SAN FRANCISCO HEALTH PLAN

Here for you

**Joint Meeting of the San Francisco Health Authority (SFHA)
and the San Francisco Community Health Authority (SFCHA)**

Finance Committee Agenda
Wednesday, November 3, 2021
11:00 am – 12:00 pm

SPECIAL NOTICE: Coronavirus COVID-19

Due to the COVID-19 public health emergency and in accordance with Governor Newsom's Executive Order N-29-20, San Francisco Health Authority (SFHA) and San Francisco Community Health Authority (SFCHA) Finance Committee members will be attending this meeting via video conference. The meeting will be closed to in-person public attendance. This precaution is being taken to protect members of the Finance Committee, staff and the public. All Finance Committee members will attend the meeting via video conference and will participate in the meeting to the same extent as if they were present.

Members of the Finance Committee and public may connect to the meeting by Microsoft Teams:

- TIME: **11am to 12pm**
  LINK: Click here to join the meeting

Public Comment on any matters within SFHA/SFCHA purview

1. (V) Review and Approval of Minutes from September 1, 2021 Meeting
2. (V) Review and Approval of the Annual Independent Audit Report for FY 2020-21 (Chris Pritchard and Rianne Suico, Moss Adams Consultants, LLP)
3. (V) Review and Approval of Unaudited Monthly Financial Statements and Investment Reports (Skip Bishop and Rand Takeuchi)
4. (D) Semi-Annual Compliance Report (Nina Maruyama, MPH, CHC)

*******************************CLOSED SESSION **********************************

5. (D) Review Draft Calendar Year 2022 Medi-Cal Rates for San Francisco Health Plan (Skip Bishop)
   Welfare and Institutions Code Section 14087.36(x)

************************************OPEN SESSION ************************************

6. (D) Chair's Report on Closed Session Items (Chair, Reece Fawley)

7. (V) Adjourn

The San Francisco Health Authority and San Francisco Community Health Authority will meet concurrently.
Next meeting: January 5, 2022
11:00 am to 12:00 pm

Please Note These Upcoming SFHA/SFCHA Meetings:

- Member Advisory Committee: November 12, 2021 (1:00 pm-3:00 pm)
- Quality Improvement Committee: December 9, 2021 (7:30 am-9:00 am)
- Member Advisory Committee: December 10, 2021 (1:00 pm-3:00 pm)
- Finance Committee: January 5, 2022 (11:00 am-12:00 pm)
- Governing Board: January 5, 2022 (12:00 pm-2:00 pm)

Public Comment:
Please note that members of the public will be allowed to make public comments. If a person wishes to make a public comment during the meeting, they may either 1) use Microsoft Teams and will have the option to notify San Francisco Health Plan (SFHP) staff by alerting them via the "Chat" function or they can 2) contact SFHP staff via email at vhuggins@sfhp.org, in which staff would read the comment aloud during the public comment period. Public comments will be limited to two (2) minutes per comment.

If you plan to attend, please contact Valerie Huggins at (415) 615-4235.

If you plan to attend and need to request disability-related modification or accommodation, including auxiliary aids or services, in order to participate in the public meeting, please contact Valerie Huggins at (415) 615-4235.

Agenda Item 1
Action Item

Approval of Minutes from September 1, 2021 Meeting

SAN FRANCISCO HEALTH PLAN

Here for you

Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
September 1, 2021

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

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

Absent: None

Guests: None

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 June 9, 2021 Finance Committee Meeting

The minutes of the June 9, 2021 Finance Committee meeting were unanimously approved as written.

2. Review and Approval of Year-End 2021-21 Unaudited Financial Statements and Investment Reports

Recommendation: Review and Approval of Year–End 2020-21 Unaudited Financial Statements and Investment Reports.

Rand Takeuchi, Director, Accounting, reviewed the year-end 2020-21 unaudited financial statements for the period ending June 30, 2021.

1. June 2021 reported a margin of $1,417,000 versus a budgeted loss of ($694,000). After removing Strategic Use of Reserves (SUR) activity, the actual margin from operations was $1,573,000 versus a budgeted loss of ($278,000).

   On a year-to-date basis, we have a margin of $5,431,000 versus a budgeted loss of ($5,707,000). After removing SUR activity, the actual margin from operations is $7,123,000 versus break-even as budgeted.

2. Variances between June actual results and the budget include:

   a. A net decrease in revenue of $29.3 million due to:

      i. $44.8 million less in intergovernmental transfer (IGT) revenue. The budget assumed the IGT funding for the Bridge Period of July 2019 through December 2020 would be received in June. $30.0 million was received in May.
      ii. $8.5 million more in premium revenue due to the delay of the Medi-Cal pharmacy carve-out. The budget assumed the pharmacy carve-out would be effective January 1, 2021, therefore we projected lower revenue due to the transfer of the pharmacy benefit to the State. DHCS built a new pharmacy component into the CY 2021 rates to cover this benefit for as long as the benefit remains in managed care.
      iii. $4.7 million more in Medi-Cal premium revenue due to 1) retroactive membership adjustments related to May members; 2) rate increases effective January 1, 2021; and 3) CY 2021 rate adjustments retroactive to January 2021. Member months were 187 less than budget projections. Adult, Child, and SPD member months were 9,689 less than budget, however Adult Expansion member months were 9,512 more than budget. When netted against each other, the result was additional revenue as the rate for Adult Expansion members is higher than the rates for the Adult and Child categories.
      iv. $1.5 million more in Healthy Workers premium revenue due to a rate increase effective April 1, 2021. The rate increased from $466.00 pmpm to $588.43 pmpm. Within the overall rate change, the pharmacy component increased from $57.67 pmpm to $93.61 pmpm. This increase helps to eliminate approximately $300,000 in monthly losses SFHP was experiencing on the Healthy Workers pharmacy benefit.
      v. $736,000 more in Hepatitis C revenue. The budget did not assume any Hepatitis C revenue as the pharmacy carve-out was expected to happen January 1, 2021.

vi. $91,000 more in Maternity revenue due to 15 more maternity events.

b. A net decrease in medical expense of $31.5 million primarily due to:

i. $44.8 million less in IGT revenue. The budget assumed the IGT funding for the Bridge Period of July 2019 through December 2020 would be received in June. $30.0 million was received in May.
ii. $8.1 million more in Medi-Cal non-Hepatitis C pharmacy expense. Much like on the revenue side, the budget assumed the pharmacy carve-out would be effective January 1, 2021, therefore we projected lower medical expense due to the transfer of the pharmacy benefit to the State.
iii. $4.2 million more in capitation and hospital fee-for-service claims. This increase was due to 1) $1.0 million more in Healthy Workers capitation expense due to the rate increase effective April 1, 2021; 2) higher capitation expense due to the Medi-Cal membership mix, i.e., more Adult Expansion members and fewer Adult and Child members; and 3) more fee-for-service expense due to membership growth.
iv. $757,000 more in Hepatitis C drug expense. The budget did not assume any Hepatitis C expense for March as the pharmacy carve-out was expected to happen January 1, 2021.
v. $154,000 more in Healthy Workers pharmacy expense. The actual cost was $78.21 pmpm versus a budget of $65.18 pmpm. Although the actual cost was higher than the budget, we had a margin of $183,000 due to the rate increase effective April 1, 2021.
vi. $244,000 more in Non-Specialty Mental Health (NSMH) expense. This additional cost is due to ongoing utilization that has been higher than expected.
vii. $134,000 more in 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 telephonic and telehealth services provided to Medi-Cal members during the Public Health Emergency (PHE).
viii. $284,000 less in Health Education and Stop Loss expenses after excluding the IGT funding.

c. A net increase in administrative expenses of $40,000 primarily due to:

i. $210,000 less in all administrative expense categories with the exception of TPA services. Compensation and Benefits costs were less than budget due to the impact of discontinuing the bonus accrual (the accrual is fully funded for FY 20-21) and not implementing merit increases in FY 20-21.

ii. $250,000 more in TPA services. We incurred Pharmacy Benefits Manager (PBM) fees due to the delay in the Medi-Cal pharmacy carve-out. We also experienced higher non-specialty mental health administrative fees due to increases in membership.

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

	-------------------------JUN 2021----------------------------------				---------------------FYTD 20-21 THRU JUN---------------------------			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	162,666	162,853	(187)	-0.1%	1,829,226	1,843,416	(14,190)	-0.8%
REVENUE	$ 61,095,000	$ 90,364,000	$ (29,269,000)	-32.4%	$ 945,320,000	$ 750,440,000	$ 194,880,000	26.0%
MEDICAL EXPENSE	$ 54,960,000	$ 86,488,000	$ 31,528,000	36.5%	$ 889,997,000	$ 701,209,000	$ (188,788,000)	-26.9%
MLR	91.1%	96.5%			95.0%	94.5%		
ADMINISTRATIVE EXPENSE	$ 4,653,000	$ 4,612,000	$ (41,000)	-0.9%	$ 50,119,000	$ 55,438,000	$ 5,319,000	9.6%
ADMINISTRATIVE RATIO	6.4%	4.3%			4.5%	6.3%		
INVESTMENT INCOME	$ (65,000)	$ 42,000	$ (107,000)		$ 227,000	$ 500,000	$ (273,000)	-54.6%
MARGIN (LOSS)	$ 1,417,000	$ (694,000)	$ 2,111,000		$ 5,431,000	$ (5,707,000)	$ 11,138,000	
ADD BACK: SUR ACTIVITY	$ 156,000	$ 416,000			$ 1,692,000	$ 5,707,000		
MARGIN (LOSS) FROM OPERATIONS	$ 1,573,000	$ (278,000)	$ 1,851,000		$ 7,123,000	$ -	$ 7,123,000	

On a year-to-date basis through June and after the removal of SUR activity, SFHP is reporting a margin of $7.1 million which beats the projected budget of break even.

- After removing Directed Payments and IGT funding, premium revenue is above budget by $75.9 million. This is due to:
  - $48.8 million in pharmacy revenue that was not expected as the pharmacy benefit was to be carved out January 1, 2021.
  - $6.0 million in additional Healthy Workers revenue due to a rate increase effective April 1, 2021 as well as increasing membership.
  - Although we have seen an overall net decrease of 14,190 member months, Adult Expansion member months are 69,752 above budget which has a favorable impact on revenue due to the fact that the premium rate for this category of aid is $388 pmpm compared to $293 pmpm for the Adult 19 category and $112 pmpm for the Child 18 category.
  - A Medi-Cal rate increase effective January 1, 2021.
- After removing SUR activity, Directed Payments and IGT funding, medical expense is above budget by $73.7 million. This increase can be accounted for as follows:
  - Medi-Cal pharmacy costs are up $46.2 million
  - Capitation and FFS expenses are up $20.4 million
  - Prop 56 supplemental payments are up $ 4.3 million

- Healthy Workers pharmacy costs are up $ 2.5 million
- CBAS expenses are up $ 1.8 million
- Non-specialty mental health costs are up $ 1.6 million
- Health Education costs are down ($ 3.1 million)

Medi-Cal pharmacy costs are up due to the delay in the carve-out. Capitation and FFS expenses are up due to increasing membership as well as Healthy Workers capitation rate increases. Healthy Workers pharmacy costs are higher due to increasing drug costs and associated utilization, however due to the rate increase effective April 1, 2021, SFHP is no longer losing money on the Healthy Workers pharmacy benefit. Proposition 56 supplemental payment activity is higher than anticipated, but this is not an issue as SFHP has received sufficient funding to cover these costs. CBAS costs are up due to greater utilization caused by the ongoing public health emergency. Non-specialty mental health costs are up due to ongoing utilization that has been higher than expected.

Overall administrative expense is below budget by $5.3 million. Actual spending for projects such as CalAIM and CMS Interoperability was less than anticipated. Overall administrative expense savings has been partially offset by PBM TPA fees as we did not expect to have responsibility for the Medi-Cal pharmacy benefit in CY 2021.

PROJECTIONS

Mr. Bishop reviewed the following financial projections through December 2021:

1. Due to the ongoing COVID-19 pandemic, SFHP anticipates continued increases in Medi-Cal membership over the next six months. We projected an increase of approximately 22,000 new members during FY 20-21. Through June, we have added 21,800 new members. These new members were spread across the Adult, Child, and Adult Expansion categories of aid. With the Public Health Emergency expected to end December 31, 2021, SFHP anticipates that membership will gradually decrease during CY 2022.

2. The Medi-Cal pharmacy benefit carve-out scheduled for January 2021 has been delayed to January 2022. SFHP prepared its FY 21-22 budget assuming we would have responsibility for this benefit through December 2021. The State will be responsible for pharmacy as of January 1, 2022, with Magellan as its Pharmacy Benefits Manager (PBM).

3. In April 2021, SFHP received a rate increase for the Healthy Workers pharmacy benefit. The rate increased from $57.67 pmpm to $93.61 pmpm. This delivers approximately $400,000 in additional revenue and eliminates the monthly loss SFHP has been experiencing with this benefit. The new rate is good through June 30, 2022. SFHP, the San Francisco Department of Public Health and the San Francisco Human Services Agency will be reviewing the Healthy Workers

rate on an annual basis and will seek further increases if/when current rates are no longer adequate to cover costs.

4. Effective January 2021, SFHP received an increase of approximately 4.3% plus the return of the 1.5% Bridge Period rate reduction (1.3% actual). In July 2021, SFHP received an additional increase of 0.4% as the result of building in the Medi-Cal pharmacy rate benefit for all of CY 2021. As SFHP looks ahead to future changes coming to Medi-Cal Managed Care, i.e., Enhanced Care Management/In Lieu Of Services (ECM/ILOS), long-term care and major organ transplants, along with the hospital risk for the San Francisco Community Clinic Consortium (SFCCC) members, we recognize the need for the health plan to rebuild its reserves that have been reduced by several Strategic Use of Reserves (SUR) programs along with retroactive adjustments implemented by DHCS totaling $12.7 million.

5. Beginning in July 2021, hospital risk for 16,000 members enrolled with the SFCCC will transfer from Zuckerberg San Francisco General (ZSFG) to SFHP. SFHP will no longer pay 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 will remain under capitation. It is estimated that this new risk will cost SFHP approximately $16-$20 million per year. This additional cost is included in the FY 21-22 budget.

6. Proposition 56 – this program will continue for 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

SFHP is extremely pleased with the financial performance for FY 20-21. An overall margin of $5.4 million ($7.1 million after excluding SUR activity) certainly exceeded budget expectations of break even. The first half of the fiscal year was a bit of a struggle as we had to deal with the impact of the 1.5% rate reduction as well as other retroactivity which pulled revenue away from the Plan. Fortunately, the Plan was able to protect providers by using reserves to cover these retroactive adjustments rather than implementing decreases to provider rates.

The health plan certainly benefited from a Medi-Cal rate increase effective January 2021 as well as an increase in the pharmacy component of the Healthy Workers rate effective April 2021. We would like to thank the Finance Committee and

Governing Board for their support in allowing the health plan to postpone provider rate increases so the Plan can rebuild its reserves. Strengthening the Plan's reserve balance is an important step to ensure the Plan is ready for changes coming to the Medi-Cal program.

- July 2021 – take hospital risk for SFCCC members
- January 2022 – implement Enhanced Care Management/In Lieu Of Services
- January 2022 – take risk for major organ transplants
- January 2023 – become responsible for long-term care
- January 2026 – potentially establish a Dual Special Needs Plan (D-SNP)

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 year-end 2020-21 unaudited financial statements and investment reports ending June 30, 2021, for forwarding to the full Governing Board for approval.

3. Review and Approval of Year-To-Date July 2021 Unaudited Financial Statements and Investment Reports.

Recommendation: Review and Approval of Year-To-Date July 2021 Unaudited Financial Statements and Investment Reports.

Skip Bishop, CFO, reviewed the year-to-date unaudited financial statements for the period ending July 30, 2021. Mr. Takeuchi discussed the following highlights:

1. July 2021 reported a margin of $301,000 versus a budgeted margin of $51,000. After removing Strategic Use of Reserves (SUR) activity, the actual margin from operations was $398,000 versus a budgeted margin of $156,000.

2. Variances between July actual results and the budget include:

    a. A net increase in revenue of $1.7 million due to:
        i. $1.3 million more in Medi-Cal premium revenue due to an additional 2,690 member months along with actual premium rates that were 0.8% higher than what was used for the budget projections.
        ii. $122,000 more in Healthy Workers premium revenue due to an additional 213 member months.
        iii. $214,000 more in Hepatitis C revenue. There were 256 treatment weeks in July versus a budget of 171 treatment weeks.
        iv. $227,000 more in Maternity revenue. We reported 118 maternity events during July versus a budget of 91 maternity events.

v. $119,000 less in Behavioral Health Treatment (BHT) revenue due to lower than expected utilization.

b. A net increase in medical expense of $1.9 million due to:
   i. $725,000 more in net capitation and fee-for-service expense as the result of having 2,903 more member months than budget projections. This additional cost is offset by the revenue SFHP received for these additional member months.
   ii. $639,000 more in Medi-Cal non-Hepatitis C pharmacy expense. This additional cost is due to having 2,690 more member than anticipated along with a 6.5% increase in the per member, per month cost, i.e., $54.90 versus $51.57. Beginning July 1, 2021, SFHP moved to Magellan for Pharmacy Benefit Management services. July results are showing that Magellan's cost for generic drugs is higher than the pricing SFHP received through PerformRx. On a positive note, the pharmacy MLR for July was 95.6%. 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.
   iii. $303,000 more in Hepatitis C drug expense. We had 256 treatment weeks versus a budget of 171 weeks, or an increase of 85 weeks. In addition, the budget assumed 39% of the treatment weeks would be under 340B pricing which is lower cost. For July, only 2% of the actual treatment weeks were under 340B pricing.
   iv. Healthy Workers pharmacy expense was in line with budget expectations, i.e., $979,000 in drug costs versus a budget of $992,000. On a pmpm basis, the actual cost was $82.33 versus a budget of $85.00. SFHP receives $93.61 in the Healthy Workers rate for pharmacy.
   v. $233,000 more in Non-Specialty Mental Health (NSMH) expense. This additional cost is primarily due to retroactive adjustments of $102,000 for one of the psychiatric providers going back to 2020. In addition, utilization continues to be higher than expected.
   vi. Community-Based Adult Services (CBAS) expense was in line with budget expectations, i.e., actual cost of $572,000 versus a budget of $564,000.

c. A net decrease in administrative expenses of $343,000 primarily due to:

   i. $403,000 less in all non-compensation administrative expense categories. This difference is primarily due to timing, i.e., 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. $60,000 more in Compensation, Benefits and GASB 68 costs. The budget assumed a staff attrition factor of 10%. The actual attrition factor for July was slightly less than 10%.

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

	--------------------------JUL 2021-----------------------------------				---------------------FYTD 21-22 THRU JUL---------------------------			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	161,859	158,956	2,903	1.8%	161,859	158,956	2,903	1.8%
REVENUE	$ 59,459,000	$ 57,743,000	$ 1,716,000	3.0%	$ 59,459,000	$ 57,743,000	$ 1,716,000	3.0%
MEDICAL EXPENSE	$ 54,967,000	$ 53,094,000	$ (1,873,000)	-3.5%	$ 54,967,000	$ 53,094,000	$ (1,873,000)	-3.5%
MLR	93.5%	93.1%			93.5%	93.1%		
ADMINISTRATIVE EXPENSE	$ 4,297,000	$ 4,640,000	$ 343,000	7.4%	$ 4,297,000	$ 4,640,000	$ 343,000	7.4%
ADMINISTRATIVE RATIO	6.2%	6.9%			6.2%	6.9%		
INVESTMENT INCOME	$ 106,000	$ 42,000	$ 64,000	152.4%	$ 106,000	$ 42,000	$ 64,000	152.4%
MARGIN (LOSS)	$ 301,000	$ 51,000	$ 250,000	490.2%	$ 301,000	$ 51,000	$ 250,000	490.2%
ADD BACK: SUR ACTIVITY	$ 97,000	$ 105,000			$ 97,000	$ 105,000		
MARGIN (LOSS) FROM OPERATIONS	$ 398,000	$ 156,000	$ 242,000	155.1%	$ 398,000	$ 156,000	$ 242,000	155.1%

PROJECTIONS

Mr. Bishop reviewed the following financial projections through January 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-$20 million per year. This additional cost is included in the FY 21-22 budget. SFHP is currently working with DHCS and Mercer to have this added cost included in the CY 2022 Medi-Cal rate development process.

   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 in July but not received as of July 31, 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 3,000 to 4,000 members through December 2021. With the Public Health Emergency expected to end December 31, 2021, SFHP anticipates that membership will gradually decrease during the first half of CY 2022.

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 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).

4. Beginning in January 2022, SFHP will take responsibility for Enhanced Care Management (ECM), 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. Rates for these programs will be released to the health plans at the end of September 2021.

5. Proposition 56 – this program will continue for 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

PROPOSITION 56 PROGRAM

In November 2016, voters passed Proposition 56 to support access to health care for low-income Californians covered by the Medi-Cal program. Known as the California Healthcare Research and Prevention Tobacco Tax Act, Proposition 56 raised the tax rate on cigarettes and other tobacco products to fund specific DHCS health care programs including 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.

DHCS has directed Managed Care Plans (MCPs) to make enhanced supplemental payments to eligible providers contingent upon the MCPs' receipt of providers' actual utilization for these measures reported through encounter data.

Since inception of the Proposition 56 program, SFHP has disbursed nearly $26 million to providers who have rendered qualifying services. The Proposition 56 program will continue through FY 21-22.

• FY 17-18	$2,021,000
• FY 18-19	$6,894,000
• FY 19-20	$8,203,000
• FY 20-21	$8,850,000
	$25,968,000

Investment Reports

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

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

4. Review and Approval of FY 20-21 Year-End Staff Bonus

Recommendation: SFHP completed FY 20-21 successfully by achieving an organization score of 100% for all success criteria approved by the Governing Board. It is recommended that the Finance Committee approve the following items:

1. SFHP's FY 20-21 financial position meets the sufficient requirement to pay the staff bonus and bonus funds were budgeted in the year-end statements.

John F. Grgurina, Jr., CEO, will review the FY 20-21 organizational success criteria result of 100% with the full Governing Board. Mr. Grgurina stated that the SFHP FY 20-21 financial year ended with a positive margin of $7.1 million in operations, after removing the Strategic Use of Reserves (SUR) activity.

Given this year-end financial performance, he stated that he believes the FY 20-21 financial position meets the sufficient requirement to pay the staff bonuses that were budgeted for FY 20-21.

Based on these results in FY 20-21, he recommends the following for Finance Committee:

1. FY 20-21 financial position meets the sufficient requirement to pay the staff bonuses that were budgeted for FY 20-21.

The Finance Committee unanimously approved that the financial position meets the sufficient requirement to pay the FY 20-21 year-end staff bonus.

The Finance Committee Adjourned to Closed Session.

5. Review and Approval of Proposes Contract Change to include Risk Corridor for Zuckerberg San Francisco General Hospital

This item was discussed in closed session.

The Finance Committee Resumed to Open Session.

6. Report by Chair on Closed Session Action Items

Reece Fawley reported that the Finance Committee approved the contract change for Zuckerberg San Francisco General Hospital's contract to establish a risk corridor. Due to potential conflicts of interest, Greg Wagner recused himself from the vote since he is employed by the Department of Public Health.

7. Adjourn

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Reece Fawley, Secretary/Treasurer

Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
September 1, 2021
Closed Session

1. Review and Approval of Proposed Contract Change to Include Risk Corridor for Zuckerberg San Francisco General Hospital

Recommendation: San Francisco Health Plan (SFHP) recommends approval to establish a risk corridor for five specific hospital-related services provided by Zuckerberg San Francisco General (ZSFG) to members enrolled with Department of Public Health (DPH) clinics beginning January 1, 2022. The risk corridor would be in effect for CY 2022 and CY 2023. Each year would be measured independently. In Year 2, an evaluation would be done to determine if the risk corridor would remain in effect beyond CY 2023. The annual maximum exposure to SFHP is estimated to be $6.0 million. If approved, payment for CY 2022 would be made during the second half of CY 2023. Payment for CY 2023 would be made during the second half of CY 2024.

Background:
Skip Bishop, CFO, and Kaliki Kantheti, Chief Operations Officer, reviewed the proposed contract change. Currently SFHP pays capitation to ZSFG for a wide range of hospital services provided to DPH members. As the third-party administrator for the Medi-Cal managed care contract with San Francisco DPH, SFHP provides utilization management and claims services for out-of-network utilization and claims on behalf of ZSFG. Over the last three calendar years, out-of-network claims as a percentage of capitation paid to ZSFG for DPH members is approximately 63%.

In January 2021, the San Francisco Health Network (SFHN) approached SFHP with a request to consider various options to help ZSFG with out-of-network costs and utilization for DPH members. These options included:

- As ZSFG is the only Level I trauma center in San Francisco, remove trauma services from the capitated agreements with all SFHP network hospitals and reimburse ZSFG at fee-for-service rates greater than 100% of All Patient Refined-Diagnosis Related Groups (APR-DRG).
- Risk-adjust capitation rates across the SFHP network for the Seniors and Persons with Disabilities (SPD) population to recognize that SPD members assigned to SFHN may be sicker than those members assigned to other network providers.
- Establish a risk corridor for SPD members.
- Carve out five specific services from the capitation agreement with ZSFG and pay on a fee-for-service basis – dialysis, radiation oncology, transgender surgical services, transportation, and trauma.

After lengthy discussions and several meetings regarding the pros and cons of these options, as well as maintaining equity with compensation paid to all SFHP providers, SFHP and SFHN staff agreed with the option to set up a risk corridor for the five carve-out services. This option would not require any administrative effort on the part of SFHN. The administrative burden on SFHP would be minimal.

Risk Corridor Rules:
Establishing a risk corridor for specific hospital-related services is the result of a collaborative effort between SFHN and SFHP to better manage in-network and out-of-network costs for the following five services where it is difficult for ZSFG to control utilization:

- Dialysis
- Radiation oncology
- Transgender surgical services
- Transportation
- Trauma

With the risk corridor option, SFHP would calculate the cost of these services rendered to DPH members during each year. In-network inpatient hospital services would be priced at 100% of APR-DRG while outpatient facility services would be priced at 140% of the Medi-Cal Fee Schedule (MCFS). These rates align with the current fee-for-service rates paid to the University of California San Francisco (UCSF) and California Pacific Medical Center (CPMC). Priced in-network services would be added to the out-of-network claims paid for these services to arrive at a total cost for the services rendered.

Using the DHCS/Mercer rate worksheets for CY 2022 and CY 2023, SFHP plans to calculate how much would be included in the rates for the five carve-out services. SFHP would then determine how much has been paid in capitation to ZSFG for these carve-out services for its DPH members.

On an annual basis, the total cost for the services rendered would be compared to the total capitation paid to ZSFG. The amount of the total cost of services rendered that is in excess of capitation paid up to a maximum of $6.0 million would be remitted to ZSFG. Should the total capitation paid to ZSFG be greater than the total cost of services rendered, ZSFG would return the excess to SFHP up to a maximum of $6.0 million.

The table on the next page was reviewed, which shows what the results would have been had the risk corridor been in place for CY 2018, CY 2019, and CY 2020.

	---CY 2020---				---CY 2019---				---CY 2018---		
	COST OF	CAPITATION	AMT DUE TO (FROM)		COST OF	CAPITATION	AMT DUE TO (FROM)		COST OF	CAPITATION	AMT DUE TO (FROM)
CARVE-OUT SERVICE	SERVICES	PAID	ZSFG		SERVICES	PAID	ZSFG		SERVICES	PAID	ZSFG
DIALYSIS	$ 4,007,625	$ 2,648,597	**$ 1,359,028**		$ 3,355,119	$ 2,603,270	**$ 751,849**		$ 4,598,513	$ 2,668,169	**$ 1,930,344**
RADIATION/ONCOLOGY	$ 2,430,696	$ 1,247,926	**$ 1,182,770**		$ 2,411,204	$ 1,221,651	**$ 1,189,554**		$ 1,950,873	$ 1,302,823	**$ 648,051**
TRANSGENDER SURGICAL SVCS	$ 575,345	$ 268,521	**$ 306,824**		$ 469,434	$ 263,833	**$ 205,601**		$ 481,419	$ 285,380	**$ 196,038**
TRANSPORTATION	$ 4,385,012	$ 3,595,386	**$ 789,625**		$ 3,572,937	$ 3,555,954	**$ 16,983**		$ 2,951,041	$ 3,714,483	**$ (763,442)**
TRAUMA	$ 3,394,333	$ 1,322,871	**$ 2,071,462**		$ 1,898,387	$ 1,304,464	**$ 593,923**		$ 1,296,714	$ 1,382,917	**$ (86,203)**
	$ 14,793,011	$ 9,083,302	**$ 5,709,710**		$ 11,707,081	$ 8,949,172	**$ 2,757,909**		$ 11,278,560	$ 9,353,772	**$ 1,924,788**

Mr. Bishop and Ms. Kantheti recommended the Finance Committee approve the establishment of a risk corridor for five specific hospital-related services provided by ZSFG to members enrolled with DPH clinics beginning January 1, 2022. The risk corridor would be in effect for CY 2022 and CY 2023. Each year would be measured independently. In Year 2, an evaluation would be done to determine if the risk corridor would remain in effect beyond CY 2023. The annual maximum exposure to SFHP is estimated to be $6.0 million. If approved, payment for CY 2022 would be made during the second half of CY 2023. Payment for CY 2023 would be made during the second half of CY 2024.

