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

Present: Steven Fugaro, MD, Deneen Hadley, Greg Wagner, and Emily Webb

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

Absent: Eddie Chan, PharmD

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

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

Emily Webb, Chair, Finance Committee, chaired the meeting and identified that there were no public guests. Ms. Webb asked for public comments and there were none.

1. Approval of Minutes from September 7, 2022 Finance Committee Meeting

The minutes of the September 7, 2022 Finance Committee meeting were unanimously approved.

2. Review and Approve Annual Independent Audit Report for FY 2021-22

Recommendation: Review and Approval of the Annual Independent Audit Report for FY 2021-22.

Chris Pritchard, Partner, and Rianne Suico, Partner, Moss Adams Consultants, the independent audit firm hired by SFHP, presented the FY 21-22 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. (Detailed audit report was provided in the Board packet.)

Ms. Suico reviewed the following key points of the audit report:

- SFHP has been very consistent over the years, 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.
- 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.

Emily Webb stated that they spent time with the auditors without staff. She agreed with the auditors that the audit went well and stated she was impressed with the auditors and management.

The Finance Committee unanimously approve the Moss Adam annual independent audit report for FY 2021-22, for forwarding to the full 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 financial statements and investment reports for the period ending September 30, 2022. He stated September 2022 reported an overall margin of $2.2 million versus a budgeted margin of $1.3 million. After removing the impact Strategic Use of Reserves (SUR) activity, the actual margin from operations was $2.3 million versus a budgeted margin of $1.7 million.

On a year-to-basis, we have a margin of $8.3 million versus a budgeted margin of $5.5 million. After removing SUR activity, the actual margin from operations was $8.4 million versus a budgeted margin of $6.5 million.

Mr. Takeuchi then highlighted the following reasons for variances between the actual results and the budgeted amounts for the period ending September 30, 2022:

a. A net increase in revenue of $4.7 million due to:
    i. $3.0 million more in Medi-Cal premium revenue due to an additional 8,583 member months. Membership mix was very favorable as we had 7,574 more Adult Expansion member months and 664 more Seniors and Persons with Disabilities (SPD) member months versus budget projections. These two categories of aid

have much higher premium rates when compared to the Adult, Child, and Duals categories of aid.

ii. $894,000 more in Healthy Workers revenue due to a 13% premium increase that was effective July 1, 2022. This increase was not anticipated when the budget was prepared.

iii. $893,000 in CalAIM incentive payment program funding related to the Enhanced Care Management (ECM) and Community Supports (CS) programs.

b. A net increase in medical expense of $3.7 million due to:

i. $2.8 million more in professional and hospital capitation as the result of having an additional 8,583 member months along with increases in the Healthy Workers capitation rates due to the rate increase effective July 1, 2022.

ii. $726,000 more in Health Education and Reinsurance costs. This increased cost is related to CalAIM incentive payments made to providers who have committed to increase capacity in an effort to meet the goals of the ECM and CS programs.

iii. $487,000 more in hospital fee-for-service costs due to increasing membership.

iv. $98,000 more of Healthy Workers pharmacy costs. SFHP received $93.61 per member, per month (pmpm) for the Healthy Workers pharmacy benefit. The actual cost for September was $95.72 pmpm.

v. $459,000 less in vision and mental health expenses. The budget anticipated higher reimbursement rates and utilization for both benefits. To this point in time, reimbursement rates have remained the same and utilization has not increased as much as expected.

c. A net increase in administrative expenses of $259,000. This difference is due to increases in Compensation and Benefits costs as the actual attrition rate (8%) has been slightly lower than what was used in the budget (9%). In addition, we saw slightly higher costs for Professional Fees/Consulting related to EDI work performed by Edifecs. This difference is due to the timing, i.e., actual expense was incurred earlier than anticipated per the budget timeline.

Mr. Takeuchi reviewed the chart below of key income statement categories for September with adjustments for GASB 68, as well as SUR activity to show margin or loss from ongoing operations.

