Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
June 8, 2022

Present: Eddie Chan, PharmD, Reece Fawley, and Steven Fugaro, MD

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

Absent: Greg Wagner and Emily Webb

Guests: Deneen Hadley, Chief Contracting Officer and Vice President, Managed Care and 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. He then asked for public comments and there were none. Steven Fugaro, MD, thanked Mr. Fawley for his over twenty years of service as a member of the SFHP Board and chair of the Finance Committee. Other Committee members and staff also thanked Mr. Fawley for his leadership and guidance throughout his terms. Mr. Fawley provided a consistent and critical voice for the Board to remember the importance of fairness and equity across the network to ensure stability and viability of the health plan, which in turn serves all members of the health plan. The Committee also welcomed Deneen Hadley, who will succeed Mr. Fawley on the Board as the representative for the Regents of the University of California.

1. Approval of Minutes from May 4, 2022 Finance Committee Meeting

The minutes of the May 4, 2022 Finance Committee meeting were unanimously approved.

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 April 30, 2022. He stated that the period ending April 30, 2022, reported a margin of $4,460,000 versus a budgeted loss of ($295,000). After removing Strategic Use of Reserves (SUR) activity, the actual margin from operations was $4,560,000 versus a budgeted loss of ($463,000).

Once again, the strong results for April were expected given the 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.

On a year-to-date basis, we have a margin of $17,875,000 versus a budgeted margin of $1,602,000. After removing SUR activity, the actual margin from operations was $18,885,000 versus a budgeted margin of $2,849,000.

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

1. Variances between April actual results and the budget include:

    a. A net decrease in revenue of $10.0 million due to:

        i. $9.2 million more in Medi-Cal premium revenue due to an additional 13,266 member months along with the premium rate increases noted above. Membership mix was also favorable as 79% 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.
        ii. $643,000 more in Other Income due to the receipt of COVID-19 vaccination incentive funding. Effective September 2021, DHCS established a vaccination incentive program for managed care plans designed to increase the vaccination levels among Medi-Cal beneficiaries. As of April 2022, SFHP ranks first in the state with the highest percentage (71%) of Medi-Cal beneficiaries receiving at least one dose of COVID-19 vaccine. SFHP's performance against a variety of measures qualified the plan to receive this incentive funding.
        iii. $213,000 more in Maternity revenue. We reported 116 maternity events during April versus a budget of 91 maternity events.

    b. A net increase in medical expense of $5.9 million due to:

        i. $3.2 million more in net capitation as the result of having 13,266 more member months plus a more favorable membership mix than what the budget projected. In addition, Kaiser's membership

remains strong at 15,000 members or 9.4% of SFHP's total Medi-Cal membership. As discussed at the May Finance Committee meeting, Kaiser is considered a Global Subcontractor and received 98% of the premium SFHP receives from DHCS which increases SFHP's capitation expense. This relationship with Kaiser will remain in place through December 2023. Effective January 2024, Kaiser will have a direct contract with DHCS which means the 15,000 members will transition out of SFHP.

ii. $2.6 million more in fee-for-service hospital claims as shown in the chart below.

HOSPITAL FFS - APRIL 2022				
				PCT CHANGE
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	FAV (UNFAV)
HOSPITAL FFS	$ 9,388,967	$ 6,770,860	$ (2,618,107)	-38.7%
MEMBER MONTHS	171,477	158,211	13,266	8.4%
PMPM	$ 54.75	$ 42.80	$ (11.96)	-27.9%
ADDITIONAL FFS COST FOR BUDGETED MEMBER MONTHS			$ (1,891,747)	
ADDITIONAL FFS COST FOR ADDITIONAL MEMBER MONTHS			$ (726,360)	
			$ (2,618,107)	

As we can see in the chart above, hospital fee-for-service cost was up $11.96 pmpm versus our budget projections. After analyzing the paid claims data, we came away with the following findings:

	APRIL 2022			
DESCRIPTION	ACTUAL	BUDGET	FAV (UNFAV)	FAV (UNFAV)
# OF CLAIMS PAID	344	275	(69)	-25.1%
COST OF CLAIMS PAID	$ 4,722,421	$ 3,060,679	$ (1,661,742)	-54.3%
AVERAGE COST/CLAIM	$ 13,728	$ 11,130	$ (2,598)	-23.3%

In addition to increases in claims volume and the cost per claim, we saw an increase in the APR-DRG payment weight factor of 8% (1.2169 versus 1.1268). The higher payment weight factor is an indication that on average, the severity of claims paid in April was higher than expected. This would cause the average cost per claim to increase.