Emily Webb asked if other hospitals are experiencing similar out-of-network utilization. John F. Grgurina, Jr., stated the other hospitals appear to be fine as no other hospitals have raised similar issues. He stated, however, that if other hospitals are interested, SFHP would explore the options with them as well.

The Finance Committee approved the proposal to establish a risk corridor as recommended for ZSFG for forwarding to the full Board for approval. Greg Wagner recused himself from the vote because he is employed by the Department of Public Health.

Agenda Item 2
Action Item

- Review and Approval of the Annual Independent Audit Report for FY 2020-2021 (Moss Adams Consultants, LLP)
  - Moss Adams' Presentation
  - Governance Letter
  - Financial Statements

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San Francisco Health Authority and San Francisco Community Health Authority

Report of Independent Auditors

Report of Independent Auditors

Unmodified Opinion

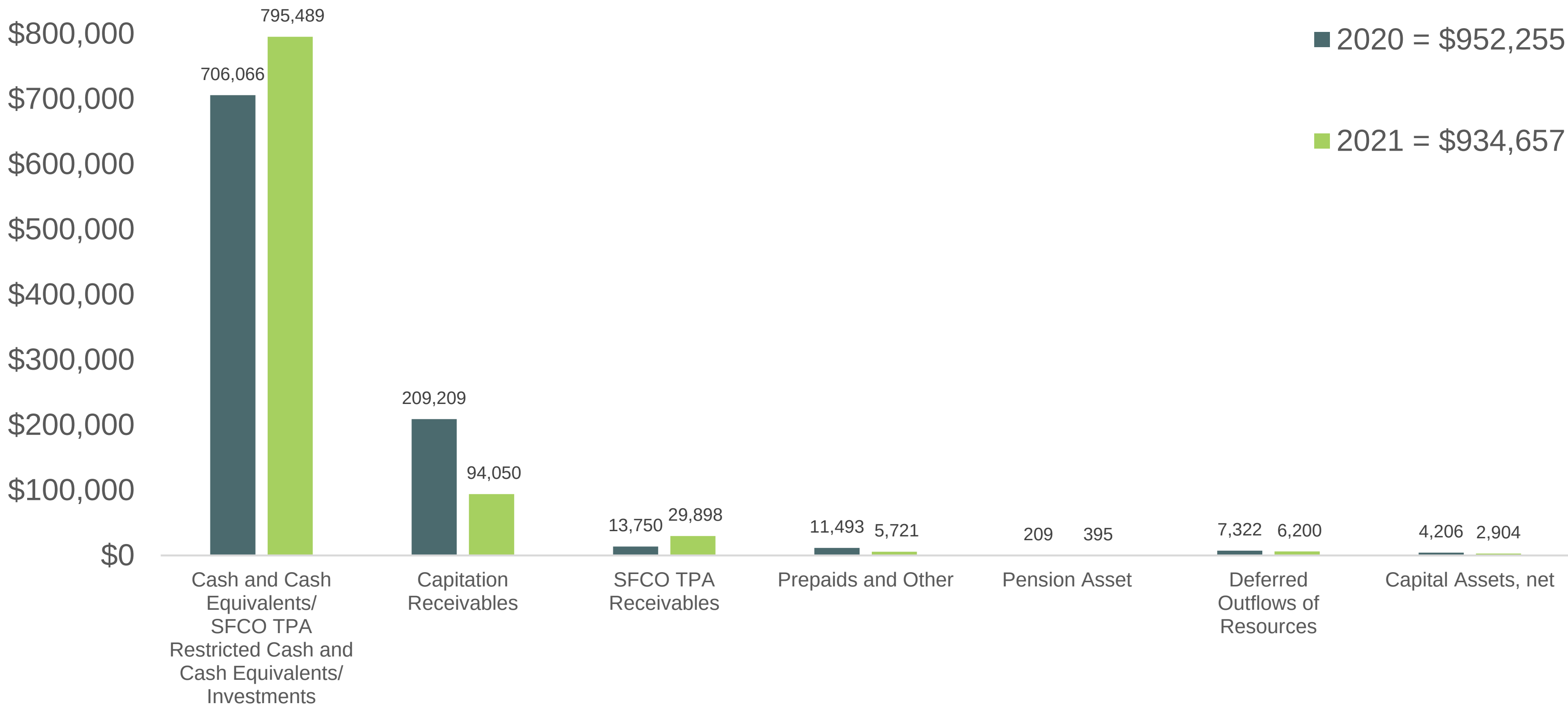
Combined financial statements are fairly presented in accordance with generally accepted accounting principles.

1

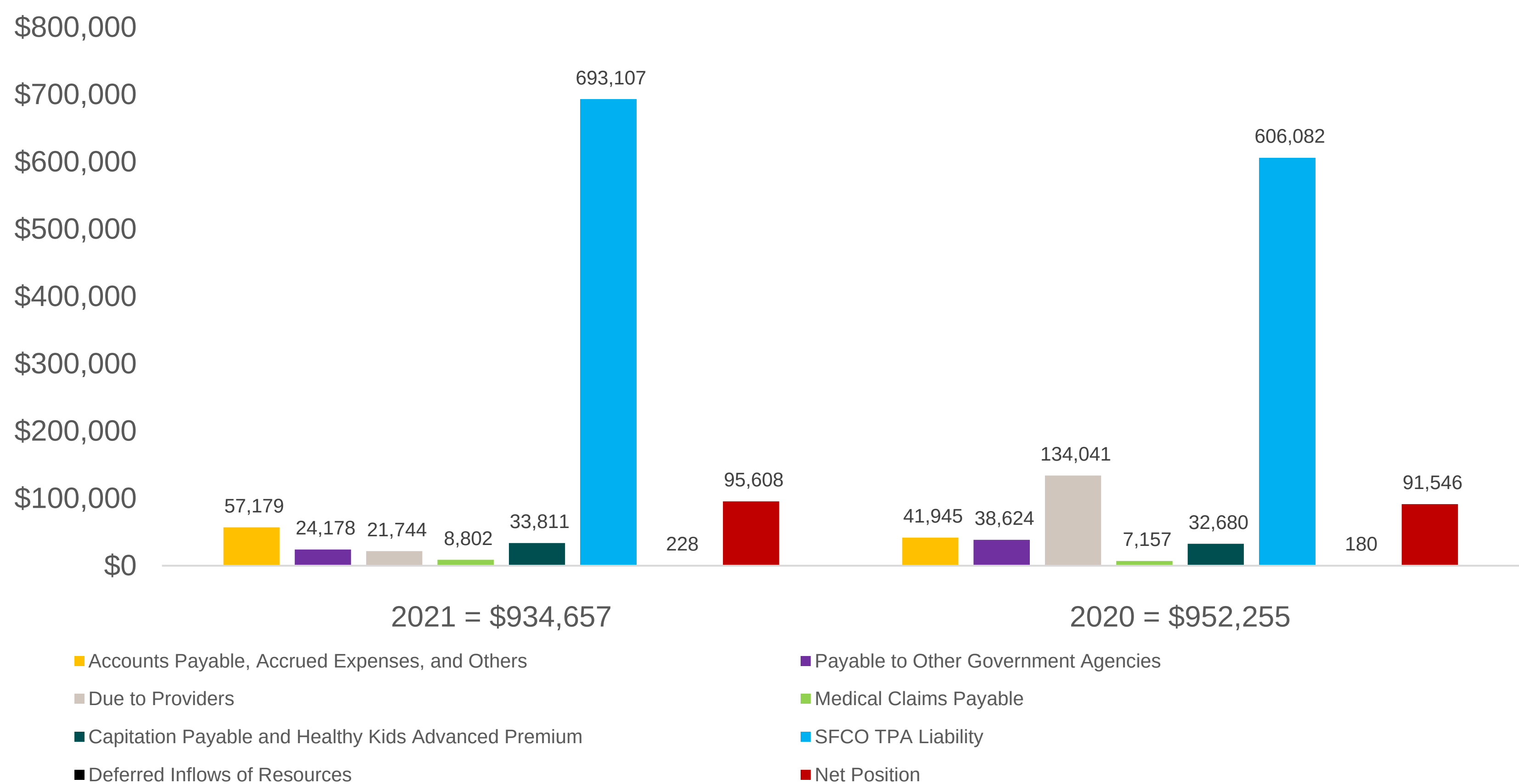
Combined Statements of Net Position

2

Assets and Deferred Outflows and Resources (in thousands)



Liabilities, Deferred Inflows of Resources, and Net Position (in thousands)



4

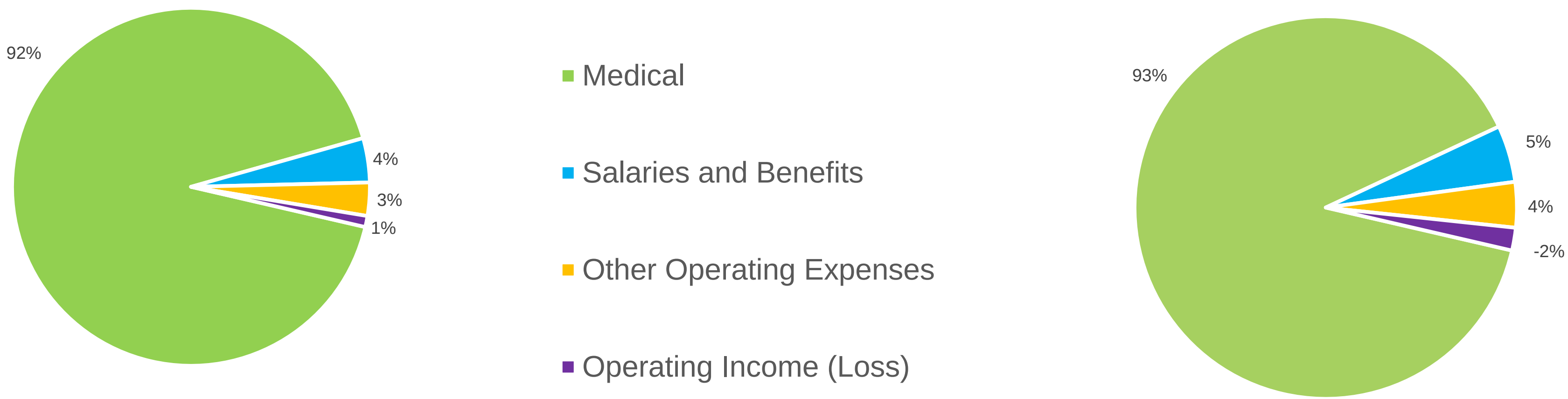
Operations

5

Operating Expenses as a Percentage of Total Revenues (without SFCO TPA) (in thousands)

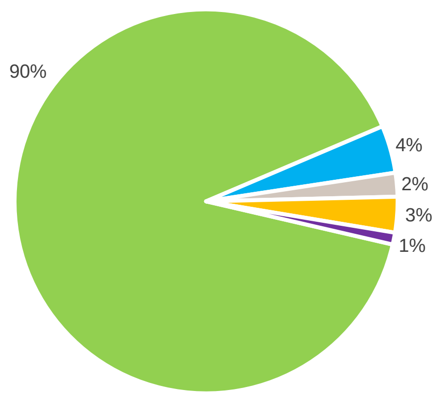
June 30, 2021
$674,712

June 30, 2020
$600,865



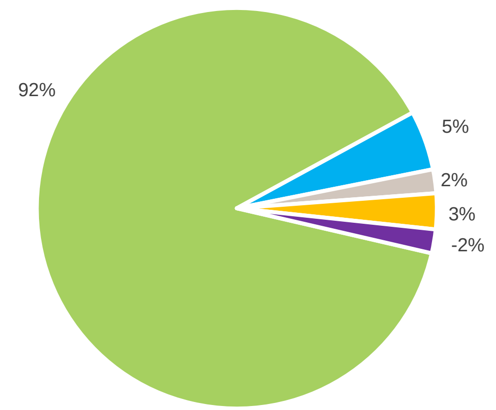
Operating Expenses as a Percentage of Total Revenues (with SFCO TPA) (in thousands)

June 30, 2021
$685,791



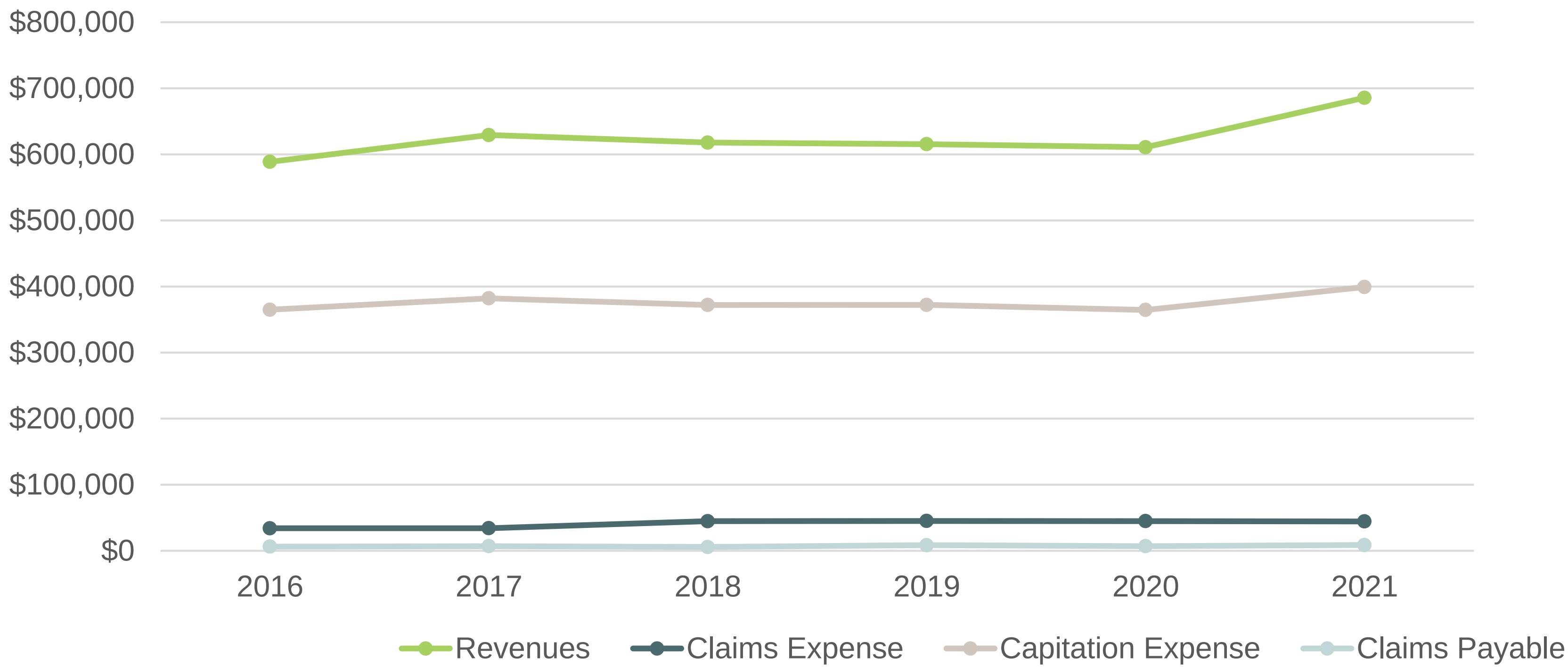
■ Medical
■ Salaries and Benefits
■ SFCO Expenses
■ Other Operating Expenses
■ Operating Income (Loss)

June 30, 2020
$610,850

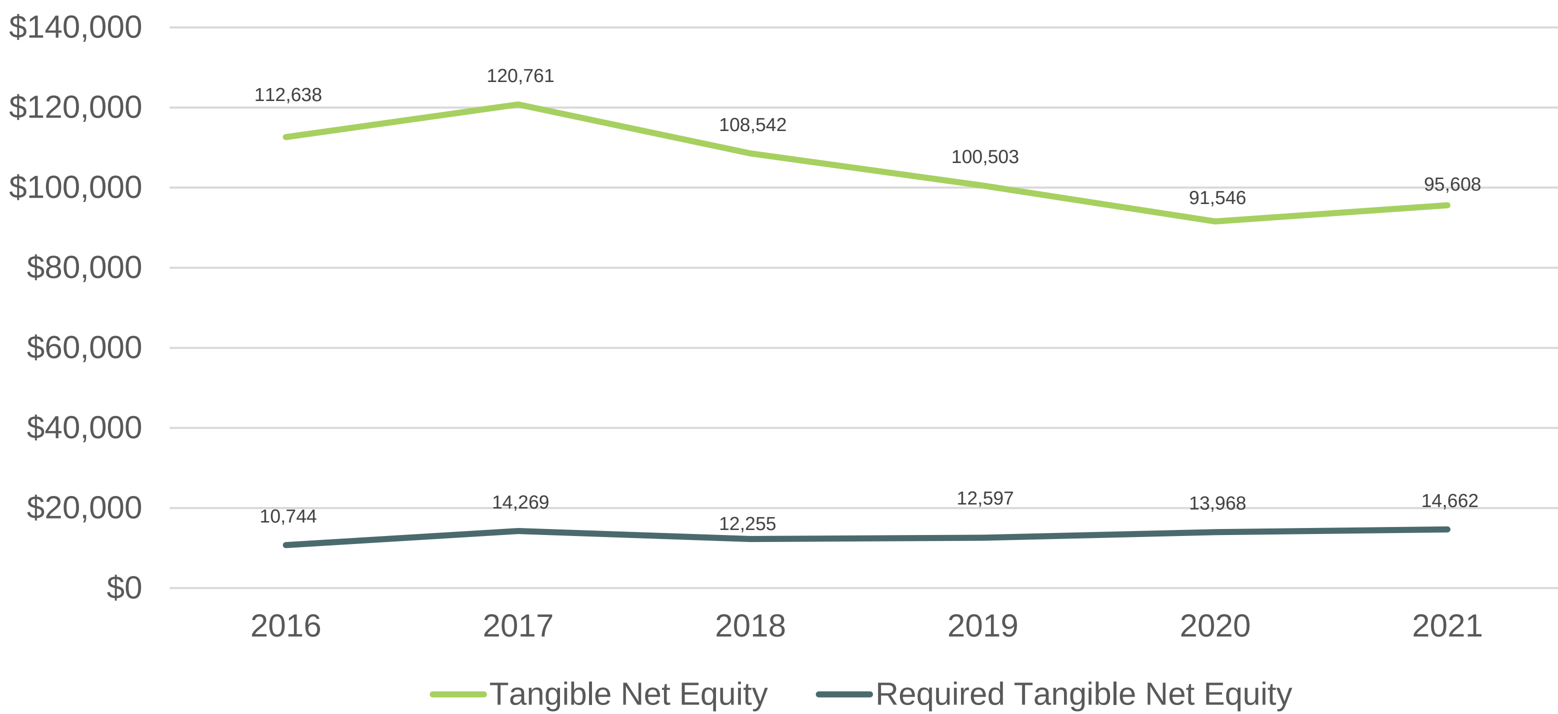


7

Revenues, Claims Expense, Capitation Expense, and Claims Payable (in thousands)



Tangible Net Equity (in thousands)



Source: Annual Department of Managed Health Care Filing

Important Board Communications

- AU-C Section 260 – *The Auditor's Communication with Those Charged with Governance*
- Significant accounting policies
- Accounting estimates are reasonable
- No audit adjustments
- No issues discussed prior to our retention as auditors
- No disagreements with management
- No awareness of material instances of fraud or noncompliance with laws and regulations

10

Questions?

11

12

THANK YOU

Communications with the Governing Board

San Francisco Health Authority and
San Francisco Community Health Authority

June 30, 2021

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Communications with the Governing Board

To the Governing Board
San Francisco Health Authority and San Francisco Community Health Authority

We have audited the combined financial statements of San Francisco Health Authority and San Francisco Community Health Authority (collectively the "Plan"), as of and for the year ended June 30, 2021, and have issued our report thereon dated October 25, 2021. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated August 5, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the combined financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Our audit of the combined financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2 Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the combined financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we considered the Plan's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the combined financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated August 5, 2021, and our planning meeting with management on July 12, 2021.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 2 to the combined financial statements. There were no changes in the application of existing policies and the Plan adopted Governmental Accounting Standards Board ("GASB") Statement No. 84, *Fiduciary Activities* ("GASB 84") and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* ("GASB 97") during 2021. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the combined financial statements in a different period than when the transactions occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the combined financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the combined financial statements were:

- Management recorded an estimated liability for incurred but unreported claims expense. The estimated liability for unreported claims is based on management's estimate of historical claims experience and known activity subsequent to year end. We have gained an understanding of management's estimate methodology, and have examined the documentation supporting these methodologies and formulas. We found management's process to be reasonable.

- Management recorded an estimated capitation receivable. The estimated capitation receivable for eligible Medi-Cal program beneficiaries is based upon a historical experience methodology. We have gained an understanding of management's estimate methodology, and have examined the documentation supporting these methodologies and formulas. We found management's process to be reasonable.

- Management recorded an estimated payable to governmental agencies. The estimated payable for eligible Medi-Cal program beneficiaries is based upon estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. We evaluated the key factors and assumptions used to develop the estimated net realizable amounts. We found management's basis to be reasonable in relation to the combined financial statements taken as a whole.

- Management's estimate of the fair market values of investments in the absence of readily-determinable fair values is based on information provided by the fund managers. We have gained an understanding of management's estimate methodology and examined the documentation supporting this methodology. We found management's process to be reasonable.

- The useful lives of capital assets have been estimated based on the intended use and are within accounting principles generally accepted in the United States of America.

- Management's estimate of the net pension asset is actuarially determined using assumptions on the long-term rate of return on pension plan assets, the discount rate used to determine the present value of benefit obligations, and the rate of compensation increases. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the combined financial statements taken as a whole.

Combined Financial Statement Disclosures

The disclosures in the combined financial statements are consistent, clear, and understandable. Certain combined financial statement disclosures are particularly sensitive because of their significance to combined financial statement users. The most sensitive disclosures affecting the Plan's combined financial statements relate to medical claims payable, fair value of investments, and capitation revenues.

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements whose effects, as determined by management, are material, both individually and in the aggregate, to the combined financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the combined financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated October 25, 2021.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plan's combined financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Independence

We are required to disclose to those charged with governance, in writing, all relationships between the auditors and the Plan that in the auditor's professional judgment, may reasonably be thought to bear on our independence. We know of no such relationships and confirm that, in our professional judgment, we are independent of the Plan within the meaning of professional standards.

Other Significant Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Governing Board and management of San Francisco Health Authority and San Francisco Community Health Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

San Francisco, California
October 25, 2021

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Here for you

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October 25, 2021

Moss Adams LLP
101 Second Street, Suite 900
San Francisco, CA 94105

We are providing this letter in connection with your audits of the combined financial statements of San Francisco Health Authority and San Francisco Community Health Authority (collectively "the Plan"), which comprise the related combined statements of net position, statements of revenues, expenses, and changes in net position, and cash flows as of June 30, 2021 and 2020 and for the years then ended and the related notes to the combined financial statements for the purpose of expressing an opinion as to whether the combined financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than $900,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the combined financial statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of October 25, 2021:

Combined Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 5, 2021, and the amendment to the audit engagement letter dated September 14, 2021 , for the preparation and fair presentation of the combined financial statements in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the combined financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The following, if any, have been properly recorded or disclosed in the combined financial statements:
    a. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
    b. Guarantees, whether written or oral, under which the Plan is contingently liable.
    c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the Government Account Standards Board ("GASB") Codification Section C50, *Claims and Judgments* [Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.]

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9. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the combined financial statements. We understand that *near term* means the period within one year of the date of the combined financial statements. In addition, we have no knowledge of concentrations existing at the date of the combined financial statements that make the Plan vulnerable to the risk of severe impact that have not been properly disclosed in the combined financial statements. We understand that concentrations include individual or group concentrations of payers, members, suppliers, lenders, products, services, sources of labor or materials, licenses or other rights, or operating areas or markets. We further understand that *severe impact* means a significant financially disruptive effect on the normal functioning of the Plan.

Information Provided

10. We have provided you with:
    - *a.* Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the combined financial statements such as records, documentation and other matters;
    - *b.* Minutes of the meetings of the Board of Governors, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared;
    - *c.* Additional information that you have requested from us for the purpose of the audit;
    - *d.* Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
11. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We understand the term “fraud” includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in the combined financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity’s assets where the effect of the theft causes the condensed interim combined financial information not to be presented in conformity with accounting principles generally accepted in the United States of America.
12. All transactions have been properly recorded in the accounting records and are reflected in the combined financial statements.
13. Receivables recorded in the combined financial statements represent valid claims for charges arising on or before June 30, 2021 and 2020.
14. We have disclosed to you the results of our assessment of the risk that the combined financial statements are not materially misstated as a result of fraud.
15. We have no knowledge of any fraud or suspected fraud that affects the entity and involves—
    - *a.* Board of Governors,
    - *b.* Management,
    - *c.* Employees who have significant roles in internal control, or
    - *d.* Others when the fraud could have a material effect on the combined financial statements.
16. There are no—
    - *a.* There are no violations or possible violations of laws or regulations that exist, such as those related to Medicare and Medicaid antifraud and abuse statutes, in any jurisdiction, whose effects are considered for disclosure in the combined financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the combined financial statements. This is including, but not limited to, the antikickback statute of the Medicare and Medicaid Patient and Program Protection Act of 1987, limitations on certain physician referrals (the Stark law), and the False Claims Act.
    - *b.* Possible illegal acts brought to the attention of management.

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c. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with GASB 62 section 1500, *Reporting Liabilities*, paragraph .114 and section C50, *Claims and Judgments*, paragraph .115.

d. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB 62 section 1500 paragraph .114 and section C50 paragraph .115.

17. We have no knowledge of any allegations of fraud or suspected fraud, affecting the entity's combined financial statements communicated by employees, former employees, analysts, regulators or others.
18. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing combined financial statements.
19. The Plan has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
20. The Plan has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
21. We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the combined financial statements.
22. We have disclosed to you the identity of the Plan's related parties and all the related party relationships and transactions of which we are aware.
23. The Plan has complied with all aspects of contractual agreements that would have a material effect on the combined financial statements in the event of noncompliance.
24. There have been no internal or external investigations relating to compliance with applicable laws and regulations, including investigations in progress that would have an effect on the amounts reported in the combined financial statements or on the disclosure in the notes to the combined financial statements.
25. We have disclosed to you any change in the Plan's internal control over financial reporting that occurred during the Plan's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Plan's internal control over financial reporting.
26. There have been no oral or written communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, including those related to Medicare and Medicaid antifraud and abuse statutes; deficiencies in financial reporting practices; or other matters that could have a material adverse effect on the combined financial statements.
27. The liability for health unpaid claims and claims adjustment expenses, including amounts for incurred but not reported claims, has been determined using appropriate estimated ultimate costs of settling the claims (including the effects of inflation and other societal and economic factors), considering past experience adjusted for current trends and any other factors that would modify past experience. The estimated liability is to the best of our knowledge and belief, an accurate estimate of our incurred but unreported health claims liability as of June 30, 2021 and 2020. The data used in projecting the ultimate unpaid claims and claims adjustment expense is complete and accurate, and is reconciled to the underlying accounting records.
28. We have determined the liability for health unpaid claims and claims adjustments expenses related to Community-Based Adult Services ("CBAS") members are immaterial to the combined financial statements as of June 30, 2021 and 2020. As such, no liability is recorded in the combined financial statements at year-end.
29. We agree with the findings of specialists in evaluating the liability for health unpaid claims and claims adjustment expenses and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the combined financial statements and underlying accounting records. We do not give or cause any instructions to be given to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have an impact on the independence or objectivity of the specialist.
30. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances. We agree with the findings of CalPERS (specialist) in evaluating our pension liabilities and costs and have adequately considered the qualifications of CalPERS (specialist) in determining the amounts and disclosures used in the combined financial statements and underlying accounting records. We did not give or cause any instructions to be given to CalPERS

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(specialist) with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of CalPERS (specialists).

