SAN FRANCISCO HEALTH PLAN

Here for you

Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
June 12, 2019

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

Absent: Steven Fugaro, MD

Guest: None

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 May 1, 2019 Finance Committee Meeting

The minutes of the May 1, 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 April 2019. Mr. Bishop discussed the following highlights:

1. April 2019 results produced a loss of ($858,000) versus a budgeted loss of ($4,754,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations would be ($580,000) versus a budgeted loss of ($638,000). SUR disbursements were projected to be heavy during the fourth quarter of FY18-19.

2. On a year-to-date basis, Mr. Bishop explained a loss of ($526,000) versus the budgeted loss of ($7,597,000). After removing SUR activity, the actual margin from operations was $9,494,000 versus a budgeted margin of $8,448,000.

3. Variances between April actual results and the budget included the following reasons:
   a. A net decrease in revenue of ($3,576,000) due to:
      a. $2,070,000 less in Intergovernmental Transfer (IGT) funding. We received $27.9 million in FY17-18 IGT funding in April, which can be claimed as both revenue and medical expense. There was no negative impact to the bottom line as these funds were a straight pass-through to Zuckerberg San Francisco General (ZSFG) and the University of California San Francisco (UCSF).
      b. $1,026,000 less in premium revenue as the result of 3,455 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, 2,972 of these members were in the Adult Expansion category.
      c. $339,000 less in Hepatitis C revenue as the result of 94 fewer Hepatitis C treatment weeks along with a 3.9% decrease in the Hepatitis C reimbursement rate.
      d. $61,000 less in Maternity revenue as the result of seven fewer maternity events.
      e. $80,000 less in third-party administrative fees which can be attributed to the decrease in membership.

   b. A net decrease in medical expense of $6,713,000 due to:
      1) $3,838,000 less in SUR activity when compared to the budget. When preparing the FY18-19 budget, we anticipated heavy SUR distributions in the fourth quarter.
      2) $2,070,000 less in IGT funding.
      3) $952,000 less in capitation and fee-for-service expense. Provider capitation rates increased by an average of 4.2% effective January 2019. The lower capitation and fee-for-service expense is primarily a function of 3,455 fewer member months for April.
      4) $145,000 more in pharmacy expense. Non-Hepatitis C pharmacy expense was $689,000 greater than budget due to higher than expected increases in the cost for specialty drugs ($569,000) as well as an accrual correction related to March ($120,000). Most of the increase in non-Hepatitis C pharmacy expense was offset by $543,000 less in Hepatitis C drug costs due to fewer than expected treatment weeks along with the introduction of a generic form Epclusa.

c. A net decrease in administrative expense of $632,000. The budget had anticipated that $400,000 for the annual Medi-Cal member mailing would occur in April. SFHP no longer incurred the expense because the State approved our request for electronic distribution of the materials. The remainder of the savings can be found in professional fees/consulting and information technology support costs.

4. Below is a chart highlighting the key income statement categories with adjustments for SUR activity in order to show margin from ongoing operations for the month of April.

	---------------------APR 2019---------------------------				---------------------FYTD 18-19 THRU APR---------------------------			
CATEGORY	**ACTUAL**	**BUDGET**	**FAV (UNFAV)**	**% FAV (UNFAV)**	**ACTUAL**	**BUDGET**	**FAV (UNFAV)**	**% FAV (UNFAV)**
REVENUE	$ 75,722,000	$ 79,297,000	$ (3,575,000)	-4.5%	$ 507,751,000	$ 524,381,000	$ (16,630,000)	-3.2%
MEDICAL EXPENSE	$ 72,664,000	$ 79,377,600	$ 6,713,600	8.5%	$ 466,367,000	$ 489,299,000	$ 22,932,000	4.7%
MLR	96.9%	101.2%			93.2%	94.8%		
ADMINISTRATIVE RATIO	4.6%	5.1%			7.3%	7.0%		
MARGIN (LOSS)	$ (858,000)	$ (4,754,000)	$ 3,896,000	82.0%	$ (526,000)	$ (7,597,000)	$ 7,071,000	93.1%
OPERATING ADJUSTMENTS:								
FY15-16 SUR PMTS	$ -	$ -			$ 915,000	$ -		
FY16-17 SUR PMTS/ACCRUALS	$ -	$ -			$ -	$ -		
FY17-18/CY2018 SUR PAYMENTS/ACCRUALS	$ -	$ 4,116,000			$ 7,993,000	$ 16,044,000		
FY18-19 SUR PMTS/ACCRUALS	$ 278,000	$ -			$ 1,112,000	$ -		
TOTAL SUR	$ 278,000	$ 4,116,000			$ 10,020,000	$ 16,044,000		
MARGIN FROM OPERATIONS	$ (580,000)	$ (638,000)	$ 58,000	9.1%	$ 9,494,000	$ 8,447,000	$ 1,047,000	12.4%
MLR W/O SUR PMTS	96.6%	95.9%			91.2%	91.7%		

