SAN FRANCISCO HEALTH PLAN

Here for you

Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
January 9, 2019

Present: Eddie Chan, Pharm D, Reece Fawley, Steven Fugaro, MD, Emily Webb, Greg Wagner, John F. Grgurina, Jr., Skip Bishop, Rand Takeuchi, and Nina Maruyama (note taker)

Absent: None

Guests: Karen Andrews

Reece Fawley, Chair, Finance Committee, chaired the meeting.

Call to Order and Public Comment on any matters within the SFHA/SFCHA purview

There were no public comments.

1. Approval of Minutes from November 7, 2018 Finance Committee Meeting

Dr. Fugaro identified a typographical error on page 8 of the minutes. The word "sked" should be replaced with "asked." With that change, the minutes of the November 7, 2018 Finance Committee meeting were approved unanimously.

2. Review and Approval of Unaudited Monthly Financial Statements and Investment Reports

Recommendation: Review and approve the unaudited monthly financial statement and investment reports.

Skip Bishop, CFO, reviewed the financial statements for the period ending November 2018. Mr. Bishop discussed the following highlights:

1. November 2018 results produced a margin of $293,000 versus a budgeted loss of ($185,000). After removing Strategic Use of Reserves (SUR) activity, the actual margin from operations would be $1,141,000 versus a budgeted margin of $1,441,000.

2. On a year-to-date basis, we are showing a loss of ($484,000) versus a budgeted loss of ($55,000). After removing SUR activity, the actual margin from operations is $7,440,000 versus a budgeted margin of $8,072,000.

3. Variances between November actual results and the budget include:

   a. A net decrease in revenue of ($1,399,000) due to:

      i. $1,070,000 less in premium revenues as the result of 2,008 fewer member months. The reasons for the decrease continue to be members no longer qualifying due to increased income, an increase in the City of San Francisco's minimum wage to $15 per hour and members leaving San Francisco due to the high cost of living.

      ii. $237,000 less in Hepatitis C treatment revenue as the result of 56 fewer Hepatitis C treatment weeks along with a 3.9% decrease in the Hepatitis C reimbursement rate.

      iii. $92,000 less in Maternity revenue as the result of 11 fewer maternity events.

   b. A net decrease in medical expenses of ($2,027,000) due to:

      i. $912,000 less in fee-for-service claims activity due to slightly lower claims volume. No adjustment to our Incurred But Not Reported (IBNR) accrual was necessary as the IBNR reserve balance is in line with the Milliman model.

      ii. $778,000 less in SUR activity when compared to the budget. The FY18-19 budget anticipated a smoother outflow of SUR funds throughout the fiscal year.

      iii. $409,000 less in capitation expenses due to fewer member months.

      iv. $72,000 more in pharmacy expenses. Non-Hepatitis C pharmacy expenses were $297,000 greater than budget due to slightly higher utilization as well as increases in the cost for specialty drugs. Most of the increase in non-Hepatitis C pharmacy expense was offset by $224,000 less in Hepatitis C drug costs due to fewer than expected treatment weeks.

   c. A net increase in administrative expenses of $144,000. Compensation and benefits were $139,000 higher than projected due to filling some positions earlier than expected. $90,000 in additional GASB 68 pension expense adjustments was offset by lower than expected professional fees/consulting and information technology support costs.

   d. The chart on the next page highlights the key income statement categories with adjustments for SUR activity in order to show margin from ongoing operations for the month of November.

      For the first five months of the fiscal year, SFHP is $632,000 below budget on margin from operations:

      - Non-Hepatitis C pharmacy costs are running $2,536,000 above budget due to an 18.7% increase in drug costs and a 1.4% increase in utilization. Even with a decrease in membership, we are seeing a slight increase in utilization.
      - Administrative expenses are running $1,268,000 above budget due to the need to expense prior year Analytic Data Warehouse costs that we expected to capitalize.

