



**Joint San Francisco Health Authority/San Francisco Community Health Authority
Governing Board
November 3, 2021
Meeting Minutes**

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

Members

Present: Eddie Chan, PharmD, Lawrence Cheung, MD, Irene Conway, Reece Fawley, Steve Fields, Steven Fugaro, MD, Maria Luz Torre, Emily Webb, David Woods, PharmD, and Jian Zhang, DNP, MS, FNP-BC

Members

Absent: Dale Butler, Roland Pickens, MHA, FACHE, and Greg Wagner

Due to the ongoing 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 conference line information was provided on the publicly-posted agenda. This precaution was taken to protect members of the Governing Board, staff, and the public. All Board members, staff members and public attended the meeting via video conference.

Steven Fugaro, MD, Chair, called the meeting to order. He asked if there was anyone from the public in attendance and if there were any public comments. In attendance from the public was Eunice Majam-Simpson, SFHP's counsel with DSR Health Law, Deena Lahn, with the San Francisco Community Clinic Consortium (SFCCC), and Nicole Lambrou, founder and President of Three Tenets. There were no other members of the public and no public comments.

1. Approval of Consent Calendar

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

- a. Approval of minutes from September 1, 2021 Governing Board Meeting
- b. Quality Improvement Committee (QIC) Minutes
- c. Credentialing and Recredentialing Recommendations

The Board unanimously approved the consent calendar without any issues.

2. **Review and Approval of the Annual Independent Auditor's Report for FY 2020-21**

Recommendation: Review and Approval of the Annual Independent Audit Report for FY 2020-21.

Chris Pritchard, Partner, and Rianne Suico, Partner, Moss Adams Consultants, the independent audit firm hired by SFHP, presented the FY 2020-21 independent financial audit report. The auditors gave SFHP an "Unmodified Opinion," which is the highest opinion available (also known as a "clean opinion"). There were no significant, or material, comments in the Communication to the Governing Board. There were no required or recommended adjustments to the journal entries.

Ms. Suico reviewed the following key points of the audit report:

- Over the years, SFHP has been very consistent, which is a testament to management's ability to produce financial statements without material error.
- All reported receivables and assets were properly supported and appropriate.
- All payments and liabilities were appropriated accounted.
- Assumptions and information used by SFHP's actuary for the Incurred But Not Reported (IBNR) were tested and all liabilities were reasonably stated.
- All capitation payments to providers were properly supported.
- Recording of operational expenses were in accord with accounting policies and principles.
- Trends were consistent with expectations, without any unusual spikes.
- SFHP's tangible net equity (TNE), which is a measure of an organization's financial health, was very strong.
- There were no disagreements with SFHP's management.

The consultants discussed that the audit went well.

Dr. Fugaro thanked the auditors, and Mr. Fawley was pleased with the audit and stated there were no surprises. He stated the Finance Committee complimented the SFHP Finance team for their outstanding work. He stated the Committee recommended to maintain Moss Adams as the independent audit firm for the next couple of years to ensure continuity of financial oversight with the upcoming change in CEO. They felt this would be an important action to take to provide stability during a time of significant change. The Finance Committee has confidence in the Finance department leadership and recommended the Board approve the Moss Adams independent audit report.

With the Finance Committee recommendation, the Board unanimously approved the independent auditor's report for FY 2020-21 as presented.

3. Review and Approval of Unaudited Monthly Financial Statements and Investment Reports

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

Rand Takeuchi, Director, Accounting, reviewed the unaudited monthly financial statements for the period ending September 30, 2021.

1. September 2021 reported a loss of (\$3,226,000) versus a budgeted loss of (\$947,000). After removing Strategic Use of Reserves (SUR) activity, the actual loss from operations was (\$3,133,000) versus a budgeted loss of (\$842,000).

On a year-to-date basis, we have a margin of \$520,000 versus a budgeted margin of \$3,022,000. After removing SUR activity, the actual margin from operations was \$803,000 versus a budgeted margin of \$3,337,000.