31. Adequate consideration has been given to, and appropriate provision made for, audit adjustments by third-party organizations or other regulatory agencies.
32. All reinsurance transactions entered into by the Plan are final and there are no side agreements with reinsurers, or other terms in effect, which allow for the modification of term under existing reinsurance arrangements. Furthermore, the Plan's reinsurance arrangements meet the risk transfer provisions of GASB Codification Section P20, *"Public Entity Risk Pools"*, or are accounted for as deposits.
33. The Plan has been in compliance with the requirements of licensure under the Knox-Keene Health Care Service Plan Act of 1975 at June 30, 2021 and 2020.
34. The Plan has appropriately reconciled its books and records (e.g., general ledger accounts) underlying the combined financial statements to their related supporting information (e.g. sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the combined financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a statement of net position account, which should have been written off to an income statement account and vice versa.
35. In regards to your assistance with drafting the combined financial statements, we have:
    - *a.* Made all management decisions and performed all management functions.
    - *b.* Designated an individual with suitable skill, knowledge, or experience to oversee the services.
    - *c.* Evaluated the adequacy and results of the services performed.
    - *d.* Accepted responsibility for the results of the services.
    - *e.* Established and maintained internal controls, including monitoring of ongoing activities
36. We acknowledge that U.S. GAAP presents premium tax fees in the combined financial statements as an administrative, operating expense. However, management has elected to present the premium tax fee as a contra revenue item in the combined statements of revenues, expenses and change in net position. This approach is an alternative presentation that we confirmed to be acceptable by the Department of Health Care Services who regulates the current industry financial reporting.
37. Risk sharing, quality improvement, provider incentive, and other arrangements with providers wherein the Plan is obligated to provide for a settlement of accounts with providers have been calculated in accordance with the existing arrangements and are included in the combined financial statements at net realizable value, giving consideration to all amounts due under arrangements. We believe these liabilities are fairly stated as of June 30, 2021 and 2020.
38. We have the intent and ability to commit the necessary resources to become compliant with the laws and regulations contained in the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") by the required compliance deadlines. We have no information that indicated that a significant vendor may be unable to sell to the Plan; a significant customer may be unable to purchase from the Plan; or a significant service provider may be unable to provide services to the Heath Plan, in each case because of their respective inability to comply with HIPAA.
39. We are not aware of any reason that Moss Adams LLP would not be considered to be independent for purposes of the Plan's audit.
40. To our knowledge, there are no instances where any officer or employee of the Plan has an interest in a company with which the Plan does business that would be considered a "conflict of interest." Such an interest would be contrary to the Plan's policy.
41. We acknowledge our responsibility for presenting the Management's Discussion and Analysis required by GASB 62 section 1500 paragraph .114 and section C50 paragraph .115, in accordance with accounting principles generally accepted in the United States of America and we believe the Management's Discussion

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and Analysis is measured and presented in accordance with the prescribed guidelines. The methods of measurement and presentation of the Management's Discussion and Analysis have not changed from those used in the prior periods, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the required supplementary information.

42. We acknowledge our responsibility for presenting the supplemental pension benefit information, as required by accounting principles generally accepted in the United States of America, and we believe the supplemental pension information are measured and presented in accordance with the prescribed guidelines. The methods of measurement and presentation of the supplemental pension information have not changed from those used in the prior periods, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the required supplementary information

43. Pending changes in the organizational structure, financing arrangements, or other matters that could have a material effect on the combined financial statements of the Plan are properly disclosed.

44. We believe that the actuarial assumptions and methods used to measure net pension asset/liability for financial accounting purposes are appropriate in the circumstances.

45. We have reviewed the 401(a) Plan, 457 Plan, and San Francisco City Option ("SFCO") program and have determined that both plans and SFCO program would not be reported as fiduciary funds as defined in GASB 84 and GASB 97.

46. We have not completed the process of evaluation the impact that will result from adopting GASB 87, Leases as discussed in Note 2. The Plan is therefore unable to disclose the impact that adopting GASB 87 will have on its combined financial position and the combined results of operations when such statements are adopted.

47. With regard to the fair value measurements and disclosures of investments in equity and debt securities, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.

    b. The completeness and adequacy of the disclosures related to the fair values are in conformity with Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity: Omnibus and amendment of GASB Statements No. 14 and No. 24, Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application, and Governmental Accounting Standards Board Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

    c. No events have occurred subsequent to June 30, 2021 that requires adjustment to the fair value measurements and disclosures included in the combined financial statements.

48. We have performed an analysis of expected future medical expenses and maintenance costs to determine whether such costs will exceed anticipated future revenues under our contracts. We have determined that expected costs do not exceed anticipated revenues. Based on our analysis, we believe no premium deficiency reserves are necessary at June 30, 2021 and 2020, respectively.

49. San Francisco City Option accounts payable is properly classified as current liability on the combined statements of net position as these amounts are due on demand to participating employers and employees of the San Francisco City Option program.

50. We confirm we are subject to the audit requirements of the California Code of Regulations, Title 2, Section 1131, State Controller's *Minimum Audit Requirements* for California Special Districts and in compliance with the State Controller's Office prescribed reporting guidelines.

51. We were in compliance with our tangible net equity regulatory requirement at June 30, 2021 and 2020.

52. The Plan is not subject to the requirements of Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance").

53. We confirm that the eligibility of Medi-Cal beneficiaries is determined by the San Francisco County Department of Health Services and validated by the State of California. The State of California provides the Plan the validated monthly eligibility file of program beneficiaries who are continuing, newly added, or terminated from the program in support of capitation revenue for the respective month.

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54. To the best of our knowledge and belief, no events have occurred subsequent to the combined statements of net position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned combined financial statements.

55. In March 2020, the World Health Organization declared the novel coronavirus outbreak a public health emergency. The Plan's results of operations could be adversely affected to the extent that the coronavirus or any other epidemic harms the global economy. Although the Plan does not expect the impact on its operations and financial results to be significant, the duration and intensity of the impact of the coronavirus and resulting disruption to the Plan's operations is uncertain.

DocuSigned by:
John Grgurina
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John Grgurina, CEO

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Skip Bishop, CFO

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Rand Takeuchi, Director of Accounting

Report of Independent Auditors and
Combined Financial Statements

San Francisco Health Authority and
San Francisco Community
Health Authority

June 30, 2021 and 2020

Table of Contents

Management’s Discussion and Analysis

The management's discussion and analysis of San Francisco Health Authority and San Francisco Community Health Authority (collectively, the "Plan"), is intended to provide readers and interested parties with an overview of the Plan's financial activities for the fiscal years ended June 30, 2019, 2020, and 2021. It should be reviewed in conjunction with the Plan's combined financial statements and accompanying notes to enhance the reader's understanding of the Plan's financial performance.

Overview of the Plan's Combined Financial Statements

The Plan's annual financial report includes the combined results for San Francisco Health Authority and San Francisco Community Health Authority. The latter entity was formed on July 1, 2005, to segregate for reporting purposes, the Healthy Families, Healthy Workers, and Healthy Kids programs. The former retains the Medi-Cal program only. The combined reports contain the annual combined financial statements and related notes, which reflect the Plan's combined financial condition and changes in combined financial position for the fiscal years ended June 30, 2019, 2020, and 2021. The combined financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows as well, as the notes to the combined financial statements. These statements report the following financial information:

- The combined statements of net position summarize the Plan's assets and deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2019, 2020, and 2021.

- The combined statements of revenues, expenses, and changes in net position present the results of operations during the fiscal years ended June 30, 2019, 2020, and 2021.

- The key operating indicators report significant operating statistics and changes as of June 30, 2019, 2020, and 2021.

Financial Position Highlights

The financial position of the Plan remained strong as of June 30, 2019, 2020, and 2021. Significant changes included the following:

- Total assets and deferred outflows of resources decreased by $17,597,980 to $934,656,705 as of June 30, 2021, from $952,254,685 as of June 30, 2020. The decrease is reflecting the timing of receipts of certain premium revenues due from the State of California and Directed Payments, which will be passed through to Private and Designated Public hospitals. Total assets and deferred outflows of resources increased by $134,432,969 to $952,254,685 as of June 30, 2020, from $817,821,716 as of June 30, 2019, primarily from increases in Plan cash deposits and Plan receivables. The increase is reflecting the timing of receipts of certain premium revenues due from the State of California and Directed Payments, which will be passed through to Private and Designated Public hospitals. Also driving the increase is the timing of receipts for managed care organization taxes related to the fiscal year ended June 30, 2020, paid after June 30, 2020.

- Capital assets, net of accumulated depreciation and amortization, decreased by $1,301,911 to $2,904,496 as of June 30, 2021, from $4,206,407 as of June 30, 2020, mainly as a result of recording $1,671,299 in depreciation expense, partially offset by net capital additions of $369,388. Capital assets, net of accumulated depreciation and amortization, decreased by $1,069,690 to $4,206,407 as of June 30, 2020, from $5,276,097 as of June 30, 2019, mainly as a result of recording $1,539,748 in depreciation expense, partially offset by net capital additions of $470,058.

- Net position increased by $4,061,804 to $95,608,217 as of June 30, 2021, from $91,546,413 as of June 30, 2020, mainly due to margin on the Medi-Cal line of business and earnings on investments. The increase was offset by $1.69 million in Strategic Use of Reserves ("SUR") either paid to or accrued for San Francisco Health Plan ("SFHP") providers during 2021 and decreases from the negative impact of a $1,644,000 increase in reserves for incurred but not reported claims. Net position decreased by $8,956,776 to $91,546,413 as of June 30, 2020, from $100,503,189 as of June 30, 2019, due to $5.42 million in Strategic Use of Reserves ("SUR") either paid to or accrued for San Francisco Health Plan ("SFHP") providers during 2020. In 2020, net position further decreased by $6.0 million due to the impact of a 1.5% Medi-Cal rate reduction retroactive to July 1, 2019, and partially offset by the positive impact of a $2,600,000 reduction in reserves for incurred but not reported claims, margin on the Medi-Cal line of business and earnings on investments.

- The current ratio (current assets divided by current liabilities) of 1.07 as of June 30, 2021, increased from 1.06 as of June 30, 2020. This increase is driven by decreases in receivables of certain premium revenues due from the State of California and the decreases related to timing in Plan accounts payable and accrued expenses. The current ratio (current assets divided by current liabilities) of 1.06 as of June 30, 2020, decreased from 1.10 as of June 30, 2019. This decrease is driven by increases in Plan accounts payable and accrued expenses due to the timing of payment of managed care organization taxes related to the fiscal year ended June 30, 2020, paid after June 30, 2020, and increases in due to providers for Directed Payments, which will be passed through to Private and Designated Public hospitals.

Key Operating Indicators

Changes in member months, revenue yield, and efficiency ratios are highlighted below:

	Fiscal Years Ended June 30			Net Change 2021 - 2020		Net Change 2020 - 2019	
Key Operating Indicators	2021	2020	2019	$	%	$	%
Member months							
Medi-Cal	1,684,534	1,517,555	1,539,541	166,979	11.00%	(21,986)	-1.43%
Healthy Kids	-	7,069	26,176	(7,069)	-100.00%	(19,107)	-72.99%
Healthy Workers	144,692	142,051	138,336	2,641	1.86%	3,715	2.69%
Total member months	1,829,226	1,666,675	1,704,053	162,551	9.75%	(37,378)	-2.19%
Capitation revenue, net of premium tax	$ 666,293,235	$ 592,379,699	$ 597,940,490	$ 73,913,536	12.48%	$ (5,560,791)	-0.93%
SF City Option ("SFCO") TPA fees	11,078,328	9,984,699	8,446,231	1,093,629	10.95%	1,538,468	18.21%
Interest income	226,930	2,569,841	3,178,133	(2,342,911)	-91.17%	(608,292)	-19.14%
Other income and grants	8,418,949	8,485,486	9,132,676	(66,537)	-0.78%	(647,190)	-7.09%
	686,017,442	613,419,725	618,697,530	72,597,717	11.83%	(5,277,805)	-0.85%
Operating expenses							
Medical expenses	619,239,855	560,986,435	568,897,089	58,253,420	10.38%	(7,910,654)	-1.39%
Administrative expenses	62,715,783	61,390,066	57,839,728	1,325,717	2.16%	3,550,338	6.14%
Total operating expenses	681,955,638	622,376,501	626,736,817	59,579,137	9.57%	(4,360,316)	-0.70%
Change in net position	$ 4,061,804	$ (8,956,776)	$ (8,039,287)	$ 13,018,580	-145.35%	$ (917,489)	11.41%
Per member per month ("pmpm")							
Capitation revenue	364.25	355.43	350.89	8.82	2.48%	4.54	1.29%
Interest income	0.12	1.54	1.87	(1.42)	-92.21%	(0.33)	-17.65%
Other income and grants	4.60	5.09	5.36	(0.49)	-9.63%	(0.27)	-5.04%
Operating expense							
Medical expense	338.53	336.59	333.85	1.94	0.58%	2.74	0.82%
Administrative expense	34.29	36.83	33.94	(2.54)	-6.90%	2.89	8.52%
Change in net position	2.22	(5.37)	(4.72)	7.59	-141.34%	(0.65)	13.77%
Medical cost ratio	92.94%	94.70%	95.14%	-1.76%	-1.86%	-0.44%	-0.46%
Administrative cost ratio	6.49%	7.25%	6.73%	-0.76%	-10.48%	0.52%	7.73%

Enrollment and membership

The overall change in net member months from June 30, 2020 to June 30, 2021, was an increase of 9.75%. The total number of member months was 0.08% below our budget. In 2021, the Plan experienced an 11% increase in Medi-Cal membership and a 1.86% increase in Healthy Workers membership. In 2020, the Healthy Kids membership transitioned into Medi-Cal. The Medi-Cal member months increase is due to the Public Health Emergency and members not being placed on hold for the redetermination process. Health care reform known as the ACA contained a provision allowing states to expand their Medicaid program effective January 1, 2014. California elected to expand the Medi-Cal program and as a result the Plan had 62,255 Medi-Cal Expansion ("MCE") members during the year ended June 30, 2021. This MCE membership generated 676,250 member months for fiscal year 2021 compared to a budget of 606,498 member months.

The overall change in net member months from June 30, 2019 to June 30, 2020, was a decrease of 2.19%. The total number of member months was 0.45% below our budget. In 2020, the Plan experienced a 1.43% decrease in Medi-Cal membership and a 2.69% increase in Healthy Workers membership. In 2020, the Healthy Kids membership transitioned into Medi-Cal. The Medi-Cal member months decrease is due to a higher number of members placed on hold awaiting completion of the annual redetermination process along with an increase in net terminations. Health care reform known as the ACA contained a provision allowing states to expand their Medicaid program effective January 1, 2014. California elected to expand the Medi-Cal program and as a result the Plan had 49,070 Medi-Cal Expansion ("MCE") members during the year ended June 30, 2020. This MCE membership generated 588,841 member months for fiscal year 2020 compared to a budget of 603,420 member months.

Healthy Kids – The Healthy Kids program fully transitioned to Medi-Cal in October 2019. Net membership is zero at June 30, 2021.

Healthy Workers – Net membership from June 30, 2020 to June 30, 2021, increased by 1.86%. This was slightly higher than the projected target for fiscal year 2021. As was the case during fiscal year 2020, we projected the membership to remain flat due to changes in eligibility requirements for In-Home Supportive Services ("IHSS"). This slight increase is likely due to an increase in the base of potential eligible Healthy Workers members (more people becoming IHSS workers).

Net membership from June 30, 2019 to June 30, 2020, increased by 2.69%. This was slightly higher than the projected target for fiscal year 2020. As was the case during fiscal year 2019, we projected the membership to remain flat due to changes in eligibility requirements for IHSS. This slight increase is likely due to an increase in the base of potential eligible Healthy Workers members (more people becoming IHSS workers).

Operating revenues

The increase in capitation revenues, net of premium tax reported for the fiscal year ended June 30, 2021, of $73.9 million (12.48%), was due to an increase in overall member months of 9.75% along with a 5.8% increase in Medi-Cal premium rates which included a restoration of the 1.5% rate reduction implemented by DHCS during the Bridge Period of July 1, 2019 through December 31, 2020.

The decrease in capitation revenues, net of premium tax reported for the fiscal year ended June 30, 2020, of $5.6 million (0.93%), was due a net decrease in overall members months of 37,378 and a Medi-Cal premium revenue rate reduction of approximately (1.5%) retroactive to July 2019.

The decrease in capitation revenues, net of premium tax reported for the fiscal year ended June 30, 2019, of $3.34 million (0.56%), was due a net decrease in overall members months of 55,608. Medi-Cal member months decreased by 63,177 as the result of a higher number of members placed on hold awaiting the completion of the annual determination process along with an increase in net terminations.

San Francisco City Option Third-Party Administration

The Plan provides Third-Party Administration ("TPA") for the City of San Francisco Department of Public Health's program for uninsured residents ("SFCO TPA"). Services provided include participant billing, enrollment, customer service call center, processing employer payments, and managing the Medical Reimbursement Accounts ("MRA"). The total amount of the reimbursement under the TPA business was $11.07 million for 2021 compared to $9.98 million for 2020. The total amount of the reimbursement was $9.98 million for 2020 compared to $8.45 million for 2019.

Medical expense

In 2021, total medical expenses increased by $58.25 million, or 10.38%, over 2020 primarily from the following categories:

- In 2021, total hospital and professional expense including SUR activity increased by $42.50 million, or 9.93%. The majority of this increase is due to more provider capitation due to increases in membership and nonspecialty mental health utilization, offset by a reduction in reserves for incurred but not reported claims. In 2021, SFHP continued fee-for-service hospital rates at the All Patients Refined-Diagnosis Related Groups ("APR-DRG") method. APR-DRG is the generally accepted method for paying claims for Medi-Cal beneficiaries and is the state's payment method for inpatient services to nonmanaged care, fee-for-service Medi-Cal members. Increases in fee-for-service compensation and nonspecialty mental health utilization were partially offset by a decrease of $3.73 million in SUR activity.

- In 2021, total pharmacy expense increased by $9.58 million, or 10.34%. This increase is largely due to changes in utilization patterns as well as an increase in per member per month costs for the Healthy Workers line of business. Effective January 1, 2022, SFHP will no longer have the pharmacy benefit as it is being transitioned to Department of Health Care Services ("DHCS") as the administrator of the Medi-Cal pharmacy benefit.

In 2020, total medical expenses decreased by $7.91 million, or 1.39%, over 2019 primarily from the following categories:

- In 2020, total hospital and professional expense including SUR activity decreased by $5.70 million, or 1.33%. The majority of this decrease is due to less provider capitation due to decreases in membership, reduction in reserves for incurred but not reported claims, offset by an increase in nonspecialty mental health utilization. In 2020, SFHP continued fee-for-service hospital rates at the All Patients Refined-Diagnosis Related Groups ("APR-DRG") method. APR-DRG is the generally accepted method for paying claims for Medi-Cal beneficiaries and is the state's payment method for inpatient services to nonmanaged care, fee-for-service Medi-Cal members. Increases in fee-for-service compensation and nonspecialty mental health utilization were partially offset by a decrease of $10.53 million in SUR activity.

- In 2020, total pharmacy expense increased by $0.48 million, or 0.53%. This increase is largely due to changes in utilization patterns as well as an increase in per member per month costs for the Healthy Workers line of business. Effective January 1, 2021, SFHP will no longer have the pharmacy benefit as it is being transitioned to Department of Health Care Services ("DHCS") as the administrator of the Medi-Cal pharmacy benefit.

In 2019, total medical expenses decreased by $6.84 million, or 1.19%, over 2018 primarily from the following categories:

- In 2019, total hospital and professional expense including SUR activity increased by $7.66 million, or 1.79%. The majority of this increase is due to provider capitation and fee-for-service rate increases along with an increase in nonspecialty mental health utilization. In 2019, SFHP continued fee-for-service hospital rates at the All Patients Refined-Diagnosis Related Groups ("APR-DRG") method. APR-DRG is the generally accepted method for paying claims for Medi-Cal beneficiaries and is the state's payment method for inpatient services to nonmanaged care, fee-for-service Medi-Cal members. Increases in provider capitation and fee-for-service compensation and nonspecialty mental health utilization were partially offset by a decrease of $10.98 million in SUR activity.

- In 2019, total pharmacy expense decreased by $3.70 million, or 3.90%. This decrease is largely due to changes in utilization patterns as well as a decrease in Hepatitis C treatment activity.

Administrative expenses

Administrative expenses increased in 2021 by $1.33 million, or 2.16%, from 2020 driven by increases in salaries and benefits. Administrative expenses increased in 2020 by $3.55 million, or 6.14%, from 2019 driven by increases in salaries and benefits, and information technology support costs.

Results of operations

The Plan incurred a gain of $4.06 million in 2021 compared with a loss of $8.96 million in 2020. Excluding the SFCO TPA business, the Plan incurred a gain of $4.06 million in 2021. SFCO TPA was break even for 2021. In the previous five fiscal years, the Governing Board approved six SUR programs. All programs are underway or have completed. No new programs have been approved in 2021. Each provider must submit a plan as to how the SUR funding will be used to improve the provider network, member experience, and member outcomes. Once SFHP approves the plan, a portion of the SUR funds will be disbursed. Progress against the plan will be monitored with additional SUR funding released upon the attainment of agreed-upon milestones. $1.69 million of SUR funding was either paid or accrued during 2021. Payments and accruals related to the SUR programs were recorded as medical expense. Administrative fees for claims processing and Electronic Data Interchange ("EDI") services were consistent in 2021 compared to 2020. Grant income decreased $799,000 in 2021 due to the transition of the Healthy Kids program to Medi-Cal.

The Plan incurred a loss of $8.96 million in 2020 compared with a loss of $8.04 million in 2019. Excluding the SFCO TPA business, the Plan incurred a loss of $8.96 million in 2020. SFCO TPA was break even for 2020. In the last five fiscal years, the Governing Board approved six SUR programs. All programs are underway. Each provider must submit a plan as to how the SUR funding will be used to improve the provider network, member experience, and member outcomes. Once SFHP approves the plan, a portion of the SUR funds will be disbursed. Progress against the plan will be monitored with additional SUR funding released upon the attainment of agreed-upon milestones. $5.42 million of SUR funding was either paid or accrued during 2020. Payments and accruals related to the SUR programs were recorded as medical expense and represent the main driver for the operating loss in 2020. Administrative fees for claims processing and Electronic Data Interchange ("EDI") services were consistent in 2020 compared to 2019. Grant income for the Healthy Kids program decreased $322,000 in 2020 due to the transition of the program to Medi-Cal.

The Plan incurred a loss of $8.04 million in 2019 compared with a loss of $12.22 million in 2018. Excluding the SFCO TPA business, the Plan incurred a loss of $8.04 million in 2019. SFCO TPA was break even for 2019. In the last four fiscal years, the Governing Board approved five SUR programs. All programs are underway. Each provider must submit a plan as to how the SUR funding will be used to improve the provider network, member experience, and member outcomes. Once SFHP approves the plan, a portion of the SUR funds will be disbursed. Progress against the plan will be monitored with additional SUR funding released upon the attainment of agreed-upon milestones. $15.95 million of SUR funding was either paid or accrued during 2019. Payments and accruals related to the SUR programs were recorded as medical expense and represent the main driver for the operating loss in 2019. Grant income for the Healthy Kids program and administrative fees for claims processing and Electronic Data Interchange (EDI) services were consistent in 2019 compared to 2018.

Nonoperating income

Interest income is derived from investments in Local Agency Investment Fund ("LAIF") and in other U.S. government agency securities. Yields on the LAIF decreased during the reporting period from an average of 1.93% in 2020 to 0.50% in 2021. The Plan also accounts for the market value fluctuations on other investments due to overall changes in the general level of interest rates. Nonoperating revenues (interest income) generated $226,930 in surplus in 2021.

Interest income is derived from investments in Local Agency Investment Fund ("LAIF") and in other U.S. government agency securities. Yields on the LAIF increased during the reporting period from an average of 2.27% in 2019 to 1.93% in 2020. The Plan also accounts for the market value fluctuations on other investments due to overall changes in the general level of interest rates. Nonoperating revenues (interest income) generated $2.57 million in surplus in 2020.

Interest income is derived from investments in Local Agency Investment Fund ("LAIF") and in other U.S. government agency securities. Yields on the LAIF decreased during the reporting period from an average of 1.38% in 2018 to 2.27% in 2019. The Plan also accounts for the market value fluctuations on other investments due to overall changes in the general level of interest rates. Nonoperating revenues (interest income) generated $3.18 million in surplus in 2019.

Changes in financial position

	As of June 30			Net Change 2021 - 2020		Net Change 2020 - 2019	
Net position	2021	2020	2019	$	%	$	%
Assets							
Cash and cash equivalents	$ 60,707,653	$ 60,769,229	$ 45,415,122	$ (61,576)	-0.10%	$ 15,354,107	33.81%
SFCO TPA restricted cash and cash equivalents	674,345,507	602,379,943	464,727,793	71,965,564	11.95%	137,652,150	29.62%
Investments	60,136,239	42,617,014	39,769,079	17,519,225	41.11%	2,847,935	7.16%
Receivables and prepaid expenses	129,667,474	234,451,452	255,094,091	(104,783,978)	-44.69%	(20,642,639)	-8.09%
Capital assets, net of accumulated depreciation and amortization	2,904,496	4,206,407	5,276,097	(1,301,911)	-30.95%	(1,069,690)	-20.27%
Asset restricted as to use	300,000	300,000	300,000	-	0.00%	-	0.00%
Net pension asset	395,440	208,691	1,279,513	186,749	89.49%	(1,070,822)	100.00%
Total assets	928,456,809	944,932,736	811,861,695	(16,475,927)	-1.74%	133,071,041	16.39%
Deferred outflows of resources	6,199,896	7,321,949	5,960,021	(1,122,053)	-15.32%	1,361,928	22.85%
Total assets and deferred outflows of resources	$ 934,656,705	$ 952,254,685	$ 817,821,716	$ (17,597,980)	-1.85%	$ 134,432,969	16.44%
Total liabilities, deferred inflows of resources, and capital lease obligations	$ 839,048,488	$ 860,708,272	$ 717,318,527	$ (21,659,784)	-2.52%	$ 143,389,745	19.99%
Net position							
Invested in capital assets	2,888,691	4,099,010	5,082,429	(1,210,319)	-29.53%	(983,419)	-19.35%
Restricted - Knox-Keene	300,000	300,000	300,000	-	0.00%	-	0.00%
Unrestricted	92,419,526	87,147,403	95,120,760	5,272,123	6.05%	(7,973,357)	-8.38%
Total net position	95,608,217	91,546,413	100,503,189	4,061,804	4.44%	(8,956,776)	-8.91%
Total liabilities, deferred inflows of resources, and net position	$ 934,656,705	$ 952,254,685	$ 817,821,716	$ (17,597,980)	-1.85%	$ 134,432,969	16.44%

Assets

Cash balances for the Plan as well as from SFCO TPA participants and employer deposits totaled $735.05 million at June 30, 2021. Cash has increased due to employer deposits for SFCO TPA and cash used in operating activities.

Cash balances for the Plan as well as from SFCO TPA participants and employer deposits totaled $663.14 million at June 30, 2020. Cash has increased due to employer deposits for SFCO TPA and cash provided by operating activities.

Cash balances for the Plan as well as from SFCO TPA participants and employer deposits totaled $510.14 million at June 30, 2019. Cash has increased due to employer deposits for SFCO TPA and cash provided by operating activities.

Liabilities

As of June 30, 2021, SFCO TPA liabilities to the Department of Public Health include $655,988 of earned premiums and $223,723 in unearned (pre-paid) participant fees. Employer contributions available in participant MRA's totaled $632.89 million. Capitation payable increased in 2021 by $2.90 million due primarily to increases in membership. Medical claims payable decreased by $1.64 million in 2021, due to timing of payment for known claims at June 30, 2021, compared to June 30, 2020. The Plan holds an additional $1.58 million for a reserve margin and loss adjustment expense. The Plan also holds $19.80 million for a special Medical Loss Ratio ("MLR") reserve related to Proposition 56 program funding, which is included in payable to other governmental agencies. Amounts payable to governmental agencies decreased by $14.45 million in 2021. This is mainly driven by a $16.02 million related to timing of Managed Care Organization tax obligations. Total liabilities decreased by $21.66 million in 2021. The decrease is reflecting the timing of payments due to providers for Directed Payments, which will be passed through to Private and Designated Public hospitals.

