SAN FRANCISCO HEALTH PLAN

Here for you

Joint San Francisco Health Authority/San Francisco Community Health Authority Governing Board
September 4, 2019
Meeting Minutes

Chair:	Steven Fugaro, MD
Vice-Chair:	Roland Pickens
Secretary-Treasurer:	Reece Fawley

Members
Present: Dale Butler, Edwin Batongbacal, Eddie Chan, Irene Conway, Lawrence Cheung, MD, Reece Fawley, Steven Fugaro, MD, Roland Pickens, Maria Luz Torre, Sabra Matovsky, Greg Wagner, Emily Webb, David Woods, PharmD, and Jian Zhang

Members
Absent: Steve Fields

Steven Fugaro, MD, Chair, chaired the meeting and called the meeting to order. He asked if there was anyone from the public in attendance that wanted to make any comments.

In attendance from the public was Eunice Majam-Simpson, attorney with DSR Health Law, and Yangfan Luo, an intern with Lawrence Cheung, MD.

There were no public comments.

1. Approval of Consent Calendar

The following Board items were on the consent calendar for the Board's approval:

a. Review and Approval of Minutes from June 12, 2019 Governing Board Meeting
b. Quality Improvement Committee (QIC) Minutes
c. Pharmacy and Therapeutics Committee (P&T) Appointments
d. QIC Appointment
e. Credentialing and Recredentialing Recommendations

The Board unanimously approved the consent calendar without any issues.

2. a. **Approval of Year-End 2018-19 Unaudited Financial Statements and Investment Reports**

Recommendation: Review and approve the year-end 2018-19 unaudited financial statement and investment reports.

Skip Bishop, CFO, reviewed the financial statements for the period ending June 2019. Mr. Bishop discussed the following highlights:

1. June 2019 results produced a loss of ($6,402,000) versus a budgeted loss of ($4,047,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations was projected to be heavy during the fourth quarter of FY18-19.

2. On a year-to-date basis, there was a loss of ($10,607,000) versus a budgeted loss of ($14,105,000). After removing SUR activity, the actual margin from operations was $5,344,000 versus a budgeted margin of break even.

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

   a) A net decrease in revenue of ($45,120,000) due to:
      i. $43,500,000 in Directed Payments funding was not received in June. Disbursement of this pass-through funding to the Medi-Cal managed care plans was delayed until September 2019.
      ii. $993,000 less in premium revenue as the result of 3,488 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, 3,060 of these members were in the Adult Expansion category.
      iii. $455,000 less in Hepatitis C revenue as the result of 124 fewer Hepatitis C treatment weeks along with a 3.9% decrease in the Hepatitis C reimbursement rate.
      iv. $68,000 less in Maternity revenue as the result of 8 fewer maternity events.
      v. $104,000 less in third-party administrative fees which can be attributed to the decrease in membership.

   b) A net decrease in medical expense of $42,664,000 due to:
      i. $43,500,000 in Directed Payments funding was not received in June. This funding is now expected to be received in September 2019.
      ii. $1,315,000 more in SUR activity when compared to the budget. A big push was made in June to disburse FY18-19 SUR dollars to hospitals before the close of the fiscal year.

iii. $37,000 more in capitation and fee-for-service expense. Fee-for-service claims accruals of $1,382,000 were mostly offset by capitation savings of $1,345,000 due to fewer members enrolled for June.

iv. $516,000 less in pharmacy expense. Non-Hepatitis C pharmacy expense was $133,000 greater than budget due to slightly higher than expected costs for specialty drugs. This increase in non-Hepatitis C pharmacy expense was more than offset by $649,000 less in Hepatitis C drug costs due 124 fewer treatment weeks along with the introduction of a lower cost generic form of Epclusa.

v. A net increase in administrative expense of $251,000. This variance is due to the way in which SFHP must record pension costs as outlined by GASB 68 accounting rules.

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 June.