In September, we received \$22.7 million in Directed Payments funding related to the Bridge Period of July 2019 through December 2020. This funding covered only two of the four types of Directed Payments and covered only July through December 2019. The FY 21-22 budget projected Directed Payments funding of \$132.0 million for September which was based on historical patterns. The next wave of funding should bring us much closer to our budget projections. It is important to note that Directed Payments funding is a pass-through to hospital providers and does not impact SFHP's bottom line. As has been the case in previous years, the Department of Health Care Services (DHCS) and the Department of Managed Health Care (DMHC) allow Directed Payments funding to be treated as revenue and medical expense.

2. Variances between September actual results and the budget include:
 - a. A net decrease in revenue of \$107.6 million due to:
 - i. \$109.3 million less in Directed Payments funding related to the Bridge Period of July 2019 through December 2020.
 - ii. \$1.5 million more in Medi-Cal and Healthy Workers premium revenue due to an additional 3,225 member months along with actual premium rates that were 0.8% higher than what was used for the budget projections.
 - iii. \$133,000 more in Hepatitis C revenue. There were 218 treatment weeks in September versus a budget of 171 treatment weeks.
 - iv. \$118,000 more in Maternity revenue. We reported 105 maternity events during September versus a budget of 91 maternity events.
 - b. A net decrease in medical expense of \$31.5 million primarily due to:
 - i. \$109.3 million less in Directed Payments funding related to the Bridge Period of July 2019 through December 2020.
 - ii. \$1.6 million more in fee-for-service (FFS) expense. We had five claims payment cycles in September. The budget anticipated

higher FFS cost due to the extra payment cycle, however actual paid claims were even greater than expected. When looking at the paid claims data, we saw several high dollar claims submitted by Zuckerberg San Francisco General for services rendered to members enrolled with the University of California San Francisco (UCSF) and Brown & Toland Medical Group. For example, one claim totaled \$300,000 for a 35-day stay in the intensive care unit at ZSFG.

- iii. \$766,000 more in net capitation as the result of having 3,225 more member months as well as a more favorable membership mix than what the budget projected. This additional cost is offset by the revenue SFHP received for these additional members.
- iv. \$1.4 million more in Medi-Cal non-Hepatitis C pharmacy expense. The main driver of this additional expense can be found in the cost for generic drugs. Beginning July 1, 2021, SFHP moved to Magellan for Pharmacy Benefit Management (PBM) services. Results for July through September clearly show that Magellan's cost for generic drugs is higher than the pricing SFHP received through PerformRx. Generic medications represent 89% of all prescription filled. For the first three months of FY 21-22, generics represented 26.4% of total drug costs. This compares to 15.0% for the period of April through June 2021. The largest factor here appears to be network contracting. Magellan is paying Walgreens, our largest retail pharmacy chain, significantly more for generics. Our Pharmacy department is engaged in ongoing discussions with Magellan to better understand the reasons for the higher than expected drug costs. The MLR for September was 103%. SFHP will continue to have responsibility for the pharmacy benefit through December 2021. Beginning in January 2022, the pharmacy benefit will transition to the State.
- v. \$119,000 more in Hepatitis C drug expense. We had 218 treatment weeks versus a budget of 171 weeks, or an increase of 47 weeks. In addition, the budget assumed 39% of the treatment weeks would be under 340B pricing which is lower cost. For September, only 1% of the actual treatment weeks were under 340B pricing. Limiting the purchasing under 340B rules is a benefit to SFHP due to the fact that SFHP pays the same for the Hepatitis C drug but receives a lower reimbursement from the State. The entity with whom we have the 340B special pricing arrangement retains the spread.
- vi. Healthy Workers pharmacy expense was slightly higher than budget expectations, i.e., \$1,073,000 in drug costs versus a budget of \$1,009,000. On a ppm basis, the actual cost was \$90.82 versus a budget of \$86.42. Although actual expense exceeded the budget, SFHP had a margin of \$33,000 as we receive \$93.61 in the Healthy Workers rate for pharmacy.
- vii. \$84,000 more in Non-Specialty Mental Health (NSMH) expense as utilization continues to be higher than expected.