- Community-Based Adult Services (CBAS) costs are $671,000 above budget due to 1) a 20% increase in provider rates (CBAS providers had not received a rate increase in over 10 years); and 2) $278,000 in claims from FY17-18 that carried over into July and August 2018.
- Non-Specialty Mental Health (NSMH) costs were $357,000 above budget. This is not unexpected given the effort made to increase utilization among the Medi-Cal population.
- The increases in medical and administrative costs noted above have been partially offset by the $4.3 million benefit from the lower than expected Adult Expansion MLR audit result.

	---------------------NOV 2018---------------------------				--------------------FYTD 18-19 THRU NOV--------------------------			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
REVENUE	$ 48,043,000	$ 49,441,000	$ (1,398,000)	-2.8%	$ 240,032,000	$ 247,573,000	$ (7,541,000)	-3.0%
MLR	91.6%	93.3%			92.5%	93.1%		
ADMINISTRATIVE RATIO	8.1%	7.5%			8.1%	7.3%		
MARGIN (LOSS)	$ 293,000	$ (185,000)	$ 478,000	258.4%	$ (484,000)	$ (55,000)	$ (429,000)	780.0%
OPERATING ADJUSTMENTS:								
FY15-16 SUR PMTS	$ -	$ -			$ 915,000	$ -		
FY16-17 SUR PMTS/ACCRUALS	$ -	$ -			$ -	$ -		
FY17-18/CY2018 SUR PAYMENTS/ACCRUALS	$ 848,000	$ 1,626,000			$ 7,009,000	$ 8,127,000		
MARGIN FROM OPERATIONS	$ 1,141,000	$ 1,441,000	$ (300,000)	-20.8%	$ 7,440,000	$ 8,072,000	$ (632,000)	-7.8%
MLR W/O SUR PMTS	89.8%	89.9%			89.1%	89.7%		

Reece Fawley, Chair, asked for more details about the Medi-Cal Adult Expansion audit result. Mr. Bishop explained that DHCS conducted an audit of the medical loss ratio (MLR) for the Medi-Cal Adult Expansion rate to determine whether the minimum MLR of 85% was achieved. If the health plan did not achieve the 85% MLR, the health plan would owe DHCS the amount below the target. In anticipation of the audit, SFHP estimated a conservative amount of $11 million to set aside for DHCS in the event the audit determined SFHP did not reach the 85% MLR requirement. The DHCS audit found SFHP owed $6.7 million, not $11 million, so SFHP had an offset of $4.3 million.

Mr. Fawley inquired whether the ADW expenses would still be considered a capital expense, but Mr. Bishop stated they would be not be capital expenses.

Mr. Bishop also relayed that regarding the CBAS rates, we had anticipated that it may take two years for DHCS to incorporate the higher rate for CBAS into our capitation rates, but DHCS' contractor for setting rates, Mercer, indicated they may consider incorporating the higher rate in July 2019.

Greg Wagner asked for the total expenses for NSMH. Mr. Bishop stated he would provide the specific numbers, but believes the expenses to be about $110,000 per week.

PROJECTIONS

Financial projections through May 2019:

1. As of November 30, 2018, SFHP added $9,167,000 to the PIP program for CY2018 covering the months of January through November 2018. This accrual is related to both the FY17-18 SUR and the CY2018 SUR. A total of $10 million will be added to the CY2018 PIP program for professional providers. The remaining $833,000 accrued in December 2018.

2. As the result of Medi-Cal rate increases effective July 2018, SFHP increased provider capitation rates effective January 1, 2019. The weighted average increase is 4.2%.

3. Hepatitis C reimbursement rates were reduced again effective July 2018. The rate reduction for non-340B was 3.9% ($155 per treatment week) while the rate reduction for drugs purchased under 340B rules was 3.3% ($99 per treatment week). With these rate reductions, SFHP is running slightly below breakeven on Hepatitis C activity through November. SFHP expects to remain close to breakeven over the next seven months.

4. There will be a FY18-19 Rate Range Intergovernmental Transfer (IGT) program for eligible governmental funding entities. Total estimated funding available is $28.7 million. SFHP worked with the eligible governmental entities to determine the level of participation and submitted its proposal to DHCS. This funding should be received in early 2019.

