Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
June 10, 2020

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

Absent: None

Guests: 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 Governing Board 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 Governing Board, staff and the public. The Finance Committee members and staff of the San Francisco Health Plan (SFHP) attended the meeting telephonically.

Reece Fawley, Chair, Finance Committee, chaired the meeting. Mr. Fawley asked for public comments and there were none.

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

1. Approval of Minutes from May 6, 2020 Finance Committee Meeting

The minutes of the May 6, 2020 Finance Committee meeting were unanimously approved as written.

2. Review and Approval of Year-To-Date Unaudited Financial Statements and Investment Reports

Recommendation: Review and Approval of Unaudited Monthly Financial Statements and Investment Reports

Skip Bishop, CFO, and Rand Takeuchi, Director, Accounting, reviewed the financial statements for the period ending April 30, 2020. Mr. Bishop discussed the following highlights:

1. April 2020 reported a loss of ($871,000) versus a budgeted loss of ($1,797,000). After removing Strategic Use of Reserves (SUR) activity, the

actual loss from operations would be ($293,000) versus a budgeted loss of ($1,519,000).

In April, we received $28.2 million in Intergovernmental Transfer (IGT) funding related to FY 18-19. The FY 19-20 budget did not anticipate that any IGT funding would be received during the year.

The IGT funds were disbursed to Zuckerberg San Francisco General (ZSFG) and UCSF Medical Center. Per the Department of Health Care Services (DHCS), health plans are allowed to treat this funding as revenue and medical expense.

2. On a year-to-date basis, SFHP has a loss of ($2,522,000) versus a budgeted loss of ($9,510,000). The FY 19-20 budget assumed $4.6 million in SUR funding would be disbursed in July. Providers qualified for these SUR dollars earlier than expected so the funds were paid in June and were included in FY 18-19 medical expense. After removing SUR activity, the actual margin from operations would be $1,901,000 versus a budgeted loss of ($1,137,000).

3. Variances between April 2020 actual results and the budget include:
   a. A net increase in revenue of $29.3 million due to:
      i. $28.2 million more in IGT funding related to FY 18-19.
      ii. $1.4 million more in premium revenue due to an increase in membership. Member months were 1,687 more than budget, mostly due to members not placed on hold. Due to the COVID-19 pandemic, DHCS has allowed Medi-Cal beneficiaries an additional 90 days of continued eligibility in the Medi-Cal program.
      iii. $159,000 less in Hepatitis C revenue as the result of 58 fewer treatment weeks.
      iv. $171,000 less in third-party administrative fees, which can be attributed to a decrease in Community Health Network (CHN) membership and related capitation, plus the transition of the Healthy Kids line of business into Medi-Cal as of January 1, 2020.
   b. A net increase in medical expense of $28.3 million due to:
      i. $28.2 million more in IGT funding related to FY 18-19.
      ii. $1.5 million in reinsurance recoveries related to CY 2017, which lowered overall medical expenses in April. The FY 19-20 budget did not project reinsurance recoveries to be received in April.
      iii. $1.3 million more in capitation and fee-for-service expense. Capitation increased as the result of gaining 1,687 member months. Fee-for-service expense continues to run higher than expected primarily in the area of inpatient hospital claims paid under the All Patients Refined-Diagnosis Related Groups (APR-DRG) methodology. SFHP has shared a file of APR-DRG paid claims to Varis LLC. Varis has started its independent review of these claims to identify potential overpayments.
      iv. $300,000 more in accrued medical expenses related to Proposition 56 and Ground Emergency Medical Transportation (GEMT) activity.

c. A net increase in administrative expenses of $218,000 due to:
   i. $150,000 more in Compensation and Benefits due primarily to the correction of the understatement of employee benefits expense in March.
   ii. $68,000 more when combining marketing expenses, professional fees and systems maintenance and support costs.