	----------------------JUN 2019----------------------------				----------------------FYTD 18-19 THRU JUN----------------------------			
CATEGORY	**ACTUAL**	**BUDGET**	**FAV (UNFAV)**	**% FAV (UNFAV)**	**ACTUAL**	**BUDGET**	**FAV (UNFAV)**	**% FAV (UNFAV)**
REVENUE	$ 47,603,000	$ 92,724,000	$ (45,121,000)	-48.7%	$ 603,282,000	$ 666,369,000	$ (63,087,000)	-9.5%
MEDICAL EXPENSE	$ 49,964,000	$ 92,628,000	$ 42,664,000	46.1%	$ 563,813,000	$ 629,378,000	$ 65,565,000	10.4%
MLR	106.6%	100.8%			94.9%	95.9%		
ADMINISTRATIVE RATIO	8.2%	3.8%			7.4%	6.6%		
MARGIN (LOSS)	$ (6,402,000)	$ (4,047,000)	$ (2,355,000)	-58.2%	$ (10,607,000)	$ (14,105,000)	$ 3,498,000	24.8%
OPERATING ADJUSTMENTS:								
FY15-16 SUR PMTS	$ 105,000	$ -			$ 1,192,000	$ -		
FY16-17 SUR PMTS/ACCRUALS	$ -	$ -			$ -	$ -		
FY17-18/CY2018 SUR PAYMENTS/ACCRUALS	$ 323,000	$ 4,116,000			$ 8,316,000	$ 14,105,000		
FY18-19 SUR PMTS/ACCRUALS	$ 5,003,000	$ -			$ 6,443,000	$ -		
TOTAL SUR	$ 5,431,000	$ 4,116,000			$ 15,951,000	$ 14,105,000		
MARGIN FROM OPERATIONS	$ (971,000)	$ 69,000	$ (1,040,000)	-1507.2%	$ 5,344,000	$ -	$ 5,344,000	
MLR W/O SUR PMTS	95.0%	96.3%			92.2%	93.7%		

For the full fiscal year of FY18-19, SFHP was $5,344,000 above budget on margin from operations:

- Overall revenue was down $63.1 million due to:
  - the postponement of $43.5 million in funding for the Directed Payments program;
  - $17.5 million in premium revenue due to 32,924 fewer member months, 1,102 fewer Hepatitis C treatment weeks and 152 fewer maternity events; and
  - $2.1 million less in IGT funding.
- Overall medical expenses were down $65.6 million due to the following events:
  - Postponement of $43.5 million for funding for the Directed Payments program;

- Capitation and fee-for-services expenses were down $17.7 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;
- IGT funding is down $2.1 million from budget projections
- Total pharmacy costs are down $607,000. Hepatitis C drug costs are down $4,962,000 due to fewer treatment weeks, however non-Hepatitis C drug costs are running $4,355,000 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 $1,631,000 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; and
- Non-Specialty Mental Health (NSMH) costs were $957,000 above budget. This was not unexpected given the effort made to increase utilization among the Medi-Cal population. Over the years, the penetration rate for the Adult population has steadily increased and is now at 4.5%.

- Administrative expenses were $217,000 above budget:
  - Compensation and benefits were $2,646,000 above budget due to GASB 68 accounting rules SFHP must follow related to the recording of CalPERS pension costs.
  - Other administrative expense categories such as insurance, marketing, contract vendor fees and information technology support costs were $2,429,000 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. Even with these additional costs, overall administrative expenses ended the year only $217,000 above budget.

PROJECTIONS

Financial projections through December 2019:

1. As of June 2019, SFHP added $1,667,000 to the Practice Improvement Program (PIP) related to the FY18-19 Strategic Use of Reserves (SUR) program. A total of $5 million will be added to the CY2019 PIP program m for professional providers. The CY2019 PIP actually runs for 18 months, therefore the remaining $3,333,000 will be accrued over the period of July 2019 through June 2020.

3. Beginning July 2019, SFHP will have a 0.8% increase in Medi-Cal premium payments from DHCS.

3. Hepatitis C reimbursement rates were reduced effective July 2019. The rate reduction for non-340B 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. Even with these rate reductions, SFHP expects to achieve at least break even as members are transitioned to the lower cost generic drugs and pharmacy rebates are increased.

4. As reported in previous months, during FY19-20, DHCS will be working with the Medi-Cal managed care plans on the following four Directed Payment programs related to rate year FY17-18.

    a. Proposition 56 – enhanced payments to medical groups for qualifying physician services.
    b. Public Hospital Enhanced Payment Program (EPP) – available to Designated Public Hospitals (DPHs) and UC Systems.
    c. Public Hospital Quality Incentive Pool - available to DPHs and UC Systems.
    d. Private Hospital Directed Payments – available to private hospitals.