For the first ten months of the fiscal year, SFHP is $1,047,000 above budget on margin from operations:

- Overall revenue is down $16.6 million due to 25,830 fewer member months, 936 fewer Hepatitis C treatment weeks and 125 fewer maternity events. In addition, IGT funding was $2.1 million less than expected.
- Overall medical expense was down $22.9 million due to a combination of factors outlined below:
  - Capitation and fee-for-services expenses are down by $11.5 million due to the decrease in membership.
  - $4.3 million reduction in medical expense due to the favorable result from the Adult Expansion Medical Loss Ratio audit.
  - SUR disbursement activity is $6.0 million less than anticipated.
  - IGT funding is down $2.1 million from budget projections.
  - Total pharmacy costs are down $824,000. Hepatitis C drug costs are down $3,865,000 due to fewer treatment weeks, however non-Hepatitis C drug costs ran $3,041,000 above budget due to an 18.7% increase in specialty drug costs and a 1.4% increase in utilization. Even with a decrease in membership, SFHP saw a slight increase in utilization.

- Community-Based Adult Services (CBAS) costs were $1,137,000 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 $667,000 above budget. This was not unexpected given the effort made to increase utilization among the Medi-Cal population.

- Administrative expenses are running $70,000 below budget. During FY18-19, we were required to expense prior year Analytic Data Warehouse costs of $1.2 million that we expected to capitalize. These ADW costs have been offset by lower than expected costs in marketing, member materials and information technology support costs.

PROJECTIONS

Financial projections through October 2019:

1. As of April 2019, SFHP has added $1,112,000 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 $3,888,000 will be accrued over the period of May 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 ran a 95.5% MLR on Hepatitis C activity through April and expects the end of the fiscal year will end with a positive margin.

4. 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) is excluded. SFHP continues to make disbursements for FY17-18 as well as FY18-19. The average monthly disbursement is $400,000.
   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. 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. 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.

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 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 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

New Medi-Cal Rates for July 2019 through December 2020

DHCS is transitioning the Medi-Cal rate cycle from fiscal year (July – June) to calendar year. Therefore the rates effective July 1, 2019 will be in force for an 18-month period, i.e., the rates will be good through December 31, 2020. Calendar year rates will begin January 2021.

Overall, SFHP received a 1% rate increase. The table below shows the rate changes by category of aid. It is important to note that DHCS did recognize the continued increase in pharmacy costs. On a weighted average basis, the pharmacy component of the overall rates increased by 11%. This increase was essentially offset by reductions in the rate components for hospital services, physician services and transportation.

SFHP will be discussing these rate changes and the potential impact to provider rates at the September meeting.