As of June 30, 2020, SFCO TPA liabilities to the Department of Public Health include $527,672 of earned premiums and $1.84 million in unearned (pre-paid) participant fees. Employer contributions available in participant MRA's totaled $542.81 million. Capitation payable decreased in 2020 by $8.26 million due primarily to decreases in membership. Medical claims payable decreased by $476,911 in 2020, due to timing of payment for known claims at June 30, 2020, compared to June 30, 2019. The Plan holds an additional $1.58 million for a reserve margin and loss adjustment expense. The Plan also holds $11.59 million for a special Medical Loss Ratio ("MLR") reserve related to Proposition 56 program funding, which is included in payable to other governmental agencies. Amounts payable to governmental agencies increased by $11.90 million in 2020. This is mainly driven by a $6.97 million increase to the special MLR reserve related to Proposition 56 program funding and a $6.17 million reserve for Medi-Cal rate reduction. Total liabilities increased by $143.11 million in 2020. The increase is reflecting the timing of payments due to providers for Directed Payments, which will be passed through to Private and Designated Public hospitals. The increase is also driven by the increase of $137.83 million in SFCO TPA liabilities.

As of June 30, 2019, SFCO TPA liabilities to the Department of Public Health include $593,250 of earned premiums and $2.09 million in unearned (pre-paid) participant fees. Employer contributions held in participant MRA's totaled $403.49 million. Capitation payable decreased in 2019 by $10.04 million due primarily to decreases in membership. Medical claims payable decreased by $985,587 in 2019, due to timing of payment for known claims at June 30 2019, compared to June 30, 2018. The Plan holds an additional $1.58 million for a reserve margin and loss adjustment expense. The Plan also holds $4.62 million for a special MLR reserve related to Proposition 56 program funding, which is included in payable to other governmental agencies. Amounts payable to governmental agencies decreased by $3.26 million in 2019. This decrease is primarily due to the elimination of a special MLR reserve related to the MCE line of business. Total liabilities increased by $258.84 million in 2019. The increase is reflecting the timing of payments due to providers for the new Directed Payments, which will be passed through to Private and Designated Public hospitals. The increase is also driven by the increase of $124.35 million in SFCO TPA liabilities.

Request for information

Please direct questions concerning this report to:

Chief Financial Officer
San Francisco Health Plan
50 Beale Street, 12^{th} Floor
San Francisco, CA 94105

MOSSADAMS

Report of Independent Auditors

To the Governing Board
San Francisco Health Authority and San Francisco Community Health Authority

Report on the Financial Statements

We have audited the accompanying combined statements of net position of San Francisco Health Authority and San Francisco Community Health Authority (collectively the "Plan"), as of June 30, 2021 and 2020, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined net position of San Francisco Health Authority and the San Francisco Community Health Authority, as of June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accompanying Management's Discussion and Analysis on pages 1 through 10, supplementary schedule of proportionate share of the net pension asset/liability and supplementary schedule of contributions on pages 39 through 40 are not a required part of the combined financial statements but are supplementary information required by the Governmental Accounting Standards Board who considers them to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of the Plan's management. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide an assurance on the supplementary information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

San Francisco, California
October 25, 2021

Combined Financial Statements

San Francisco Health Authority and
San Francisco Community Health Authority
Combined Statements of Net Position
June 30, 2021 and 2020

	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 60,707,653	$ 60,769,229
SFCO Third Party Administrator ("TPA") cash and cash equivalents	674,345,507	602,379,943
Short-term investments	36,514,991	18,538,149
Capitation receivables	94,050,211	209,209,083
SFCO TPA receivables	29,898,312	13,750,451
Other receivables	1,951,864	7,700,899
Prepaid expenses	3,767,087	3,791,019
Total current assets	901,235,625	916,138,773
Investments	23,621,248	24,078,865
Capital assets, net of accumulated depreciation and amortization	2,904,496	4,206,407
Asset restricted as to use	300,000	300,000
Net pension asset	395,440	208,691
Total assets	928,456,809	944,932,736
Deferred outflows of resources	6,199,896	7,321,949
Total assets and deferred outflows of resources	$ 934,656,705	$ 952,254,685
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accrued salaries and benefits	$ 8,754,934	$ 7,990,587
SFCO TPA liabilities	693,107,044	606,082,445
Accounts payable and accrued expenses	48,408,264	33,844,963
Payable to other governmental agencies	24,178,369	38,623,716
Due to providers	21,743,703	134,041,202
Capitation payable	33,810,948	30,908,734
Medical claims payable	8,801,543	7,157,322
Current portion of capital lease obligations	15,805	95,544
Healthy Kids advanced premiums	-	1,771,518
Total current liabilities	838,820,610	860,516,031
Capital lease obligations, net of current portion	-	11,853
Total liabilities	838,820,610	860,527,884
Deferred inflows of resources	227,878	180,388
NET POSITION		
Invested in capital assets, net of related debt	2,888,691	4,099,010
Restricted:		
Required by legislative authority	300,000	300,000
Unrestricted	92,419,526	87,147,403
Total net position	95,608,217	91,546,413
Total liabilities, deferred inflows of resources, and net position	$ 934,656,705	$ 952,254,685

See accompanying notes.

	2021	2020
OPERATING REVENUES		
Capitation	$ 707,936,002	$ 611,515,025
Other income	8,333,449	7,601,394
SFCO TPA fees	11,078,328	9,984,699
Grants	85,500	884,092
Premium tax	(41,642,767)	(19,135,326)
Total revenues	685,790,512	610,849,884
OPERATING EXPENSES		
Medical	619,239,855	560,986,435
Salaries and benefits	28,073,206	28,853,475
SFCO TPA expenses	11,078,328	9,984,699
Other administrative	8,110,140	7,778,219
Legal and professional	7,087,008	7,116,260
Occupancy	3,601,111	3,400,053
Office expenses	1,936,890	1,643,115
Depreciation and amortization	1,671,299	1,539,748
Marketing and promotion	896,357	841,724
Insurance	261,444	232,773
Total expenses	681,955,638	622,376,501
Operating income (loss)	3,834,874	(11,526,617)
NONOPERATING REVENUES		
Interest income	226,930	2,569,841
Change in net position	4,061,804	(8,956,776)
TOTAL NET POSITION, beginning	91,546,413	100,503,189
TOTAL NET POSITION, ending	$ 95,608,217	$ 91,546,413

See accompanying notes.

San Francisco Health Authority and
San Francisco Community Health Authority
Combined Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received	$ 768,738,153	$ 796,611,792
SFCO TPA premiums received and held	78,937,477	127,821,731
Medical expenses paid	(728,762,374)	(699,692,268)
Administrative expenses paid	(29,255,993)	(70,900,575)
Net cash provided by operating activities	89,657,263	153,840,680
CASH FLOWS FROM CAPITAL FINANCING AND RELATED ACTIVITIES		
Payments for purchase of capital assets	(369,388)	(470,058)
Principal payments on capital lease obligations	(91,592)	(86,271)
Net cash used in capital financing and related activities	(460,980)	(556,329)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(1,436,913,333)	(1,345,580,773)
Proceeds from sale and maturities of investments	1,419,394,108	1,342,732,838
Interest income on investments	226,930	2,569,841
Net cash (used in) provided by investing activities	(17,292,295)	(278,094)
Net change in cash and cash equivalents	71,903,988	153,006,257
CASH AND CASH EQUIVALENTS (including SFCO TPA restricted cash and cash equivalents), beginning of year	663,149,172	510,142,915
CASH AND CASH EQUIVALENTS (including SFCO TPA restricted cash and cash equivalents), end of year	$ 735,053,160	$ 663,149,172
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ 3,834,874	$ (11,526,617)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	1,671,299	1,539,748
(Increase) decrease in assets		
Capitation receivables	115,158,872	22,984,979
SFCO TPA receivables	(16,147,861)	925,065
Other receivables	5,749,035	(2,832,165)
Prepaid expenses	23,932	(435,240)
Increase (decrease) in liabilities		
Accrued salaries and benefits	764,347	1,315,510
SFCO TPA liabilities	87,024,599	137,833,114
Accounts payable and accrued expenses	14,563,301	(12,954,010)
Payable to other governmental agencies	(14,445,347)	11,895,322
Capitation payable	2,902,214	(8,262,954)
Due to providers	(112,297,499)	14,172,770
Medical claims payable	1,644,221	(476,911)
Healthy Kids advanced premium	(1,771,518)	-
Net change in pension	982,794	(337,931)
Net cash provided by operating activities	$ 89,657,263	$ 153,840,680
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for:		
Interest	$ 166,900	$ 241,540
Premium tax	$ 39,981,240	$ 17,769,440

See accompanying notes.

NOTE 1 – DESCRIPTION OF ORGANIZATION

San Francisco Health Authority and San Francisco Community Health Authority (collectively the "Plan"), is a public Health Maintenance Organization ("HMO") licensed by the State of California ("State") and located in the County of San Francisco (the "County"), California. San Francisco Health Plan's legal name is San Francisco Health Authority. However, it has operated since its inception as San Francisco Health Plan. The mission and purpose of San Francisco Health Plan are to develop, govern, and administer a comprehensive, integrated, competitive, and cost-efficient health care delivery system that will deliver quality health care to the Medi-Cal population in the County and to other populations in the County.

San Francisco Health Authority was established by the County Board of Supervisors on December 15, 1994, in accordance with the State's Welfare and Institutions Code Section 14087.54 (the "Code") and is considered to be a public entity as defined under the Code. This legislation provides that San Francisco Health Authority is a legal entity, separate and apart from the County, and is not considered to be an agency, division, department, or instrumentality of the County. Further, San Francisco Health Authority is not governed by, nor is subject to, the Charter of the County and is not subject to the County's policies or operational rules. The Plan became fully operational on January 1, 1997.

Effective July 1, 2005, San Francisco Health Authority and the City and County of San Francisco entered into a Joint Powers Agreement to create San Francisco Community Health Authority ("SFCHA") pursuant to Chapter 5, Division 7, Title 1 of the California Government Code. SFCHA serves as a Knox-Keene licensed health care service plan and enrolls members in the Healthy Workers and Healthy Kids programs, and any members in new programs that may be developed. All programs operate under the auspices of the Plan and the governing body and officers of San Francisco Health Authority are the governing body and officers, respectively, of SFCHA.

Effective July 1, 2007, the San Francisco Department of Public Health began enrolling participants in San Francisco City Option ("SFCO"), a program for uninsured residents of San Francisco who are under 300% of the Federal Poverty Level ("FPL"). The SFCO program is not health insurance. San Francisco Health Plan provides third-party administrative services, including fee billing, to participants over 100% of the FPL. In addition, effective January 2, 2008, employers have the option of providing health care coverage to their employees or be subject to a spending requirement and the option to participate in SFCO. San Francisco Health Plan receives employer payments and establishes Medical Reimbursement Accounts ("MRA") for qualifying employees.

Effective July 1, 2013 through June 30, 2016, a sales tax was in effect, administered by the California Board of Equalization. The amount was determined by multiplying the Plan's capitation revenue by 3.9375%. The premium tax was recognized in the period the related capitation revenue was recognized. On March 1, 2016, Senate Bill ("SB") X2-2 established a new managed care organization provider tax, to be administered by the Department of Health Care Services ("DHCS"), effective July 1, 2016 through June 30, 2019. The tax is assessed by DHCS on licensed health care service plans, managed care plans contracted with DHCS to provide Medi-Cal services, and alternate health care service plans ("AHCSP"), as defined, except as excluded by the bill. This bill established applicable taxing tiers and per enrollee amounts for the 2016–2017, 2017–2018, and 2018–2019 fiscal years, respectively, for Medi-Cal enrollees, AHCSP enrollees, and all other enrollees, as defined. Effective January 1, 2020, Assembly Bill 115 (Chapter 348, Statutes 2019) authorizes the DHCS to implement a Managed Care Organization ("MCO") tax on specified health plans subject to approval by the Centers for Medicare and Medicaid Services ("CMS"). The tax effective date range under CMS approval is January 1, 2020 through December 31, 2022.

On September 8, 2010, the California State Legislature ratified Assembly Bill ("AB") No. 1653, which established a Hospital Quality Assurance Fee ("HQAF") program allowing additional draw down federal funding to be used for increased payments to general acute care hospitals for inpatient services rendered to Medi-Cal beneficiaries. Pursuant to the State's W&I Code Section 14167.6(a), California DHCS ("CDHCS") shall increase capitation payments to Medi-Cal managed health care plans retroactive for the months of April 2009 through December 2010. Additionally, Medi-Cal managed care plans are required to adhere to the following regarding the distribution of the increased capitation rates with HQAF funding: Section 14167.6(h)(1), "Each managed health care plan shall expend 100 percent of any increased capitation payments it receives under this section on hospital services;" and, Section 14167.10(a), "Each managed health care plan receiving increased capitation payments under Section 14167.6 shall expend increased capitation payments on hospital services within 30 days of receiving the increased capitation payments." These payments were received and distributed in the manner as prescribed as a pass through to revenue. In April 2011, Senate Bill No. 90 ("SB 90") was signed into law, which extended the HQAF program through June 30, 2011. SB 335, signed into law in September 2011, extended the HQAF portion of SB 90 for an additional 30 months through December 31, 2013. SB 239, signed into law in October 2013, extended the program for an additional 36 months from January 1, 2014 through December 31, 2016. In November of 2016, California approved Proposition 52, which made SB 239 permanent and also created HQAF V. The program period for HQAF V is from January 1, 2017 through June 30, 2019. An extension of the program known as HQAF VI, covering July 1, 2019 through December 31, 2021 was approved by CMS in February 2020.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting standards – Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Plan's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989, and the California Code of Regulations, Title 2, Section 1131, State Controller's *Minimum Audit Requirements* for California Special Districts and the State Controller's Office prescribed reporting guidelines.

Proprietary fund accounting – The Plan uses the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and combined financial statements are prepared using the economic resources measurement focus.

Basis of combination – The accompanying combined financial statements as of June 30, 2021 and 2020, and the years then ended include San Francisco Health Authority and San Francisco Community Health Authority. All intercompany balances have been eliminated in the combination.

Use of estimates – The preparation of the combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Capitation receivable, liability for incurred but not reported claims expense, net pension asset/liability, fair value of investments, and useful lives of capital assets represent significant estimates. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents consist of demand deposits and other short-term, highly liquid securities with original maturities of three months or less.

SFCO TPA restricted cash and cash equivalents – The Plan is required to maintain cash balances for the SFCO program on behalf of the San Francisco Department of Public Health. The Plan receives employer payments and establishes MRAs for qualifying employees. These amounts cannot be used by the Plan for its operations and result in a related liability. The SFCO TPA restricted cash and cash equivalents consist of demand deposits.

Asset restricted as to use – The Plan is required by the California Department of Managed Health Care ("DMHC") to restrict cash having a fair value of at least $300,000 for the payment of member claims in the event of its insolvency. The amount recorded was $300,000 at June 30, 2021 and 2020. Asset restricted as to use is composed of certificates of deposit and is stated at fair value.

Concentration of credit risk – Financial instruments potentially subjecting the Plan to concentrations of risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation ("FDIC") insurance thresholds. The Plan maintains its cash in bank deposit accounts, which, at times, may exceed FDIC insurance thresholds. The Plan believes no significant concentration of credit risk exists with these cash accounts.

The Plan is highly dependent upon the State of California for its revenues. A significant portion of accounts receivable and revenue are from the State of California. Loss of the contracts with the State of California due to nonrenewal or legislative decisions that impact program funding or result in discontinuation could materially affect the combined financial position of the Plan.

As of June 30, 2021 and 2020, the Plan had capitation receivables of $94,050,211 and $209,209,083, respectively, due from the State of California. For the years ended June 30, 2021 and 2020, the Plan recognized capitation revenues of $707,936,002 and $611,515,025, respectively, from the State of California.

Investments – All short-term and long-term investments consist of certificates of deposit, domestic corporate bonds, U.S. fixed income securities, municipal bonds, and foreign bonds. Investments are stated at fair market value as determined by quoted market prices, with any changes in the fair value reported on the combined statements of revenues, expenses, and changes in net position.

The Plan has an investment in the State of California Local Agency Investment Fund ("LAIF"). The amounts invested in the investment pool are considered investments in an external investment pool and earn interest based on the blended rate of return earned by the entire portfolio in the pool. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in forced liquidation. The fair value of the investment pool is generally based on published market prices and quotations from major investment firms. Because the Plan does not own identifiable investment securities of the pool but participates as a shareholder of the pool, these cash and cash equivalents are not individually identifiable and are not required to be categorized under GASB Codification Section C20, *Cash Deposits with Financial Institutions.* The fair value of the Plan's share in the pool approximated the fair value of the position in the pool at June 30, 2021 and 2020.

Capital assets – Capital assets include furniture, equipment, computer hardware, computer software, leasehold improvements, and capital leases. Capital assets are recorded at cost. Depreciation and amortization of equipment, furniture, fixtures, computer hardware, computer software, and leasehold improvements is based on the straight-line method over the estimated useful lives of the assets, estimated to be three to ten years. Equipment under capital leases is amortized over the shorter of the estimated useful life or anticipated lease term. The Plan capitalizes capital expenditures over $5,000 that will have a useful life of more than one year.

The Plan evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset.

Pensions – For purposes of measuring the net pension asset/liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan's California Public Employees' Retirement System ("CalPERS") plans ("pension plan") and additions to/deductions from the pension plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Payables to other governmental agencies – The Plan had the following as of June 30:

	2021	2020
Medi-Cal rate reduction reserve	$ -	$ 6,178,038
Proposition ("Prop") 56 related liabilities	19,785,380	11,590,331
Managed care tax	3,514,896	20,776,426
Senate Bill ("SB") 208 related liabilities	876,847	-
Intergovernmental Transfer ("IGT") payable	1,246	78,921
Total payables to other governmental agencies	$ 24,178,369	$ 38,623,716

In addition to regular monthly Medi-Cal premium payments, DHCS also makes periodic supplemental payments to the Plan for pass-through programs designed to provide additional funding to designated public hospitals ("DPH"):

- IGT available to governmental funding entities and tied to providers of health care services rendered to Medi-Cal beneficiaries.
- IGT as outlined by Senate Bill 208 ("SB208") to preserve and strengthen the availability and quality of services provided by DPH's and their affiliated public providers. This IGT is specific to the Seniors and Persons with Disabilities ("SPD") population.
- AB85 to cost funding as required by the Affordable Care Act ("ACA"). DPH are to be reimbursed in amounts no less than cost for applicable services provided to newly eligible Medi-Cal Expansion members.

Due to providers – Beginning with the July 1, 2017, rating period, the CDHCS has implement managed care Directed Payments: 1) Private Hospital Directed Payment ("PHDP"), 2) Designated Public Hospital Enhanced Payment Program ("EPP-FFS" and "EPP-CAP"), 3) Designated Public Hospital Quality Incentive Pool ("QIP"). (1) For PHDP, the CDHCS will direct Managed Care Plans ("MCP") to reimburse private hospitals as defined in WIC 14169.51, based on actual utilization of contracted services. The enhanced payment is contingent upon hospitals providing adequate access to service, including primary, specialty, and inpatient (both tertiary and quaternary) care. The total funding available for the enhanced contracted payments are limited to a predetermined amount (pool). (2) For EPP-FFS and EPP–Capitated Pools, the CDHCS has directed MCPs to reimburse California's 21 DPH for network contracted services delivered by DPH systems, enhanced by either a uniform percentage or dollar increment based on actual utilization of network contracted services. (3) For QIP, the CDHCS has directed the MCPs to make QIP payments tied to performance on designated performance metrics in four strategic categories: primary care, specialty care, inpatient care, and resource utilization. The payments are linked to the delivery of services under the MCP contracts and increase the amount of funding tied to quality outcomes. To receive QIP payments the DPH and UC systems must achieve specified improvement targets, which grow more difficult through year-over-year improvement or sustained high performance requirements. The total funding available for the QIP payments will be limited to a predetermined amount (pool). As of June 30, 2021 and 2020, amounts due to providers consist of directed payments as detailed above, totaling $21,743,703 and $134,041,202, respectively.

Net position – Net position is classified as invested in capital assets, net of related debt, restricted, or unrestricted net position. Invested in capital assets, net of related debt, represents investments in equipment, furniture, fixtures, computer hardware, computer software, leasehold improvements, and capital leases, net of depreciation and amortization and related debt. Restricted net position is noncapital net position that must be used for a particular purpose, as specified by state regulatory agency, grantors, or contributors external to the Plan. Unrestricted net position consists of net position that does not meet the definition of invested in capital assets, net of depreciation and amortization, or restricted net position.

Operating revenues and expenses – The Plan's primary operating revenue is derived from capitation. As defined by GASB Codification Section P80, *Proprietary Fund Accounting and Financial Reporting,* all operating revenues are considered program revenues because they are charges for services provided and program-specific operating grants. The primary operating expense is medical expenses. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or net investment income and changes in the fair value of investments.

Capitation revenue – The Plan has agreements with the Medi-Cal Program in the State to provide certain health care products and services to enrolled Medi-Cal beneficiaries. Eligibility of beneficiaries is determined by City and County of San Francisco Human Services Agency and validated by the State of California. The State of California provides the Plan the validated monthly eligibility file of program beneficiaries who are continuing, newly added, or terminated from the program in support of capitation revenue for the respective month. A portion of revenues received from DHCS is subject to possible retroactive adjustments. Provisions have been made for estimated retroactive adjustments for a maximum of 12 months of retroactivity. Adjustments to revenue due to changes in member eligibility are recognized on a current basis.

Effective with the enrollment of the Adult Expansion Population per the Affordable Care Act on January 1, 2014, the Plan is subject to CDHCS requirements to meet a minimum of 85% medical loss ratio ("MLR") for this population. Specifically, the Plan will be required to expend at least 85% of the Medi-Cal capitation revenue received for this population on allowable medical expenses as defined by CDHCS. In the event the Plan expends less than the 85% requirement, the Plan will be required to return to CDHCS the difference between the minimum threshold and the actual allowed medical expenses. The 85% MLR requirement is for January 2014 through June 2016, a 30-month period. As of June 30, 2019, the Plan included, an estimated return of funds of $10,998,155 as a reduction to the total amount expected from CDHCS in the California Department of Health Care Services payable. In 2019, the Plan paid off the remainder liability to the CDHCS related to the original MLR reporting period of January 2014 through June 2016. As of June 30, 2021, there are no estimated liabilities for CDHCS between the minimum threshold and the actual allowed medical expenses for the reporting period July 2016 through June 2021.

Effective July 1, 2017, Proposition 56 provides supplemental reimbursement for eligible physician services provided to Medi-Cal beneficiaries. The supplemental reimbursements are for qualified physician services rendered between July 1, 2017 and June 30, 2018 and will continue through June 30, 2021. Providers who are eligible to provide and bill for certain Current Procedural Terminology ("CPT") codes will receive the associated supplemental payment. For the period July 1, 2017 to June 30, 2018, the Plan is not subject to any CDHCS requirements to meet a minimum medical loss ratio for this program. For the period July 1, 2018 to June 30, 2020, the Plan is subject to CDHCS requirements to meet a minimum 95% medical loss ratio for this program. If the minimum requirement is not met, the Plan will be required to return to CDHCS the difference between the minimum threshold and the actual allowed medical expenses. In 2021 and 2020, the Plan accrued $19,785,380 and $11,590,331, respectively, for the estimated return of funds to CDHCS, which is included in payables to other governmental agencies.

The Plan has an agreement with the County to provide health care services to enrolled Healthy Kids beneficiaries. The Plan issues monthly invoices to the funding organization for its respective portion of premium costs for all Healthy Kids enrollees. Premiums are due monthly and are recognized as revenue in the period the Plan is obligated to provide medical services. Monthly premiums are billed one month in arrears. Premiums collected in advance are recorded as deferred revenue. Unearned income of $0 and $1,771,518 as of June 30, 2021 and 2020, respectively, is included in Healthy Kids advanced premiums on the combined statements of net position.

Premium deficiencies – The Plan performs periodic analyses of its expected future medical expenses and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. Should expected costs exceed anticipated revenues, a premium deficiency reserve is recorded. Management determined that no premium deficiency reserves were needed at June 30, 2021 and 2020.

Grants – The Plan receives grant revenues, which are restricted as to their purpose by the grantor organizations. Revenues from such grants are recognized as operating revenue when all requirements have been met, as they are restricted for specific operating purposes of the Plan.

SFCO TPA fee – The Plan is reimbursed for operating expenses required to support the SFCO program. The Plan bills the San Francisco Department of Health for the direct cost of personnel, space, supplies, and other expenses according to the administrative service agreement. Amounts due from the San Francisco Department of Health for administration fees are $ 11,111,776 and $10,022,947 at June 30, 2021 and 2020, respectively, and are included in SFCO TPA receivables.

Medical expenses – Hospital, physician, and other service costs are recognized in the period the services are provided and are based on actual paid claims plus an estimate for incurred, but not reported, claims. The estimate for reserves for claims is based on actuarial projections of hospital and other costs using historical analysis of claims paid and authorization and admission data. Estimates are monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Many physicians belonging to medical groups and certain hospitals are compensated primarily on a capitation basis with provisions for additional incentive payments in certain circumstances.

Insurance coverage – The Plan maintains its general liability insurance coverage through outside insurers in the form of “claims-made” policies. Should the claims-made policies not be renewed or replaced with equivalent insurance, claims related to the occurrences during the term of the claims-made policies but reported subsequent to the termination of the insurance contract may be uninsured. These policies were renewed subsequent to year end. Physicians and hospitals, with whom the Plan contracts, are required to maintain their own malpractice coverage.

Income taxes – The Plan operates under the purview of the Internal Revenue Code, Section 501(a) and corresponding California Revenue and Taxation Code provisions. As such, the Plan is not subject to federal or state income taxes.

New accounting pronouncements – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (“GASB No. 84”), which is effective for financial statements for periods beginning after December 15, 2018. GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments and clarifies whether and how business-type activities should report their fiduciary activities. Further, the Statement provides that governments should report activities meeting certain criteria in a fiduciary fund in the basic financial statements and present a statement of fiduciary net position and a statement of changes in fiduciary net position. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (“GASB No. 95”), which extended the effective date for GASB No. 84 to reporting periods beginning July 1, 2020. The Plan adopted GASB 84 and 95 for the fiscal year 2021 and the adoption had no material impact to the financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases* (“GASB No. 87”), which is effective for financial statements for periods beginning after December 15, 2019. GASB No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB No. 87 also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB No. 95 extended the effective date for GASB No. 87 to reporting periods beginning July 1, 2021. The Plan is reviewing the impact of the adoption of GASB No. 87 for the fiscal year ending 2022.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. GASB 93 provides exceptions to the existing provisions for hedge accounting termination and lease modifications to ease the accounting requirements related to the transition away from interbank offered rates (IBORs). It also identifies appropriate benchmark interest rates for hedging derivative instruments. The statement provides exceptions to the existing provisions for hedge accounting termination and lease modifications to ease the accounting requirements related to the transition away from interbank offered rates (IBORs). It also identifies appropriate benchmark interest rates for hedging derivative instruments. The removal of LIBOR as an appropriate benchmark interest is effective for reporting periods ending after December 31, 2021.All other requirements of Statement No. 93 are effective for reporting periods beginning after June 15, 2020. The Health Plan is reviewing the impact of the adoption of GASB 93 related to the removal of LIBOR as an appropriate benchmark interest for the fiscal year ending 2022.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* (“GASB 97”). GASB 97 amends the criteria for reporting governmental fiduciary component units – separate legal entities included in a government’s financial statements. GASB 97 clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 for defined contribution plans and to enhance the relevance, consistency, and comparability of the accounting and financial reporting of IRC Code section 457 plans that meet the definition of a pension plan. The Plan adopted GASB 97 for the fiscal year 2021 and the adoption had no material impact to the financial statements.

NOTE 3 – CASH, RESTRICTED CASH, AND INVESTMENTS

Cash, restricted cash, and investments as of June 30 consist of the following:

	2021	2020
Cash on hand	$ 1,000	$ 1,000
Cash deposits	735,052,160	663,148,172
Investments	60,436,239	42,917,014
Total cash, restricted cash, and investments	$ 795,489,399	$ 706,066,186
Reconciliation to combined statements of net position:		
Cash and cash equivalents	$ 60,707,653	$ 60,769,229
SFCO restricted cash and cash equivalents	674,345,507	602,379,943
Short-term investments	36,514,991	18,538,149
Investments	23,621,248	24,078,865
Asset restricted as to use	300,000	300,000
Total cash, restricted cash, and investments	$ 795,489,399	$ 706,066,186

Included in the investments balance as of June 30, 2021 and 2020, is $300,000 related to the Plan’s Knox-Keene reserve requirement. This amount is included in asset restricted as to use in the combined statements of net position.