We had seven claims greater than $100,000 and three claims greater than $200,000. Normally we expect to see only two or three claims greater than $100,000. This increase in large dollar claims was worth $1.1 million.

Steve Fugaro, MD, asked if the claims that were greater than $100,000 appeared to be a trend. Skip Bishop, CFO, stated that it

did not appear to be a trend, but that SFHP would continue to monitor the claims.

c. A net decrease in administrative expenses of $392,000 primarily due to lower than expected professional fees. The budget anticipated that several of the professional services/consulting engagements would continue into the last quarter of the fiscal year. For some of these engagements, the total spend was less than anticipated while other engagements ended earlier than expected. We also experienced smaller savings for the insurance and marketing line items. These variances are related to timing differences.

Mr. Takeuchi reviewed the chart below that highlights the key income statement categories for April with adjustments for SUR activity to show margin or loss from ongoing operations.

	APR 2022				FYTD 21-22 THRU APR			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	171,477	158,211	13,266	8.4%	1,657,249	1,600,958	56,291	3.5%
REVENUE	$ 59,516,000	$ 49,478,000	$ 10,038,000	20.3%	$ 742,131,000	$ 702,083,000	$ 40,048,000	5.7%
MEDICAL EXPENSE	$ 50,591,000	$ 44,676,000	$ (5,915,000)	-13.2%	$ 676,297,000	$ 653,347,000	$ (22,950,000)	-3.5%
MLR	86.9%	91.6%			92.1%	94.0%		
ADMINISTRATIVE EXPENSE	$ 4,193,000	$ 4,584,000	$ 391,000	8.5%	$ 46,654,000	$ 47,550,000	$ 896,000	1.9%
ADMINISTRATIVE RATIO	4.9%	7.9%			5.3%	5.8%		
INVESTMENT INCOME	$ (272,000)	$ 41,000	$ (313,000)		$ (1,305,000)	$ 416,000	$ (1,721,000)	
MARGIN (LOSS)	$ 4,460,000	$ 259,000	$ 4,201,000	1622.0%	$ 17,875,000	$ 1,602,000	$ 16,273,000	1015.8%
ADD BACK: SUR ACTIVITY	$ 100,000	$ 204,000			$ 1,010,000	$ 1,247,000		
MARGIN (LOSS) FROM OPERATIONS	$ 4,560,000	$ 463,000	$ 4,097,000	884.9%	$ 18,885,000	$ 2,849,000	$ 16,036,000	562.9%

He stated that on a year-to-date basis through April and after the removal of SUR activity, SFHP is reporting a margin of $18,885,000 which is significantly above budget expectations. Margins will continue to be strong for May and June due to the CY 2022 Medi-Cal rate increases effective January 1, 2022 along with increasing membership. The variances in revenue and medical expense are due to the impact of new Medi-Cal rates effective January 2022 and 56,291 more member months than anticipated and $2.1 million less in Directed Payments (DP) and Intergovernmental Transfer (IGT) pass-through funding.

After removing the Directed Payments and IGT funding, premium revenue is above budget by over $40 million. This is due to:

- An overall net increase of 56,291 member months. 81% 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 SFCCC members.

After removing SUR activity, Directed Payments and IGT funding, medical expense is above budget by $25.3 million. This increase can be accounted for as follows:

○ Capitation expenses are up	$14,381,000
○ FFS expenses are up	$ 8,149,000
○ Medi-Cal non-Hep C pharmacy expenses are up	$ 1,267,000
○ Non-specialty mental health expenses are up	$ 1,139,000
○ Hepatitis C expenses are up	$ 686,000
○ CBAS expenses are up	$ 325,000
○ Healthy Workers pharmacy expenses are down	($ 865,000)

Overall administrative expense is below budget by $896,000. Most of this decrease is due to lower costs in the areas of professional fees/consulting, marketing, and insurance. Some of the professional services/consulting engagements ended earlier than expected. The lower costs in the marketing area are due more to timing differences. Actual spending is expected to catch up with the budget projections during May and June.