Projected Rate Change Summary: FY18-19 to FY19-20				
Rate Change Summary (Excluding Supplementals)	**DHCS Proj MM: FY19-20**	**FY18-19 Rates**	**FY19-20 Estimated Rates with RAR**	**% Change**
Child	446,703	$ 100.76	$ 114.50	13.6%
Adult	165,077	$ 234.74	$ 252.98	7.8%
ACA Optional Expansion	616,454	$ 367.48	$ 356.65	-2.9%
SPD	160,160	$ 798.33	$ 821.14	2.9%
SPD/Full-Dual	133,453	$ 169.88	$ 158.74	-6.6%
BCCTP	199	$ 1,116.70	$ 1,125.97	0.8%
Maternity	1,120	$ 8,779.93	$ 8,799.24	0.2%
ACA OE Rate Range	616,454	$ 6.30	$ 6.27	-0.5%
All Combined	**1,522,046**	**$ 311.93**	**$ 314.98**	**1.0%**
EXCLUDES: Rate Range (does include 25% ACA OE plan arrangement), HQAF, Prop 56, EPP, PHDP, QIP, MCO Tax				
INCLUDES: Assumption for Risk-Adjustment Impact and GEMT/NMT Funding				
ASSUMES: Risk scores same as FY18-19, 25% ACA OE 'Plan Arrangement' Continues, GEMT and NMT at FY18-19 rate levels				

3. Review and Approval of Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2019-2020

Recommendation: Approval of Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2019-2020.

FY19-20 BUDGET – FREQUENTLY ASKED QUESTIONS (FAQs)
San Francisco Health Plan (SFHP) has prepared a break even operational budget for FY19-20. We are projecting an overall loss of $8.9 million due to the amount of Strategic Use of Reserves (SUR) carrying over from previous years.

John F. Grgurina, Jr. CEO, reviewed the new frequently asked questions (FAQ) document that was developed to address the anticipated questions regarding inconsistent patterns between membership, revenue, medical expense, administrative expense, staffing and margin.

Mr. Bishop reviewed some of the PowerPoint slides with the Board.

<u>MEMBERSHIP DECREASING, REVENUE AND MEDICAL EXPENSE INCREASING</u>

Overall membership is expected to decline by 4% caused by the following factors:

- An improved economy;
- An increase in the minimum wage to $15.00 per hour in San Francisco;
- The high cost of living in San Francisco; and

- The elimination of the mandate to purchase health insurance.

In a declining membership environment, one would expect to see corresponding decreases in revenue and medical expense, however that is not the case. During FY19-20, SFHP expects to receive approximately $148 million dollars in pass-through funding which will be accounted for as both revenue and medical expense. This funding is for contracted hospitals and is related to the Enhanced Payment Program (EPP), the Quality Incentive Program (QIP) and the Private Hospital Directed Payment (PHDP) program. These programs replace the traditional Medi-Cal Intergovernmental Transfers (IGTs), the AB85 75% rate range for Medi-Cal Adult Expansion members, and AB85-to-cost funding for the public hospitals serving Medi-Cal Adult Expansion members.

As 100% of the $148 million will be passed through to contracted hospitals, the overall Medical Loss Ratio (MLR) for each Medi-Cal line of business will be higher than expected.

Mr. Fawley mentioned how important the IGT funding is to UCSF. He also expressed appreciation that SFHP does not take the two percent allowed by DHCS, which Anthem Blue Cross does take.

STAFF INCREASING, MEMBERSHIP DECREASING

SFHP staffing will increase from 367 FTEs to 405 FTEs. Normally staffing would not be increasing when membership is declining, however various funding sources are available to cover the increased salary and benefits costs:

- Five new positions on the Plan side will be funded through savings from reductions in consulting services and vendor administrative fees.
- Twelve new positions on the Plan side are for the Health Homes Program. These positions are limited term and will be funded by additional Medi-Cal premiums received from DHCS for the Health Homes Program.
- Twenty-one new positons to handle increasing TPA responsibilities for the HSF, SF City Option and Health Kids programs. The majority of the positions are to cover growth in the SF City Option program. All positions are funded and approved by the San Francisco Department of Public Health and the San Francisco Health Commission.

A question was asked about the HHP funding. How long is HHP funding and what happens to the staffing if the funding is eliminated? Mr. Grgurina stated that HHP is scheduled for two years, but that it would likely get extended. Funding is projected to be break-even, with four to five percent for administration, including staffing. The HHP rates are also separate from other Medi-Cal rates. The current funding for HHP is 90% federal funds and10% from the California Endowment. With the two-year term for the program, staff are hired as limited term employees.