5. During FY18-19, DHCS will be working with the Medi-Cal managed care plans on four Directed Payment programs related to rate year FY17-18:
    a) Proposition 56 – enhanced payments to medical groups for qualifying physician services. Utilization at Federally Qualified Health Centers (FQHCs) and Rural Health Centers (RHCs)[1] is excluded. SFHP continues to make disbursements for FY17-18 as well as FY18-19.
    b) Public Hospital Enhanced Payment Program (EPP) – available to Designated Public Hospitals (DPHs) and UC Systems. DHCS will instruct SFHP on how much to pay to ZSFG and UCSF. Utilization at FQHCs and RHCs is excluded (see previous note regarding RHCs). Payments will be based on actual utilization as reported in claims and encounter activity. The timing of the first payment is estimated to be September 2019. The timing of the second payment is estimated to be March 2020.
    c) Public Hospital Quality Incentive Pool - available to DPHs and UC Systems. DHCS will instruct SFHP how much to pay to ZSFG and UCSF. Utilization at FQHCs and RHCs is excluded (see previous note regarding RHCs). Payments will be based on how the DPHs and UC Systems are performing against 20 to 25 quality measures. The timing of payment is estimated to be late in FY18-19 or early in FY19-20.
    d) Private Hospital Directed Payments – available to private hospitals. DHCS will instruct SFHP how much to pay to the private hospitals. Utilization at FQHCs and RHCs is excluded (see previous note regarding RHCs). Payments will be

[1] DHCS' description of the payment references RHCs. However, there are no RHCs in San Francisco.

based on actual utilization as reported in claims and encounter activity. The timing of payments is expected to match that of the Enhanced Payment Program.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Medi-Cal Membership Projections

Rand Takeuchi, Director, Accounting, provided an overview of membership.

In the last 12 months, overall Medi-Cal membership has decreased 4.6%. We are seeing declines across all three Medi-Cal populations – Temporary Assistance for Needy Families (TANF), Seniors and Persons with Disabilities (SPD) and Medi-Cal Expansion (MCE). In the last 12 months:

- TANF is down 2.8%
- SPD is down 4.8%
- MCE is down 6.5%

Compared to December 2016, overall Medi-Cal membership has decreased 6.8%. Compared to December 2015, overall Medi-Cal membership has decreased 4.3%.

There are several reasons for the decrease in Medi-Cal membership:

- The economy has been improving, especially in San Francisco.
- The minimum wage in San Francisco was increased to $15.00 per hour.
- Members are no longer qualifying for Medi-Cal due to increases in income.
- Members are leaving San Francisco due to the high cost of living.
- There is no longer a penalty for not having insurance.
- Impact of the draft public charge rule.

Should current trends continue, overall Medi-Cal membership will decline by another 3,000 members, or 2.4%, by the end of this fiscal year.

Tables displaying membership history for the last three years are on tables on next page.

Mr. Fawley inquired if we think Medi-Cal enrollment will keep dropping or if the decline has bottomed out. Mr. Grgurina shared that while the State's economy continues to do well, the potential change in federal policy regarding the public charge may have a negative impact on enrollment if the change in policy is approved.

Eddie Chan stated that the North East Medical Services clinics have already seen an impact. He estimates that their urgent care appointments have decreased about 50 percent.
Mr. Grgurina showed an enrollment chart of the Local Health Plans of California. The chart showed the vast majority of plans losing membership over the last 12 months.

Mr. Grgurina also reviewed the recently signed Executive Order from Governor Newsom regarding a State pharmacy proposal to carve out prescription drugs from Medi-Cal managed care and create a centralized State purchasing program. He stated the proposal does not include any details so it is unclear what the State's proposal will include. Any changes would be implemented in 2021. Mr. Grgurina reviewed a memo prepared by Lisa Ghotbi, Director, Pharmacy, which explained the SFHP pharmacy trends. The following are highlights that explain SFHP's higher than expected pharmacy expenses:

- Several new brand drug expenses offset the savings from generic drugs.
- There were also several brand drugs for which there are no lower cost alternatives, yet.
- SFHP's members that remain are higher utilizers of pharmacy services.
- SFHP expects 15-20% increases in pharmacy expenses with less generic alternatives.