PROJECTIONS

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

1. SFHP expects to continue 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.

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 ZSFG 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 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 17,500 members as of March 2022, this new risk will cost $20 million to $22 million per year. CY 2022 Medi-Cal rate increases applied to the increased membership are expected to cover this additional cost.

   Now that we have ten 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 2021 through April 2022, but not received as of April 30 ,2022.

3. SFHP began the new fiscal year with 2,400 more Medi-Cal members versus what was anticipated in the budget. This differential has grown to 12,000 members through April 2022. Now that the Public Health Emergency has been extended until mid-July, SFHP anticipates adding another 2,000 members in the months of May and June. This will increase our Medi-Cal membership to approximately 162,000 members. When the Public Health Emergency ends, SFHP anticipates that Medi-Cal membership will begin to gradually decrease starting in the fourth quarter of CY 2022 and into CY 2023 as members will be placed on hold or terminated due to no longer qualifying for Medi-Cal.

4. The Medi-Cal pharmacy benefit was carved out of Medi-Cal managed care effective January 1, 2022. This aligns with how SFHP prepared its FY 21-22 budget, i.e., SFHP responsibility for this benefit was only through December 2021. SFHP continues to have the risk for the Healthy Workers pharmacy benefit. Although SFHP experienced a positive margin for Healthy Workers of $865,000, we expect Healthy Workers pharmacy costs to gradually increase. We project that the $93.61 pmpm for pharmacy that is included in the overall Healthy Workers rate should be adequate for projected expenses in FY 22-23.

5. Beginning in January 2022, SFHP implemented Enhanced Care Management (ECM), Community Supports (CS), formerly known as In Lieu Of Services (ILOS), and Major Organ Transplants (MOT). Multiple teams within SFHP worked for many 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.

6. Proposition 56 – 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 through December 31, 2022.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Mr. Bishop reviewed the rate increases effective July 1, 2022:

- Base capitation is increasing by a weighted average of 5.0%.
- The Practice Improvement Program (PIP) is increasing from 18.5% to 20.0%.

- Professional FFS rate is increasing from 139% to 150% of the Medi-Cal Fee Schedule.
- CBAS centers and San Francisco Institute on Aging rates are increasing by 10%.

		----------ANNUAL INCREASE----------		
PROVIDER	**% INCREASE**	**BASE CAPITATION**	**PIP**	**TOTAL**
HEALTHRIGHT 360	5.5%	$ 90,397	$ 30,116	$ 120,514
SOUTH OF MARKET HEALTH CENTER	5.3%	$ 69,149	$ 23,396	$ 92,545
ST. ANTHONY MEDICAL CLINIC	5.3%	$ 18,492	$ 6,257	$ 24,749
MARIN CITY HEALTH AND WELLNESS	5.2%	$ 11,823	$ 4,020	$ 15,843
SAN FRANCISCO COMMUNITY HEALTH CENTER	5.2%	$ 26,439	$ 8,990	$ 35,429
BAART	5.2%	$ 7,528	$ 2,556	$ 10,084
DR. THANH TRAN	5.2%	$ 8,156	$ 2,769	$ 10,924
ZUCKERBERG SAN FRANCISCO GENERAL	5.1%	$ 4,881,408	$ -	$ 4,881,408
CLINICAL PRACTICE GROUP	5.1%	$ 2,322,260	$ 794,572	$ 3,116,832
NATIVE AMERICAN HEALTH CENTER	5.1%	$ 13,807	$ 4,742	$ 18,549
JADE MEDICAL GROUP	5.1%	$ 206,906	$ 70,963	$ 277,869
CHINESE HOSPITAL	5.0%	$ 641,306	$ -	$ 641,306
CHINESE COMMUNITY HEALTH CARE ASSN	5.0%	$ 239,236	$ 83,173	$ 322,409
NORTH EAST MEDICAL SERVICES	4.9%	$ 2,587,099	$ 904,472	$ 3,491,570
CALIFORNIA PACIFIC MEDICAL CENTER	4.9%	$ 1,726,941	$ -	$ 1,726,941
BROWN & TOLAND MEDICAL GROUP	4.9%	$ 60,327	$ 21,158	$ 81,485
HILL PHYSICIANS	4.8%	$ 68,488	$ 24,158	$ 92,647
MISSION NEIGHBORHOOD HEALTH CENTER	4.8%	$ 178,403	$ 63,302	$ 241,705
		$ 13,158,167	$ 2,044,644	$ 15,202,811
SFHP OVERALL	5.0%			
UCSF MEDICAL GROUP				$ 1,100,000
CBAS/SF IOA				$ 750,000
				$ 17,052,811