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

	APR 2020				FYTD 19-20 THRU APR			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	138,319	136,632	1,687	1.2%	1,382,557	1,387,170	(4,613)	-0.3%
REVENUE	$ 76,194,000	$ 46,914,000	$ 29,280,000	62.4%	$ 645,044,000	$ 625,147,000	$ 19,897,000	3.2%
MEDICAL EXPENSE	$ 72,895,000	$ 44,595,000	$ (28,300,000)	-63.5%	$ 608,368,000	$ 593,443,000	$ (14,925,000)	-2.5%
MLR	96.4%	96.6%			95.4%	96.1%		
ADMINISTRATIVE EXPENSE	$ 4,501,000	$ 4,283,000	$ (218,000)	-5.1%	$ 41,455,000	$ 42,881,000	$ 1,426,000	3.3%
ADMINISTRATIVE RATIO	5.2%	7.6%			5.4%	5.7%		
INVESTMENT INCOME	$ 331,000	$ 167,000	$ 164,000	98.2%	$ 2,257,000	$ 1,667,000	$ 590,000	35.4%
MARGIN (LOSS)	$ (871,000)	$ (1,797,000)	$ 926,000		$ (2,522,000)	$ (9,510,000)	$ 6,988,000	
ADD BACK: SUR PAYMENTS AND ACCRUALS	$ 578,000	$ 278,000			$ 4,423,000	$ 8,373,000		
MARGIN (LOSS) FROM OPERATIONS	$ (293,000)	$ (1,519,000)	$ 1,226,000		$ 1,901,000	$ (1,137,000)	$ 3,038,000	
MLR W/O SUR PMTS	95.6%	96.0%			94.7%	94.8%		

On a year-to-date basis through April and after the removal of SUR activity, SFHP is $1.9 million above budget on margin. This improvement over budget projections is due to the unexpected 1.7% Medi-Cal rate increase related to the population acuity adjustment as well as reinsurance recoveries related to prior years.

- Overall net revenue is above budget by $19.9 million. After removing the impact of Directed Payments and IGT funding, net revenue is up $3.6 million due mainly to the population acuity adjustment and the increase in Proposition 56 funding.
- Overall medical expense is above budget by $14.9 million. After removing the impact of Directed Payments, IGT funding and SUR activity, medical expense is $2.6 million above budget due mainly to APR-DRG inpatient claims and the impact of accrued claims related to the expanded Proposition 56 program.
- Overall administrative expense is below budget by $1.4 million. Slightly lower Compensation and Benefits costs, favorable GASB 68 adjustments, lower than expected Professional Fees and Consulting plus the $277,000 PBM implementation credit recorded in November 2019 represent the majority of this savings.

PROJECTIONS

Mr. Bishop reviewed the following financial projections through October 2020:

1. As of April 2020, SFHP has added $4.4 million to the Practice Improvement Program (PIP) related to the FY 18-19 Strategic Use of Reserves (SUR) program. A total of $5.0 million will be added to the CY 2019 PIP for professional providers. In order to transition PIP from a calendar year to a fiscal year, the CY 2019 PIP runs for 18 months through June 2020. The remaining $600,000 will be accrued during May and June 2020.

2. Due to the impact of the COVID-19 pandemic, SFHP anticipates an increase in Medi-Cal membership between May and December. After working with our actuary, sister plans, and the county of San Francisco to gather information to develop estimates for the upcoming months, SFHP expects to add approximately 22,000 new members over the next twelve months. These new members would be spread across the Adult, Child and Adult Expansion categories of aid.

3. In response to the COVID-19 pandemic and the effect it is having on state of California finances, the Governor implemented a 1.5% rate reduction retroactive to July 2019 through December 2020, which is the Bridge Period. The rate reduction applies to all categories of aid except dual eligible members. SFHP estimates DHCS will take back approximately $9.3 million for the full Bridge Period. At this time, SFHP does not plan to reduce provider rates and will instead absorb the $9.3 million loss of revenue. SFHP anticipates that premium rates may be reduced further beginning in January 2021. This anticipated rate reduction will be incorporated into the FY 20-21 budget. After adjusting for SUR activity, SFHP projects a $3.1 million loss for FY 19-20.