- viii. \$82,000 more is Community-Based Adult Services (CBAS) expense. This increase is due to higher utilization resulting from the implementation of Temporary Alternative Services (TAS) which allows the CBAS centers to submit claims for telephonic and telehealth services provided to Medi-Cal members during the Public Health Emergency (PHE). The PHE is expected to last until the end of the calendar year.
- c. A net increase in administrative expenses of \$169,000 primarily due to:
 - i. \$267,000 less in all non-compensation administrative expense categories. This difference is primarily due to timing as it was anticipated that more professional fees/consulting services and system maintenance/infrastructure costs would be incurred in the earlier part of the fiscal year. The expectation is that actual spending will align with the budget as we move further into FY 21-22.
 - ii. \$98,000 more in Compensation, Benefits and GASB 68 costs. The budget assumed a staff attrition factor of 10%. The actual attrition factor for September continues to run slightly less than 10%.

Below is a chart highlighting the key income statement categories for September with adjustments for SUR activity to show margin or loss from ongoing operations.

CATEGORY	-----SEP 2021-----				-----FYTD 21-22 THRU SEP-----			
	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)	% FAV (UNFAV)
MEMBER MONTHS	163,415	160,190	3,225	2.0%	487,711	478,743	8,968	1.9%
REVENUE	\$ 82,654,000	\$ 190,174,000	\$ (107,520,000)	-56.5%	\$ 204,689,000	\$ 308,879,000	\$ (104,190,000)	-33.7%
MEDICAL EXPENSE	\$ 81,032,000	\$ 186,248,000	\$ 105,216,000	56.5%	\$ 190,618,000	\$ 291,851,000	\$ 101,233,000	34.7%
MLR	98.8%	98.3%			94.0%	95.1%		
ADMINISTRATIVE EXPENSE	\$ 4,746,000	\$ 4,915,000	\$ 169,000	3.4%	\$ 13,548,000	\$ 14,131,000	\$ 583,000	4.1%
ADMINISTRATIVE RATIO	5.0%	2.2%			5.7%	3.9%		
INVESTMENT INCOME	\$ (102,000)	\$ 42,000	\$ (144,000)	-342.9%	\$ (3,000)	\$ 125,000	\$ (128,000)	-102.4%
MARGIN (LOSS)	\$ (3,226,000)	\$ (947,000)	\$ (2,279,000)	-240.7%	\$ 520,000	\$ 3,022,000	\$ (2,502,000)	-82.8%
ADD BACK: SUR ACTIVITY	\$ 93,000	\$ 105,000			\$ 283,000	\$ 314,000		
MARGIN (LOSS) FROM OPERATIONS	\$ (3,133,000)	\$ (842,000)	\$ (2,291,000)	-272.1%	\$ 803,000	\$ 3,336,000	\$ (2,533,000)	-75.9%

On a year-to-date basis through September and after the removal of SUR activity, SFHP is reporting a margin of \$803,000 which is \$2.5 million less than budget expectations.

- After removing the Directed Payments funding, premium revenue is above budget by \$5.1 million. This is due to:
 - An overall net increase of 8,968 member months. Member months for the Adult, Adult Expansion and Seniors and Persons with Disabilities (SPD) categories of aid are all above budget which has

a favorable impact on revenue due to the fact that the premium rates for these members are much higher than the premium rates for Child and Dual members.

- A Medi-Cal rate increase effective January 1, 2021 that was 0.8% greater than budget expectations.
- After removing SUR activity and Directed Payments funding, medical expense is above budget by \$8.1 million. This increase can be accounted for as follows:
 - Medi-Cal non-Hep C pharmacy expenses are up \$2,788,000
 - Capitation expenses are up \$2,548,000
 - FFS expenses are up \$2,215,000
 - Hepatitis C expenses are up \$ 555,000
- Overall administrative expense is below budget by \$583,000. The majority of this decrease was due to lower costs in the areas of professional services and information technology services. The lower costs were due to timing differences as actual spending should align more closely with the budget as we move through the fiscal year. Overall administrative expense savings have been partially offset by increases in Compensation, Benefits and GASB 68 costs due to a slightly lower attrition rate than what was used for budgeting purposes.