5. See income statement charts on subsequent pages. Due to the impact that pass-through funding and the disbursement of Strategic Use of Reserves have on projections, we have included graphs with and without this activity.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

SFHP Cash Flow Considerations

For cash planning purposes, SFHP follows the DHCS payment schedule which indicates Medi-Cal premiums will be received by the end of the month of coverage, or no later than the 10^{th} of the following month. Under this payment schedule, funds are received before capitation is paid. Excess cash reserves held in the Liquid Management Portfolio account are used to fund ongoing expenses such as weekly claims disbursements, semi-monthly pharmacy claims disbursements, payroll and other administrative expenses.

SFHP averages 45 to 60 days of cash on hand to fund ongoing operations. This would be in line with the SFHP reserve policy which states that the reserve balance will be no more than two months of premium revenue, currently $94 million.

Beginning in 2012, SFHP worked with its banking partner, City National Bank, to establish a $40 million line of credit to be available in the event of delays with receipt of Medi-Cal premiums from DHCS. SFHP had not drawn down on the line of credit until July 2019 when it was necessary to use $25 million to cover the cash shortfall created by a delay in the receipt of the May 2019 premium payment from DHCS.

Premium payments are released by the State Controller's Office (SCO). The current mode of payment to SFHP is by check mailed to City National Bank. In the case of the May premium payments, an incorrect address was used and the checks never arrived at the bank. SFHP had to request a reissue of the checks which delayed receipt and necessitated a draw down on the line of credit. As a result, SFHP incurred interest expense of approximately $17,000.

Over the years, SFHP has made multiple requests to switch the mode of payment from check by mail to ACH transfer; however our efforts have been unsuccessful. The DHCS response to our most recent request stated all Medi-Cal managed care plans would be converted to ACH within the next 18-24 months. SFHP is exploring options for an interim solution.

Dr. Fugaro asked Mr. Fawley for the Finance Committee's recommendation. Mr. Fawley stated that the Finance Committee found that the financials were acceptable and were approved with no issues. He stated the Finance Committee believed SFHP was in a good place and financial results to date were as expected. Mr. Fawley stated the Finance Committee approved the financials and investment reports and recommended approval by the Board.

With the Finance Committee recommendation, the Governing Board approved the year-end 2018-19 unaudited financial and investment reports without any issues.

b. Approval of Year-to-Date July 2019 Unaudited Financial Statements and Investment Reports

Recommendation: Review and approve July unaudited financial statement and investment reports.

Skip Bishop, CFO, reviewed the financial statements for the period ending July 2019. Mr. Bishop discussed the following highlights:

1. July 2019 results produced a loss of ($918,000) versus a budgeted loss of ($6,117,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations would be ($640,000) versus a budgeted loss of ($1,279,000). For budget purposes, we assumed $4,838,000 in FY18-19 SUR funding would be disbursed in July. These funds were disbursed in June. The budget also assumed five claims disbursement cycles in July. FY18-19 accruals pushed the majority of this claims expense into June.

2. Variances between July actual results and the budget include:
   a) A net decrease in revenue of ($84,000) due to:

i. $280,000 less in premium revenue. Actual member months exceeded the budget by 464, however the mix of member month variances between categories of aid resulted in less premium revenue than expected. 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 net decrease in member months, 476 of these members were in the Adult Expansion category.
ii. $60,000 more in Hepatitis C revenue as the result of 30 more Hepatitis C treatment weeks.
iii. $175,000 more in Maternity revenue as the result of 25 more maternity events.
iv. $39,000 less in third-party administrative fees which can be attributed to the decrease in membership.

b) A net decrease in medical expense of $5,103,000 due to:

i. $4,838,000 less in SUR activity when compared to the budget. When preparing the FY19-20 budget, we anticipated heavy SUR distributions in July. These disbursements were made in June.

ii. $167,000 less in net capitation and fee-for-service expense. Although we saw 464 more member months than anticipated, the mix of member months resulted in less capitation expense.
iii. $98,000 less in pharmacy expense. Hepatitis C pharmacy expense was $56,000 greater than budget as we had 290 treatment weeks versus a budget of 260 treatment weeks. This additional expense was offset by greater than expected Hepatitis C revenue. Non-Hepatitis C pharmacy expense was $154,000 less than budget due to slightly lower than expected utilization.

c) A net decrease in administrative expense of $243,000. The month of July followed the typical pattern for administrative expenses, i.e., the carryover of expenses from June was virtually eliminated and expenses tend to be budgeted a little heavier in the early months of the fiscal year.