The Plan's Annual Investment Policy ("Policy") sets forth the guidelines for the investment of all operating funds. The Policy conforms to the California Investment Code §53646 ("Code") as well as customary standards of prudent investment management. The objectives of the Plan's investment policy, in order of priority, are safety of principal, maintenance of liquidity, and attainment of a market rate return that considers risk constraints and cash flow requirements. The policy also identifies certain provisions that address interest rate risk, credit risk, and concentration of risk.

Authorized Investment Type	Maximum Maturity	Maximum Specified Percentage Portfolio	Maximum Investment in One Issuer
Money Market	60 months	100%	None
Mutual Funds	60 months	20%	None
Bankers' Acceptances	270 days	40%	30%
Commercial Paper	180 days	30%	10%
Negotiable Certificates of Deposits	2 years	30%	None
Repurchase Agreements	10 days	30%	None
U.S. Treasury Obligations	Each investment will not exceed a weighted-average maturity of 60 months, with no individual investment to exceed a maturity period of 84 months (seven years).	100%	None
U.S. Agencies	Each investment will not exceed a weighted-average maturity of 60 months, with no individual investment to exceed a maturity period of 84 months (seven years).	100%	None
State Operating Funds and Reserves	Each investment will not exceed a weighted-average maturity of 60 months, with no individual investment to exceed a maturity period of 84 months (seven years).	None	None

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code requires financial institutions to secure deposits made by public agencies by pledging securities in an undivided collateral pool held by a depository regulated under the State law. As of June 30, 2021 and 2020, deposits exposed to custodial credit risk because they were uninsured, and the collateral held by the pledging bank not in the Plan's name, were $736,274,012 and $607,486,763, respectively.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its Policy, the Plan manages the risk of market value fluctuations due to overall changes in the general level of interest rates by limiting the weighted-average maturity of its portfolio to no more than 60 months.

The weighted average maturity in years for the Plan's portfolio are as follows as of June 30:

2021

Investment Type	Fair Value	Weighted-Average Maturity (Years)
Certificates of Deposit	$ 31,534,144	0.4
U.S. Agencies	26,316,267	2.7
Foreign Agencies	1,364,976	2.6
LAIF	1,220,852	-
Total fair value	$ 60,436,239	
Portfolio weighted average maturity		1.5

2020

Investment Type	Fair Value	Weighted-Average Maturity (Years)
Certificates of Deposit	$ 16,704,512	0.25
U.S. Agencies	23,016,443	2.87
Foreign Agencies	2,013,295	2.88
LAIF	1,182,764	-
Total fair value	$ 42,917,014	
Portfolio weighted average maturity		1.8

Credit risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Per GASB Codification Section C20, *Cash Deposits with Financial Institutions,* Section I50, *Investments*, and Section I55, *Investments—Reverse Repurchase Agreements*, unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality.

Presented below is the minimum rating required by (where applicable) the California Government Code or the Plan's policy and the actual rating as of year-end for each investment type.

Ratings as of June 30, 2021:

Investment Type	Fair Value	AAA	AA2	AA1	A-1	A-2	A-3	None
Certificates of Deposit	$31,534,144	$ -	$ -	$ -	$ -	$31,534,144	$ -	$ -
U.S. Agencies	26,316,267	16,306,130	500,753	622,648	2,128,479	4,675,917	2,082,340	-
Foreign Agencies	1,364,976	-	-	-	749,595	615,381	-	-
LAIF	1,220,852	-	-	-			-	1,220,852
Total fair value	$60,436,239	$ 16,306,130	$ 500,753	$ 622,648	$ 2,878,074	$36,825,442	$ 2,082,340	$1,220,852

Ratings as of June 30, 2020:

Investment Type	Fair Value	AAA	AA2	AA1	A-1	A-2	A-3	None
Certificates of Deposit	$16,704,512	$ -	$ -	$ -	$ -	$16,704,512	$ -	$ -
U.S. Agencies	23,016,443	17,063,661	-	1,050,063	779,660	1,502,290	2,620,769	-
Foreign Agencies	2,013,295	-	-	-	1,253,011	760,284	-	-
LAIF	1,182,764	-	-	-	-	-	-	1,182,764
Total fair value	$42,917,014	$ 17,063,661	$ -	$ 1,050,063	$ 2,032,671	$18,967,086	$ 2,620,769	$1,182,764

Concentration of credit risk – The investment policy of the Plan contains certain limitations on the amount that can be invested in any one issuer as listed in the table on page 25. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the Plan's total investments as of June 30, 2021 and 2020.

NOTE 4 – FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the statements of net position at June 30, 2021 and 2020, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Fixed income: Fixed income funds are valued at the net asset value of shares held by the Plan and are valued at the closing price reported on the active market on which the individual securities are traded.

The following tables present fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

Description	Level 1	Level 2	Level 3	2021
Fixed income				
U.S. government bonds & notes	$ -	$ 11,126,825	$ -	$ 11,126,825
U.S. agencies	-	5,179,305	-	5,179,305
Corporate bonds	8,715,719	-	-	8,715,719
Municipal bonds	-	1,294,418	-	1,294,418
Other	-	1,364,976	-	1,364,976
Total investments and restricted cash by fair value level	$ 8,715,719	$ 18,965,524	$ -	27,681,243
Certificates of deposit				31,534,144
LAIF				1,220,852
Total investments and restricted cash				$ 60,436,239

Description	Level 1	Level 2	Level 3	2020
Fixed income				
U.S. government bonds & notes	$ -	$ 10,173,150	$ -	$ 10,173,150
U.S. agencies	-	6,890,511	-	6,890,511
Corporate bonds	5,505,953	-	-	5,505,953
Municipal bonds	-	446,829	-	446,829
Other	-	2,013,295	-	2,013,295
Total investments and restricted cash by fair value level	$ 5,505,953	$ 19,523,785	$ -	25,029,738
Certificates of deposit				16,704,512
LAIF				1,182,764
Total investments and restricted cash				$ 42,917,014

Investments and asset restricted as to use consist of the following at June 30:

	2021	2020
Short-term investments	$ 36,514,991	$ 18,538,149
Investments	23,621,248	24,078,865
Asset restricted as to use	300,000	300,000
Total	$ 60,436,239	$ 42,917,014

NOTE 5 – CAPITAL ASSETS

Capital assets balances as of June 30 consist of the following:

	2021				
	Balance at July 1, 2020	Increases	Decreases	Transfers	Balance at June 30, 2021
Furniture and equipment	$ 2,097,260	$ -	$ -	$ -	$ 2,097,260
Computer hardware	3,168,585	369,388	-	-	3,537,973
Computer software	7,337,252	-	-	-	7,337,252
Leasehold improvements	2,187,666	-	-	-	2,187,666
Equipment under capital lease	260,662	-	-	-	260,662
	15,051,425	369,388	-	-	15,420,813
Less accumulated depreciation for:					
Capital assets	(10,337,303)	(1,597,070)	-	-	(11,934,373)
Equipment under capital leases	(507,715)	(74,229)	-	-	(581,944)
	(10,845,018)	(1,671,299)	-	-	(12,516,317)
Net capital assets	$ 4,206,407	$ (1,301,911)	$ -	$ -	$ 2,904,496

	2020				
	Balance at July 1, 2019	Increases	Decreases	Transfers	Balance at June 30, 2020
Furniture and equipment	$ 2,097,260	$ -	$ -	$ -	$ 2,097,260
Computer hardware	2,808,946	359,639	-	-	3,168,585
Computer software	7,337,252	-	-	-	7,337,252
Leasehold improvements	2,077,247	110,419	-	-	2,187,666
Equipment under capital lease	260,662	-	-	-	260,662
	14,581,367	470,058	-	-	15,051,425
Less accumulated depreciation for					
Capital assets	(8,871,784)	(1,465,519)	-	-	(10,337,303)
Equipment under capital leases	(433,486)	(74,229)	-	-	(507,715)
	(9,305,270)	(1,539,748)	-	-	(10,845,018)
Net capital assets	$ 5,276,097	$ (1,069,690)	$ -	$ -	$ 4,206,407

NOTE 6 – CAPITATION PAYABLE

Capitation payable represents capitation payments due to providers under the Medi-Cal, Healthy Workers, and Healthy Kids programs of the Plan to be paid to medical providers for services rendered to eligible members, for the months of June 2021 and 2020, respectively. Capitation payable as of June 30, 2021 and 2020, was $33,810,948 and $30,908,734, respectively.

NOTE 7 – MEDICAL CLAIMS PAYABLE

The Plan contracts with various providers, including physicians and hospitals, to provide certain health care products and services to enrolled Medi-Cal, Healthy Workers, and Healthy Kids beneficiaries. The cost of the health care products and services provided or contracted for is accrued in the period in which it is provided to a member and includes an estimate of the cost of services that have been incurred but not yet reported. The estimate for reserves for claims is based on projections of hospital and other costs using historical studies of claims paid. Estimates are monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions.

For the years ended June 30, 2021 and 2020, the following is a reconciliation of the medical claims payable liability and the reserve for future claims losses:

	2021	2020
Balance, July 1	$ 7,157,322	$ 7,634,233
Add: claims expenses incurred	47,460,632	45,017,828
Less: claims expenses paid	(45,816,411)	(45,494,739)
Balance, June 30	$ 8,801,543	$ 7,157,322

NOTE 8 – MEDICAL REINSURANCE (STOP-LOSS INSURANCE)

The Plan has entered into certain reinsurance (“stop-loss”) agreements with third parties to limit its losses on individual claims. Under the terms of these agreements, the third parties will reimburse the Plan certain proportions of the cost of each member’s annual hospital services, in excess of specified deductibles, no more than $1,000,000 in aggregate over all contract years per member. Stop-loss insurance premiums of $1,508,395 and $2,580,866 are included in medical expense in 2021 and 2020, respectively. Stop-loss insurance recoveries were $750,000 and $8,072,376 in 2021 and 2020, respectively, and included certain amounts passed through to providers. Stop-loss insurance recoveries are recorded as an offset to stop-loss insurance expense and are included in other income in 2021 and 2020.

NOTE 9 – RETIREMENT, DEFERRED COMPENSATION, AND DEFINED CONTRIBUTION PLANS

Plan description – Effective May 3, 1999, the Plan joined CalPERS, a cost-sharing multiple-employer defined benefit pension plan (“pension plan”). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to CalPERS members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute. Copies of the CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, California 95814.

Benefits provided – CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, who must be public employees, and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The pension plan's provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Hire date prior to January 1, 2013	Hire date on or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52
Monthly benefits, as a % of eligible compensation	monthly for life	monthly for life
Required employee contributions rates	7.00%	6.75%
Required employer contributions rates	9.68%	9.96%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the pension plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Plan is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2021, the employer contributions recognized as part of pension expense was $3,473,223 and employee contributions were $2,424,627.

For the year ended June 30, 2020, the employer contributions recognized as part of pension expense was $4,116,715 and employee contributions were $2,320,739.

As of June 30, 2021 and 2020, the Plan reported $395,440 and $208,691 of net pension asset, respectively, for its proportionate shares of the net pension asset (liability) of the pension plan.

The Plan's net pension asset/liability for the pension plan is measured as the proportionate share of the net pension asset/liability. For the fiscal years ended June 30, 2021 and 2020, the net pension asset/liability of the pension plan is measured as of June 30, 2020 and 2019, respectively, and the total pension liability for the pension plan used to calculate the net pension asset/liability was determined by an actuarial valuation as of June 30, 2019 and 2018, rolled forward to June 30, 2019 and 2018, using standard update procedures. The Plan's proportion of the net pension asset/liability was based on a projection of the Plan's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Plan's proportionate share of the net pension asset/liability for the pension plan as of June 30, 2021 and 2020, was -0.00363% and -0.00204%, respectively.

For the year ended June 30, 2021 and 2020, the Plan recognized pension expense of $4,456,018 and $3,778,783, respectively, as included in salaries and benefits in the combined statements of revenue, expenses, and changes in net position.

At June 30, 2021, the Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 20,378
Changes of assumptions	2,820	-
Differences between projected and actual investment earnings	-	11,747
Differences between employer's contributions and proportionate share of contributions	2,258,753	-
Change in employer's proportion	465,100	195,753
Pension contributions made subsequent to measurement date	3,473,223	-
Total	$ 6,199,896	$ 227,878

At June 30, 2020, the Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,123	$ 14,494
Changes of assumptions	3,528	9,951
Differences between projected and actual investment earnings	3,649	-
Differences between employer's contributions and proportionate share of contributions	2,155,510	-
Change in employer's proportion	1,041,424	155,943
Pension contributions made subsequent to measurement date	4,116,715	-
Total	$ 7,321,949	$ 180,388

The Plan also reported $3,473,223 and $4,116,715 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension asset/liability in the measurement years ended June 30, 2021 and 2020, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending	
2022	$ 1,441,734
2023	734,663
2024	328,032
2025	(5,634)
	$ 2,498,795

Actuarial assumptions – The total pension liabilities in the June 30, 2020, actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Actuarial cost method	Entry age normal cost method
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Investment rate of return	7.15%
Mortality rate table	Derived using CalPERS' membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the experience study can found on the CalPERS website.

The total pension liabilities in the June 30, 2019, actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Actuarial cost method	Entry age normal cost method
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Investment rate of return	7.15%
Mortality rate table	Derived using CalPERS' membership data for all funds

Change of assumptions – The inflation rate remained 2.50% for the June 30, 2020, measurement date. The discount rate remained at 7.15% for the June 30, 2020, measurement date.

Discount rate – The discount rate used to measure the total pension liability at June 30, 2021 and 2020, was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make the required contributions as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11 to 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation assets	0.0%	0.77%	1.81%
Private equity	8.0%	6.60%	7.23%
Real estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%

(a) An expected inflation rate of 2.00% was used for this period
(b) An expected inflation rate of 2.92% was used for this period

Sensitivity of the proportionate share of the net pension asset/liability to changes in the discount rate – The following presents the Plan's proportionate share of the net pension asset/liability for the pension plan, calculated using the discount rate for the pension plan, as well as what the Plan's proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as of June 30:

2021	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net pension liability (asset)	$ 6,541,233	$ (395,440)	$ (6,126,994)

2020	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net pension liability (asset)	$ 5,793,396	$ (208,691)	$ (5,162,989)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the pension plan – At June 30, 2021, the Plan reported an asset of $395,440 for the overfunding of contributions to the pension plan required for the year ended June 30, 2021. At June 30, 2020, the Plan reported an asset of $208,691 for the overfunding of contributions to the pension plan required for the year ended June 30, 2020.

Deferred compensation plan – The Plan offers its employees a deferred compensation plan with CalPERS created in accordance with Internal Revenue Code Section 457. The deferred compensation plan is available to all employees and permits them to defer a portion of their salary. No employer contribution to the plan is required. Deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

Defined contribution retirement plan – A defined contribution retirement plan (IRS 401a), was implemented effective October 1, 2013. In 2021 and 2020, the Plan contributed approximately $1,948,455 and $1,922,659, respectively, to the defined contribution retirement plan.

Employees of the Plan are eligible to participate in the defined contribution retirement plan upon date of hire. The Plan will make contributions in an amount equal to each participant's compensation times an applicable contribution rate as set by the Plan. Participants are fully vested upon completing three years of service. Members of the executive team are required to make pretax contributions into the defined contribution retirement plan.

NOTE 10 – OPERATING LEASE

The Plan entered a 10-year and 4-month lease on office space, executed on June 20, 2014. The lease commenced on July 1, 2015. The terms of the lease agreement require a standby Letter of Credit for the purposes of collateralizing the agreement. The lease runs through October 31, 2025.

Total rental expense for the years ended June 30, 2021 and 2020, was $4,493,939 and $4,418,982, respectively. Rent expense related to the Plan for the years ended June 30, 2021 and 2020, was $3,569,293 and $3,376,208, respectively, and is included in occupancy. Rent expense related to SFCO TPA for the years ended June 30, 2021 and 2020, was $924,646 and $1,042,773, respectively, and is included in SFCO TPA expenses.

Future minimum lease obligations consist of the following:

Fiscal Year Ending	
2022	$ 4,195,214
2023	4,321,945
2024	4,449,857
2025	4,582,934
2026	1,948,036
	$ 19,497,986

The Plan records minimum base rent on a straight-line basis over the life of the lease term and, accordingly, has recorded a deferred rent liability, included in accounts payable and accrued expenses of $1,807,467 and $1,971,866, as of June 30, 2021 and 2020, respectively.

NOTE 11 – CAPITAL LEASES

The Plan leases copier machines under capital lease obligations. These lease agreements require monthly payments of $7,962 and expire in 2021. A summary of capital lease obligations at June 30 is as follows:

	2021	2020
Capital lease obligations, at implicit rate ranging from 7% to 10%, collateralized by leased equipment	$ 15,805	$ 107,397
Less: current portion	(15,805)	(95,544)
Capital lease obligations, net of current portion	$ -	$ 11,853

Scheduled payments on capital lease obligations at June 30 are as follows:

2022	$ 15,924
Total minimum lease payments	15,924
Less: amounts representing interest	(119)
	$ 15,805

A schedule of changes in the Plan's capital lease obligations for the year ended June 30, 2021, is as follows:

	June 30, 2020	Additions	Reductions	June 30, 2021
Capital leases - equipment	$ 107,397	$ -	(91,592)	$ 15,805
Total	$ 107,397	$ -	$ (91,592)	$ 15,805

A schedule of changes in the Plan's capital lease obligations for the year ended June 30, 2020, is as follows:

	June 30, 2019	Additions	Reductions	June 30, 2019
Capital leases - equipment	$ 193,668	$ -	$ (86,271)	$ 107,397
Total	$ 193,668	$ -	$ (86,271)	$ 107,397

Equipment held under capital lease obligations included in capital assets is as follows:

	2021	2020
Equipment	$ 260,663	$ 260,663
Less: accumulated amortization	(246,181)	(159,294)
Equipment held under capital lease obligations, net	$ 14,482	$ 101,369

NOTE 12 – TANGIBLE NET EQUITY

As a limited license plan under the Knox-Keene Health Care Services Plan Act of 1975 (the "Act"), the Plan is required to maintain a minimum level of tangible net equity. The required tangible net equity level was approximately $14,662,413 and $13,967,751 at June 30, 2021 and 2020, respectively. The Plan's tangible net equity was $95,608,217 and $91,546,413 at June 30, 2021 and 2020, respectively.

NOTE 13 – RISK MANAGEMENT

The Plan is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; employee injuries and illness; natural disasters; and employee health, dental, and accident benefits. The Plan carries commercial insurance for claims arising from such matters, and no settled claims have ever exceeded the Plan's commercial coverage.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Plan is a party to claims and legal actions by enrollees, providers, and governmental and regulatory agencies. The Plan's policy is to accrue for amounts related to these claims and legal actions if it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. After consulting with legal counsel, the Plan's management is of the opinion that any liability that may ultimately result in claims or legal actions will not have a material effect on the combined financial position or results of operations of the Plan.

In August 2020, the Plan increased its revolving line of credit to from $40,000,000 as of June 30, 2020, to $80,000,000. The line of credit carries an interest rate of the greater of 2.25%, or LIBOR plus 2%. On September 30, 2020, the line of credit was restored back to $40,000,000. The expected maturity was extended to December 31, 2021, and will be extended month to month going forward. As of June 30, 2021 and 2020, the Plan had no balance outstanding under its revolving line of credit.

NOTE 15 – HEALTH CARE REFORM

There are various proposals at the federal and state levels that could, among other things, significantly change member eligibility, payment rates or benefits. The ultimate outcome of these proposals, including the potential effects of or changes to health care reform that will be enacted cannot presently be determined.

Supplementary Information

San Francisco Health Authority and
San Francisco Community Health Authority
Schedule of Proportionate Share of the Net Pension Asset/Liability

	2021	2020	2019	2018
Proportion of the net pension liability	-0.00363%	-0.00204%	-0.01328%	0.04607%
Proportionate share of the net pension (asset) liability	$ (395,440)	$ (208,691)	$ (1,279,513)	$ 1,816,234
Covered-employee payroll	$ 34,966,554	$ 32,845,070	$ 29,450,405	$ 27,864,601
Proportionate share of the net pension (asset) liability as a percentage of covered-employee payroll	-1.13%	-0.64%	-4.34%	6.52%
Plan's fiduciary net position	$ 52,521,245	$ 44,832,857	$ 38,831,925	$ 29,753,982
Plan fiduciary net position as a percentage of the total pension liability	75.11%	75.26%	75.26%	94.25%

Schedule of Contributions

	2021	2020	2019	2018
Measurement period	2019-2020	2018-2019	2017-2018	2016-2017
Actuarially determined contribution	$ 2,994,711	$ 2,657,497	$ 2,417,969	$ 2,139,636
Contributions in relation to the actuarially determined contribution	(3,473,223)	(4,116,715)	(2,417,969)	(2,139,636)
Contribution deficiency (excess)	(478,512)	$ (1,459,218)	$ -	$ -
Covered-employee payroll	$ 36,755,651	$ 34,966,554	$ 32,845,070	$ 29,450,405
Contributions as a percentage of covered-employee payroll	9.45%	11.77%	7.36%	7.27%

Agenda Item 3

Action Item

- Review and Approval of Unaudited Monthly Financial Statements and Investment Reports

SAN FRANCISCO HEALTH PLAN
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FINANCIAL RESULTS – SEPTEMBER 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 $105.2 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 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 telephonic and telehealth services provided to Medi-Cal members during the Public Health Emergency (PHE). The PHE is expected to last until the end of the calendar year.

c. A net decrease 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

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-$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.

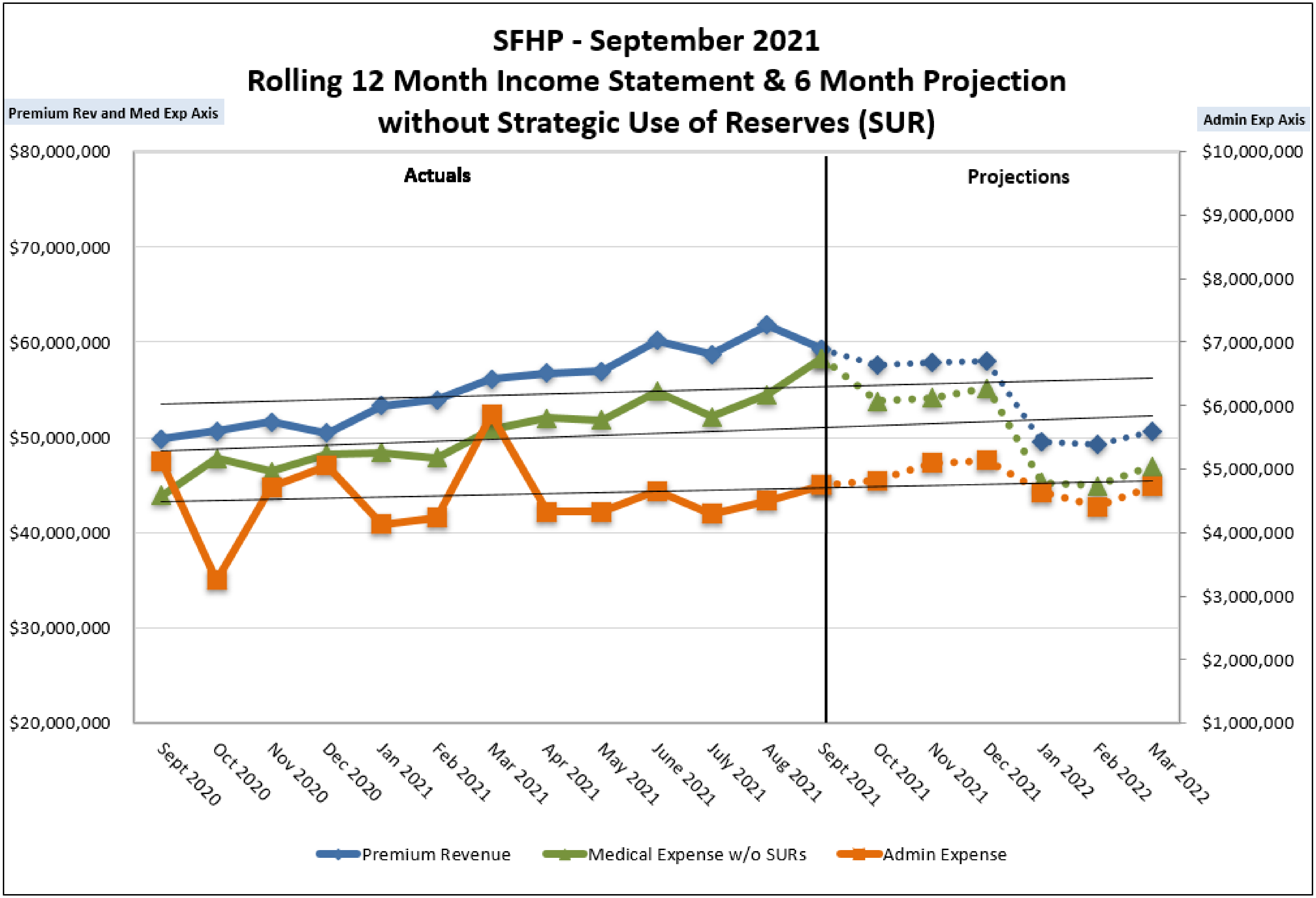
5. Proposition 56 – this program will continue for all of FY 21-22. Proposition 56 provides enhanced payments to medical groups for qualifying physician services, supplemental payments for developmental screenings, adverse childhood experiences screenings, trauma screenings, family planning services and value-based payments related to a variety of health care quality measures.

6. See income statement charts on subsequent pages. Due to the impact that pass-through funding and the disbursement of Strategic Use of Reserves have on projections, we have included graphs with and without this activity.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Medi-Cal Pharmacy Costs

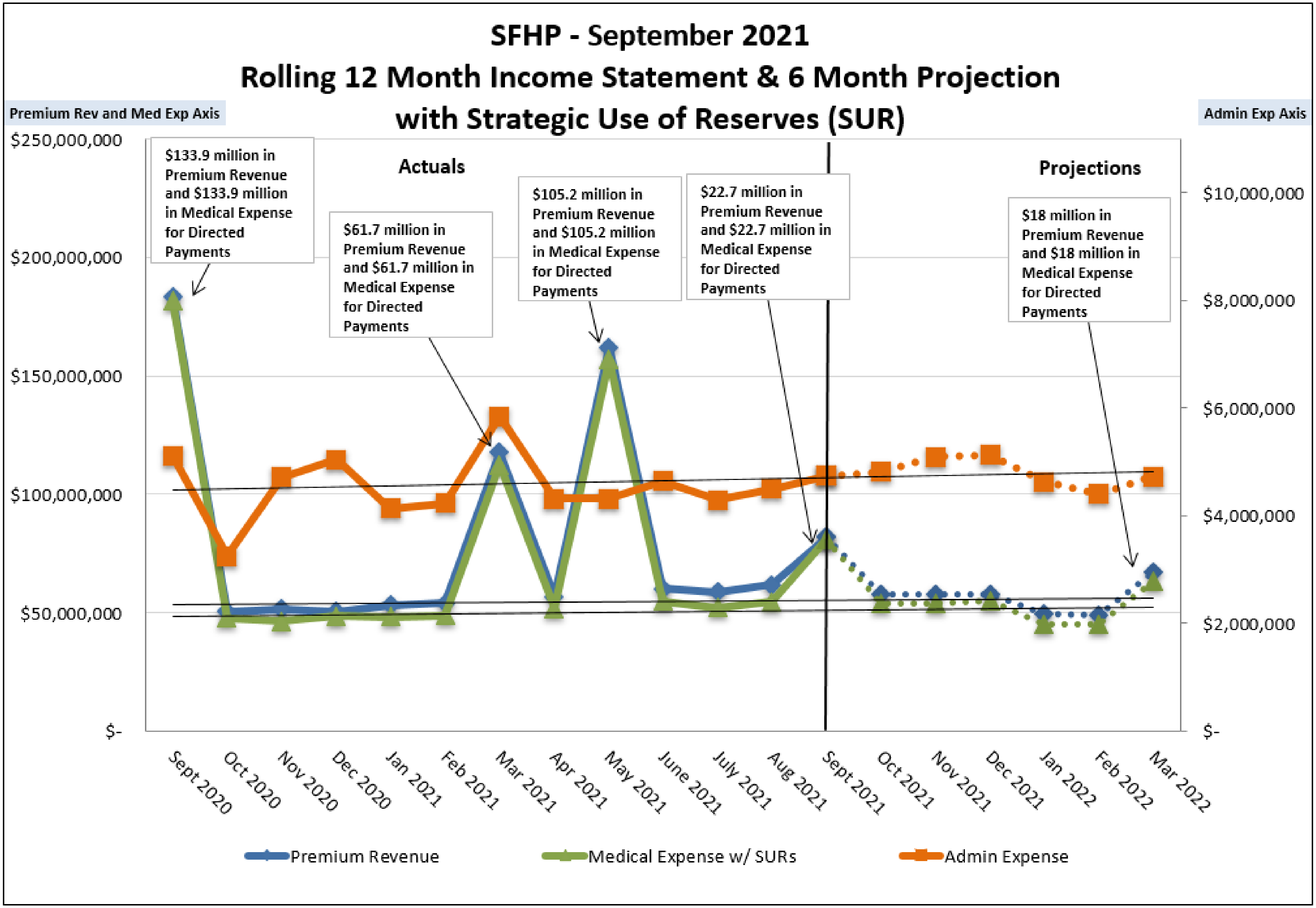
Please refer to the attached analysis prepared by Lisa Ghotbi, Director of Pharmacy.