4. At the Governing Board meeting in March 2020, a recommendation to decrease capitation rates for the Dual member category of aid was approved. This rate decrease will be effective July 1, 2020. The overall impact of this rate decrease is 0.9%.

5. Hepatitis C reimbursement rates were reduced effective July 2019. The rate reduction for non-340B Hepatitis C drugs was 30.9% ($1,169 per treatment week) while the rate reduction for drugs purchased under 340B rules was 23.3% ($683 per treatment week). DHCS has reduced the Hepatitis C rates as lower cost generic drugs continue to enter the marketplace. The medical loss ratio (MLR) through April is 97.0%. SFHP is slightly above break even as members have been transitioning to the lower cost generic drugs and pharmacy rebates have increased.

6. Proposition 56 – This program provides enhanced payments to medical groups for qualifying physician services and supplemental payments for developmental screenings and adverse childhood experiences screenings.

Due to the impact of COVID-19 on the state budget, the Governor proposes Proposition 56 programs to be eliminated effective July 1, 2020.

7. The remaining $16.6 million in Directed Payments funding related to FY 17-18 was received in March 2020. This funding covers the Enhanced Payment Program (EPP), Quality Incentive Pool (QIP) and Private Hospital Directed Payments (PHDP). Disbursements to the hospitals were made in April 2020.

RECAP OF STRATEGIC USE OF RESERVES PROGRAMS

Since FY 04-05, SFHP has committed a total of $124.7 million in Provider Distributions and SURs.

Prior to implementing a formal Strategic Use of Reserves program, SFHP's Governing Board approved annual Provider Distributions. From FY 2004-2005 through FY 2013-2014, Provider Distributions totaled $34.7 million.

In the last five fiscal years, the Governing Board approved six Strategic Use of Reserves programs for FY 15-16, FY 16-17, FY 17-18, CY 2018, FY 18-19 and FY 19-20. These distributions total $89.7 million. Below, and on the following pages, are the summaries and details of each SUR program.

		Total Approved	Remaining $
FY 15-16	Strategic Use of Reserves	$15,000,000	$ -0-
FY 16-17	Strategic Use of Reserves	$30,000,000	$ 812,840
FY 17-18/CY 2018	Strategic Use of Reserves	$29,600,000	$6,129,382
FY 18-19	Strategic Use of Reserves	$13,000,000	$4,143,471
FY 19-20	PIP/SUR Surplus/Grants	$ 2,400,000	$ 300,000
Total		$90,000,000	$11,385,693

Dr. Fugaro stated that there has been a decrease in patient visits due to COVID-19 so it was surprising that the financial performance through April did not reflect that decrease. Mr. Bishop stated that due to the claims lag that decrease in utilization may begin to appear in May. Eddie Chan asked if the MLR would be impacted by the lower utilization and Mr. Bishop stated that would be likely. He stated the May and June MLR may go down. John Grgurina, Jr., CEO, stated that although the hospital fee-for-service MLR may go down, because less than 20% of our membership is in fee-for-service, the overall MLR will not go down too much.

Mr. Takeuchi then reviewed the investment reports that were provided to the Finance Committee in the packet. He stated that bonds were performing well.

The Finance Committee unanimously approved the unaudited monthly financial statements and investment reports for forwarding to the full Governing Board for approval.

3. Review and Approval of Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2020-2021

<u>Recommendation:</u>
Approve the Combined Budget for San Francisco Health Authority and San Francisco Community Health Authority Fiscal Year 2020-2021.

<u>FY 20-21 SFHP BUDGET – FREQUENTLY ASKED QUESTIONS (FAQs)</u>

Due to the impact of the COVID-19 pandemic on the state budget, SFHP prepared a break-even interim operational budget for FY 20-21. SFHP will present a revised FY 20-21 budget at the January 2021 Governing Board meeting. At that time, we will have updates to the premium rates which will be released by DHCS in October or November 2020, as well as revised membership projections.

Mr. Grgurina stated that SFHP projects an overall loss of $5.7 million due to the amount of Strategic Use of Reserves (SUR) carrying over from prior years. He reviewed the frequently asked questions (FAQ) document that was included in the Finance Committee packet to highlight membership, revenue, medical expenses, administrative expenses, staffing and budgeted margin.