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

Mr. Fawley complimented the Finance staff for their good work. The Finance Committee unanimously approved the year-to-date unaudited financial statements and investment reports ending April 30, 2022, for forwarding to the full Governing Board for approval.

3. Review and Approval of Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2022-2023

Recommendation: Approve the Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2022-2023.

Mr. Bishop then reviewed the budget with the Finance Committee. For FY 22-23, SFHP projects an overall margin of $22.3 million. This compares to an anticipated

margin of $21.1 million for FY 21-22. After excluding the impact of Strategic Use of Reserves (SUR) carrying over from prior years, SFHP projects a $24.4 million margin from operations. This compares to an anticipated margin from operations of $22.3 million for FY 21-22.

Mr. Bishop reviewed the budget FAQ document to address the anticipated questions and provide context for the trends projected during FY 22-23. He reviewed the background and assumptions used in preparing the FY 22-23 budget, which include:

- Public Health Emergency (PHE) – for budget purposes, we assumed the PHE would end in mid-July 2022. Once the PHE ends, the Medi-Cal redetermination process will begin which means members will be placed on hold or terminated as they no longer qualify for participation in the Medi-Cal program. As a result, existing membership will gradually decline. In the event that the PHE is extended for another 90 days, membership levels will remain higher through December 2022.

- Dual member integration – Medi-Cal Dual members in San Francisco County currently enrolled in Medi-Cal Fee-For-Service will transition to managed care effective January 2023. SFHP projects adding approximately 13,500 Dual eligible members, which will offset the loss of membership due to the redetermination process.

- Long-Term Care (LTC) - SFHP will become responsible for the LTC benefit effective January 1, 2023. We project adding 1,000 members to the Medi-Cal line of business. As we have limited experience with the LTC benefit, we have elected to budget fee-for-service costs equal to revenue. LTC will have a MLR of 101.9% due to the allocation of utilization management expenses to this line of business.

- CalAIM - existing as well as new programs related to California Advancing and Innovating Medi-Cal (CalAIM):
    - Enhanced Care Management (ECM) – effective January 2022
    - Community Supports (CS) – effective January 2022
    - Major Organ Transplants (MOT) – effective January 2022
    - Student Behavioral Health Incentive Program (SBHIP) – effective January 2022
    - Housing and Homelessness Incentive Program (HHIP) – effective January 2022
    - Dual member integration – effective January 2023
    - Long-Term Care (LTC) – effective January 2023

- Medi-Cal rates - the budget was prepared using current Medi-Cal revenue rates for July through December 2022. Although our CY 2020 Medi-Cal Rate Development Template (RDT) submission indicates we may receive a 1.7% increase in January 2023, we elected to use current rates for the period January through June 2023. We expect to receive the final CY 2023

rates from the Department of Health Care Services (DHCS) in late December 2022.

- Provider rate increases effective July 2022:
  - A weighted average increase of 5.0% for capitated providers.
  - Increase the Practice Improvement Program (PIP) from 18.5% to 20.0%.
  - Increase Professional fee-for-service rate from 139% to 150% of the Medi-Cal Fee Schedule (MCFS).
  - Increase fee-for-service rates for the Community-Based Adult Services (CBAS) centers by 10%.
  - Increase the rate for the San Francisco Institute on Aging (IOA) by 10%.

