SAN FRANCISCO HEALTH PLAN
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Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
March 6, 2019

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

Absent: Eddie Chan, Pharm D

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 January 9, 2019 Finance Committee Meeting

The minutes of the January 9, 2019 Finance Committee meeting were approved with no changes.

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 January 2019. Mr. Bishop discussed the following highlights:

1. January 2019 results produced a loss of ($871,000) versus a budgeted loss of ($1,292,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations would be ($443,000) versus a budgeted loss of ($567,000).

2. On a year-to-date basis, we are showing a loss of ($461,000) versus a budgeted loss of ($1,428,000). After removing SUR activity, the actual margin from operations was $8,725,000 versus a budgeted margin of $9,049,000.

3. Variances between January actual results and the budget included the following reasons:

   a. A net decrease in revenue of ($2,034,000) due to:

      1) $1,323,000 less in premium revenue as the result of 3,436 fewer member months. The reasons for the decrease included an additional 1,548 members placed on hold. Of the overall decrease in member months, 2,338 of these members were in the Adult Expansion category.
      2) $509,000 less in Hepatitis C revenue as the result of 140 fewer Hepatitis C treatment weeks along with a 3.9% decrease in the Hepatitis C reimbursement rate.
      3) $102,000 less in Maternity revenue as the result of 12 fewer maternity events.
      4) $100,000 less in third-party administrative fees due to the decrease in membership.

   b. A net decrease in medical expenses of 2,036,000 due to:

      1) $142,000 less in fee-for-service claims activity. January was a heavy month for claims due to a catch-up of claims not submitted during the holiday period. The Milliman Incurred But Not Reported (IBNR) model indicated we had an excess accrual of $740,000 therefore we reduced the IBNR reserve balance which lowered overall claims expense for the month.
      2) $297,000 less in SUR activity when compared to the budget. The FY18-19 budget anticipated a smoother outflow of SUR funds throughout the fiscal year.
      3) $1,467,000 less in capitation expense. Provider capitation rates increased by an average of 4.2% effective January 2019. The lower capitation expense was due to 3,436 fewer member months for January.
      4) $130,000 less in pharmacy expense. Non-Hepatitis C pharmacy expense was $366,000 greater than budget due to higher utilization as well as higher than expected increases in the cost for specialty drugs. The increase in non-Hepatitis C pharmacy expense was more than offset by $509,000 less in Hepatitis C drug costs due to fewer than expected treatment weeks.

   c. A net decrease in administrative expense of $352,000. Compensation and benefits were $166,000 higher than projected due to the impact of GASB 68 pension expense adjustments. These additional compensation and benefits costs were more than offset by lower than expected marketing, professional fees/consulting and information technology support costs.

4. For the first seven months of the fiscal year, SFHP is $324,000 below budget on margin from operations:

- Revenue was down $9.7 million due to 16,305 fewer member months, 650 fewer Hepatitis C treatment weeks and 67 fewer maternity events.
- Non-Hepatitis C pharmacy costs are running $3,241,000 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 $888,000 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 were $965,000 above budget due to a 20% increase in provider rates and $278,000 in FY17-18 claims that carried over into this fiscal year.
- Non-Specialty Mental Health (NSMH) costs were $479,000 above budget. This was 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 as well as the $740,000 decrease in the IBNR reserve.

	----------------------JAN 2019	---------------------------			---------------------FYTD 18-19 THRU JAN	--------------------------		
CATEGORY	**ACTUAL**	**BUDGET**	**FAV (UNFAV)**	**% FAV (UNFAV)**	**ACTUAL**	**BUDGET**	**FAV (UNFAV)**	**% FAV (UNFAV)**
REVENUE	$ 47,378,000	$ 49,412,000	$ (2,034,000)	-4.1%	$ 336,732,000	$ 346,388,000	$ (9,656,000)	-2.8%
MLR	94.5%	94.9%			92.6%	93.4%		
ADMINISTRATIVE RATIO	7.9%	8.1%			8.0%	7.4%		
MARGIN (LOSS)	$ (871,000)	$ (1,292,000)	$ 421,000	32.6%	$ (461,000)	$ (1,428,000)	$ 967,000	67.7%
OPERATING ADJUSTMENTS:								
FY15-16 SUR PMTS	$ -	$ -			$ 915,000	$ -		
FY16-17 SUR PMTS/ACCRUALS	$ -	$ -			$ -	$ -		
FY17-18/CY2018 SUR PAYMENTS/ACCRUALS	$ 150,000	$ 725,000			$ 7,993,000	$ 10,477,000		
FY18-19 SUR PMTS/ACCRUALS	$ 278,000	$ -			$ 278,000	$ -		
MARGIN FROM OPERATIONS	$ (443,000)	$ (567,000)	$ 124,000	21.9%	$ 8,725,000	$ 9,049,000	$ (324,000)	-3.6%
MLR W/O SUR PMTS	93.5%	93.4%			89.9%	90.3%		