SFHP is trying to encourage the use more generics, use prior authorizations, monitor drug expenses, make formulary changes, and work with specialty pharmacies on pricing.

CY2018												
	----------MEDI-CAL MEMBERS----------											
CATEGORY OF AID	**Dec-18**	**Nov-18**	**Oct-18**	**Sep-18**	**Aug-18**	**Jul-18**	**Jun-18**	**May-18**	**Apr-18**	**Mar-18**	**Feb-18**	**Jan-18**
ADULT/CHILD/BCCTP/DUAL	61,530	61,775	61,800	62,000	62,165	62,248	62,352	62,746	62,870	63,026	63,628	63,596
SPD	13,172	13,211	13,252	13,278	13,336	13,354	13,561	13,613	13,667	13,699	13,772	13,815
ADULT EXPANSION	52,930	53,138	53,328	53,425	53,434	53,780	53,911	54,456	54,937	55,040	55,637	55,660
TOTAL MEDI-CAL	127,632	128,124	128,380	128,703	128,935	129,382	129,824	130,815	131,474	131,765	133,037	133,071
% CHANGE MONTH TO MONTH	-0.4%	-0.2%	-0.3%	-0.2%	-0.3%	-0.3%	-0.8%	-0.5%	-0.2%	-1.0%	0.0%	-0.5%
% CHANGE VS DEC 2017	-4.6%											
% CHANGE VS DEC 2016	-6.8%											
CY2017												
	----------MEDI-CAL MEMBERS----------											
CATEGORY OF AID	**Dec-17**	**Nov-17**	**Oct-17**	**Sep-17**	**Aug-17**	**Jul-17**	**Jun-17**	**May-17**	**Apr-17**	**Mar-17**	**Feb-17**	**Jan-17**
ADULT/CHILD/BCCTP/DUAL	63,284	63,232	64,230	64,598	64,781	64,759	64,447	64,373	64,348	64,259	64,298	64,249
SPD	13,833	13,870	13,886	13,944	13,984	13,964	14,127	14,095	14,088	14,122	14,162	14,176
ADULT EXPANSION	56,614	56,506	57,607	57,957	58,393	58,245	58,048	58,156	58,070	57,980	57,998	57,840
TOTAL MEDI-CAL	133,731	133,608	135,723	136,499	137,158	136,968	136,622	136,624	136,506	136,361	136,458	136,265
CY2016												
	----------MEDI-CAL MEMBERS----------											
CATEGORY OF AID	**Dec-16**	**Nov-16**	**Oct-16**	**Sep-16**	**Aug-16**	**Jul-16**	**Jun-16**	**May-16**	**Apr-16**	**Mar-16**	**Feb-16**	**Jan-16**
ADULT/CHILD/BCCTP/DUAL	65,984	65,862	65,820	64,990	64,069	63,353	63,757	64,098	64,222	64,517	64,846	65,371
SPD	12,187	12,212	12,246	12,307	12,376	12,460	12,444	12,447	12,441	12,413	12,412	12,448
ADULT EXPANSION	58,842	58,363	58,562	57,946	57,411	56,827	56,403	55,644	55,174	56,212	54,918	55,273
TOTAL MEDI-CAL	137,013	136,437	136,628	135,243	133,856	132,640	132,604	132,189	131,837	133,142	132,176	133,092

The Finance Committee unanimously approved the unaudited monthly financial statements and investment reports for the period ending November 30, 2018, for forwarding to the full Board for approval.

The Finance Committee adjourned to closed session.

The Finance Committee resumed in open session.

3. Report by Chair on Closed Session Action Items

Mr. Fawley stated that the Finance Committee unanimously approved the recommendation not to pursue a bid to be a Qualified Health Plan Bid in 2020 for forwarding to the full Board.