- SFCCC hospital risk - SFHP will continue to have responsibility for the hospital risk for members enrolled with the SFCCC. ZSFG will continue to be paid on a fee-for-service basis with SFHP covering all out-of-network utilization. The net cost the Plan is projected to be $20 million to $22 million which is covered through the Medi-Cal rates.

- ZSFG risk corridor – covering five specific services – dialysis, radiation/oncology, transgender surgical services, transportation, and trauma. The cost for these services will be compared to what is included in the capitation rates paid to ZSFG. The risk corridor has a cap of $6.0 million. As current trending indicates actual cost is exceeding the capitation, it is anticipated that SFHP will be paying $6.0 million to ZSFG.

- Medi-Cal pharmacy – there is no pharmacy revenue or expense included in the budget as this benefit was carved out of Medi-Cal managed care effective January 1, 2022.

- Healthy Workers pharmacy - we will continue to have responsibility for the Healthy Workers pharmacy benefit for FY 22-23. The projected cost is $89.00 per member, per month (pmpm). The Healthy Workers premium rate includes a pharmacy component of $93.61 pmpm.

Mr. Fawley asked what the experience of ZSFG has been in FY 21-22 with the risk corridor. Mr. Bishop stated that ZSFG exceeded the risk corridor cap by about $9 million to $10 million.

MEDI-CAL MEMBERSHIP INCREASING 2.5% AS PUBLIC HEALTH EMERGENCY ENDS

Medi-Cal membership is projected to be 165,700 members on June 30, 2023. This compares to 161,655 on June 30, 2022, representing an increase of 2.5%.

Assuming the PHE ends in mid-July 2022 and the Medi-Cal redetermination process starting in September, one would expect to see an overall decline in membership.

Although we do expect existing membership to gradually decline as we move through FY 22-23, the Dual eligible member integration that will happen in January 2023 is expected to add 13,500 new members which will more than offset the loss of members due to the redetermination process.

MEMBER MONTHS INCREASING 5% WHILE REVENUE AND MEDICAL EXPENSE INCREASING 23% AND 25% RESPECTIVELY

With a rather modest increase in member months, one would not expect such significant increases in revenue and medical expense. Factors include:

- The Medi-Cal premium rate increases effective January 2022 will be in place for the entire FY 22-23.

- New programs such as Enhanced Care Management (ECM), Community Supports (CS) and Major Organ Transplants (MOT) will be in place for the entire FY 22-23.

- Long-Term Care (LTC) and the Dual eligible member integration will generate an additional $88 million in revenue and related medical expense for January through June 2023.

- Provider rate increases effective July 2022 will increase medical expense by $17 million during FY 22-23.

- Enhancements to the Directed Payments program are expected to bring in an additional $120 million in revenue and related medical expense during FY 22-23. Directed Payments do not impact the bottom line. This funding is passed through to Zuckerberg San Francisco General (ZSFG), University of California San Francisco (UCSF) and contracted private hospitals. DMHC and DHCS allow health plans to record Directed Payments as revenue and medical expense.

- We project a full year of Intergovernmental Transfer (IGT) funding. IGT funding received during FY 21-22 covered only the last six months of the Bridge Period of July through December 2020. A full year of IGT funding will bring in an additional $22 million in revenue and related medical expense. IGT funding is a pass-through to ZSFG and UCSF. As with Directed Payments, IGT funding does not impact the bottom line and qualifies to be recorded as revenue and medical expense.

HEALTHY WORKERS PHARMACY

Although the Medi-Cal pharmacy benefit is now carved out of managed care, SFHP will continue to have responsibility for the Healthy Workers pharmacy benefit for the entire fiscal year. The pharmacy component of the overall Healthy Workers rate is $93.61 pmpm. The FY 22-23 budget projects the pharmacy cost to be $89.00 pmpm. As a result, SFHP projects to at least break even and possibly record a small

margin. SFHP believes the $93.61 pmpm is adequate for FY 22-23, therefore we did not seek an increase when the San Francisco Department of Public Health and the San Francisco Human Services Agency met to decide on a new overall Healthy Workers rate increase proposal for FY 22-23.