PROJECTIONS

Financial projections through July 2019:

1. As of January 31, 2019, SFHP added $278,000 to the Practice Improvement Program (PIP) related to the FY18-19 Strategic Use of Reserves (SUR) program. A total of $4 million was added to the CY2019 PIP program for professional

providers. The remaining $3,722,000 will be accrued over the period of February 2019 through June 2020.

2. Beginning January 2019, provider capitation rates increased by an average of 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).

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 March or April 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) was excluded. SFHP continues to make disbursements for FY17-18 as well as FY18-19. The average monthly disbursement has been $385,000.
    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. 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. 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. Payments will be based on actual utilization as reported in claims and encounter activity. The timing of payments is expected to match that of the EPP.

Mr. Fawley asked if the reasons for the variances were expected and Mr. Bishop confirmed that the factors impacting the budget were expected. SFHP has been wrestling with non-Hepatitis C pharmacy expenses.

Mr. Bishop shared that there is good news for Hepatitis C treatments. As of February 2019 a generic form of Harvoni and Epclusa has become available and should be reimbursable by DHCS. SFHP should experience a positive margin for Hepatitis C treatment reimbursements in February through June 2019. DHCS may reduce SFHP's rate in July.

Regarding the CBAS and non-specialty mental health rates, which were increased 20%, Mr. Grgurina stated that DHCS is considering increasing SFHP's rate in July 2019 to cover the increased expenses SFHP is experiencing.

For the administrative expenses, the $900,000 over budget is due to change in the data warehouse project. Since SFHP is no longer implementing the analytic data warehouse, the expenses for that project could no longer be capitalized. The $1.3 million for data warehouse project now have to be budged as an expense.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Medi-Cal Membership Projections Through June 2020

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

When comparing January 2019 with January 2018, overall Medi-Cal membership has decreased 5.0%. There were 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 has been down 4.0%
- SPD has been down 5.1%
- MCE has been down 6.1%

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.

In January 2019, SFHP had 126,456 active Medi-Cal members. Given the trend factors noted above, SFHP expects Medi-Cal membership to decrease to 123,000 members by 6/30/19 (a decrease of 2.7%).

Greg Wagner asked if other counties without a high cost of living are experiencing a reduction in membership as well. Mr. Grgurina stated that the Central Valley, where economy is not growing, is the only area experiencing a small growth. Mr. Grgurina stated the loss of Medi-Cal membership is not unique to SFHP and shared the chart below, which shows the decline in membership across Bay Area counties:

HEALTH PLAN	COUNTY	% CHANGE
ALAMEDA ALLIANCE FOR HEALTH	ALAMEDA	-2.4%
CONTRA COSTA HEALTH PLAN	CONTRA COSTA	-2.6%
PARTNERSHIP HEALTH PLAN	SOLANO	-3.1%
HEALTH PLAN OF SAN MATEO	SAN MATEO	-5.1%
SAN FRANCISCO HEALTH PLAN	SAN FRANCISCO	-6.6%
SANTA CLARA FAMILY HEALTH PLAN	SANTA CLARA	-6.7%
ANTHEM BLUE CROSS	SAN FRANCISCO	-7.0%
ANTHEM BLUE CROSS	CONTRA COSTA	-7.5%
ANTHEM BLUE CROSS	ALAMEDA	-7.7%
ANTHEM BLUE CROSS	SANTA CLARA	-8.3%

For the FY19-20 budget, SFHP projects Medi-Cal membership to decline by another 5%, reaching 117,000 members by June 30, 2020. This includes the potential of adding a small number of undocumented young adults up to the age of 26 years old, who may be eligible for Medi-Cal. The loss of an additional 6,000 members would represent a revenue loss of $13.7 million. With fewer members, there would be associated medical expense savings. The negative impact to margin is projected to be $1.1 million. Mr. Grgurina stated that SFHP would still be able to operate within its administrative budget without staff reductions. Mr. Grgurina stated that current positions that are vacant would remain vacant. Mr. Fawley asked if the projected decrease in revenues and expenses were reduced proportionately for the higher expenses of the Seniors and Persons with Disabilities (SPDs). Mr. Takeuchi stated that the projected $13 million decrease is a blended estimate, across the rate codes. Mr. Bishop stated the projections would be finalized after the DHCS rates are received in late April.