1) Medical Expense **without** Strategic Use of Reserves (SUR)

2) Dual axis chart

3) Trend line **without** impact of Strategic Use of Reserves (SUR) or pass-throughs



1) Medical Expense **with** Strategic Use of Reserves (SUR) and pass-throughs

2) Dual axis chart

3) Trend line **without** impact of Strategic Use of Reserves (SUR) or pass-throughs

SAN FRANCISCO HEALTH PLAN
Here for you

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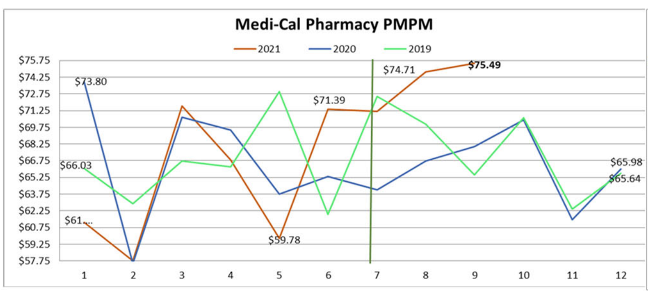
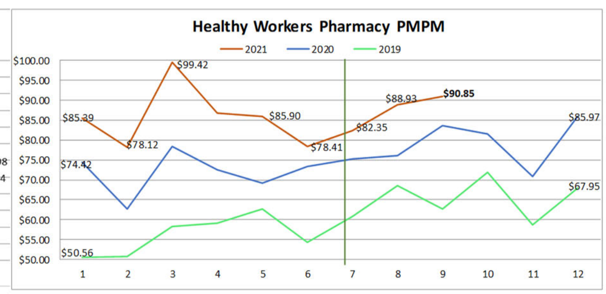
MEMO

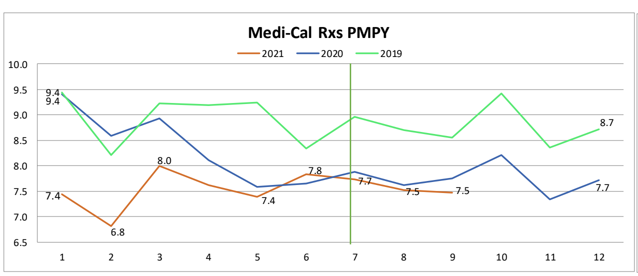
Date:	**October 26, 2021**
To:	**Skip Bishop, CFO, and Fiona Donald, MD, CMO**
From:	**Lisa Ghotbi, Pharmacy Director**
Regarding:	**Pharmacy Trends with New PBM, MagellanRx**

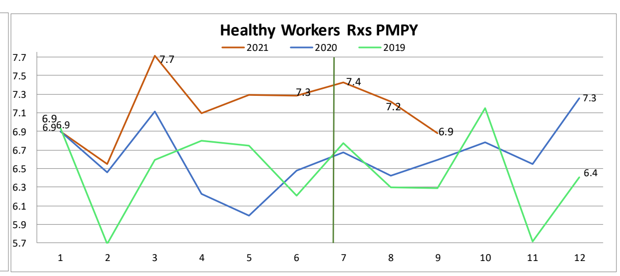
Overview: With the pharmacy benefit management (PBM) vendor conversion from PerformRx to MagellanRx on July 1, 2021, pharmacy cost trends, particularly for our Medi-Cal membership, began accelerating rapidly. With three months of MagellanRx experience, we can clearly see an adjustment upward to our trends in Medi-Cal. Healthy Workers had an existing high trend, so the change is somewhat hidden.



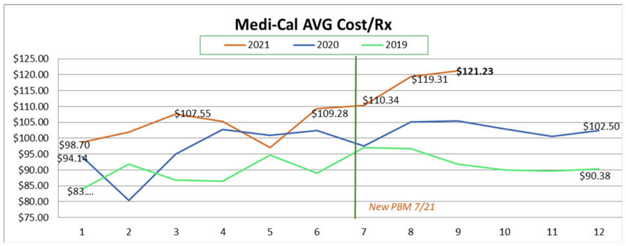


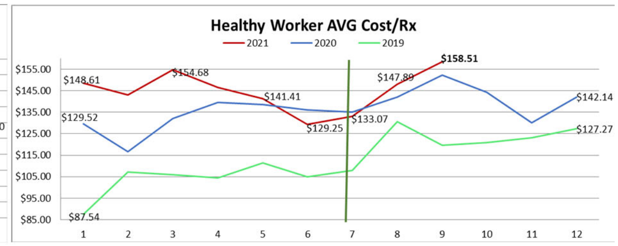
Utilization is not driving this cost increase. Prescriptions per member per year (PMPY) have continued to fall over the past 3 years for Medi-Cal and are down in Healthy Workers as well.





Unit Cost increases are entirely driving this cost increase. Cost/Rx increased by $11.45 (over 10%) in 3 months (from $109 to $121) for Medi-Cal.





An analysis of cost by drug type show the rapid increase coming from generic medications. Generic medications represent 89% of all prescriptions filled and previously only contributed 15% of total costs. This increased to 26% in the third quarter of 2021.

Medi-Cal Total Paid $	All Rx Claims	Generic	Generic %	Brand Form	Brand %	Brand Non-Form	Undeter
2021 Q1	$22,483,292.16	$3,625,523.60	**16.1%**	$15,214,602.78	**67.7%**	$4,311,170.30	
2021 Q2	$24,433,628.13	$3,655,339.89	**15.0%**	$16,876,434.00	**69.1%**	$4,618,303.20	
2021 Q3	$27,379,845.12	$7,221,448.97	**26.4%**	$17,241,024.91	**63.0%**	$2,532,003.48	$52.46

Unit Cost by drug type also demonstrated the contribution of generic cost increases to the total.

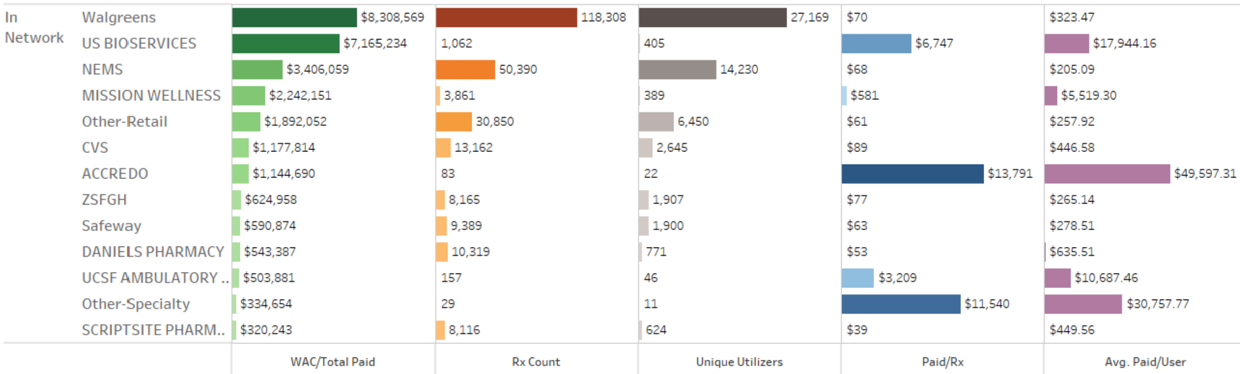
Medi-Cal Average Paid $	All Claims	Generic	Brand Form	Brand Non-Form	Undeter
2021 Q1	$102.84	$18.80	$915.77	$2,388.46	
2021 Q2	$104.49	$17.67	$969.91	$2,557.20	
2021 Q3	$117.12	$34.67	$1,072.67	$1,216.14	$52.46

We are still investigating the root cause of this generic price increase, but the largest factor appears to be network contracting. MagellanRx is paying our largest chain pharmacy, Walgreens, significantly more for generics.

We have also identified a claim pricing set-up error with generic pricing for USBioservices, but this is not the primary contributing factor and will be corrected with claim adjustments occurring in the next few weeks. We are still determining the adjustment value to be expected.

Our top pharmacies by cost are 1) Walgreens, 2) USBioservices, and 3) North East Medical Services (NEMS). USBioservices fills mostly brand specialty medications but does provide some generic oncology specialty medications as well.

Pharmacy Network Ranked By: WAC/Total Paid
LOB:MC Pharmacy Network Type:In Network
Date Filled Range: 7/1/2021 to 9/30/2021

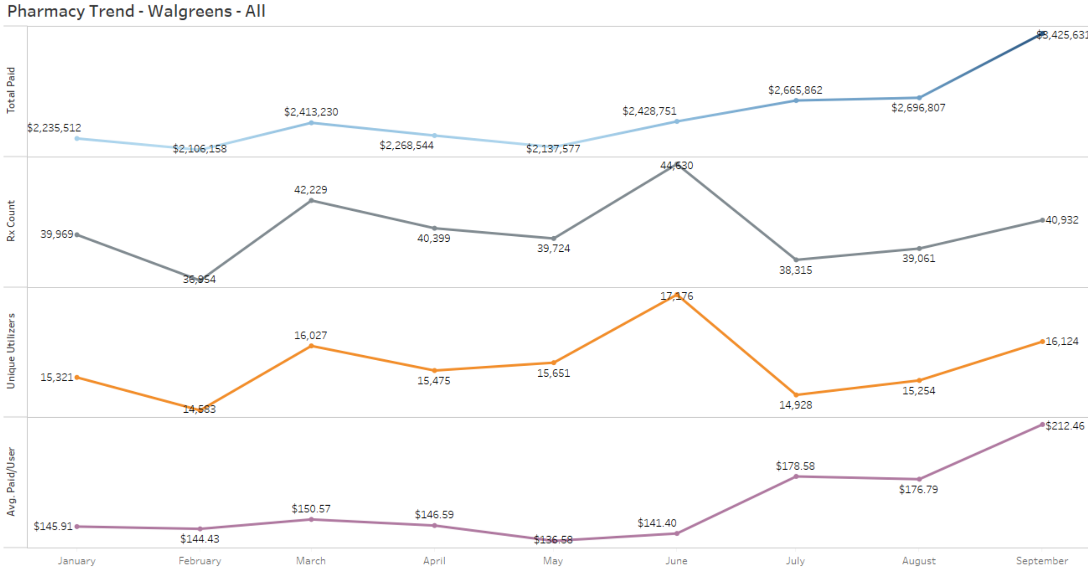


We have determined that MagellanRx is administering different reimbursement rates for generics by pharmacy type. The generic Maximum Reimbursement Cost (MAC) reimbursement lists for Walgreens and CVS appear to be significantly higher than for other pharmacies and significantly higher than our prior reimbursement.

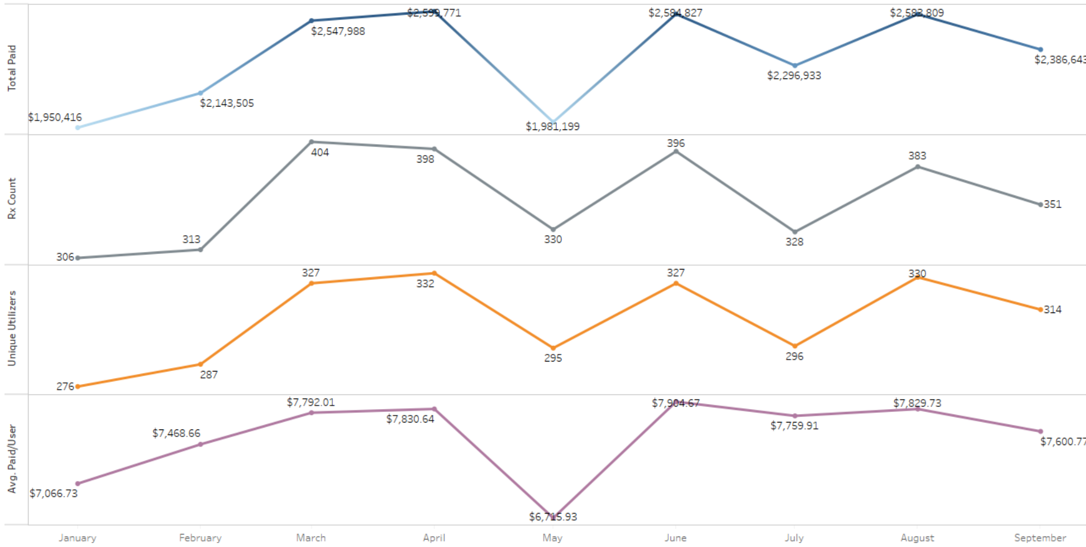
Our current reporting options do not allow us to easily get to the root cause, but we are building reports quickly that will more clearly demonstrate the impact.

The charts below provide an overview of the difference in cost trends for Walgreens compared to USBioservices and NEMS.

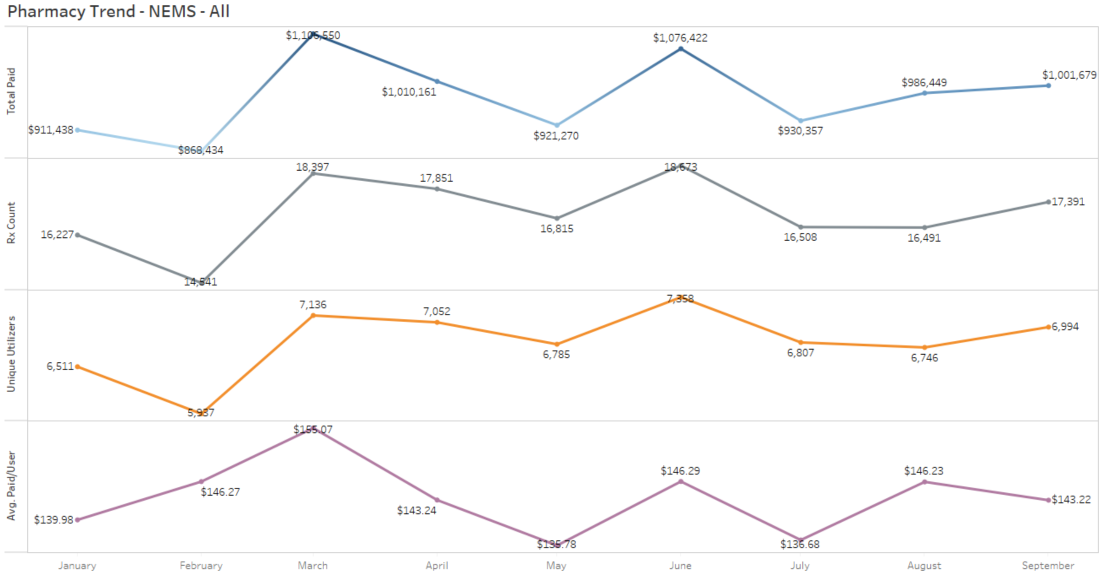
Pharmacy Trend - Walgreens - All



Pharmacy Trend - US BIOSERVICES - All



Pharmacy Trend - NEMS - All



SUMMARY

With generics being ~90% of our prescriptions, the reimbursement management of these claims is critical to our overall pharmacy benefit management and is particularly important that generic savings offset the new specialty medications entering the marketplace. Contracting for network management and MAC (generic reimbursement) management are among the top deliverables expected from PBM vendor.

With the announcement of the Medi-Cal Rx carve-out, our leverage with our PBM vendor, is drastically diminished. Negotiations with the large chain pharmacies, Walgreens, and CVS, are more challenging with consolidation. Our rate guarantees are set annually and likely will not apply assuming the carve-out occurs on January 1, 2022.

With one quarter left to manage the Medi-Cal pharmacy benefit, our options may be limited. We have engaged our consultant, Excelsior Solutions, to begin discussions and alert MagellanRx to our concerns.

San Francisco Health Plan
Finance Big Picture Dashboard - September 2021

	Sep-21 MTD Actual	Sep-21 MTD Budget	Sep-21 MTD Fav (Unfav)	Sep-20 MTD Actual	Fiscal Year to Date (21/22) FYTD Actual	Fiscal Year to Date (21/22) FYTD Budget	Fiscal Year to Date (21/22) FYTD Fav (Unfav)	FY 20/21 FYTD Actual
FINANCIAL POSITION:								
Net Profit/Loss w/o HSF ($)	(3,225,990)	(947,061)	(2,278,929)	(1,662,065)	520,145	3,021,632	(2,501,486)	(2,127,190)
Total Medical Loss Ratio_All LOB	98.8%	98.3%	-0.5%	99.0%	94.0%	95.1%	1.1%	97.1%
Admin Expense Ratio	5.0%	2.2%	-2.8%	2.0%	5.7%	3.9%	-1.8%	3.7%
Number of FTE's	358			347				
Premium Revenue ($)	81,990,882	189,459,078	(107,468,197)	183,729,789	202,744,440	306,739,489	(103,995,049)	281,399,411
Medical Expenses ($)	81,032,288	186,248,097	105,215,809	181,818,741	190,617,508	291,850,532	101,233,023	273,120,453
Administration Expenses w/o HSF ($)	4,746,245	4,915,100	168,856	4,262,509	13,547,976	14,131,740	583,765	12,537,076
Member Months	163,415	160,190	3,225	148,150	487,711	478,743	8,968	438,682
Cash on Hand (Days)	33			31				

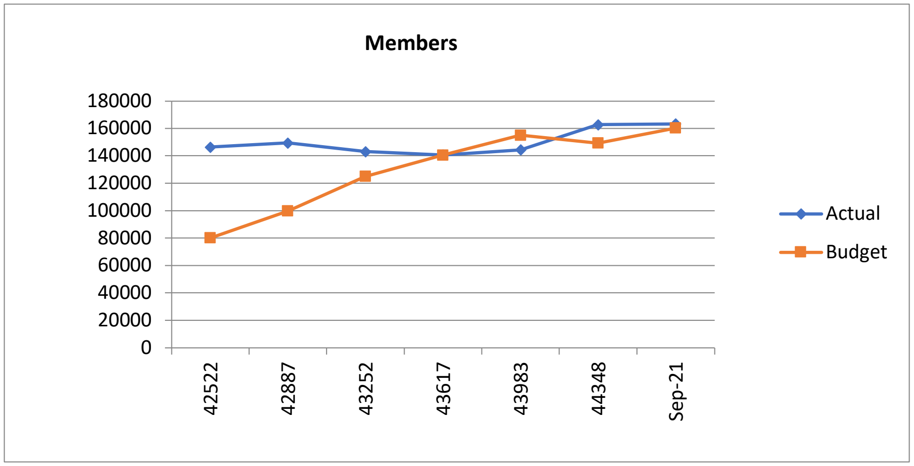
RESERVES:	September-2021	Budget @ 6/30/22	June-2021	June-2020	June-2019	June-2018	June-2017	June-2016
Reserves ($)	97,497,971	99,037,922	96,977,825	91,960,120	97,935,725	108,542,472	120,761,132	112,637,840
SUR carry-over balance from prior years	(2,457,511)	(2,500,000)	(2,511,173)	(4,145,463)	(6,046,189)	(15,567,350)		
FY18-19 SUR for Medical Groups and Targeted Interv.	(2,319,600)	-	(2,548,975)	(2,945,000)	(6,558,333)	0		
Adjusted Reserve Balance	92,720,859	96,537,922	91,917,677	84,869,657	85,331,203	92,975,122		
Reserve Policy 2x Premium Rev (Rolling 12 month avg)	118,519,692	96,586,486	118,618,434	86,669,751	93,747,256	93,684,010	94,325,464	100,027,410
Reserves Over (Under) 2 x Premium Revenue	(25,798,832)	(48,564)	(28,700,757)	(1,800,095)	(8,416,053)	(708,888)		
DMHC Required TNE	16,352,429	12,000,000	14,662,413	13,951,203	12,597,375	11,960,363	11,818,641	10,744,461
TNE Multiple	5.7	8.3	6.3	6.1	6.8	7.8	10.2	10.5

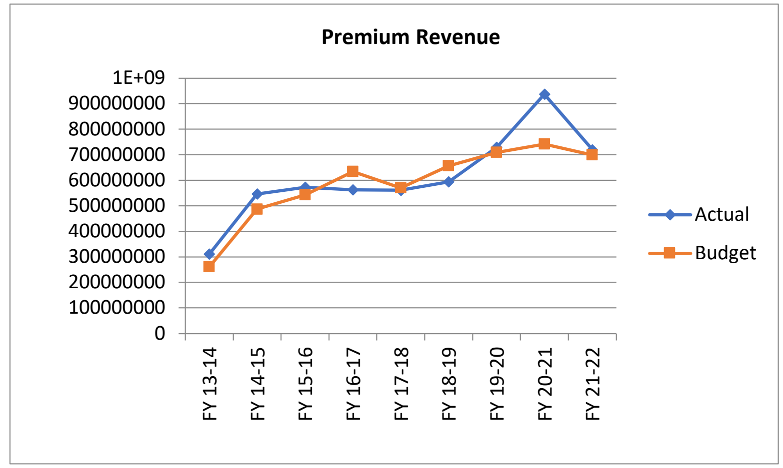
FINANCIAL TREND:	FY 21/22 Original Budget	Change
Premium Revenue ($)	306,739,489	(103,995,049)
Medical Expenses ($)	291,850,532	101,233,023
Administration Expenses w/o HSF ($)	14,131,740	583,765

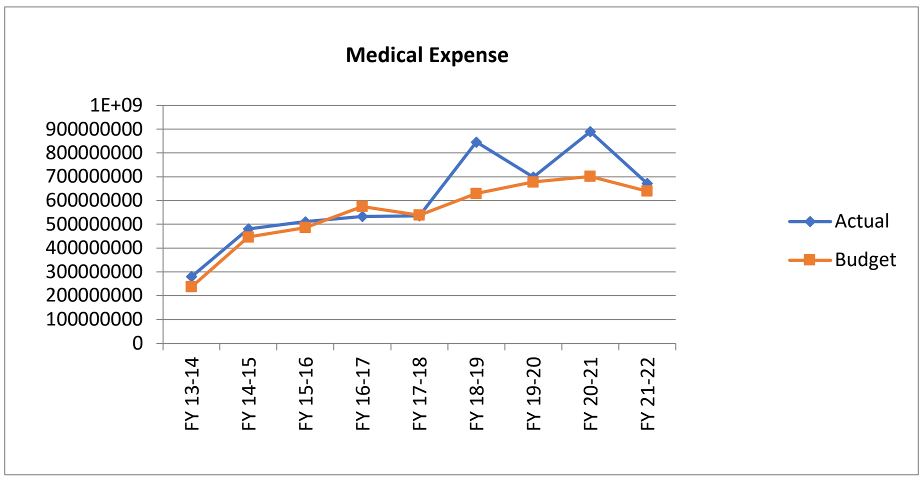
	September-2021	June-2021	June-2020	June-2019	June-2018	June-2017	June-2016	
Member Months	163,415	162,666	144,308	140,765	143,096	149,348	146,289	Membership for the Month
Average Monthly Enrollment	156,521	152,436	138,890	142,038	146,847	148,354	144,347	Rolling 12 Month Average

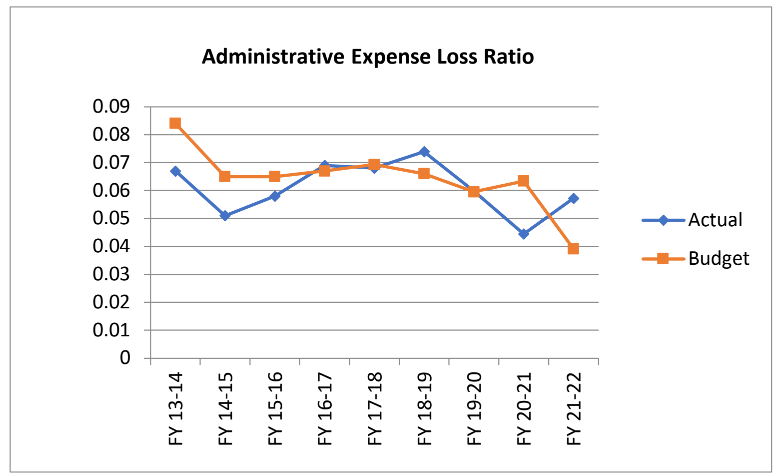
San Francisco Health Plan
Finance Big Picture Dashboard - September 2021

FINANCIAL TREND:
(Rolling 12 months)









San Francisco Health Plan
Finance Dashboard Metrics - September 2021

	Sep-21			Sep-20	Fiscal Year to Date (21/22)			FY 20/21
	Actual	Budget	Fav (Unfav)	Actual	Actual	Budget	Fav (Unfav)	Actual
Member Months	163,415	160,190	3,225	148,150	487,711	478,743	8,968	438,682
			2.0%				1.9%	
Premium Revenue ($)	81,990,882	189,459,078	(107,468,197)	183,729,789	202,744,440	306,739,489	(103,995,049)	281,399,411
			-56.7%				-33.9%	
Administration Expenses w/o HSF ($)	4,746,245	4,915,100	168,856	4,262,509	13,547,976	14,131,740	583,765	12,537,076
Admin Expense Ratio	5.0%	2.2%		2.0%	5.7%	3.9%		3.7%
Medical Expenses ($)	81,032,288	186,248,097	105,215,809	181,818,741	190,617,508	291,850,532	101,233,023	273,120,453
Total Medical Loss Ratio	98.8%	98.3%		99.0%	94.0%	95.1%		97.1%
MC Medical Loss Ratio	86.6%	95.1%		96.4%	97.2%	91.1%		92.0%
MC SPD Medical Loss Ratio	104.6%	99.3%		100.2%	95.3%	93.6%		99.0%
MC Expansion	98.4%	99.2%		99.2%	96.3%	97.7%		97.9%
HW Medical Loss Ratio	96.2%	95.0%		101.4%	95.7%	95.8%		101.5%
HSF + SFCMRA - TPA Fee ($)	954,991	1,152,218	(197,228)	858,991	2,828,938	3,397,617	(568,679)	2,465,795
			-17.1%				-16.7%	
Cash on Hand (Days)	33			31				
Maternity Reimb. Performance ($)	882,167	764,545	117,622	712,738	2,755,722	2,293,635	462,087	2,243,787
(per case pymt, actual vs. budget)			15.4%				20.1%	
Number of Births	105	91	14	81	328	273	55	255
Hep-C Revenue ($)	475,213	342,578	132,635	431,813	1,542,985	1,027,734	515,251	1,070,790
Hep-C Expense w/rebates (FFS + Cap) ($)	461,579	342,578	119,001	454,195	1,582,662	1,027,734	554,928	1,087,269
Net Margin ($)	13,634	0	13,634	(22,382)	(39,677)	0	(39,677)	(16,479)
Total Hep-C Treatments	218	171	47	172	709	513	196	429
Net Profit/Loss w/o HSF ($)	(3,225,990)	(947,061)	(2,278,929)	(1,662,065)	520,145	3,021,632	(2,501,486)	(2,127,190)

San Francisco Health Plan
Consolidated Balance Sheet for SFHA and SFCHA
As of September 30, 2021