Mr. Bishop also stated that the budget for HSF and SF City Options is a break-even budget.

ADMINISTRATIVE EXPENSE DECREASING

Administrative expenses are projected to decrease by 3%. In FY19-20, SFHP expects to save a total of $3.7 million on CalPERS pensions costs (GASB 68 pension accounting) and one-time Analytic Date Warehouse costs. This savings will be partially offset by increases in salary and benefits as well as ITS support costs.

Our administrative expense ratio is projected to decrease from 7.4% to 6.0%. This decrease is driven by the additional $148 million in revenue (directed payments) as well as the decrease in overall administrative expenses.

MARGIN DECREASING, REVENUE INCREASING

Although revenue is projected to increase by $114 million due to the directed payments program, margin is projected to decrease. SFHP will not see any margin from the $148 million in directed payments as 100% of these funds will be passed through to contracted hospitals. SFHP will see a margin decline as the result of lower membership and a lower than expected Medi-Cal rate increase of 1% that is effective July 2019

The following key budget assumptions for the proposed budget were presented:

1) Growth versus FY 19-20:
   a. Revenue Growth: 21%
   b. Medical Expense Growth: 22%
   c. Member Month Reduction (all LOBs) 3%
   d. SFHP Staffing for insured lines of business 5.0 FTEs
   e. SFHP Staffing for Health Homes (funded by DHCS) 12.0 FTEs
   f. SFHP Staffing for TPA Contracts (City funded approved) 21.0 FTEs

2) FY 18-19 Revenue – Key Points
   a. Premium Revenue up 21%.
   b. Total budget including HSF/SFCMRA/HK is $732 million.
   c. Per Member Per Month Revenue up 23% (largely due to directed payments)
      - FY 19-20 $427.50 pmpm
      - FY 18-19 $347.40 pmpm

Mr. Fawley stated the budget was put together well. After reviewing the budget in detail, the Finance Committee unanimously approved the Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2019-2020 as presented, for forwarding to the full Board for approval.

4. **Review and Approval of Staff Salary Ranges for FY19-20**

Recommendation: SFHP recommends the Finance Committee approve the adoption of the SFHP FY 2019-2020 Salary Schedule to meet CalPERS requirements regarding retiree salary computation. The Salary Schedule changes include increasing the ranges by 3.3%.

John F. Grgurina, Jr., CEO, reviewed the background to the Finance Committee.

Background: To satisfy CalPERS requirements, on an annual basis we must provide CalPERS with a copy of our Salary Ranges and Positions by Grade Level ("Salary Schedule"), with a formal approval by the Governing Board. (Detailed memo was provided in the Board packet.)

2019 – 2020 Compensation Philosophy and Program Review: SFHP's compensation philosophy is to pay at the mid-range (middle of the pay scale) of the market for both base and bonus compensation. We provide merit increases based on performance, not on years of service. We have continued to gauge our compensation program against the marketplace.

Additionally, to ensure proper market pricing for all SFHP positions, we continue to employ a number of sources for market salary data:

- The Warren Survey: We continue to participate in the semi-annual Warren Surveys. Warren participants are 360+ HMO, managed care, hospital systems, health plans and other related organizations in over 1,000 locations nationwide and include over 100,000 incumbents.
- Kenexa's Comp Analyst: This survey augments our market data for non-health services-related positions, as we continue to face fierce competition for these positions. This tool allows data slices by regional area, industry, and/or organization size, thus tailoring each position review to our specific situation.
- LHPC: The survey provides compensation data for executives and directors in local health plans.
- Culpepper: The Culpepper survey focuses on Healthcare and Healthcare IT.
- Mercer Healthcare Survey: The Mercer survey focuses on healthcare executives and healthcare operations.
- Radford: Radford is Silicon Valley's iconic high tech / biotech survey, and has recently branched into healthcare.
- ACAP Survey Report: We continue to participate in this survey, which provides data for executive and director level positions based on input from 25 community affiliated plans nationwide.