On the following page, there is a chart highlighting the key income statement categories with adjustments for SUR activity that shows margins from ongoing operations for the month of July.

	JUL 2019				FYTD 19-20 THRU JUL			
CATEGORY	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
REVENUE	$ 48,386,000	$ 48,470,000	$ (84,000)	-0.2%	$ 48,386,000	$ 48,470,000	$ (84,000)	-0.2%
MEDICAL EXPENSE	$ 45,397,000	$ 50,500,000	$ 5,103,000	10.1%	$ 45,397,000	$ 50,500,000	$ 5,103,000	10.1%
MLR	95.3%	105.9%			95.3%	105.9%		
ADMINISTRATIVE RATIO	6.9%	7.3%			6.9%	7.3%		
MARGIN (LOSS)	$ (918,000)	$ (6,117,000)	$ 5,199,000	85.0%	$ (918,000)	$ (6,117,000)	$ 5,199,000	85.0%
OPERATING ADJUSTMENTS:								
FY15-16 SUR PMTS	$ -	$ -			$ -	$ -		
FY16-17 SUR PMTS/ACCRUALS	$ -	$ -			$ -	$ -		
FY17-18/CY2018 SUR PAYMENTS/ACCRUALS	$ -	$ -			$ -	$ -		
FY18-19 SUR PMTS/ACCRUALS	$ 278,000	$ 4,838,000			$ 278,000	$ 4,838,000		
TOTAL SUR	$ 278,000	$ 4,838,000			$ 278,000	$ 4,838,000		
MARGIN FROM OPERATIONS	$ (640,000)	$ (1,279,000)	$ 639,000	50.0%	$ (640,000)	$ (1,279,000)	$ 639,000	50.0%
MLR W/O SUR PMTS	94.7%	95.7%			94.7%	95.7%		

PROJECTIONS

Financial projections through January 2020:

1. As of July 2019, SFHP has added $1,944,000 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 CY2019 PIP actually runs for 18 months, therefore the remaining $3,056,000 will be accrued over the period of August 2019 through June 2020.

2. Effective July 2019, SFHP's Medi-Cal premium rates were increased by a weighted average of 0.8%.

3. 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. Even with these rates reductions, SFHP expects to achieve at least break even as members are transitioned to the lower cost generic drugs and pharmacy rebates are increased.

4. As reported in previous months, DHCS will be working with the Medi-Cal managed care plans on the following four Directed Payment programs related to rate year FY17-18:
    a. Proposition 56 – enhanced payments to medical groups for qualifying physician services.
    b. Public Hospital Enhanced Payment Program (EPP) – available to Designated Public Hospitals (DPHs) and UC Systems.
    c. Public Hospital Quality Incentive Pool - available to DPHs and UC Systems.
    d. Private Hospital Directed Payments – available to private hospitals.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

RECAP OF STRATEGIC USE OF RESERVES PROGRAMS

Since FY2004-2005, SFHP has committed to a total of $122.3 million in Provider Distributions and SURs.

Prior to implementing a formal Strategic Use of Reserves (SUR) program, SFHP's Governing Board approved annual provider distributions. From FY2004-2005 through FY2013-2014, provider distributions totaled $34.7 million.

In the last four fiscal years, the Governing Board approved five SUR programs for FY15-16, FY16-17, FY17-18, CY2018 and FY18-19. These distributions total $87.6 million.

Below is a summary of each SUR program, with additional details on the following pages.

	Total Approved	Remaining To Be Paid
FY15-16 Strategic Use of Reserves	$15,000,000	$258,671
FY16-17 Strategic Use of Reserves	$30,000,000	$1,401,310
FY17-18/CY2018 Strategic Use of Reserves	$29,600,000	$6,921,352
FY18-19 Strategic Use of Reserves	$13,000,000	$8,225,000
Total	$87,600,000	$16,806,333

The Board was also provided tables with additional details of each year as well.

Dr. Fugaro asked Mr. Fawley for the Finance Committee's recommendation. Mr. Fawley stated that the Finance Committee found that the financials were acceptable and were approved with no issues. He stated the Finance Committee believed SFHP was in a good place and financial results to date were as expected. Mr. Fawley stated the Finance Committee approved the financials and investment reports and recommended approval by the Board.

Dr. Fugaro thanked Mr. Bishop for presenting the financials.