ADMINISTRATIVE EXPENSE – REQUEST FOR NEW FTEs

Since FY 17-18, there has been only one budget year where SFHP included a request for new FTEs. That occurred in FY 19-20 when the Plan requested 12 new FTEs to handle the anticipated workload related to the launch of the Health Homes Program (HHP). The HHP generated additional revenue for SFHP to cover the costs of the 12 new FTEs.

The FY 22-23 budget includes a request for 10 new FTEs to handle workload related to the CalAIM initiatives such as Enhanced Care Management, Community Supports, Housing and Homelessness, as well new programs such as Long-Term Care and the Dual eligible member integration. It is anticipated that the majority of the costs for these new FTEs will be covered by increases in SFHP's Medi-Cal rates.

ADMINISTRATIVE EXPENSE INCREASING 1.8%, ADMIN RATIO DECREASING FROM 5.7% TO 4.7%

FY 22-23 administrative expenses are projected to increase by $1.0 million primarily in the area of Information Technology costs such as software licensing, system security and systems infrastructure maintenance and support.

With an overall increase in administrative expenses, one would expect that the administrative ratio would increase, however the ratio is projected to decrease from 5.7% to 4.7%. The primary drivers for this change are the increases in revenues:

- A full 12-month impact of Medi-Cal rate increases that were effective January 2022.
- A full 12-month impact of revenue from CalAIM programs that began January 2022 – Enhanced Care Management, Community Supports and Major Organ Transplants.
- Six months of revenue from Long-Term Care and the Dual eligible member integration effective January 2023.
- Increases in pass-through funding from Directed Payments and IGT programs.

After reviewing the budget in detail, the Finance Committee unanimously approved the Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2022-2023 as presented, for forwarding to the full Board for approval.

4. Review and Approval CalPERS Salary Schedule for FY 2022-2023

Recommendation: SFHP recommends the Finance Committee approve the adoption of the SFHP FY 2022-2023 Salary Schedule (Attachment A) to meet CalPERS requirements regarding retiree salary computation. The Salary Schedule changes include increasing the ranges by 4.0%.

Kate Gormley, Chief Human Resource Officer, reviewed the background to the Finance Committee. To satisfy CalPERS requirements and protect our retirees' pension eligibility, we must provide CalPERS with a copy of our Salary Ranges and Positions by Grade Level ("Salary Schedule") on an annual basis, with a formal approval by the Governing Board. (A detailed memo was provided in the Board packet.)

2022 – 2023 Compensation Philosophy and Program Review: SFHP's compensation philosophy is to pay at the mid-range (middle of the pay scale) of the market for both base and bonus compensation. We provide merit increases based on performance, not on years of service. We have continued to gauge our compensation program against the marketplace.

Additionally, to ensure proper market pricing for SFHP positions, we continue to employ several sources for market salary data:

- The Warren Survey: We continue to participate in the semi-annual Warren Surveys. Warren participants are 300+ HMO, managed care, hospital systems, health plans and other related organizations in over 630 locations nationwide and include over 370,000 incumbents.
- Kenexa's Comp Analyst: This survey augments our market data for non-health services-related positions, as we continue to face fierce competition for these positions. This tool allows data slices by regional area, industry, and/or organization size, thus tailoring each position review to our specific situation.
- LHPC: The survey provides compensation data for executives and directors in local health plans.
- Culpepper: The Culpepper survey focuses on Healthcare and Healthcare IT.
- Radford: Radford is Silicon Valley's iconic high tech / biotech survey and has recently branched into healthcare.
- ACAP Survey Report: We continue to participate in this survey, which provides data for executive and director level positions based on input from 27 community affiliated plans nationwide.

Current Landscape and Outlook: Over the last six months, the U.S. economy has experienced significant inflation in every sector. Additionally, as we return to a "New Normal," the job market has picked up significantly resulting in higher turnover and heavy competition for attracting and retaining talent. Projections for 2022-2023 salary budget increases in the San Francisco Bay Area continue to rise steadily and accurate data is elusive given the lag in salary survey data reporting.

Ms. Gormley stated that retention is becoming an issue as the turnover rate has been in the high teens. The Finance Committee unanimously approved, the adoption of the FY 22-23 salary schedule to meet CalPERS requirements, regarding retiree salary computation, for forwarding to the full Board for approval.

