SAN FRANCISCO HEALTH PLAN
Here for you

Joint San Francisco Health Authority/San Francisco Community Health Authority Minutes of the Finance Committee May 1, 2019

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

Absent: Emily Webb

Guest: Darin Moore

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 March 6, 2019 Finance Committee Meeting

The minutes of the March 6, 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 March 2019. Mr. Bishop discussed the following highlights:

1. March 2019 results produced a loss of ($658,000) versus a budgeted loss of ($776,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations would be ($380,000) versus a budgeted loss of ($50,000).

2. On a year-to-date basis, we are reporting a margin of $332,000 versus a budgeted loss of ($2,843,000). After removing SUR activity, the actual margin from operations is $10,074,000 versus a budgeted margin of $9,086,000.

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

   a. A net decrease in revenue of ($1,513,000) due to:

      1) $753,000 less in premium revenue as the result of 2,401 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 minimum wage to $15 per hour and members leaving San Francisco due to the high cost of living. Of the overall decrease in member months, 1,943 of these members were in the Adult Expansion category.
      2) $363,000 less in Hepatitis C revenue as the result of 108 fewer Hepatitis C.
      3) $299,000 less in Maternity revenue as the result of 34 fewer maternity events. Medical group reporting for March is incomplete and we are working with providers to confirm the true maternity event totals for March.
      4) $98,000 less in third-party administrative fees which can be attributed to the decrease in membership.

   b. A net decrease in medical expense of $1,227,000 due to:

      1) $1,457,000 less in capitation expense. Provider capitation rates increased by an average of 4.2% effective January 2019. The lower capitation expense is a function of 2,401 fewer member months for March.
      2) $447,000 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) $172,000 less in pharmacy expense. Non-Hepatitis C pharmacy expense was $361,000 greater than budget due to higher than expected increases in the cost for specialty drugs as well as higher utilization in a decreasing membership environment. The increase in non-Hepatitis C pharmacy expense was more than offset by $533,000 less in Hepatitis C drug costs due to fewer than expected treatment weeks along with the introduction of a generic form of Epclusa.
      4) $755,000 more in fee-for-service claims activity. Fewer APR-DRG claims were processed during the second half of February as we implemented systems enhancements for APR-DRG pricing. This resulted in APR-DRG claims being pushed into March.
      5) $94,000 more in non-specialty mental health expense due to continued increases in utilization.

c. A net decrease in administrative expense of $293,000. GASB 68 pension expense was $254,000 greater than budget due to the recognition of prior year payments to bring our plan up to 100% funded. These additional pension costs were more than offset by lower than expected professional fees/consulting and information technology support costs.

4. For the first nine months of the fiscal year, SFHP is $988,000 above budget on margin from operations:

- Overall revenue is down $13.1 million due to 22,375 fewer member months, 842 fewer Hepatitis C treatment weeks and 118 fewer maternity events.

- Overall medical expense is down $16.2 million due to a combination of factors outlined below:
  - Capitation and fee-for-services expenses are down by $12.6 million due to the decrease in membership.
  - Total pharmacy costs are down $970,000. Hepatitis C drug costs are down $3,322,000 due to fewer treatment weeks, however non-Hepatitis C drug costs are running $2,352,000 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.
  - Community-Based Adult Services (CBAS) costs are $1,039,000 above budget due to a 20% increase in provider rates (CBAS providers had not received a rate increase in nearly 10 years) and $278,000 in FY17-18 claims that carried over into July and August 2018.
  - Non-Specialty Mental Health (NSMH) costs were $592,000 above budget. This was expected given the effort made to increase utilization among the Medi-Cal population.
  - $4.3 million reduction in medical expense due to the favorable result from the Adult Expansion Medical Loss Ratio audit.

- Administrative expenses are running $563,000 above budget. During FY18-19, we were required to expense prior year Analytic Data Warehouse (ADW) costs of $1.2 million that we expected to capitalize. These ADW costs have been partially offset by lower than expected costs in marketing and information technology support costs.