Mr. Fawley stated he would look forward to understanding the $640K loss for July and asked what can be done to fix the unexpected losses. Mr. Grgurina stated that SFHP would be focused on identifying the causes.

With the Finance Committee recommendation, the Governing Board approved the year-to-date July 2019 unaudited financial and investment reports without any issues.

4. **Review and Approval of the Organizational Score for the Board-Approved FY18-19 Organizational Goals and FY 18-19 Year-End Staff Bonus**

Recommendation:
SFHP completed FY18-19 successfully by achieving an organization score of 80% for the success criteria approved by the Governing Board. The following recommendations were presented to Governing Board:

1) With the FY18-19 financial position meeting the sufficient requirement to pay the staff bonus and bonus funds were budgeted in the year-end statements, approval of distribution of staff bonuses, according to the organizational score and individual performance.

2) Approval of organization score of 80% (details are provided on the following pages).

<u>Summary of SFHP's FY18-19 Financial Position</u>

The SFHP FY18-19 financial year ended with a positive margin of $5.3 million in operations, after removing the Strategic Use of Reserves (SUR) activity.

Given this year-end financial performance, the FY 18-19 financial position meets the sufficient requirement to pay the staff bonuses that were budgeted for FY18-19.

<u>Summary of the FY18-19 Organizational Score of 80%</u>
The following table summarizes the Governing Board-approved goals and success criteria and results for FY18-19 (scores in **red** are the scores achieved):

Goal and Success Criteria	Possible Points	Score
Goal 1: *Universal Coverage Through Partnerships* We believe every adult and child in San Francisco should have health coverage. Our strategic anchor of universal coverage recognizes that the health plan alone cannot provide coverage for everyone. Therefore, we work in partnership with the public health system, San Francisco Health Network, community providers and our trade associations to support the Medi-Cal program and health care coverage for all.		
Support efforts to maintain and improve health insurance and health care coverage in San Francisco.		

Goal and Success Criteria	Possible Points	Score
Provide outstanding third party administrator services to the HSF, HK and City Option programs that fill in health insurance coverage gaps for San Francisco residents. Measure service levels that are evaluated by the Department of Public Health on the annual End of Fiscal Year Monitoring Report. Scores are determined by the DPH and are from a score of "1" to "4" ("4" is the highest score). **Stretch: Score of 4 = 15 points** Meets: Score of 3 = 9 points Minimum: Less than 3 = 0 points	15	**15**
Goal 2: *Quality Care and Access for Members and Participants* We recognize that our members and program participants must have excellent access to care to achieve positive health outcomes. We support a range of efforts to improve access to high-quality health care.		
SFHP will obtain at least 80% of available points for HEDIS and CAHPS when we pursue full NCQA accreditation in 2019. HEDIS and CAHPS represents 50% of the total NCQA accreditation score. Achieve increase over 2018 score of 73.0% for Getting Care Quickly and 68.4% for Getting Needed Care. Each domain will represent half of the points. Measurement will be based on an aggregate of the NCQA CAHPS methodology plus additional surveys to the Chinese-speaking members. **Getting Care Quickly** Stretch: 3% - 10 points Meets: 2% - 7.5 points Minimum: 1% - 5 points Below 1% would be "0" points – **72.9%** **Getting Needed Care** Stretch: 3% - 10 points **(73.8%, 5.4% increase)** Meets: 2% - 7.5 points Minimum: 1% - 5 points (Below 1% would be "0" points)	20	**10**
HEDIS Measure Obtain high performance in HEDIS scores as measured by NCQA HEDIS points earned for 2018. Measurement will be based on NCQA-defined points earned methodology. Baseline for 2017 is 32.6 points (85%) Stretch goal: 90% – 20 points **Meets goal: 85% improvement – 15 points (SFHP obtained 85.42%)** Minimum goal: 80% improvement – 10 points	20	**15**

