten contracts whose total spend was over $1,000,000. All contracts complied with the Governing Board-approved SFHP Contract Approval policy.
- The following contracts over $1 million 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 and mailings (KP, LLC is the company's name. It is NOT Kaiser Permanente and not related to Kaiser)
    - Perform Rx – pharmacy benefits manager administrative fees
    - Edifecs, Inc. – encounter management and interoperability

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 would require Board approval. Ms. Kantheti stated there were no contracts to bring to the Board for approval.

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She also informed the Finance Committee that SFHP established a procurement policy with guidelines for the requisition and purchase of goods and services procured from external sources. It clearly defines roles, responsibilities, and procedures for the requisition and purchase of goods and services, as well as ensures there are no conflicts of interest in connection with any contract awarded, granted, or entered into by SFHP, irrespective of the value of the contract. Expenditures for goods or services above $5,000 and up to $50,000, require a quote evaluation, selection and approval process. The purchase of any new goods or services over $50,000 and any new software purchases over $20,000 must go through a competitive bidding process, which includes the development of a Request for Information (RFI) and/or Request for Proposal (RFP). Approval by the Executive that is responsible for the budgeted item is required before the RFI/RFP can be initiated.

The Finance Committee expressed their appreciation that when they make a suggestion, staff enact policy changes to address the Committee's suggestion. The Committee thanked Ms. Kantheti for the presentation and adjourned to Closed Session.

4. Review and Approval of Medi-Cal Provider Rates

This item was discussed in closed session.

5. Review of Medical Groups' Medical Loss Ratios and Discussion of Strategy to Plan and Provider Rates

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 reported that the Finance Committee unanimously approved the Medi-Cal provider rate increases as recommended, with an effective date of July 1, 2022, for forwarding to the full Governing Board for approval.

7. Adjourn

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Reece Fawley
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Reece Fawley, Secretary/Treasurer