	----------------------MAR 2019----------------------------				---------------------FYTD 18-19 THRU MAR---------------------------			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
REVENUE	$ 47,818,000	$ 49,331,000	$ (1,513,000)	-3.1%	$ 432,029,000	$ 445,084,000	$ (13,055,000)	-2.9%
MEDICAL EXPENSE	$ 44,692,000	$ 45,919,000	$ 1,227,000	2.7%	$ 393,702,000	$ 409,921,000	$ 16,219,000	4.0%
MLR	94.9%	94.7%			92.6%	93.6%		
ADMINISTRATIVE RATIO	7.1%	7.3%			7.8%	7.3%		
MARGIN (LOSS)	$ (658,000)	$ (776,000)	$ 118,000	15.2%	$ 332,000	$ (2,843,000)	$ 3,175,000	111.7%
OPERATING ADJUSTMENTS:								
FY15-16 SUR PMTS	$ -	$ -			$ 915,000	$ -		
FY16-17 SUR PMTS/ACCRUALS	$ -	$ -			$ -	$ -		
FY17-18/CY2018 SUR PAYMENTS/ACCRUALS	$ -	$ 726,000			$ 7,993,000	$ 11,929,000		
FY18-19 SUR PMTS/ACCRUALS	$ 278,000	$ -			$ 834,000	$ -		
TOTAL SUR	$ 278,000	$ 726,000			$ 9,742,000	$ 11,929,000		
MARGIN FROM OPERATIONS	$ (380,000)	$ (50,000)	$ (330,000)	-660.0%	$ 10,074,000	$ 9,086,000	$ 988,000	10.9%
MLR W/O SUR PMTS	94.3%	93.2%			90.3%	90.9%		

PROJECTIONS

Financial projections through September 2019:

1. As of March 31, 2019, SFHP has added $834,000 to the PIP program related to the FY18-19 Strategic Use of Reserves (SUR) program. A total of $5 million will be added to the CY2019 PIP program for professional providers. The remaining $4,166,000 will be accrued over the period of April 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 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). Even with these rate reductions, SFHP is running a 97% MLR on Hepatitis C activity through March. SFHP expects to be positive on Hepatitis C for the entire FY18-19.

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 will be received in 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:

    1) Proposition 56 – enhanced payments to medical groups for qualifying physician services. Utilization at Federally Qualified Health Centers

(FQHCs) is excluded. SFHP continues to make disbursements for FY17-18 as well as FY18-19. The average monthly disbursement is $385,000.

2) 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 is excluded. Payments will be based on actual utilization as reported in claims and encounter activity. Per DHCS, the timing of the first payment is estimated to be September 2019. The timing of the second payment is estimated to be March 2020.
3) 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 is excluded. 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.
4) Private Hospital Directed Payments – available to private hospitals. DHCS will instruct SFHP how much to pay to the private hospitals. Utilization at FQHCs is excluded. 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 Enhanced Payment Program.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

DHCS Recovery of Adult Expansion Premiums Paid to Health Plans

Medi-Cal Adult Expansion was effective January 1, 2014. The Centers for Medicare and Medicaid Services (CMS) established a rule that required managed care plans to achieve a minimum 85% medical loss ratio (MLR) for the first 30 months of the expansion. The measurement periods were January 1, 2014 through June 30, 2015 and July 1, 2015 through June 30, 2016. Managed care plans that did not meet the minimum MLR were required to return Adult Expansion funding equal to the difference between the actual MLR and 85%.

For the first 18-month reporting period, SFHP reported a MLR of 83% which was slightly below the minimum 85% requirement. As a result, SFHP returned $6.7 million to DHCS in October 2018. It is important to note that of the $6.7 million returned to DHCS, $4.3 million represented AB85 25% rate range funding that was paid to SFHP in exchange for dropping a Notice of Dispute (NOD) against DHCS that challenged Medi-Cal rate development in earlier years.

For the second 12-month reporting period, SFHP reported a MLR of 86%, therefore it was not necessary to return any Adult Expansion funding.

SFHP’s capitated model worked to the advantage of our providers as we were able to set capitation rates at levels that matched state payments, continued with the same percentage and dollars going into the Practice Improvement Program (PIP) and funded

Strategic Use of Reserves programs which included distributing our annual margin back to providers. All of these disbursements options delivered the maximum amount of Adult Expansion dollars into the hands of our providers, thus minimizing funds needing to be returned to DHCS.

The table below shows the amount of funding returned to DHCS by health plans across the state.

HEALTH PLAN	FUNDS RETURNED (IN MILLIONS)
PARTNERSHIP HEALTH PLAN OF CALIFORNIA	$ 316.4
CENTRAL CALIFORNIA ALLIANCE FOR HEALTH	$ 286.1
HEALTH NET COMMUNITY SOLUTIONS	$ 272.1
LOS ANGELES CARE HEALTH PLAN	$ 226.2
ANTHEM BLUE CROSS PARTNERSHIP PLAN	$ 184.2
ALAMEDA ALLIANCE FOR HEALTH	$ 179.3
GOLD COAST HEALTH PLAN	$ 160.5
HEALTH PLAN OF SAN JOAQUIN	$ 143.4
COMMUNITY HEALTH GROUP PARTNERSHIP PLAN	$ 121.5
HEALTH PLAN OF SAN MATEO	$ 109.3
CALOPTIMA	$ 101.8
CALIFORNIA HEALTH AND WELLNESS	$ 99.7
MOLINA HEALTHCARE OF CALIFORNIA PARTNER PLAN	$ 92.1
CARE 1ST PARTNER PLAN	$ 88.9
CENCAL HEALTH	$ 83.9
KAISER PERMANENTE	$ 33.4
INLAND EMPIRE HEALTH PLAN	$ 33.0
KERN HEALTH SYSTEMS	$ 21.8
SAN FRANCISCO HEALTH PLAN	$ 6.7
SANTA CLARA FAMILY HEALTH PLAN	$ 3.0
CALVIVA HEALTH	$ -
CONTRA COSTA HEALTH PLAN	$ -
TOTAL	$ 2,563.3