Goal and Success Criteria	Possible Points	Score
Goal 3: *Exemplary Service to Members and Stakeholders* - We are committed to providing exemplary service and support to our members, participants, purchasers, physicians and other health care providers, and each other.		
Foster a culture of ownership, accountability and continuous improvement (CI) within SFHP. Year 2 for Analytic Data Warehouse (ADW) Success will be based on outcomes that focus on achieving our strategic vision of achieving: 1) Agile Data Delivery; 2) Factual Decision-Making; and 3) Accessible Information.		
Complete 90-day Roadmap project and deliver a one-year detailed Data Warehouse roadmap with monthly deliverables and a two-to three-year high-level initiative plan.	5	**5**
Define and prioritize organizational key performance indicators (KPI) by 1/31/19.	2	**2**
Publish five prioritized organizational KPIs.	3	**3**
Continuous Improvement (CI) project Improve Kick Payment Reporting Process Success criteria is the completion of the process management model and implementation of process improvements by April 1, 2019.		
Complete gap analysis of Maternity Kick, behavioral health reimbursements by 1/15/19. Documentation of results required to meet objective.	5	**5**
Finalize process management model by 3/1/19.	5	**5**
Monitor and quantify reduction in manual hours by month through 4/1/19 (tracking form and trend will be needed to meet this objective0	5	**5**

Goal and Success Criteria	Possible Points	Score
Goal 4: *Financial Viability for Plan and Safety Net* The fiscal environment in which we and our safety net providers operate is often in flux. Therefore, we maintain a strategic focus on the organization's financial viability and the economic sustainability of our safety net provider partners. Optimize SFHP performance and provider reimbursements.		
Track to Reserve Policy Any additional reserves over the agreed upon amount will be tracked and managed as Strategic use of Reserves (SUR). Pass: **15 points** Fail: 0 points	**15**	**15**
Total	95	**80 points**

Based on these results in FY18-19, SFHP recommends the following to the Governing Board:

1) FY 18-19 financial position meets the sufficient requirement to pay the staff bonuses that were budgeted for FY18-19.
2) Distribution of staff bonuses, according to the organization score of 80% and individual and department performances.

Dr. Fugaro congratulated the organization on achieving the organizational goals and success criteria.

Reece Fawley, Chair of the Finance Committee, stated the Finance Committee reviewed and approved the recommendation that the financial results for FY18-19 met the sufficient requirements to pay the staff bonuses as budgeted. With the Finance Committee's recommendation for approval, the Governing Board unanimously approved the recommendation that the financial results for FY18-19 met the requirements to pay the staff bonuses as budgeted. In addition, based on results of the success criteria the Governing Board unanimously approved the organization score of 80%.

5. Federal and State Legislative and Budget Updates

Sumi Sousa, Officer, Policy Development & Coverage Programs, provided the Board with Federal and State Policy updates. (Detailed PowerPoint slides were provided in the Board packet.)

Public Charge Final Rule:

- Anyone considered a public charge may be denied admission to the U.S. or denied ability to gain legal permanent residence ("green card") status for themselves and their relatives.
- Final rule by the Department of Homeland Security expands what factors may constitute a "public charge" to include noncash benefits, including non-pregnancy related Medi-Cal, Food Stamps, housing subsidies, as well as income status.
- Will likely decrease participation in Medi-Cal and other programs for legal immigrant/mixed status families.

Key Changes from Draft Rule:

- Rule is prospective, beginning October 15, 2019.
- Exempts CHIP, pregnancy-related Medi-Cal and Covered CA subsidy.
- Income of 125% FPL or below will now be "heavily weighted" as a negative factor.
- Income above 250% FPL to be "heavily weighted" as a positive factor.
- Benefits are aggregated, measured over any 36-month period in time.

Next Steps:

- San Francisco, Santa Clara and multiple states file legal challenge to the rule.
- Will monitor closely, provide update at November Board meeting.
- Other federal items:
  - We continue to monitor the Texas v. Azar challenge to the ACA based on federal elimination of individual mandate tax penalty
    - Federal judge ruled in December 2018 that ACA was unconstitutional due to elimination of penalty.

Healthy Kids Transition into Medi-Cal:

- SFHP team collaborating closely with DHCS to ensure timely transition into Medi-Cal.
- Families of 2,200 HK enrollees have been notified of upcoming October 1 transition.
  - Will receive two more notices (Sept & Oct).
- Small number of undocumented HK members (3 – 5 members) will transition to private health insurance as of January 1, 2020.
  - Notification and transition to occur in October to coincide with Open Enrollment.