CATEGORY	SEP 2022 ACTUAL	SEP 2022 BUDGET	SEP 2022 FAV (UNFAV)	SEP 2022 % FAV (UNFAV)	FYTD 22-23 THRU SEP ACTUAL	FYTD 22-23 THRU SEP BUDGET	FYTD 22-23 THRU SEP FAV (UNFAV)	FYTD 22-23 THRU SEP % FAV (UNFAV)
MEMBER MONTHS	179,322	170,739	8,583	5.0%	533,083	515,064	18,019	3.5%
REVENUE (INCL PASS-THROUGH FUNDING)	$ 86,847,000	$ 82,101,000	$ 4,746,000	5.8%	$ 259,024,000	$ 247,729,000	$ 11,295,000	4.6%
MEDICAL EXPENSE (INCL PASS-THROUGH FUNDING)	$ 79,566,000	$ 75,915,000	$ (3,651,000)	-4.8%	$ 237,217,000	$ 227,864,000	$ (9,353,000)	-4.1%
MLR	93.4%	93.3%			93.0%	92.8%		
ADMINISTRATIVE EXPENSE	$ 4,997,000	$ 4,738,000	$ (259,000)	-5.5%	$ 14,109,000	$ 13,815,000	$ (294,000)	-2.1%
ADMINISTRATIVE RATIO	3.9%	4.9%			4.0%	4.7%		
INVESTMENT INCOME	$ (24,000)	$ (165,000)	$ 141,000		$ 481,000	$ (503,000)	$ 984,000	
MARGIN (LOSS)	$ 2,260,000	$ 1,283,000	$ 977,000	76.1%	$ 8,179,000	$ 5,547,000	$ 2,632,000	47.4%
ADJUST FOR SUR ACTIVITY	$ 77,000	$ 430,000			$ 171,000	$ 990,000		
MARGIN (LOSS) FROM OPERATIONS	$ 2,337,000	$ 1,713,000	$ 624,000	36.4%	$ 8,350,000	$ 6,537,000	$ 1,813,000	27.7%

On a year-to-date basis through September and after the removal of SUR activity, SFHP is reporting a margin of $8.3 million which is $1.8 million more than budget expectations.

- After removing the impact of pass-through funding (Directed Payments and IGT), revenue is above budget by $11.3 million. This is due to:
    - An overall net increase of 18,019 member months. We had 20,709 more member months in the Adult Expansion and Seniors and Persons with Disabilities (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 Adult, Child and Dual members. Adult, Child, and Dual member months are down by 2,429 member months.
    - Incentive funding for CalAIM programs as well as the COVID-19 vaccination program.
    - A Healthy Workers rate increase of 13% effective July 1, 2022 that was not anticipated when the FY 22-23 budget was prepared.

- After removing the impact of SURs and pass-through funding (Directed Payments and IGT), medical expense is above budget by $10.2 million. This increase can be accounted for as follows:

Capitation expenses are up	$7,800,000
FFS expenses are up	$2,300,000
Healthy Workers pharmacy expenses are up	$ 400,000
Health Education and reinsurance expenses are up	$1,000,000
Vision and mental health expenses are down	($1,300,000)

    Overall administrative expense is above budget by $294,000. Compensation and Benefits costs were $395,000 higher than expected due to a slightly lower attrition rate (8%) than what was used for budgeting purposes (9%).

PROJECTIONS

Mr. Takeuchi reviewed the financial projections through March 2023:

1. SFHP expects to continue reporting good margins through December 2022 due to the Medi-Cal rate increases that were effective January 1, 2022. The FY 22-23 budget through December 2022 projects a margin of $9.4 million. This anticipated margin will help SFHP continue rebuilding its reserve balance. Building reserves is very important due to new programs that will bring additional risk to SFHP beginning in January 2023, i.e., Long-Term Care (LTC) and the Dual Member Integration. Medi-Cal rates will change effective January 1, 2023, however the impact of those changes is not yet known. At this time, we would anticipate achieving budget targets for January, February, and March 2023. There are, however, still some uncertainties regarding the LTC and Duals programs.

2. After 15 months of having responsibility for the hospital risk for 18,000 San Francisco Community Clinic Consortium (SFCCC) members, the total cost is in line with budget expectations. CY 2022 Medi-Cal rate increases continue to cover this additional cost. SFHP no longer pays capitation to Zuckerberg San Francisco General (ZSFG) for these members.

3. Over the last several months, SFHP has been working with ZSFGH to identify a solution to the out-of-network hospital utilization for approximately 51,000 members assigned to the San Francisco Health Network (SFHN). ZSFGH is currently paid under a capitated arrangement for these members. Over the last four years, out-of-network hospital costs for these members represented 80-85% of capitation paid to ZSFGH. The existing capitation arrangement is no longer a sustainable model for ZSFGH. The combined annual cost of in-network and out-of-network hospital utilization exceeds the capitation paid to ZSFGH by $57 million. In July 2022, SFHP submitted a formal request to the Department of Health Care Services (DHCS) and its actuary, Mercer, for a rate increase to cover the excess costs of $57 million. An agenda item at this meeting will propose a contract change with ZSFGH to move them to a fee-for-service contract, if SFHP receives the rate increase from DHCS.