4. Review and Approval of Resolutions related to SFHP Employees Retirement Plan

SFHP recommends the approval of the following resolutions related to SFHP's employee retirement plan:

a. Resolution 2019-01, Destination of Executive Level Employees
b. Resolution 2019-02, Treatment of Mandatory Contributions
c. Resolution 2019-03, Evergreen Employer Discretionary Contribution

Mr. Takeuchi reviewed that SFHP has been working an attorney regarding the SFHP employee retirement plan and found issues that require the approval of three resolutions.

Resolution 2019-01, Designation of Executive Level Employees

Resolution 2019-01 designates the positions in SFHP that are designated as "Executive Level Employees" for the purpose of identifying the employees to whom the Mandatory Employee Contribution requirements apply.

The Finance Committee unanimously approved Resolution 2019-01 forwarding to the full Board.

Resolution 2019-02, Treatment of Mandatory Contributions

Resolution 2019-02 defines that Mandatory Contributions are treated as employer contributions and pre-tax for income tax purposes under 414(h)(2) of the Internal Revenue Code.

The Finance Committee unanimously approved Resolution 2019-02 forwarding to the full Board.

Resolution 2019-03, Evergreen Employer Discretionary Contribution

Resolution 2019-03 states that as of January 1, 2018, SFHP designates 5% of each eligible participant's biweekly compensation as the Employer's discretionary contribution to be allocated as of the Employer's biweekly payroll until SFHP changes the amount by a future resolution.

The Finance Committee unanimously approved Resolution 2019-03 forwarding to the full Board.

5. Review and Approval of Contract with Reinsurance Vendor

Recommendation:

SFHP recommended the Finance Committee and Governing Board approve a contract with a reinsurance vendor for calendar year 2019.

Skip Bishop, CFO, reviewed the options with the Finance Committee.

SFHP purchases reinsurance to protect from losses due to high-cost professional, hospital and pharmacy claims and encounters.

Our current broker requested quotes from several carriers offering reinsurance coverage. The total CY 2018 premiums are estimated to be approximately $7.4 million. The recovery percentage from CY 2015 and CY 2016 was 135% and 123%, respectively. For CY 2017, the final recovery percentage is expected to be approximately 127%. Reinsurance companies target their premiums to achieve a 70% to 75% loss ratio.

Mr. Bishop presented the broker's proposed rates for CY2019. Based on the proposed rates, Mr. Bishop stated that it was the same rate as CY2018, except with an increase in the deductible for professional claims from $40,000 to $100,000. Emily Webb asked what percent of professional claims would be between $40,000 and $100,000. She asked if it would be better to explore a higher premium and lower deductible. This may be a better option for the providers. Mr. Bishop stated he would evaluate the potential claims by provider group and determine if a lower deductible and slightly higher premium would be more beneficial. The Finance Committee recommended to approve to contract with RGA, conduct the analysis of a lower deductible and higher premium and select the best option for participating providers and SFHP.

All committee members agreed and approved the recommendation for forwarding to the full Board.

6. Review and Approval of Funding for FY18-19 Strategic Use of Reserves

Recommendation : SFHP recommends the Finance Committee approve the following three recommendations for FY 18-19 SUR investments. These investments support SFHP providers and improve member health outcomes. (Detailed memo outlining the recommendations was provided in the Finance Committee packet.)

Recommendations	Scope	Proposed SUR Funding
1. PIP Enhancements	Incentivize improvement in three areas	$4,000,000
2. Targeted Interventions for High-Risk Populations	Explore community partnerships and interventions to reduce health disparities	$2,000,000
3. Health Homes Readiness Funding for State Plan Amendment 2 (SPA-2) Population	Support to new Community Based Care Management Entity (CB-CME) providers (Unearned 15/16 SUR funds)	$565,000
	TOTAL	**$6,565,000**

A hospital SUR proposal for approximately $4 million will be brought to the March 2019 Governing Board meeting.

The Finance Committee approved the SUR funding forwarding to the Board for approval.

7. Adjourn

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Reece Fawley, Secretary