		SFHA	HSF	9/30/2021 Total	9/30/2020 Total	Variance
	ASSETS					
	CURRENT ASSETS					
(1)	SFHP Cash and Cash Equivalents	6,757,877		6,757,877	2,601,996	4,155,880
	Short Term Investments	133,947,202		133,947,202	232,479,074	(98,531,873)
	HSF Cash and Cash Equivalents		699,946,915	699,946,915	610,631,756	89,315,159
	Petty Cash	1,000		1,000	1,000	-
(2)	Other Receivables	2,447,440		2,447,440	7,694,780	(5,247,339)
	Interest Receivable	133,688		133,688	192,522	(58,834)
	Grant Funds Receivable	106,834		106,834	-	106,834
(3)	Capitation Receivable	64,179,447		64,179,447	55,807,592	8,371,855
	HSF Operation Receivable	2,828,938		2,828,938	2,499,244	329,694
	HSF Provider Payment & Advance		776,803	776,803	551,055	225,748
(4)	HSF Receivables		15,322,651	15,322,651	13,309,644	2,013,006
	Prepaid Insurance	178,386		178,386	108,022	70,364
	HSF Prepaid Insurance	16,666		16,666	15,151	1,515
	Prepaid Rent	291,502		291,502	338,636	(47,134)
	Prepaid Expenses	3,873,423		3,873,423	3,066,130	807,293
	HSF Prepaid Expenses	49,031		49,031	16,425	32,606
	CalPERS Deferred Outflow Fund	7,840,543		7,840,543	7,353,081	487,461
	Deposits	79,874		79,874	79,874	-
	Total Current Assets	222,731,850	716,046,370	938,778,219	936,745,983	2,032,236
	OTHER ASSETS					
	Long Term Investments	23,626,645		23,626,645	24,119,489	(492,844)
	Restricted Funds Required by DMHC	300,000		300,000	300,000	-
	Total Other Assets	23,926,645	-	23,926,645	24,419,489	(492,844)
	FIXED ASSETS					
	Furniture & Equipment	15,448,397		15,448,397	15,057,430	390,967
	Accumulated Depreciation	(12,919,530)		(12,919,530)	(11,251,764)	(1,667,765)
	Net Fixed Assets	2,528,867	-	2,528,867	3,805,666	(1,276,799)
	TOTAL ASSETS	**249,187,362**	**716,046,370**	**965,233,731**	**964,971,138**	**262,593**

San Francisco Health Plan
Consolidated Balance Sheet for SFHA and SFCHA
As of September 30, 2021

		SFHA	HSF	9/30/2021 Total	9/30/2020 Total	Variance
	LIABILITIES & FUND BALANCE					
	CURRENT LIABILITIES					
	Accounts Payable	17,147,126		17,147,126	13,777,727	3,369,399
	HSF Accounts Payable		677,242	677,242	2,390,875	(1,713,633)
	Deferred Rent	1,775,106		1,775,106	1,938,251	(163,145)
	Salaries/Benefits/PERS Payable	5,617,196		5,617,196	8,969,942	(3,352,746)
	CalPERS Unfunded Pension	41,309		41,309	(208,691)	250,000
	CalPERS Pension Deferred Inflow	180,387		180,387	180,387	-
	Notes Payable - Lease Equipment	7,922		7,922	85,010	(77,088)
	Unearned Premium Revenue	-		-	-	-
(5)	DHCS, MCO, IGT, AB-85, SB-335, SB-208 and ACA Payable	59,590,829		59,590,829	169,541,768	(109,950,939)
	HSF Earned Premium - Due to DPH		58,667,016	58,667,016	59,120,647	(453,631)
	Waiver, Discount, and Account Write-off		(93,673)	(93,673)	(217,165)	123,492
	HSF Unearned Participant Fees		168,713	168,713	1,643,994	(1,475,280)
	ESR due to DPH		481,657,851	481,657,851	406,880,264	74,777,587
	HSF MRA Fund Payable (Claim & Fee)		174,969,220	174,969,220	154,673,842	20,295,378
	Capitation Payable	53,762,841		53,762,841	50,083,667	3,679,175
	Claims Payable	2,821,203		2,821,203	3,853,730	(1,032,527)
	Claims IBNR	10,745,471		10,745,471	2,837,667	7,907,804
	TOTAL LIABILITIES	151,689,391	716,046,370	867,735,761	875,551,915	(7,816,154)
	FUND BALANCE					
	Contributed Capital	1,516,840		1,516,840	1,516,840	-
	Accumulated Surplus Revenue	95,460,985		95,460,985	90,029,573	5,431,412
	Current Year Surplus / Deficit	520,145		520,145	(2,127,190)	2,647,335
	Fund Balance	97,497,971	-	97,497,971	89,419,223	8,078,747
	TOTAL LIABILITIES & FUND BALANCE	**249,187,362**	**716,046,370**	**965,233,731**	**964,971,138**	**262,593**

Notes:

(1) SFHP Cash, Cash Equivalents and Short Term Investments had a combined balance of $140.7 million as of September 30, 2021 as compared to last year's $235.1 million at 9/30/20. This decrease is due to the much lower than anticipated Directed Payments funding received in September 2021.

The days cash on hand as of 9/30/21 was 33 days compared to 34 days at 7/31/21. Days cash on hand is in the range we would expect. We have a $40 million line of credit with City National Bank that we can use if there is a delay with Medi-Cal premium payments. All Directed Payments and IGT funding received by SFHP is excluded as these funds are a direct pass-through to providers and therefore not available to fund ongoing operations.

(2) The $5.2 million reduction in Other Receivables is due to the collection of $4.5 million in provider advances made during FY 19-20 to assist providers with cash flow as they worked through the pandemic. The remainder represents an amount collected from Kaiser. This amount was related to timing differences on capitation payments (SFHP pays Kaiser 98% of the final premium rates from DHCS).

(3) Capitation Receivable is a combination of Medi-Cal premiums totaling $61.0 million along with $3.2 million of receivables for the Healthy Workers program. SFHP and the San Francisco Department of Human Resources (DHR) are engaged in a weekly dialogue on the payment of $3.2 million related to the Healthy Workers receivable. A new contract with the DHR has been executed and payment of this receivable will be collected by 10/31/21.

(4) The majority of this increase is related to the $500 grants disbursed to San Francisco City Option MRA holders. These funds will come back into the SF City Option program at a later date.

(5) The balance at 9/30/21 included $22.7 million of Directed Payments funding payable to hospital providers and $22.0 million in Proposition 56 funding that will have to be returned to DHCS as we will not reach a 95% MLR for Prop 56. The Directed Payments money was paid to hospitals in October.

All other asset and liability account balances appear to be reasonable.

San Francisco Health Plan
Income Statement w/o HSF
Consolidated Statement for SFHA and SFCHA
For the Month Ending September 30, 2021

	Current Month Actual	Current Month Budget	Fav (Unfav) Amount ($)	Fav (Unfav) %		Year to Date Actual	Year to Date Budget	Fav (Unfav) ($)	Fav (Unfav) %
					Member Month				
	18,882	17,201	1,681	9.8%	Medi-Cal - Adult 19	56,162	51,505	4,657	9.0%
	41,597	42,150	(553)	(1.3%)	Medi-Cal - Child 18	125,045	126,208	(1,163)	(0.9%)
	14,509	13,990	519	3.7%	Medi-Cal - Dual Members	43,205	41,890	1,315	3.1%
	13,477	13,193	284	2.2%	Medi-Cal SPD	40,593	39,556	1,037	2.6%
	63,136	61,981	1,155	1.9%	Medi-Cal Expansion	187,212	184,560	2,652	1.4%
	11,814	11,675	139	1.2%	Healthy Workers	35,494	35,025	469	1.3%
(1)	163,415	160,190	3,225	2.0%	TOTAL MEMBER MONTH	487,711	478,744	8,967	1.9%
					REVENUE				
	10,180,757	17,402,647	(7,221,890)	(41.5%)	Medi-Cal - Adult 19	23,224,045	28,810,052	(5,586,007)	(19.4%)
	7,128,722	16,823,855	(9,695,133)	(57.6%)	Medi-Cal - Child 18	17,809,398	27,823,953	(10,014,555)	(36.0%)
	2,277,312	2,194,703	82,609	3.8%	Medi-Cal - Dual Members	6,781,496	6,571,512	209,984	3.2%
	21,282,411	53,670,407	(32,387,996)	(60.3%)	Medi-Cal SPD	49,560,671	81,300,536	(31,739,864)	(39.0%)
	34,037,055	92,426,131	(58,389,076)	(63.2%)	Medi-Cal Expansion	84,199,283	141,409,430	(57,210,147)	(40.5%)
	136,860	71,415	65,445	91.6%	MC Health Homes	294,860	214,245	80,615	37.6%
	6,947,764	6,869,920	77,844	1.1%	Healthy Workers	20,874,687	20,609,761	264,927	1.3%
(2)	81,990,882	189,459,078	(107,468,196)	(56.7%)	Total Capitation Revenue	202,744,440	306,739,488	(103,995,048)	(33.9%)
	642,122	715,391	(73,269)	(10.2%)	Other Income - Admin Svc & TPL	1,923,127	2,139,415	(216,288)	(10.1%)
	21,334	-			Other Income - Navigator Grant	21,334	-		
	-	-	-		Other Income - BHI	-	-	-	
	663,456	715,391	(51,935)	(7.3%)	Total Other Income	1,944,461	2,139,415	(194,954)	(9.1%)
	82,654,338	**190,174,469**	**(107,520,131)**	**(56.5%)**	**TOTAL REVENUE**	**204,688,901**	**308,878,904**	**(104,190,002)**	**(33.7%)**

San Francisco Health Plan
Income Statement w/o HSF
Consolidated Statement for SFHA and SFCHA
For the Month Ending September 30, 2021

	Current Month Actual	Current Month Budget	Fav (Unfav) Amount ($)	Fav (Unfav) %		Year to Date Actual	Year to Date Budget	Fav (Unfav) ($)	Fav (Unfav) %
					EXPENSES				
					Medical Expenses				
	18,021,185	17,888,478	(132,707)	(0.7%)	Professional	53,791,846	53,322,887	(468,960)	(0.9%)
	26,998,976	24,892,389	(2,106,587)	(8.5%)	Hospital	76,794,769	73,441,080	(3,353,689)	(4.6%)
	10,541,442	9,013,384	(1,528,058)	(17.0%)	Pharmacy	30,314,813	26,915,051	(3,399,763)	(12.6%)
	50,951	33,206	(17,745)	(53.4%)	Immunizations	99,850	99,193	(657)	(0.7%)
	932,817	839,167	(93,650)	(11.2%)	Vision and Mental Health	3,130,661	2,510,174	(620,487)	(24.7%)
	24,486,916	133,581,473	109,094,557	81.7%	Health Ed & Stop Loss & Other	26,485,568	135,562,147	109,076,578	80.5%
(3)	**81,032,288**	**186,248,097**	**105,215,809**	**56.5%**	**Total Medical Expenses**	**190,617,508**	**291,850,532**	**101,233,023**	**34.7%**
	98.8%	98.3%			Medical Cost Ratio %	94.0%	95.1%		
					Operating Expenses				
	2,687,136	2,512,583	(174,554)	(6.9%)	Compensation & Benefits	7,425,921	7,038,755	(387,166)	(5.5%)
	21,846	98,360	76,514	77.8%	GASB-68 CalPERS Contribution	76,726	268,838	192,112	71.5%
	462,990	502,803	39,813	7.9%	Lease, Insurance, D & A	1,474,233	1,519,048	44,815	3.0%
	73,225	75,112	1,887	2.5%	Marketing & Outreach	174,576	235,644	61,069	25.9%
	357,084	352,622	(4,462)	(1.3%)	PBM and Mental Health TPA Fees	1,026,368	1,053,793	27,425	2.6%
	288,714	481,991	193,277	40.1%	Professional Fees & Consulting	925,504	1,387,223	461,719	33.3%
	855,250	891,630	36,380	4.1%	Other Expenses	2,444,648	2,628,440	183,792	7.0%
(4)	4,746,245	4,915,100	168,856	3.4%	Total Operating Expenses	13,547,976	14,131,740	583,765	4.1%
	5.0%	2.2%			Administrative Cost Ratio % (Op Exp-Other Inc/Premium)	5.7%	3.9%		
	85,778,532	**191,163,197**	**105,384,665**	**55.1%**	**TOTAL EXPENSES**	**204,165,484**	**305,982,272**	**101,816,788**	**33.3%**
	(3,124,194)	**(988,728)**	**(2,135,467)**	**216.0%**	**Operating Surplus / Deficit**	**523,417**	**2,896,631**	**(2,373,214)**	**(81.9%)**
	29,599	41,667	(12,068)	(29.0%)	Interest Income & Realized G/L on Investment	106,499	125,000	(18,501)	(14.8%)
	(131,395)	-	(131,395)		Unrealized Gain / Loss on Investment	(109,771)	-	(109,771)	
	(101,796)	41,667	(143,462)	(344.3%)	Total Interest Income & Realized G/L on Investmen	(3,272)	125,000	(128,272)	(102.6%)
	(3,225,990)	**(947,061)**	**(2,278,929)**	**240.6%**	**SURPLUS / DEFICIT**	**520,145**	**3,021,631**	**(2,501,486)**	**(82.8%)**

San Francisco Health Plan
Income Statement w/o HSF
Consolidated Statement for SFHA and SFCHA
For the Month Ending September 30, 2021

Notes:

Following are key points that impacted our financial performance during September 2021. For a more detailed discussion of each of these points, please refer to the attached FINANCIAL RESULTS-SEPTEMBER 2021 memo.

(1) September member months were 2.0% ahead of budget which is not surprising given the fact that we started the fiscal year with 2,400 more Medi-Cal members and 194 more Healthy Workers members than expected. Membership is expected to increase over the next three months as the Public Health Emergency (PHE) will remain in place until December 2021. Due to some upcoming changes to the Medi-Cal eligibility rules, we expect to add 3,000-4,000 members in January 2022. It is important to note that once the PHE ends, we expect a gradual decline in membership due to member terminations and members placed on hold.

(2) Premium revenue was down $107.5 million due to much lower than expected Directed Payments funding. We based our Directed Payments funding estimate on historical patterns. The expectation that this shortfall will be made up during the remainder of FY 21-22. Directed Payments are a pass-through to hospital provider so there is no bottom line impact. When Directed Payments funding is excluded, premium revenue is up $1.5 million due to a combination of Medi-Cal rates that are 0.8% higher than budget expectations, 3,225 more member months than expected and increases in Maternity and Hepatitis C supplemental revenue.

(3) Medical expense increased $105.2 million due to much lower than expected Directed Payments funding. When Directed Payments funding is excluded, medical expense is up $4.0 million. This increase is due to 1) $766,000 more in capitation expense for increased membership, 2) $1.6 million more FFS expense due to increased utilization along with several high dollar claims from ZSFG for UCSF and Brown & Toland members and 3) $1.4 million more in Medi-Cal non-Hepatitis C pharmacy expense due to higher generic drug costs. SFHP expects to have responsibility for the pharmacy benefit through December, after which the benefit will be transferred to the State.

(4) Overall administrative expenses came in $169,000 less than budget. This is primarily due to timing as some professional services and infrastructure costs were budgeted slightly heavier in the first few months of FY 21-22. It is expected that actual expenses will align more closely with the budget in the coming months. Compensation, Benefits and GASB 68 costs came in $98,000 higher than budget projections. The budget assumed a 10% attrition factor while the actual attrition factor for September was slightly less than 10%.

San Francisco Health Plan
Income Statement w/o HSF
Consolidated Statement for SFHA and SFCHA
For the Month Ending September 30, 2021
($ PMPM)

Current Month Actual	Current Month Budget	Fav (Unfav) Amount ($)	Fav (Unfav) %		Year to Date Actual	Year to Date Budget	Fav (Unfav) Amount ($)	Fav (Unfav) %
				REVENUE				
539.18	1,011.72	(472.55)	(46.7%)	Medi-Cal - Adult 19	413.52	559.36	(145.85)	(26.1%)
171.38	399.14	(227.77)	(57.1%)	Medi-Cal - Child 18	142.42	220.46	(78.04)	(35.4%)
156.96	156.88	0.08	0.1%	Medi-Cal - Dual Members	156.96	156.88	0.09	0.1%
1,579.17	4,068.10	(2,488.93)	(61.2%)	Medi-Cal SPD	1,220.92	2,055.33	(834.41)	(40.6%)
539.11	1,491.20	(952.09)	(63.8%)	Medi-Cal Expansion	449.75	766.20	(316.44)	(41.3%)
588.10	588.43	(0.33)	(0.1%)	Healthy Workers	588.12	588.43	(0.31)	(0.1%)
501.73	**1,182.71**	**(680.98)**	**(57.6%)**	**Total Capitation Revenue**	**415.71**	**640.72**	**(225.01)**	**(35.1%)**
3.93	4.47	(0.54)	(12.0%)	Other Income - Admin Svc & TPL	3.94	4.47	(0.53)	(11.8%)
0.13	-	0.13		Other Income - Navigator Grant	0.04	-	0.04	
4.06	**4.47**	**(0.41)**	**(9.1%)**	**Total Other Income**	**3.99**	**4.47**	**(0.48)**	**(10.8%)**
505.79	**1,187.18**	**(681.39)**	**(57.4%)**	**TOTAL REVENUE**	**419.69**	**645.19**	**(225.49)**	**(35.0%)**

San Francisco Health Plan
Income Statement w/o HSF
Consolidated Statement for SFHA and SFCHA
For the Month Ending September 30, 2021
($ PMPM)

Current Month Actual	Current Month Budget	Fav (Unfav) Amount ($)	Fav (Unfav) %		Year to Date Actual	Year to Date Budget	Fav (Unfav) Amount ($)	Fav (Unfav) %
				EXPENSES				
				Medical Expenses				
110.28	111.67	1.39	0.01	Professional	110.29	111.38	1.09	1.0%
165.22	155.39	(9.82)	(0.06)	Hospital	157.46	153.40	(4.06)	(2.6%)
64.51	56.27	(8.24)	(0.15)	Pharmacy	62.16	56.22	(5.94)	(10.6%)
0.31	0.21	(0.10)	(0.50)	Immunizations	0.20	0.21	0.00	1.2%
5.71	5.24	(0.47)	(0.09)	Vision and Mental Health	6.42	5.24	(1.18)	(22.4%)
149.84	833.89	684.05	0.82	Health Ed & Stop Loss & Other	54.31	283.16	228.86	80.8%
495.87	**1,162.67**	**666.80**	**57.4%**	**Total Medical Expenses**	**390.84**	**609.62**	**218.78**	**35.9%**
98.8%	98.3%			Medical Cost Ratio %	94.0%	95.1%		
				Operating Expenses				
16.44	15.69	(0.76)	(4.8%)	Compensation & Benefits	15.23	14.70	(0.52)	(3.6%)
0.13	0.61	0.48	78.2%	GASB-68 CalPERS Contribution	0.16	0.56	0.40	72.0%
2.83	3.14	0.31	9.7%	Lease, Depreciation & Amortization	3.02	3.17	0.15	4.7%
0.45	0.47	0.02	4.4%	Marketing & Outreach	0.36	0.49	0.13	27.3%
2.19	2.20	0.02	0.7%	PBM and Mental Health TPA Fees	2.10	2.20	0.10	4.4%
1.77	3.01	1.24	41.3%	Professional Fees & Consulting	1.90	2.90	1.00	34.5%
5.23	5.57	0.33	6.0%	Other Expenses	5.01	5.49	0.48	8.7%
29.04	**30.68**	**1.64**	**5.3%**	**Total Operating Expenses**	**27.78**	**29.52**	**1.74**	**5.9%**
5.0%	2.2%			Administrative Cost Ratio %	5.7%	3.9%		
524.91	**1,193.35**	**668.44**	**56.0%**	**TOTAL EXPENSES**	**418.62**	**639.14**	**220.52**	**34.5%**
(19.12)	**(6.17)**	**(12.95)**	**209.7%**	**Operating Surplus / Deficit**	**1.07**	**6.05**	**(4.98)**	**-82.3%**
0.18	0.26	(0.08)	(30.4%)	Interest Income & Realized G/(L) on Investmer	0.22	0.26	(0.04)	(16.4%)
(0.80)	-	(0.80)	-	Unrealized Gain / (Loss) on Investment	(0.23)	-	(0.23)	-
(0.62)	0.26				(0.01)	0.26		
(19.74)	**(5.91)**	**(13.83)**	**233.9%**	**SURPLUS / DEFICIT**	**1.07**	**6.31**	**(5.25)**	**-83.1%**

San Francisco Health Plan
Income Statement
Healthy San Francisco & SF Covered MRA
For the Month Ending September 30, 2021

Current Month Actual	Current Month Budget	Fav (Unfav) Amount ($)	Fav (Unfav) %		Year to Date Actual	Year to Date Budget	Fav (Unfav) ($)	Fav (Unfav) %
				REVENUE				
954,991	**1,152,218**	**(197,227)**	**-17.1%**	**TPA Fee - HSF + SFCMRA**	**2,828,938**	**3,397,617**	**(568,679)**	**(16.7%)**
				EXPENSES				
798,207	851,285	53,077	6.2%	Compensation & Benefits	2,331,272	2,494,816	163,543	6.6%
94,316	94,316	(0)	(0.0%)	Lease, Insurance, D & A	277,382	282,949	5,567	2.0%
244	41,831	41,587	99.4%	Marketing & Outreach	11,876	125,494	113,617	90.5%
685	67,167	66,482	99.0%	Professional Fees & Consulting	685	201,500	200,815	99.7%
61,538	97,620	36,081	37.0%	Other Expenses	207,722	292,859	85,137	29.1%
954,991	**1,152,218**	**197,228**	**17.1%**	**TOTAL EXPENSES**	**2,828,938**	**3,397,617**	**568,679**	**16.7%**
100.0%	100.0%			Administrative Cost Ratio %	100.0%	100.0%		
-	**-**	**-**	**0.0%**	**SURPLUS / DEFICIT**	**-**	**-**	**-**	**0.0%**

San Francisco Health Plan
Investment Performance
(excludes balances in SFHA operating accounts)
September 30, 2021

Fixed Income Securities	**Purchase Date**	**Quantity**	**Purchase Price**	**9/30/21 Price**	**Market Value 9/30/21**	**Amortized Prem / Disc**	**Remaining Cost**	**Unrealized Gain (Loss)**	**Estimated Annual Income**
Local Agency Investment Fund (LAIF) - rate @ .262%			$ 1,220,852		**$ 1,220,852**	$ -	$ 1,220,852	$ -	$ 3,199
Principal Cash									
Principal Cash		-	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CNB Deposit Sweep (TBSCNBM) - Variable Rate 0.01%		30,855	$ 30,855	$ 1.000	$ 30,855	$ -	$ 30,855	$ -	$ 3
Total Cash and Cash Equivalents		**$ 30,855**	**$ 30,855**		**$ 30,855**	**$ -**	**$ 30,855**	**$ -**	**$ 3**
U.S. Govt Bonds, Notes, & U.S. Agencies									
US Treasury Note - 1.875% - Mat 05/31/2022	6/23/17	710,000	$ 713,605	$ 101.195	$ 718,485	$ (3,119)	$ 710,486	$ 7,998	$ 13,313
US Treasury Note - 2.000% - Mat 11/30/2022	6/17/19	715,000	$ 720,019	$ 102.172	$ 730,530	$ (3,472)	$ 716,547	$ 13,983	$ 14,300
US Treasury Note - 1.500% - Mat 01/15/2023	5/7/20	600,000	$ 620,273	$ 101.738	$ 610,428	$ (10,359)	$ 609,914	$ 514	$ 9,000
US Treasury Note - 2.750% - Mat 04/30/2023	10/30/19	575,000	$ 596,428	$ 104.016	$ 598,092	$ (11,748)	$ 584,679	$ 13,413	$ 15,813
US Treasury Note - 0.125% - Mat 07/15/2023	12/23/20	970,000	$ 969,621	$ 99.793	$ 967,992	$ 112	$ 969,733	$ (1,741)	$ 1,213
US Treasury Note - 2.750% - Mat 11/15/2023	5/7/20	680,000	$ 738,517	$ 105.148	$ 715,006	$ (22,922)	$ 715,595	$ (589)	$ 18,700
US Treasury Note - 2.375% - Mat 02/29/2024	12/23/20	125,000	$ 133,691	$ 104.770	$ 130,963	$ (2,098)	$ 131,594	$ (631)	$ 2,969
US Treasury Note - 2.125% - Mat 03/31/2024	6/8/20	585,000	$ 624,945	$ 104.254	$ 609,886	$ (13,961)	$ 610,984	$ (1,098)	$ 12,431
US Treasury Note - 2.375% - Mat 08/15/2024	5/7/20	570,000	$ 619,229	$ 105.371	$ 600,615	$ (15,936)	$ 603,293	$ (2,679)	$ 13,538
US Treasury Note - 1.250% - Mat 08/31/2024	3/15/21	615,000	$ 631,216	$ 102.156	$ 628,259	$ (2,543)	$ 628,673	$ (414)	$ 7,688
US Treasury Note - 2.250% - Mat 12/31/2024	6/2/20	685,000	$ 745,553	$ 105.344	$ 721,606	$ (17,620)	$ 727,932	$ (6,326)	$ 15,413
US Treasury Note - 0.375% - Mat 04/30/2025	6/2/20	625,000	$ 626,904	$ 98.891	$ 618,069	$ (517)	$ 626,388	$ (8,319)	$ 2,344
US Treasury Note - 2.875% - Mat 05/31/2025	6/2/20	670,000	$ 754,430	$ 107.840	$ 722,528	$ (22,521)	$ 731,909	$ (9,381)	$ 19,263
US Treasury Note - 2..750% - Mat 06/30/2025	7/17/20	355,000	$ 392,504	$ 107.469	$ 381,515	$ (10,955)	$ 381,549	$ (34)	$ 9,763
US Treasure Note - 0.250% Mat 07/31/2025	11/3/20	520,000	$ 516,913	$ 98.086	$ 510,047	$ 590	$ 517,502	$ (7,455)	$ 1,300
US Treasury Note - 2.00% - Mat 08/15/2025	9/10/20	150,000	$ 162,604	$ 104.711	$ 157,067	$ (2,681)	$ 159,923	$ (2,856)	$ 3,000
US Treasury Note - 0.375% - Mat 11/30/2025	12/23/20	250,000	$ 250,127	$ 98.090	$ 245,225	$ (20)	$ 250,107	$ (4,882)	$ 938
US Treasury Note - 0.375% - Mat 12/31/2025	5/7/21	510,000	$ 501,732	$ 97.984	$ 499,718	$ 712	$ 502,444	$ (2,726)	$ 1,913
US Treasury Note - 0.375% - Mat 01/31/2026	2/16/21	505,000	$ 502,574	$ 97.852	$ 494,153	$ 305	$ 502,878	$ (8,726)	$ 1,894
US Treasury Note - 0.750% - Mat 04/30/2026	5/7/21	575,000	$ 573,720	$ 99.231	$ 570,578	$ 103	$ 573,823	$ (3,244)	$ 4,313
US Treasury Note - 0.625% - Mat 07/31/2026	8/9/21	765,000	$ 761,414	$ 98.398	$ 752,745	$ 105	$ 761,519	$ (8,774)	$ 4,781
Federal National Mortgage Assn-1.875% Mat 04/05/2022	7/25/19	675,000	$ 675,745	$ 100.919	$ 681,203	$ (587)	$ 675,157	$ 6,046	$ 12,656
Federal National Mortgage Assn - 2.375% Mat - 01/19/2023	4/5/18	815,000	$ 803,016	$ 102.829	$ 838,056	$ 8,745	$ 811,760	$ 26,296	$ 19,356
Federal National Mortgage Assn - 2.75% Mat - 06/19/2023	7/11/18	575,000	$ 572,033	$ 104.294	$ 599,691	$ 1,923	$ 573,956	$ 25,735	$ 15,813
Federal National Mortgage Assn - 2.875% Mat - 09/12/2023	1/18/19	685,000	$ 695,533	$ 105.071	$ 719,736	$ (6,382)	$ 689,150	$ 30,586	$ 19,694
Federal Farm Credit Bank - 0.200% Mat - 10/02/2023	10/2/20	750,000	$ 749,123	$ 99.869	$ 749,018	$ 290	$ 749,413	$ (395)	$ 1,500
Federal National Mortgage Assn- 2.5% Mat 02/05/2024	3/5/19	695,000	$ 695,078	$ 105.028	$ 729,945	$ (181)	$ 694,897	$ 35,048	$ 17,375
Federal National Mortgage Assn-2.625% Mat 09/06/2024	10/30/19	790,000	$ 824,357	$ 106.251	$ 839,383	$ (13,941)	$ 810,416	$ 28,967	$ 20,738
Total U.S. Govt Bonds, Notes, & U.S. Agencies		**$ 16,740,000**	**$ 17,170,903**		**$ 17,140,538**	**$ (148,680)**	**$ 17,022,223**	**$ 118,314**	**$ 281,013**
Corporate Bonds									
Wells Fargo & Company - 3.750% Mat - 01/24/2024	4/22/19	685,000	$ 701,050	$ 106.908	$ 732,320	$ (8,207)	$ 692,843	$ 39,477	$ 25,688
Morgan Stanley - Variable rate 3.737% Mat 04/24/2024	7/25/19	575,000	$ 599,121	$ 104.927	$ 603,330	$ (11,054)	$ 588,067	$ 15,263	$ 21,488
United Health Group Inc - 2.375% Mat 08/15/2024	2/17/21	320,000	$ 341,024	$ 104.735	$ 335,152	$ (3,681)	$ 337,343	$ (2,191)	$ 7,600
JP Morgan Chase - 3.875% Mat 09/10/2024	5/10/21	680,000	$ 745,151	$ 108.728	$ 739,350	$ (7,535)	$ 737,616	$ 1,734	$ 26,350
Paccar Financial Corp - 1.80% Mat - 02/06/2025	5/18/20	375,000	$ 380,438	$ 102.941	$ 386,029	$ (1,554)	$ 378,884	$ 7,145	$ 6,750
Bank of America Corp - Variable rate 3.458% Mat 03/15/2025	5/12/20	695,000	$ 742,031	$ 106.391	$ 739,417	$ (13,321)	$ 728,710	$ 10,708	$ 24,033
3M Company -2.650% Mat 04/15/2025	5/19/20	360,000	$ 382,644	$ 105.567	$ 380,041	$ (6,245)	$ 376,399	$ 3,642	$ 9,540
Citigroup Inc - Variable Rate 3.352% Mat 04/24/2025	5/19/20	480,000	$ 505,618	$ 106.215	$ 509,832	$ (7,065)	$ 498,553	$ 11,279	$ 16,090
Chevron USA INC - .687% Mat 08/12/2025	2/17/21	505,000	$ 504,753	$ 98.918	$ 499,536	$ 34	$ 504,786	$ (5,250)	$ 3,469
Comcast Corp- 3.95% Mat 10/15/2025	2/17/21	440,000	$ 501,675	$ 110.932	$ 488,101	$ (8,119)	$ 493,556	$ (5,455)	$ 17,380
Apple Inc - .700% Mat 02/08/2026	2/17/21	630,000	$ 629,049	$ 98.967	$ 623,492	$ 117	$ 629,166	$ (5,674)	$ 4,410
Total Corporate Bonds		**5,745,000**	**6,032,551**		**6,036,601**	**(66,629)**	**5,965,923**	**70,678**	**162,797**
Foreign Bonds									
BK Montreal Mtn. 3.3% Mat - 02/05/2024	3/29/19	700,000	$ 709,618	$ 106.337	$ 744,359	$ (4,899)	$ 704,719	$ 39,640	$ 23,100
Santander UK PLC. 4% Mat - 03/13/2024	10/31/19	565,000	$ 603,606	$ 108.000	$ 610,200	$ (16,767)	$ 586,840	$ 23,360	$ 22,600
Total Foreign Bonds		**1,265,000**	**$ 1,313,224**		**$ 1,354,559**	**$ (21,666)**	**$ 1,291,559**	**$ 63,000**	**$ 45,700**
Municipal Bonds									
Wisconsin State - 0.361% Mat-05/01/2024	3/17/2021	545,000	$ 545,000	$ 99.623	$ 542,945	$ -	$ 545,000	$ (2,055)	$ 1,967
Total Municipal Bonds		**545,000**	**545,000**		**542,945**	**-**	**545,000**	**(2,055)**	**1,967**
Municipal Zero Coupon Bonds									
Total Zero Coupon Bonds		**-**	**$ -**		**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Total of City National Investments		**24,295,000**	**25,061,679**		**25,074,643**	**(236,974)**	**24,824,705**	**249,938**	**491,477**
Total City National Holdings		**24,325,855**	**$ 25,092,534**		**$ 25,105,498**	**$ (236,974)**	**$ 24,855,560**	**$ 249,938**	**$ 491,480**
Estimated Accrued Income					$ 111,586.38				
Total of City National Investments					**$ 25,217,084.06**				
					$ (64,024.77)				
				Unrealized G/L of Market Value				**$ 12,963**	$ 0
Mandatory 3 CDs - Assigned to DMHC									
Banc of California - # 3030018015 - Mat 08/3/2020 - 1.40%	8/3/19	1	$ 100,000	$ 100,000	$ 100,000	$ -	$ -	$ -	$ 1,400
City National Bank - # 432928519 - Mat - 10/16/2020- 0.10%	10/16/19	1	$ 100,000	$ 100,000	$ 100,000	$ -	$ -	$ -	$ 100
Beacon Business Bank # 1507765 - Mat 09/21/20 - 0.30%	9/22/19	1	$ 100,000	$ 100,000	$ 100,000	$ -	$ -	$ -	$ 300
Total of Time Deposits			**$ 300,000**		**$ 300,000**			**$ -**	**$ 1,800**
Total of Investments			**$ 26,613,386**		**$ 26,626,349**			**$ 249,938**	**$ 496,479**