Emily Webb asked how many members are projected when Medi-Cal expands the undocumented adults. Mr. Grgurina stated it would be approximately 500 to 700 members.

Mr. Bishop and Mr. Takeuchi reviewed the investment reports. Mr. Fawley stated that the return on short-term investments was impressive as well as the year-to-date returns. Mr. Takeuchi reviewed the liquidity investments, which are managed on a daily basis. To date, SFHP has experienced a gain of 2.8%, or $1.52 million. Previously, without the liquidity portfolio, SFHP's return on investment was relatively flat.

Mr. Wagner asked what happens to the cash in the pool of for City Options. Mr. Grgurina stated that until SFHP receives direction from the City, the cash sits in the bank account, which is not earning interest. Mr. Grgurina stated that it would be a good idea to schedule a meeting with the Department of Public Health to discuss the City Option funds.

The Finance Committee unanimously approved the unaudited monthly financial statements and investment reports for the period ending January 31, 2019, for forwarding to the full Board for approval.

3. Review and Approval of Proposal for Strategic Use of Reserves for Contracted Hospitals, practice improvement Program and Targeted Interventions

Recommendation: SFHP recommends approval of the following FY18-19 SUR investments:

Recommendation	Scope	Proposed SUR Funding
1. Support contracted hospitals to improve member care	Contracted hospitals choose either a 12-month rate increase **or** direct grant to support new or expanded initiatives.	$5,000,000
2. Additional funds to PIP program	Incentivize improvements in health outcomes and patient experience.	$1,000,000
3. Additional funds to support targeted interventions for high-risk populations	Expand community partnerships and interventions to reduce health disparities.	$1,000,000

Mr. Grgurina stated that the Finance Committee's role was not to evaluate the project types, but to approve whether SFHP has the sufficient funds. Mr. Grgurina stated that in the previous proposal approved by the Finance Committee and the Board, $10 million was approved for the SUR. With the projections for the margin for FY18-19, SFHP projected that there would likely be a $17 million margin. Mr. Grgurina explained that in order to follow the two-month capitation reserve policy, an additional $7 million would be needed to be added to the SUR. Without the increase in the SUR distribution, we may exceed the two-month capitation premium policy.

Ms. Webb asked whether providers who do not complete their projects and have funds carryover are informed that they need to complete their projects. Mr. Grgurina stated that staff are in regular contact with the participating providers and they remain eligible to receive their funds if they complete their projects. If the funds are not spent, the funds remain eligible for future PIP projects and are not returned to the health plan.

The Finance Committee approved the additional funding for PIP as proposed for forwarding to the full Governing Board for approval.

4. Review of CY2018 SFHP Administrative Contracts

The following was presented to the Finance Committee for discussion only. No action was required.

History
At the March 4, 2015 Governing Board meeting, the Board approved a policy to require Board approval for administrative contracts with a value of $1 million or more. Additionally, with the approval of this policy, SFHP staff agreed to provide

the Governing Board with a list of contracts valued at over $100,000 on an annual basis. In keeping with this policy, the Karen Andrews, COO, presented an overview of 55 contracts from calendar year 2018 that were valued at $100,000 or greater. Ms. Andrews highlighted the following items:

- In 2018, there were eleven contracts whose total spend was over $1,000,000. All contracts complied with the Governing Board-approved SFHP Contract Approval policy.
- The following contracts over $1 million were either approved by the Governing Board or were grandfathered, i.e., existed prior to the March 2015 policy:

    1. SFHP Staff Benefits:
        a. Aetna Life Insurance for Health Benefits
        b. Kaiser Permanente Health Benefits
        c. CalPERS Defined Pension Plan
        d. CalPERS 457
        e. 401(a) pension plan through ICMA-RC
    2. RSC Insurance Brokerage – stop loss premiums
    3. 50 Beale St., LLC – main office rent agreement
    4. KP, LLC – vendor for printed member material mailings. (KP, LLC is the company's name, and it is NOT Kaiser Permanente, nor related to Kaiser).
    5. Perform Rx – pharmacy benefit manager administrative fees
    6. 1-Answer Corp – Consulting and technical services for EDW build (terminated)

The SFHP Finance staff reviews the list of contracts on a quarterly basis to project the year-end totals (see attached list). The Finance staff sends the list to all executives for review and comments, as needed. If approaching $1 million, the executive responsible for the contract will present the contract to the Board for approval.

Note that the Fusion Storm contract for ITS hardware and software will be subject to a request for proposals in March and the resulting recommendation will be brought to the May 2019 Governing Board meeting.