Other State Updates:

- Open Enrollment 2020: October 15 – January 15
  - Covered CA keeps all 11 plans; some expand their participation
    - Anthem, Blue Shield, Chinese Health Plan (all of San Mateo)
    - For SF, Chinese Health Plan rates increase average of ~ 20%
- Key messages for Open Enrollment:
    - Coverage Expansion in Medi-Cal for undocumented young adults
    - New subsidies in Covered CA available
    - New state individual mandate starting 2020

John F. Grgurina, Jr., CEO, mentioned the pharmacy carve out is going forward with plan to choose PBM in November.

6. Review and Approval of Contract Approach with Coordination of Benefits Vendor, HMS

Recommendation: SFHP recommends the Finance Committee and Governing Board approve the SFHP contract approach with the coordination of benefits vendor, HMS.

Nina Maruyama, Officer, Compliance and Regulatory Affairs reviewed the background to the Board.

One of SFHP's FY14-15 Success Criteria was to develop and implement strategies to strengthen our processes. This included the procurement and implementation of an "Other Health Coverage (OHC)" vendor to provide coordination of benefits and recovery services. SFHP reported to the Board in September 2015 that it met this goal by selecting and contracting with HMS in February 2015.

HMS was selected by a cross-functional SFHP team comprised of Finance, Claims, ITS, Health Services, and Compliance. The team developed a request for proposals (RFP) and solicited bids from six vendors. Of these six, only two submitted a bid, HMS and Emdeon Passport. Based on the proposals, presentations, and feedback from other sister health plans, HMS was unanimously selected to be the OHC vendor. Implementation with HMS took some time, however, and the coordination of benefits and recovery processes with HMS were not fully implemented until September 2016

When selected, HMS projected the Medical and Pharmacy Recovery Potential would be approximately $1.3 million in a year. HMS receives a recovery fee of 22%. As an example, if $1.3 million is recovered, HMS would be paid 22%, or $286,000 in a year.

Since inception of the program, HMS has recovered $13.6 million and has earned recovery fees of $3.0 million. For CY2019 through June, HMS has received recovery fees totaling $862,387. We anticipate that HMS' total recovery fees for CY2019 will exceed $1.0 million. Recovery fees in the prior years were $405,299 for CY2016, $819,469 for CY2017 and $909,905 for CY2018. It should be noted that at the beginning of the program, HMS used a 36-month lookback period for claims payments resulting in a higher amount of recoveries in the early years. On a going forward basis, recoveries and fees is anticipated to be less as HMS is using claims payment data that is much more current. In future years, it is not expected that HMS will receive more than $1.0 million in fees in a given calendar year.

With the contract policy adopted by the Board in March 2015, contracts with a value of over $1 million requires approval by the Board. Since the HMS contract is valued at over $1 million now, we wanted to bring this contract to the Board for review.

We recommend the Finance Committee and Governing Board approve SFHP to continue with its contract with HMS for coordination of benefits and recovery services. Also per the Board-adopted policy, after five years the contract would be presented to the Board for review and approval. Based on the implementation of the contract in September 2016, we plan to release another RFP to renew the contract with a coordination of benefits and recovery services vendor in 2021.

With the Finance Committee recommendation, the Board unanimously approved SFHP to continue with its contract with HMS for coordination of benefits and recovery services.

7. **Review and Approval of Resolution 19-004 to Surrender Knox-Keene License for the Managed Care Organization Tax and Combine Enrollees into Surviving Knox-Keene License**

Recommendation: SFHP recommends the Governing Board approve Resolution 19-004 that would allow SFHP to surrender its Knox-Keene license, 944-0423, under the Department of Managed Health Care, which was established for the purpose of the Quality Improvement Fee (QIF), which is no longer in effect.

Nina Maruyama, Officer, Compliance and Regulatory Affairs, provided the background to the Board.

In 2003, Welfare and Institutions Code (WIC), section 14464.52 authorized the Department of Health Care Services (DHCS) to impose a Quality Improvement Fee (QIF) on the capitation payments paid to Medi-Cal managed care plans. To protect their commercial and non-Medi-Cal managed care contracts from the liability of the QIF, some managed care plans restructured to create separate affiliate entities. These affiliate entities, "QIF Plans," are distinct legally from their "parent" Plans and hold their own Knox-Keene Act licenses separate from their parent Plans. This allowed the parent Plans to segregate their Medi-Cal managed care contracts from their other lines of business. QIFs are controlled by the parent Plan, which retain reporting responsibility for the QIFs to the Department of Managed Health Care (DMHC).