SFHA – Short Intermediate Portfolio Review Snapshot as of 9/30/2021

Estimated MV + Accrued as of: 8/31/2021	9/30/2021	Change
$25,281,109	$25,217,084	-$64,025

Portfolio Structure

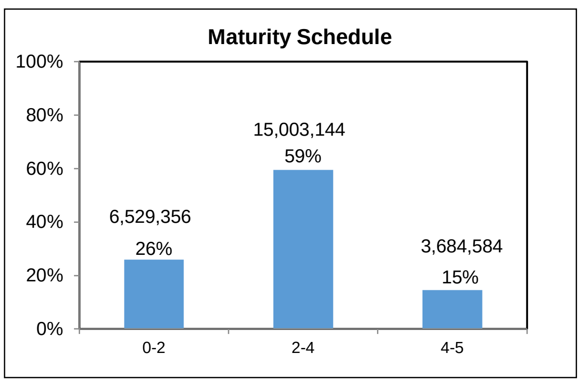
Yield to Maturity	0.56%
Yield to Cost	1.23%
Average Maturity	2.73 Years
Average Credit Quality	AAA-

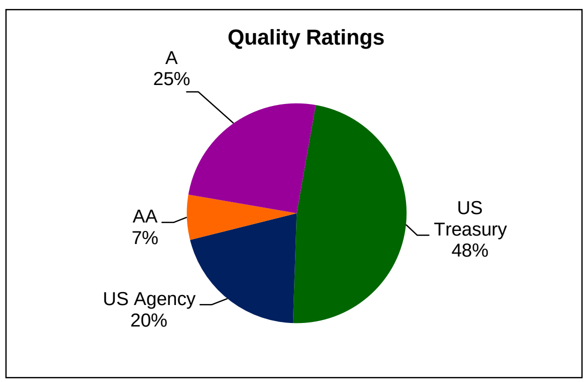
Fiscal Year Accounting Estimates 6/30/2021 through 9/30/2021:

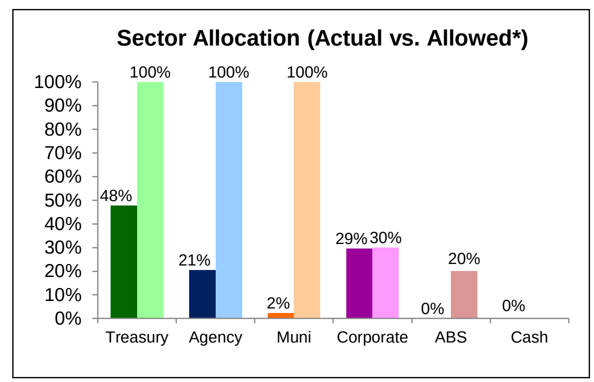
Beginning Balance (6/30/2021)	$25,211,795
Contributions	$0
Withdrawals	$0
Interest & Dividends Received	$141,785
Accrued Interest Sold	$989
Accrued Interest Purchased	-$884
Accrued Interest	$111,586
Fees	-$20,335
Value Before Market Changes	**$25,444,936**
Change in Market Value	-$227,852
Ending Balance (9/30/2021)	**$25,217,084**

Historical Total Return Performance as of 9/30/2021:

Time Period	Portfolio	Barclays 1-5 Year Gov't/Credit
Fiscal YTD (6/30/21 – 9/30/2021)	0.10%	0.05%
September 2021	-0.23%	-0.26%
Inception to Date (5/31/12 – 9/30/2021)	2.28%	1.86%







*At time of purchase

Credit Issues

There were no credit issues for the month of September.

Definition of Terminology

Portfolio Structure Terms

a) **Yield to Maturity**: The annual return that an investor earns on a bond, if the investor purchases the bond today and holds it until maturity. It takes into account the cash flow the investor receives as well as the adjustment of a bond's premium or discount.

Definitions are cited from the CFA Institute's Program Curriculum.

SFHA – Liquidity Portfolio Review Snapshot as of 9/30/2021

Estimated MV + Accrued as of: 8/31/2021	9/30/2021	Change
$106,339,627	$131,341,977	$25,002,350

Portfolio Structure

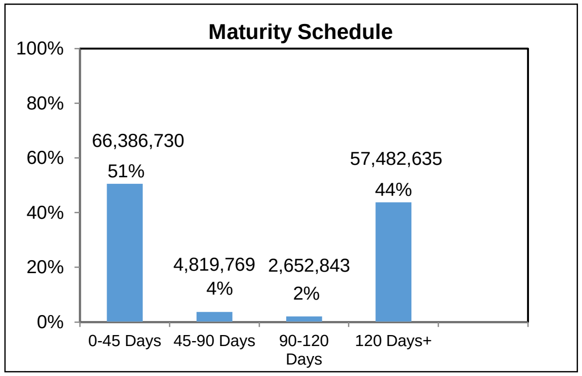
Yield to Maturity	0.09%
Yield to Cost	0.11%
Average Maturity	88 Days
Average Credit Quality	AAA-

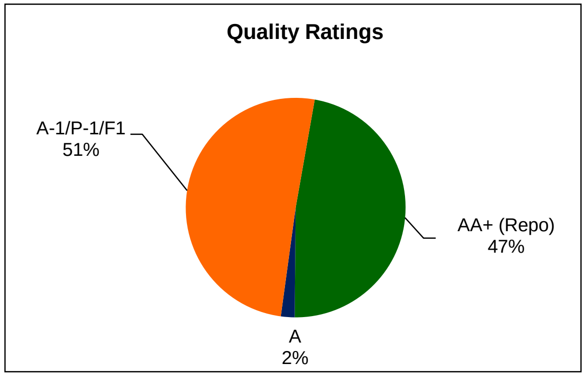
Fiscal Year Accounting Estimates 6/30/2021 through 9/30/2021:

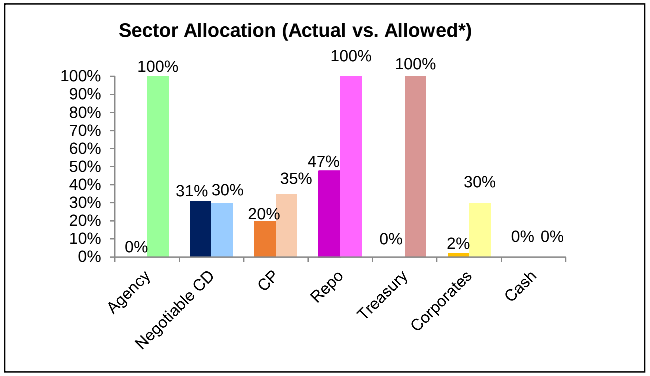
Beginning Balance (6/30/2021)	**$96,332,230**
Contributions	$188,000,000
Withdrawals	-$153,000,000
Interest & Dividends Received	$83,707
Accrued Interest Sold	$0
Accrued Interest Purchased	-$6,208
Accrued Interest	$46,444
Fees	-$21,354
Value Before Market Changes	**$131,434,819**
Change in Market Value	-$92,842
Ending Balance (9/30/2021)	**$131,341,977**

Historical Total Return Performance as of 9/30/2021:

Time Period	Portfolio	Barclays US T-Bill 1-3 Month
Fiscal YTD (6/30/21 – 9/30/2021)	0.04%	0.01%
September 2021	0.01%	0.00%
Inception to Date (7/3/17 – 9/30/2021)	1.34%	1.20%







*At time of purchase

Credit Issues

There were no credit issues for the month of September. Strategy remains focused on improving yield while meeting cash flow estimates.

Definition of Terminology

Portfolio Structure Terms

a) **Yield to Maturity**: The annual return that an investor earns on a bond, if the investor purchases the bond today and holds it until maturity. It takes into account the cash flow the investor receives as well as the adjustment of a bond's premium or discount.

Definitions are cited from the CFA Institute's Program Curriculum.

Agenda Item 4
Discussion Item

- Semi-Annual Compliance Report

Semi-Annual Compliance Report – November 2021

San Francisco Health Plan ("SFHP") submits the following semi-annual Compliance Report to the Finance Committee and Governing Board for the period from May 2021 through October 2021.

Fraud, Waste, and Abuse (FWA) Education and Training Program

Annual Employee Training Program

Development and implementation of an updated annual employee training program was completed by January 2021, with all project milestones met on time. 100% of all employees and contractors completed the mandatory training by May 21, 2021. This training also included on Health Insurance Portability and Accountability Act (HIPAA) privacy and security awareness.

SFHP Member Fraud Awareness Education Program

A member-focused fraud awareness education page was developed in June 2021 to provide education to members about fraud, waste, and abuse. The material is currently under review by the Department of Health Care Services (DHCS). Once approved, the www.sfhp.org website will be updated with this information for members. Additional member fraud awareness materials are in development and will be included in the 2021 Winter Member Newsletter.

FWA Detection Program

Pondera Assessment and Modeling Program

The Compliance and Oversight department utilizes the Pondera Fraud-Detection-as-a-Solution (FDaaS) vendor to provide monthly "Alerts" based on aberrant claims or eligibility behavior. Pondera was fully implemented in October 2019. SFHP Audit Analysts are individually responsible to review assigned Alerts. As the Compliance and Oversight Department utilized Pondera more, adjustments to Pondera were needed to make the system more compatible with SFHP operations. As a result, Pondera completed 30 system change requests in FY 20-21. The implemented configuration changes are intended to improve the system output so that Alerts result in less false positives and improvements in the operating system for staff. Some of the changes include:

- Ability to capture education and training in Case Tracker;
- Ability to connect cases via "Associated Alerts;"
- Improved Scorecard function;
- Modified Alerts to include/exclude elements on individual Alerts to reduce false positives;

- Changed mapping from billing to rendering provider where available to reduce Medical Group rollup; and
- Added reporting functionality.

SFHP meets with Pondera on a quarterly basis to review new developments, trends in the industry, and trends they noticed in SFHP's data. Pondera has also offered the use of their Special Investigations Unit to review SFHP data for potential cases. SFHP has requested assistance from Pondera on two cases. One was a potential kickback case with no evidence of fraud and the other case is still in progress.

After the first year of implementation, SFHP expressed concerns about the continued high number of false positives, which makes it difficult to identify and investigate cases of potential fraud. With a small staff, it is difficult to winnow down the large number of alerts, investigate cases, and find true opportunities to recover funds, suggest system configuration changes, or educate providers. Pondera stated its commitment to work with SFHP to reduce the false positives. SFHP will monitor the progress of increasing the effectiveness of the software and the impact of claims editing software through the June 2022 and will make a determination of whether to renew the Pondera contract, which is scheduled to be renewed on October 31, 2022.

FWA Investigations

Compliance and Oversight received 30,756 alert results from Pondera during the past year and reviewed or cleared over 4,186 results. The team investigated 46 leads from these results and opened 34 cases. The remaining large volume of results were not investigated for the following reasons:

- Claim submissions using Medical Group NPI versus individual provider NPI created a significant number of false positive claims outliers among the medical groups. This issue was corrected in July 2021.
- The lack of claims editing software resulted in thousands of returns in Alerts. These are time-intensive reviews that could not be reviewed due to lack of employee resources. A claims editing software has been selected by the Claims department for implementation in FY 21-22, which should decrease the number of Alerts.
- There was a lack of employee availability due to two regulatory audits and NCQA accreditation during the past year, which limited the availability of staff to focus on Program Integrity activities. An additional full-time staff position was hired in FY 21-22 that will have a significant impact.

Of the 34 cases opened in the past year, SFHP determined that 17 allegations of suspected fraud were required to be reported to the Department of Health Care Services (DHCS). This includes nine cases that were previously reported to the Finance Committee and Governing Board in the May 2021 semi-annual compliance report. Of these nine cases, two cases closed with findings of fraud. The following provides updates on the other seven previously reported cases and eight new cases. All cases were submitted to the DHCS Medi-Cal Fraud Unit as required by the DHCS contract. Please note that a typical investigation takes six to nine months. Several cases, however, remain open due to other staff priorities, e.g., State audits, which has taken time away from case investigations.

#	**Date Received** ***Case #***	**Provider/ Member**	**Summary**	**Status**
1	10/29/2020 *2010051 (previously reported)*	Mini Pharmacy Enterprises	Pharmacy in Los Angeles was found to be automatically delivering refills of diabetic medications to patients' homes without patient request or knowledge.	**Update:** Also referred to Department of Justice (DOJ). Member outreach campaign in progress.
2	11/02/2020 *2010052 (previously reported)*	Mobility Express	Anonymous caller alleged that provider was "scamming" SFHP by billing SFHP for rides when members were not provided. In addition, caller alleged that provider has not had insurance since June 2020. Caller provided specific names of members that Mobility Express billed without transport.	**Update:** SFHP is conducting member outreach, which is asking members if they received rides on the dates of services that were billed and paid.
3	01/13/21 *2110081 (previously reported)*	SL Consulting	A non-contracted laboratory, Global Research Institute, submitted a high volume of provider dispute resolutions (PDRs). Upon further review of the claims, SFHP noticed that Global Research Institute billed SFHP for COVID testing and many other lab services that do not require authorization.	**Update:** Also referred to DOJ.
4	02/08/2021 *2110084 (previously reported)*	Talkdoc	External website for a company called Talkdoc advertised as telehealth for behavioral health. The website had SFHP's logo on their website, without SFHP's permission. SFHP was not directly contracted with the company. The phone number on the website was for health supplements and it denied it had anything to do with mental health. Beacon investigated and determined the provider is a Beacon provider. The phone number posted had an error in the last digit. They have since fixed their phone number and have removed all plan logos	Case closed with no finding of fraud.
5	12/16/20 *2010057*	Member name redacted	Claims appeared to be paid after the member's DOD, based on data from Medi-Cal. A hospital called to state that the member was being admitted. Investigation confirmed that the member is not deceased. SFHP	Case closed with no finding of fraud.

#	Date Received *Case #*	Provider/ Member	Summary	Status
			informed DHCS to update the date of death.	
6	02/22/21 *2110087 (previously reported)*	Care DX, Inc.	DHCS received a fraud referral from an employee of Care Dx who alleged inappropriate conduct, including kickbacks.	**Update:** Case referred to Pondera SIU for additional assistance in background investigation into Care Dx.
7	02/26/21 *2110086 (previously reported)*	D. W.	Beacon's SIU data mining identified this provider billing HCPCs Q3014, a facility-based code for telehealth services. Beacon sent a MC609 to DHCS.	**Update:** Medical records have been requested and received. Review is in process.
8	03/24/21 *2110090 (previously reported)*	D.S.	Internal email regarding a media article that the provider was charged with unlawfully distributing oxycodone and hydrocodone. Claims report ran and found potential exposure. Received data back from the Pharmacy team indicating there were no claims activity from this Provider for any of our members. Case was closed with no finding of fraud	**Update: Case closed with no finding of fraud.**
9	04/09/21 *2110092 (previously reported)*	A.C.R	Received an alert from Pondera that a provider's license was suspended but claims were identified. Analysis verified that over $2,000 were paid to the provider for COVID testing after the license was suspended. Delegated providers have been alerted about the provider as well.	**Update: Case closed with finding of fraud.** Referred case to the DOJ, too. SFHP has requested funds back from provider.
10	7/28/2021 *2110106 (New)*	Bright Heart Health	Beacon SIU conducted data mining that indicated the provider is billing impossible services in a day. Two rendering providers billing over 50 visits in a day on multiple dates of service. San Francisco Health Plan exposure $2,702.16.	*Investigation is still in progress.*
11	07/07/21 *2110100 (New)*	BHC Sierra Vista Hospital	DHCS received a fraud referral from an employee of Sierra Vista who alleged inappropriate conduct, including claim fraud by changing the patient's hospital arrival time.	*Investigation in progress*
12	8/3/2021 *2110107 (New)*	M.D.L.	Through the Beacon Monthly Reimbursement Report review, there was an anomaly found on one of the Beacon Providers. There was one Provider, Mark David Levine, MD (who is part of Community Psychiatry) that was only billing 99214 or 99215	*Investigation in progress.*

#	Date Received *Case #*	Provider/ Member	Summary	Status
			during a period between June 2020 - September 2020 and was reimbursed at a much higher rate than the Medi-Cal Fee Schedule.	
13 14 15 16 17	6/30/2020 (research took over one year) *2010022, 2010027, 2010020* *2010024* *2010021 (New)*	Positive Behavior Supports Corp; Gateway Learning Group; Positive Pathways, Learning Arts; Goals for Autism	Five Beacon providers billed two units instead of the standard of 1 unit of assessment for autism. Medical records were reviewed and confirmed that the number of units were billed correctly for ABA/BHT assessment services by all five providers.	**Five cases were closed with no finding of fraud.**

Internal Audit Program

The Compliance and Oversight Department identifies risk areas with the Program Integrity Workgroup and surveys of subject matter experts across the organization. As a result of the assessment of the risk areas, an internal audit schedule is established for the fiscal year. The following are areas that have been or will be audited this fiscal year:

1. Documentation of requests for expedited grievances.
2. Non-clinical grievances.
3. Clinical grievances.
4. Provider preventable conditions.
5. Pediatric and adult preventive services.
6. Beacon claims processing.
7. SFHP's third-party administration role for SFHN.
8. Processing of members' personal representative forms.
9. Medicare Coordination of Benefits Administration (COBA) misdirects.

Delegation Oversight Program

SFHP's Compliance and Oversight department is also responsible to audit medical groups and vendors that have been delegated health plan functions, such claims, authorizations, and credentialing. The following annual audits have been completed or are scheduled this fiscal year. All audits are conducted via web conferencing and desk audits:

1. American Specialty Health (ASH)-Limited Scope
2. Beacon Health Services-Limited Scope
3. North East Medical Services (NEMS)-Limited Scope
4. VSP-Limited Scope
5. Advanced Primary Care (APC)-Limited Scope

6. Chinese Hospital-Limited Scope
7. Hill Physicians-Full Scope
8. Jade-Limited Scope
9. Kaiser-Limited Scope Audit with Partner Plans
10. Teladoc-Full Scope
11. Vision Service Plan-Limited Scope
12. Brown and Toland-Limited Scope (Began September 15, 2021)
13. Chinese Community Health Care Association (CCHCA)-Limited Scope (Began October 4, 2021)
14. Laguna Honda-Subdelegate of SFHN-Limited Scope (Scheduled to begin November 17, 2021)
15. San Francisco Health Network (SFHN)-Full Scope (Delayed to May 2022)
16. San Francisco Behavioral Health Services-Full Scope (Scheduled to begin November 1, 2021)
17. University of California San Francisco (UCSF)-Full Scope (Scheduled to begin October 26, 2021)

Privacy and Security Updates

There were no privacy or security breaches during the past year. The new hire and annual trainings have been updated to include training on privacy and security requirements for working from home. Compliance and IT staff worked together to develop a virtual privacy rounding survey. This is the virtual alternative to in-office privacy rounding, during which Compliance staff could check staff workstations and file cabinets. With the virtual privacy rounding a team of Compliance and IT staff will schedule time with all staff over the course of several months to survey staff about their home office and provide guidance to ensure home offices are set up securely. Virtual privacy rounding began in October 2021.

Conflict of Interest

During the May 2021 Finance Committee, a Board member suggested that SFHP increase measures to ensure that staff do not have conflicts of interest when contracting with vendors. While Directors and above are required to complete and submit the Form 700, staff that are not Directors do not have to complete the Form 700 and may also be involved in the vendor selection process. 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.

Agenda Item 5

CLOSED SESSION

Discussion Item

- Review Draft Calendar Year 2022 Medi-Cal Rates to SFHP

SAN FRANCISCO HEALTH PLAN
Here for you

Finance Committee

MEMO

Date:	**October 26, 2021**
To:	**Finance Committee**
From:	**Skip Bishop Chief Financial Officer** **John F. Grgurina Jr., Chief Executive Officer**
Regarding:	**Discussion of Draft CY 2022 Medi-Cal Rates**

As the recently released calendar year (CY) 2022 Medi-Cal rates are in draft form and require further analysis, San Francisco Health Plan (SFHP) is not making any recommendation at this time regarding potential changes to current Medi-Cal capitation and fee-for-services rates for providers. Information regarding the draft CY 2022 Medi-Cal rates is being provided for discussion purposes only. No action is necessary.

Discussion:

The Department of Health Care Services (DHCS) released draft CY 2022 Medi-Cal rates at the beginning of October. Although the preliminary rates shared with SFHP appear to be very favorable, DHCS still needs to apply adjustments for program changes as well as for county-wide averaging which have the potential to increase or decrease these draft rates. It is expected that DHCS will release final CY 2022 rates at the end of December.

When compared to our CY 2021 rates for existing benefits, the overall weighted average rate increase for CY 2022 is approximately **6.7%.** This increase is projected to be worth $17 million in additional revenue for January through June 2022. This is a positive development for SFHP as the CY 2018 Rate Development Template (RDT) on which the CY 2022 rates are based indicated that we should receive an increase in the range of 3.0%. This can be viewed as a reflection of the strength of the financial position of the state of California.

In addition to the 6.7% increase noted above, DHCS and its actuary, Mercer, built in 5.2% to cover the net additional medical expense SFHP expects to incur as a result of taking on the hospital risk for the San Francisco Community Clinic Consortium (SFCCC) members effective July 1, 2021. This increase is projected to be worth $13 million in additional revenue for January through June 2022 and will be retained by SFHP to cover hospital claims for SFCCC members. SFHP appreciates DHCS and Mercer for agreeing to include this additional cost in the CY 2022 rate development process. DHCS and Mercer could have waited to consider these costs as part of the normal Medi-Cal rate development template (RDT) submission process, which would have pushed these costs into the CY 2023 and CY 2024 rate development cycles. Including a rate adjustment in the CY 2022 rates means SFHP will have to absorb these costs only for the period of July 1, 2021 through December 31, 2021.

Highlights of significant changes affecting CY 2022 rates include:

- Elimination of the pharmacy benefit from SFHP's responsibility and transfers the responsibility to the State effective January 1, 2022.
- A new rate increment for Ground Emergency Medical Transportation (GEMT) for public providers.
- A new rate increment for the Community Supports/Whole Person Care (WPC) transition to Medi-Cal managed care.
- A new rate increment for the Enhanced Care Management (ECM) benefit (not included in previous draft rates).
- A new rate increment for the Major Organ Transplants (MOT) benefit (not included in previous draft rates).
- Increases in unit cost and utilization trend factors for the various categories of service.
- Increase in administrative load to cover expanded administrative requirements placed on the health plan.
- Restoration of the 0.5% underwriting gain (margin) for the health plan. The underwriting gain was reduced by 0.5% for the Bridge Period (July 1, 2019 through December 31, 2020) as well as for CY 2021.

This larger than expected rate increase for CY 2022 will allow SFHP to continue rebuilding its reserves as well as cover significant cost increases in the following areas:

- Higher than expected Medi-Cal pharmacy costs July 1 through December 2021. Generic drug pricing with Magellan is not as favorable as it was with PerformRx (estimated exposure of $6.0-$9.0 million).
- Hospital costs for SFCCC members July through December 2021. CY 2021 rates are not covering this additional medical expense (estimated exposure $8.0-$10.0 million).
- CY 2022 risk corridor for five specific hospital-related services provided by Zuckerberg San Francisco General (estimated exposure for FY 21-22 is $3.0 million).

SFHP will come back to the Finance Committee and Governing Board at the January 2022 meetings to provide more details about the Medi-Cal rates for CY 2022, as well as discuss potential changes to provider capitation and fee-for-service rates for July 1, 2022. These discussions will include alternative approaches to compensation increases for the delegated medical groups. Increases to current capitation rates would only exacerbate the problem with the existing differences between capitation paid and the value of encounters.

Agenda Item 6
Discussion Item

- Chair’s Report on Closed Session Items (Verbal Report)