Mr. Bishop presented the proposed budget to the Finance Committee.

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

Overall membership is expected to increase by 16% due to the increase in unemployment caused by the COVID-19 pandemic. We are projecting an increase of approximately 22,000 new members in the Medi-Cal Adult, Child, and Adult Expansion categories of aid. This projection was formulated after reviewing different estimates from the American Community Survey (ACS), Health Management Associates (HMA), Edrington Health Consulting and our SFHP Policy staff.

- The ACS estimate assumed an 18% unemployment rate and that 50% of the newly uninsured would apply for Medi-Cal. ACS estimated approximately 17,000 new members would be enrolled in San Francisco.
- The HMA estimate was a state-wide analysis using a low, medium and high approach. The low estimate was 1.4 million new enrollees, the

medium estimate was 2.2 million new enrollees with the high estimate at 3.0 million new enrollees. As SFHP has 1% of the total state-wide Medi-Cal membership, the HMA estimates would expect to deliver 14,000 to 30,000 new members.

- Our actuary, Edrington Health Consulting, looked at a variety of factors including population survey data, unemployment estimates, Federal Poverty Level (FPL) considerations and the potential for other health coverage options. New enrollment estimates were comparable to HMA's low-end projections.
- The SFHP Policy staff evaluated three different models using ACS data, HMA data and a regressions approach that took into consideration factors specific to the San Francisco population. The regressions model projects 22,000 new members would be added in FY 20-21.

After evaluating these different enrollment models, we chose the SFHP Policy team's regression model. We decided to take a conservative approach in terms of how quickly these new members would enroll so as not to overstate revenue. We are projecting slower enrollment during the period of July through September 2020, increasing during the period of October through December 2020 and then tapering down during the period of January through May 2021. From a category of aid perspective, we estimate 43% of this new membership will enroll in the Child category, 33% in the Adult category and 24% Adult Expansion category.

This new enrollment would deliver significant increases in member months for the Adult and Child categories of aid. Although we are projecting an 11% increase in the Adult Expansion category, member months are projected to increase by only 4%. This is due to conservative ramp-up assumptions where the majority of this new membership will be added mid-year.

Note that the enrollment estimates from low to high can cause significant changes in revenue, expenses and bottom line margin/loss for SFHP. It is because of the potential large swings in enrollment and CY 2021 Medi-Cal rates that we are proposing this interim budget. We will adjust the interim budget at the January Governing Board meeting after six months of enrollment history and receipt of the Medi-Cal CY 2021 rates.

REVENUE AND MEDICAL EXPENSE INCREASING FROM JUNE 2020 TO JUNE 2021

In an increasing membership environment, we expect to see corresponding increases in revenue and medical expense. However, revenue is budgeted with an increase of $16 million due to the following:

- $16 million in additional Intergovernmental Transfers (IGTs) funding compared to FY 19-20. The entire IGT amount of $45 million will be passed through to Zuckerberg San Francisco General and UCSF.

- Revenue from the additional 22,000 new members is offset by:
    - Governor's proposed premium rate reduction of 1.5% for the period of July 2019 through December 2020 and a conservative estimate of a premium rate reduction of 2.0% for the period of January through June 2021. We expect to receive 2021 rates in October or November 2020.
    - The loss of $44 million in pharmacy revenue from January through June 2021. The pharmacy benefit will be carved out of Medi-Cal managed care effective January 1, 2021
    - Medical expense is increasing by $6 million or 1% because the increases in membership and the IGT are essentially offset by loss of the $43 million in pharmacy drug costs for the period of January through June 2021.

- Although the pharmacy benefit will be carved out of Medi-Cal managed care, SFHP will continue to have responsibility for the Healthy Workers pharmacy benefit. We estimate a loss of $1.1 million for Healthy Workers (HW) pharmacy costs (cost of $65.17 pmpm vs revenue of $57.67 pmpm). SFHP has lost $2.4 million on the HW pharmacy benefit since December 2016. A proposal to increase the pharmacy revenue to $79.63 pmpm for FY 20-21 was looking promising until COVID-19 at which point the increase is no longer under consideration.