4. As of September, we had 8,000 more Medi-Cal members versus what was anticipated in the FY 22-23 budget. The ongoing Public Health Emergency (PHE) has been extended until at least mid-January 2023. When the PHE ends, the redetermination process will resume which means Medi-Cal membership will begin to gradually decrease as members will be placed on hold or terminated due to no longer qualifying for the program.

5. SFHP projected that the $93.61 pmpm included in the overall Healthy Workers rate would be adequate for the pharmacy benefit, however, the actual cost for September was $95.72 pmpm. We have noticed an increase in the number of 90-day refills as well as some newer high-cost cancer drugs. We will continue to monitor the pharmacy cost and we may seek an increase in the pharmacy

rate for July 1, 2023. The Medi-Cal pharmacy benefit is carved out to DHCS' Medi-Cal Rx as of January 1, 2022.

6. SFHP implemented CalAIM initiatives, Enhanced Care Management (ECM), Community Supports (CS) and Major Organ Transplants (MOT). We have seen one transplant event so far this fiscal year and we are aware of two other transplant events that may take place during the second half of CY 2022. It is important to note that the ECM and MOT benefits are subject to a risk corridor which will limit SFHP's exposure to gains and losses.

7. 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 and family planning services. It is important to note that the value-based payments portion of the Proposition 56 program ended June 30, 2022. All other Proposition 56 programs will continue through December 2022.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Tangible Net Equity Ratio

Skip Bishop, CFO, reviewed that the tangible net equity (TNE) ratio is one measure used by both the Department of Managed Health Care (DMHC) and the Department of Health Care Services (DHCS) to assess the financial strength of a managed care plan. The required TNE is the greater of 1) $1 million, 2) a percentage of premium revenue, or 3) a percentage of health care expenses. The formula to calculate the TNE ratio takes the reserves of the health plan (total assets minus total liabilities) and divides by the required TNE.

For SFHP, the overall TNE ratio as of September 30, 2022 is 9.5. When excluding the impact of GASB 68 adjustments recorded on June 30, 2022, the TNE ratio is 8.6. SFHP is comfortable with a TNE ratio of 8.6 as it places the health plan in the middle of the pack when looking at TNE ratios across the sister plans. A high TNE ratio could result in future Medi-Cal rate reductions. Conversely, a low TNE ratio could result in much closer oversight by the regulatory agencies. TNE ratios for the Local Health Plans as of June 30, 2022 were shared with the Finance Committee and are shown on the next page. Please note that SFHP's TNE has increased over the 7.85 reported in June on this table.

Health Plan	TNE Ratio at June 30, 2022
CalOptima	13.40
Central CA Alliance for Health	10.92
Health Plan of San Joaquin	9.88
Health Plan of San Mateo	9.77
Community Health Group Partnership Plan	9.27
CalViva Health Plan	7.89
San Francisco Health Plan	7.85
Partnership Health Plan of CA	7.84
Inland Empire Health Plan	7.25
L.A. Care Health Plan	7.16
Santa Clara Family Health Plan	6.53
Alameda Alliance for Health	6.01
Kern Health Systems	5.45
Contra Costa Health Plan	5.43
Cencal Health	5.05
Gold Coast Health Plan	4.93

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

The Finance Committee unanimously approved the unaudited monthly financial statements and investment reports ending September 30, 2022, for forwarding to the full Governing Board for approval.

4. Semi-Annual Compliance Report

Nina Maruyama, Chief Officer Compliance and Regulatory Affairs reviewed the semi-annual Compliance Report with the Finance Committee, which covered the period from June 2022 through October 2022. (A detailed memo of the report was provided in the packet.)

The Finance Committee Adjourned to Closed Session.

5. Review and Approval Change to Zuckerberg

This item was discussed in closed session.

The Finance Committee Resumed to Opened Session.

6. Report By Chair on Closed Session Action Items

Ms. Webb reported that the Finance Committee approved the proposed contract change for ZSFGH to move them to a fee-for-service contract, pending SFHP' receiving the rate increase from DHCS. The vote was unanimous, except that Greg Wagner recused himself from the vote since he is employed by the City and County of San Francisco.

7. Adjourn

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Secretary/Treasurer