2019 - 2020 Salary Range Movement: The economy, and particularly the San Francisco Bay Area, had yet another strong financial year, with the job market continuing to provide a challenge for employers to attract and retain talent. Projections for 2019-2020 salary budget increases in the San Francisco Bay Area continue to outpace US-wide projections. While the market data varies, based on the survey sources we believe best represent our job market, we recommend increasing our 2019-2020 salary ranges by 3.3%, a 0.1% increase over our 2018-2019 salary range increase.

The Finance Committee unanimously approved SFHP staff salary ranges for FY19-20, for forwarding to the full Board for approval.

5. Review and Approval of Revision to SFHP Employee Bonus Program

Recommendation: San Francisco Health Plan (SFHP) recommends the following changes to the employee bonus program, effective beginning in the FY19-20:

1. Document the policy that SFHP's financial performance cannot have a significant operating loss (as determined by the Board) in order for the bonuses to be distributed to employees.
2. If SFHP misses the financial organizational goal to have a positive margin or break even as budgeted, the points for the other organizational goals may still be used to calculate a bonus for the employees as long as there are not significant losses.

Mr. Grgurina reviewed the current SFHP staff bonus program and stated it was last revised and approved in September 2014. The key principles approved in 2014 are still in place today:

1) Bonus should be tied to SFHP's performance against goals.
2) Bonus should be built into the budget.
3) Bonus should be tied to an individual's performance.

The following are the current steps to the Bonus Program Calculation:

1) Determine the how SFHP performed financially for the fiscal year.
2) Determine SFHP's performance against Governing Board approved Goals and Success Criteria.
3) Determine each individual's performance against individual goals and their department's performance against goals (weights for final calculation vary by employee level).
4) Determine each individual's time with SFHP during the Fiscal Year (e.g. employee working 6 months of the year is eligible for 50% of bonus total).

Weights	Executive	Director	Manager	Staff-Individual Contributor
Organization score	50%	40%	34%	25%
Department score	25%	35%	33%	25%
Individual Goals score:	25%	25%	33%	50%
Total	100%	100%	100%	100%

Recommended Changes:

1. Document the policy that SFHP's financial performance cannot have a significant operating loss (as determined by the Board) in order for the bonuses to be distributed to employees. SFHP's performance must either have a positive margin or break even year-end result.

   SFHP's financial performance cannot have a significant operating loss. The Board would be able to exercise its discretion to eliminate the Bonus Program in its entirety due to significant losses. An example of this was in FY11-12 where no cash bonuses were paid due to an overall loss of $4.4 million (2.3%) due to the low rates paid by the Department of Health Care Services for the Seniors and Persons with Disabilities. While this has been the policy in practice, the policy had not been documented.

2. If SFHP's financial performance justifies a staff bonus program, but SFHP misses the financial organizational goal, the points for the other organizational goals may still be used to calculate a bonus for the employees.

   SFHP recommends a policy that if SFHP's fiscal year-end performance results in a negative margin (excluding Strategic Use of Reserves (SUR)), then SFHP would lose all 30 points. For FY19-20, the total number of points for Goals 1 through 3 is 70 points.

   The change in policy establishes that instead of eliminating the whole bonus program for missing the Financial Viability goal, only the Financial Viability section would have a score of zero. That would mean that before SFHP could grade its financial goals under Financial Viability, we would have to pass the test that we do not have a negative margin (not counting any strategic use of reserve (SUR) dollars approved by the Board). If SFHP fails to get the points for the Financial Viability goal, SFHP would lose 30 points in FY19-20, but could still receive points in the other Organizational Goals, up to only 70 points, depending on not having significant operating losses.

The other portions of the bonus calculation for the different staff levels would remain the same.

If SFHP experiences a significant operating loss (as determined by the Board), the Board may still exercise its discretion to eliminate the Bonus Program in its entirety due to the significant losses.

The Finance unanimously approved the revisions to SFHP employee bonus program, for forwarding to the full Board for approval.

Adjourned to closed session

6. Review and Approval of Strategic Use of Reserves Funding to Assist North East Medical Services with CCHCA Management Services with CCHCA Management Services Organization Implementation

This item was discussed in closed session.

Rejoined closed session

7. Adjourn

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Reece Fawley, Secretary