Effective October 1, 2009, WIC section 14464.5 was repealed under the terms of the statute, eliminating DHCS's authority to impose the QIF on Medi-Cal plans. Despite the repeal of WIC section 14464.5, a QIF's Knox-Keene Act license remains in effect until the license is surrendered by the Plan or QIF Plan, or suspended or revoked by the order of the Director of DMHC. Therefore, QIFs have continued to operate despite the absence of need for protection from the Quality Improvement Fee by the parent Plan.

In response to the QIF, in November 2004, San Francisco Health Plan passed Resolution 2004-02, Resolution Authorizing Creation of a Separate Legal Entity to Avoid the Negative Effectives of the Quality Improvement Fee. This resolution enabled SFHP to create the San Francisco Community Health Authority (SFCHA). The Governing Board also passed Resolution 2005-04 in March 2005 to approve the assignment of Healthy Workers and Healthy Kids contracts to the SFCHA. In addition to establishing the SFCHA, SFHP also obtained a Knox-Keene license for SFCHA, License Number 933-0423, which is the affiliated QIF license. SFHP's "Parent" plan is for its Medi-Cal business, License Number 933-0349.

New DMHC Filing Requirement
On May 11, 2019, the DMHC released APL 19-011, QIF Plan Regulatory Requirements, to notify plans about upcoming changes to the treatment of QIF Plans and steps plans with an affiliated QIF Plan should take to maintain compliance with the Knox-Keene Health Care Service Plan Act that the DMHC would begin to treat the QIF plans as distinct plans.

By treating the QIF license plan as a distinct plan, the DMHC would require health plans to meet all of the financial requirements separately, file network reports and annual network data separately, and undergo routine and non-routine medical and administrative surveys (audits) separately. With the two separate licenses, SFHP currently has been paying two license fees, which include an annual base fee of $10,000 and additional per member fees, which are over $20,000 per year, for a total annual license fee over $31,000 for the QIF license. SFHP would save $10,000 per year going forward; the Parent license fee would increase by the number of members transferred from the affiliated QIF license.

After review of the requirements to maintain separate and distinct plans, SFHP has determined it would be in the best interest of SFHP to surrender the affiliated QIF license and assign the Healthy Workers and Healthy Kids contracts to the San Francisco Health Authority, under the Parent plan license. This would decrease the administrative burden of additional reporting and auditing requirements, as well as save $10,000 annually in fees.

Recommendation to Approve Resolution 2019-04
SFHP recommends the Board approve Resolution 2019-04 to allow SFHP to surrender License Number 933-0423 for its affiliated QIF license and transfer the Healthy Workers and Healthy Kids members to the SFHP's "Parent" plan to be combined with its Medi-Cal business, License Number 933-0349.

With Resolution 2019-004, SFHP would not be dissolving the SFCHA. The Resolution would only authorize SFHP to inform DMHC that it will surrender its Knox-Keene license, 944-0423.

The Board unanimously approved resolution 19-004 that would allow SFHP to surrender its Knox-Keene license, 944-0423, under the Department of Managed Health Care, which was established for the purpose of the Quality Improvement Fee (QIF), which is no longer in effect.

The Governing Board adjourned to Closed Session. Guests and staff members not involved in the Closed Session items left the room.

8. Review of Future Medi-Cal Rate-Setting Process

This item was discussed in closed session.

9. Discussion of Provider Corrective Action Plans with Chinese Community Health Care Association and Implementation of its New Managed Services Organization

This item was discussed in closed session.

10. Review and Approval of Annual Performance Evaluation of CEO

This item was discussed in closed session.

The Governing Board resumed in Open Session. Staff members and members of the public rejoined the meeting again.

11. Report on Closed Session Action Items

Dr. Steven Fugaro reported that the one action taken by the Governing Board in closed session was to approve the Annual Performance Evaluation of CEO with a rating of Exemplary/Outstanding and a public announcement of the CEO’s salary.

12. Member Advisory Committee Report

Due to time constraints this item was not discussed, but the materials were included in the Board’s packet.

13. Update on Medi-Cal Pharmacy Benefit Carve-Out and 340B Drug Pricing Program

Due to time constraints this item was not discussed, but the materials were included in the Board’s packet.

14. CEO Report Highlighted Items –Annual Provider Recognition Dinner, NCQA Health Plan Rating, and Power Outage Review

Due to time restraints the CEO report was not discussed, but the materials were included in the Board’s packet.

15. Adjourn

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Reece Fawley, Secretary