During FY 20-21, SFHP expects to receive approximately $181 million dollars in pass-through funding ($136 million in Directed Payments and $45 million in IGTs). DHCS allows the managed care plans to record this funding as revenue and medical expense. As 100% of this $181 million will be passed through to contracted hospitals, it does not impact our bottom line. The overall Medical Loss Ratio (MLR) for the Medi-Cal line of business is expected to be higher than normal.

<u>MEMBERSHIP INCREASING, REVENUE PMPM DECREASING</u>

Although membership and revenue are increasing in the three Medi-Cal categories, revenue on a per member, per month (PMPM) basis is projected to decrease when compared to FY 19-20.

	FY 20-21	FY 19-20	% Change
Medi-Cal (excluding SPD and MCE)	$167.19	$174.12	(4.0%)
Medi-Cal SPD	$749.79	$832.07	(9.9%)
Medi-Cal MCE	$353.44	$387.00	(8.7%)

There are four factors driving the PMPM reductions:
- The loss of $44 million in pharmacy revenue for the period of January through June 2020. The pharmacy benefit will be carved out of Medi-Cal managed care effective January 1, 2021.
- Governor's proposed 1.5% premium rate reduction for the period of July 2019 through December 2020.
- An estimated 2.0% premium rate reduction for the period of January through June 2021. Due to the Governor's proposed efficiency factors, reduction of

margin from 2.0% to 1.5% and limiting hospital payments to no greater than APR-DRG.

- A change in membership mix – we are projecting a greater number of Child members will be added. Child members have a much lower premium rate when compared to the Adult members.

MEMBERSHIP INCREASING, NO NEW FTEs REQUESTED

SFHP is not requesting any new Full-Time Equivalents (FTEs) for FY 20-21. Our staffing will remain at the same level as FY 19-20, with 399 FTEs. We feel confident that current staffing levels can accommodate the additional workload brought on by the new membership. SFHP served approximately 150,000 members in August 2017 with no negative impact on operations.

ADMINISTRATIVE EXPENSE INCREASING BY $5 MILLION

FY 20-21 administrative expenses are projected to increase by $5 million which represents a 10% increase over FY 19-20. Please note that several projected administrative expenses may not be incurred due to budget uncertainty (projects, CalAIM, merit increases and staff bonus). Key drivers of this increase include:

- $2.5 million for potential project work to support CalAIM initiatives, the CMS Interoperability mandate, claims editing software solution from Optum and an upgrade for the Essette prior authorization software. Note that at this time we are planning for a CalAIM start date of January 1, 2022. If this date is delayed, the $900,000 set aside can be removed from the budget.
- $1.2 million for software solutions to support encounter management, strengthening system security infrastructure and the detection of potential fraud, waste and abuse activities.
- $1.0 million in additional salaries and benefits as result of decreasing the staff attrition factor from 14% to 12%. Employee turnover is expected to decrease due to the impact of the COVID-19 pandemic.

It should be noted that the projects included in this budget are subject to change and may not be incurred during FY 20-21.

For budget purposes only, we have included $1.0 million for employee merit increases and a $3.7 million accrual for the employee bonus program. SFHP is not asking for approval of the merit increases at this June meeting. The FY 20-21 bonus program will be presented for consideration in September 2021. Future consideration of both merit increases and the bonus program will depend on market conditions, outcome of the State budget negotiations over the Governor's proposed rate reductions and SFHP's overall budget and financial position.

Mr. Fawley stated the budget was put together well and was impressed by the teamwork. He commented that it will be interesting to see the impact of COVID-19 over time and how the economy will rebound. The Committee members shared their concerns about the downturn of the economy and the impact of COVID-19.

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 FY 2020-2021 as presented, for forwarding to the full Board for approval.