Mr. Fawley stated the $316 million return by Partnership Health Plan is surprising. SFHP has had the reserve policy in place to ensure funds are given back to providers rather than to DHCS. The Strategic Use of Reserves policy has enabled SFHP to give back $100 million to the providers. Mr. Fawley asked if the benefit of these programs has to be demonstrated. Rand Takeuchi, Director, Accounting, stated that SFHP is required to provide DHCS with responses to several questions about the Practice Improvement Program and Strategic Use of Reserves. The programs as structured enable SFHP to allocate the funds toward the medical loss ratio. Other plans may have some type of incentive programs, but have had to give more funds back to DHCS than SFHP because of the lack of documentation or rigor of their programs. Other plans have had to give back significant funds because they pay on a fee-for-service basis rather than capitation and had less utilization in services such as long-term care services.

Eddie Chan asked if SFHP will be audited again. John F. Grgurina, Jr., stated that the next audit may be by the Center for Medicare and Medicaid Services (CMS) and DHCS will conduct audits of the MLR on an annual basis and may expand the MLR requirement to other aid code categories, beyond the Medi-Cal Expansion aid category.

Mr. Takeuchi provided an overview of the investment reports. The highlight of the report was the result with the liquid management portfolio. To date, with the daily management of this portfolio by Mr. Takeuchi, SFHP has earned $1.4 million.

Mr. Grgurina shared a chart that shows the statewide Medi-Cal membership by health plan, which showed that all plans are losing membership across the state, with one exception.

Greg Wagner stated that the economy is contributing to the decline in Medi-Cal membership, but that other factors are likely involved such as the elimination of the individual mandate and the proposed change to the federal public charge policy.

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

3. Review and Approval of Contract with Teladoc

Recommendation: SFHP recommends the Finance Committee and Governing Board approve renewal of the contract with Teladoc for telehealth services for straightforward primary care services and tele-psychiatry for a period of two years, through June 30, 2021, with an option to renew for an additional year.

BACKGROUND

SFHP implemented services with Teladoc beginning in June 2017. Teladoc connects SFHP members with physicians who can provide routine primary health care or psychiatric care and thereby provides convenient, timely access to high-quality health care.

SFHP reviewed Teladoc performance since the implementation date. The program evaluation analyzed Teladoc services by reviewing the following three metrics:

1. Utilization trends
2. Consult type
3. Issue resolution

Mr. Grgurina stated that the Finance Committee’s role in reviewing the proposal is to evaluate the financial impact to the plan. Mr. Grgurina stated that the contract renewal proposal would change the reimbursement so the per member per month paid to

Teladoc would be lower, but the cost per tele-health visit would be higher.
Steven Fugaro, MD, asked if Teladoc could raise utilization and get paid more.
Mr. Grgurina responded that it is possible, but the impact of increased utilization would not be significant. The committee members agreed that the change would have a low financial impact, but likely positive impact to members.

The Committee approved the proposed contract renewal for forwarding to the full Governing Board for approval.

4. Review and Approval of Approach to Purchasing Hardware and Software

Recommendation:

- Contract with third-party resellers, GDT and CDW, for applicable IT hardware and software purchases.
- When hardware or software must be purchased, GDT and CDW will both be sent a Request for Quote.
- The best quote based on price and ability to meet the required timeline would be awarded the purchase.
- It is likely that the total spend with the two resellers combined will approach $1 million in 2019.

Mr. Grgurina informed the Board the Darin Moore, Interim CIO, has accepted the position to be SFHP's CIO. Mr. Moore proceeded to provide the Committee with the overview of the proposal to contract with both GDT and CDW for purchasing hardware and software. He stated that the overall spend with the contractors would be over $1 million in the next fiscal year. He stated the value to SFHP to purchase hardware and software through these resellers. Mr. Moore stated that some companies, like Cisco, only sell their products through resellers. The Committee agreed with the approach and approved the proposal for forwarding to the full Governing Board for approval.

5. Adjourn

____
Reece Fawley, Secretary