5. Review and Approval of Practice Improvement Program (PIP) Funding for FY 2022-2023

Recommendation: SFHP recommends that the Finance Committee approve:

1. Continuation of previous Practice Improvement Program (PIP) funding with capitation withholds in the amounts of 20% for Medi-Cal for the 2022-2023 fiscal year (FY); and
2. A new attestation process for Quality Improvement Program (QIP) projects, to be submitted by October 31, 2022.

Yolanda R. Richardson, CEO, reviewed the background to the Finance Committee. The PIP is SFHP's incentive program for Medi-Cal clinics and medical groups to achieve improvements in system and health outcomes. (Detailed PowerPoint slides were provided in the Finance committee packet.)

Funding is sourced from withholding a percentage from the provider's capitation rates, which increases to 20% effective July 1, 2022. The increase was due to provider rate increases approved by the Governing Board at the March 2022 Board meeting. The PIP funding has been an effective incentive to achieve quality performance measures among the medical groups. SFHP's PIP will continue to run and align on a fiscal year (July – June) with operations and the San Francisco Health Network.

Additionally, SFHP will implement a new attestation for QIP projects to streamline provider activities to enhance access to care for our members. SFHP requests continuation of funding of PIP funding for FY 2022-2023, at 20% effective July 1, 2022.

Eddie Chan, PharmD., expressed his appreciation for the PIP budget and asked if there are any concerns by DHCS of having increases in PIP funding. Mr. Bishop and Ms. Richardson stated that DHCS appears to be fine with the use of a PIP and that the approach is in line with DHCS' direction for performance-based payments.

The Finance Committee unanimously approved FY 2022-2023 practice improvement program (PIP) funding, for forwarding to the full Board for approval.

6. New Medi-Cal Managed Care Populations Effective January 1, 2023

The following information was presented to the Finance Committee and Governing Board for information only. No action was needed.

Mr. Bishop reviewed the background with the Finance Committee. Effective January 1, 2022, the DHCS launched CalAIM, which is a multi-year initiative to transform and strengthen the Medi-Cal program. As outlined in CalAIM, the following two new populations of members will transition from Medi-Cal Fee-For-Service to Medi-Cal Managed Care effective January 1, 2023:

- Members residing in Long-Term Care (LTC) facilities.
- Dual eligible members, i.e., members that are eligible for both Medi-Cal and Medicare.

SFHP's overall strategy to maintain the coordination of care and benefits for these two new populations of members includes the Plan retaining financial risk for the services utilized.

Long-Term Care (LTC)

As LTC is a complex benefit with high financial risk and numerous administrative challenges, SFHP intends on consolidating management of this benefit with the Plan for the following reasons:

- Leverage relationships with existing Skilled Nursing Facilities (SNF) to optimize bed placements.
- Continuity for SNF providers such as Laguna Honda Hospital:
    - One single payer for all members enrolled with SFHP.
    - One consistent authorization process for all members enrolled with SFHP.
- Members transitioning between different levels of care, i.e., acute care, skilled nursing and custodial care.
- Financial risk management:
    - Tracking eligibility and reconciling with the State for members with LTC aid codes.
    - Potential risk corridor considerations.

Dual Eligible Member Integration

Reasons for SFHP to retain management and financial risk for these members include:

- Alignment with the LTC population (a majority of the LTC population is Dual eligible).
- SFHP will be required to have a Dual-Special Needs Plan (D-SNP) by January 2026 to coordinate all Medi-Cal and Medicare benefits for Dual eligible members.
- Coordination of benefits and administrative functions can be challenging. SFHP has existing processes in place with COBA (Coordination of Benefits of Agreement) for Medicare claims processing.

Next Steps

- In the coming months, SFHP will meet with provider partners to discuss operational processes and solicit feedback.

- Any updates or revisions to this approach will be shared at the Governing Board meeting in September 2022.

Mr. Fawley commented that the new populations are tricky and the approach outlined makes sense. He said the approach puts the risk in one pot, putting the plan at risk and protects the providers from the risk.

7. 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 November 2021 through May 2022.

8. Adjourn

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Secretary/Treasurer