4. Review and Approval of Cash Advance Payments for SFHP Provider Groups

Recommendation: SFHP recommends that the Finance Committee approve this revised capitation advance payment policy, which will give delegated medical groups and clinics access to additional funding to help our providers as they continue to respond to the impact of the COVID-19 pandemic.

Mr. Grgurina reviewed that on April 2020, SFHP developed a capitation advance policy as a way to put more money into the hands of the delegated medical groups and hospitals to help these providers deal with the severe impact of the COVID-19 pandemic.

The original policy was designed as follows:
- Up to two capitation advances – one advance to be taken with the April capitation payment and a second advance to be taken with the May capitation payment.
- Only one month of capitation would be advanced at any one time.
- The advances would not be loans and no interest would be charged. These would simply be advances towards capitation to be earned in future periods.
- SFHP to give providers a 60-day notice of the intent to recoup the advance(s).
- A reconciliation would be performed to true-up actual capitation earned with the amounts advanced.
- Capitation advances would be repaid at a time and in a manner mutually agreed upon by SFHP and the provider.

To date, three providers have elected to take a capitation advance totaling $2.2 million:

• Chinese Hospital (two months)	$1,736,000
• Healthright 360 (two months)	$ 368,000
• South of Market Health Center (one month)	$ 99,000

Revised Policy Going Forward:
Mr. Grgurina stated that SFHP recommends revising the capitation advance policy going forward as follows:
- Up to two capitation advances in total (includes advances already taken).
- No more than $2.3 million to be advanced to any one provider.
- A maximum of $10 million would be available in total for advances across the network.

- Zuckerberg San Francisco General Hospital, California Pacific Medical Center and San Francisco Health Network would be excluded.
- Advances would not be loans, therefore no interest would be charged.
- SFHP to give providers a 60-day notice of the intent to recoup the advance(s).
- All capitation advances to be repaid no later than June 30, 2021.
- A reconciliation would be performed to true-up actual capitation earned with the amounts advanced.

SFHP believes a maximum of $10 million across the network would keep the days cash-on-hand at a manageable level and avoid having to access our line of credit with City National Bank. Line of credit funding must be held in reserve to protect SFHP against unexpected payment delays of the Medi-Cal monthly premiums from the DHCS, as well as meeting the upcoming MCO tax payment obligations. SFHP wants to avoid a potential situation where the total amount of capitation advances would be so large that it would force SFHP to access our line of credit and pay 2.50% in interest.

The Finance Committee approved this revised capitation advance payment policy for forwarding to the full Governing Board for approval.

5. Review and Approval of Practice Improvement Program (PIP) Funding for FY 2020-21

Recommendation: For FY 2020-21, SFHP recommends that the Finance Committee approve the continuation of the previous Practice Improvement Program (PIP) funding level, with capitation withholds in the amount of 18.5% for Medi-Cal.

Mr. Grgurina reviewed that the Practice Improvement Program (PIP) is SFHP's pay-for-performance incentive program for Medi-Cal clinics and medical groups to achieve improvements in system and health outcomes. Funding is sourced from withholding a percentage of the provider capitation rates, which had been 18.5% of Medi-Cal and 5% of Healthy Kids professional capitation rates. When the Healthy Kids program transitioned into Medi-Cal on January 1, 2020, PIP funding was based only on the Medi-Cal capitation withhold of 18.5%. The PIP funding has been an effective incentive, as demonstrated in the PIP program evaluation, to achieve improving quality performance measures among the medical groups.

Historically, SFHP's PIP operated on a calendar year basis. In November 2018, the Governing Board approved to transition the PIP period to align with SFHP's fiscal year in response to requests from several PIP participants. Accordingly, the most recent PIP provided incentive funding for 18 months, from January 1, 2019 through June 30, 2020.

SFHP requests continuation of PIP funding at current levels of 18.5% for Medi-Cal, for the upcoming fiscal year, FY 2020-21.

The Finance Committee unanimously approved the Practice Improvement Program (PIP) Funding for FY 2020-21, for forwarding to the full Board for approval.

Adjourn

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Reece Fawley, Secretary/Treasurer