Mr. Fawley reminded the Committee that this item was for discussion only and that an action was not required.

5. Semi-Annual Compliance Report

Nina Maruyama, Officer, Compliance and Regulatory Affairs, reviewed the Compliance Report for the calendar year (CY) 2018 with the Finance Committee. The following are key highlights:

Responsibility for SFHP's Anti-Fraud Program

SFHP's Officer of Compliance and Regulatory Affairs, in collaboration with the Compliance Department, are responsible for fraud prevention, identification and investigation efforts.

Training Efforts

On an annual basis, the Compliance Department provides training for all SFHP staff. All employees are required to participate in an online training course dedicated solely to the identification and reporting of fraud, waste, and abuse. The training course emphasized that it is everyone's responsibility to report any suspicion of possible fraud, waste, abuse and/or misconduct. Topics included but were not limited to the following: 1) definition of fraud, waste and abuse, 2) several examples to assist staff in detecting fraud, waste, and abuse, 3) how to report fraud, waste, and abuse, including the contact information for the SFHP Officer of Compliance and Regulatory Affairs and the Compliance hotline. In 2018, one hundred (100%) of all employees, including temporary employees, completed the training.

Auditing and Monitoring

The Compliance Department is responsible for providing oversight to all auditing and monitoring that occurs at SFHP. Below is a summary of the Compliance Department auditing and monitoring activities, as related to fraud, waste, and abuse detection or prevention.

Exclusion Lists monitoring was conducted on all new providers, employees, and vendors. This monitoring consists of checking individuals or entities against 1) the Office of Inspector General, U. S. Department of Health and Human Services' Exclusion List of Excluded Individuals/Entities online database; 2) the Excluded Parties List System on line database produced by the U.S. General Services Administration; and 3) the Medi-Cal Suspended & Ineligible Provider Lists published by the California Department of Health Care Services. All new Vendors, Employees, and Providers are checked against these databases, and all providers, whether newly contracted, non-contracted, or existing, are re-verified against these databases on a monthly basis.

SFHP implemented an Audit Plan to monitor internal departments for compliance with regulatory and contractual requirements, including potential fraud, waste, or abuse. In 2018, 12 Post-Payment Claim Audits were conducted. There were no findings of any instances of fraud found.

SFHP implemented Fraud and Abuse Policy and Procedure monitoring as part of the annual Delegated Oversight Audit process. As a result, all Delegated Entities were audited for appropriate Fraud and Abuse policies, including reporting requirements, employee awareness training and non-retaliation policies.

SFHP is audited annually by an independent, certified public accounting firm to ensure that adequate financial controls are in place. For the fiscal year 2017-18, there were no audit findings that indicated any inappropriate practices or controls.

The audit firm gave the SFHP its “unmodified opinion” stating SFHP’s combined financial statements were fairly presented in accordance with generally accepted accounting principles. This report was submitted to and approved by the SFHP Governing Board.

Anti-Fraud Work Plan

An Internal Anti-Fraud Work Plan includes plans proactive data monitoring activities, audits, and training development, conducted by the internal and cross-functional Anti-Fraud Work Group.

In 2018, the Workgroup conducted five audits:
- Three audits for Provider Preventable Conditions
- One for Modifer-25 Usage
- Bundled procedures

SFHP conducted these audits because the Center for Medicare and Medicaid Services (CMS) and Office of Inspector General (OIG) considers these areas as vulnerable to fraud, abuse or waste. CMS and the Medi-Cal program require health plans and their providers to report provider preventable conditions and not pay for any resulting claims. Modifier 25 is allowed for “significant, separately identifiable evaluation and management [E/M] service by the same physician on the same day of the procedure or other service,” but is sometimes misused. Although no instances of fraud were found, coding errors were found and provider education is in process.

Anti-Fraud Software Vendor

In 2018, SFHP conducted a request for proposals (RFP) for an anti-fraud software to assist SFHP with monitoring claims and eligibility for potential fraud, waste, or abuse. After a comprehensive review and vetting process, Pondera was selected. Implementation of the software is currently in process. SFHP expects the software to be fully operational by July 2019.

Suspected Fraud and Abuse Cases

The Compliance Department monitors the SFHP toll-free confidential hotline and the Compliance e-mail in-box for suspected fraud, waste and abuse cases, as well as having an open-door policy for direct reports to the Compliance staff. In 2018, there were no reports of suspected fraud reported via the hotline, email or to the Compliance department.

SFHP Compliance and Regulatory Affairs will provide the next semi-annual Compliance Report in September 2019.

6. Adjourn

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Reece Fawley, Secretary