PROJECTIONS

Mr. Bishop reviewed the following financial projections through March 2022.

1. Beginning in July 2021, hospital risk for 16,000 San Francisco Community Clinic Consortium (SFCCC) members became the responsibility of SFHP. SFHP no longer pays capitation to ZSFG for these members. SFHP will be responsible for all in-network and out-of-network hospital services under a fee-for-service arrangement – All Patient Refined Diagnosis Related Groups (APR-DRG) for inpatient services and 140% of the Medi-Cal Fee Schedule (MCFS) for outpatient facility services. Primary care and specialty care services remain under capitation. It is estimated that this new risk will cost SFHP approximately \$16 million to \$20 million per year, which is built into the FY 21-22 budget. Our draft CY 2022 Medi-Cal rates confirm that DHCS and Mercer included this added cost in the CY 2022 Medi-Cal rate development process, which means SFHP has to absorb the costs only for the period of July through December 2021.

SFHP expects the fee-for-service claims cost to exceed the capitation savings by approximately \$1.5 million per month. Due to the normal pattern of claims lag, SFHP has increased its Incurred But Not Reported (IBNR) claims reserve in an amount equal to its projected exposure in order to cover the anticipated claims incurred July through September, but not received as of September 30, 2021.

2. SFHP started the new fiscal year with 2,400 more Medi-Cal members versus what was anticipated in the budget. Due to the ongoing COVID-19 pandemic,

SFHP anticipates adding another 2,000 members through December 2021. With some upcoming changes in the Medi-Cal eligibility rules, SFHP expects to add another 3,000-4,000 members in early 2022. This will increase our Medi-Cal membership to approximately 160,000 members.

It is important to note that with the State's intention to lift the Public Health Emergency by December 31, 2021, SFHP anticipates that Medi-Cal membership will gradually decrease during CY 2022 as members will be placed on hold or terminated due to no longer qualifying for the program.

3. The Medi-Cal pharmacy benefit is scheduled to be carved out effective January 2022. This aligns with how SFHP prepared its FY 21-22 budget, i.e., we would have responsibility for this benefit through December 31, 2021. The State takes over this benefit on January 1, 2021 with Magellan as its Pharmacy Benefits Manager (PBM). This will be viewed as a positive development as drug costs have increased now that Magellan is our PBM.
4. Beginning on January 1, 2022, SFHP will take responsibility for Enhanced Care Management (ECM), Community Supports, formerly known as In Lieu Of Services (ILOS) and major organ transplants. Multiple teams within SFHP have been working for several months to prepare for these new programs. Draft rates for ECM and Community Supports were released in early October. We are still waiting on draft rates for major organ transplants from DHCS.
5. Proposition 56 – this program will continue for all of FY 21-22. Proposition 56 provides enhanced payments to medical groups for qualifying physician services, supplemental payments for developmental screenings, adverse childhood experiences screenings, trauma screenings, family planning services and value-based payments related to a variety of health care quality measures.

HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

Medi-Cal Pharmacy Costs

Mr. Bishop reviewed a memo from Lisa Ghotbi, Director, Pharmacy Services, related to increasing generic pharmacy costs. Work is continuing to understand the cause of the cost increases with Magellan, the new PBM for Healthy Workers, HSF, and Medi-Cal (only through December 31, 2021 for Medi-Cal).

Investment Reports

Mr. Takeuchi briefly reviewed the investment reports that were provided to the Board in the packet.

With the Finance Committee recommendations, the Board unanimously approved the monthly financial statements and investment reports ending September 30, 2021.

4. Review and Approval of Additional Governing Board Meetings to Comply with 361 Teleconference Brown Act Flexibilities

Recommendation: Approve the SFHP Governing Board to hold special meetings to comply with AB 361.

Nina Maruyama, Chief Officer, Compliance and Regulatory Affairs, reviewed the new relaxation of teleconference requirements allowed by the Brown Act. With the passage of AB 361, local public entities such as the San Francisco Health Authority and San Francisco Community Health Authority would be allowed to meet using teleconferencing during the public health emergency as long as they met requirements of the new law. Ms. Maruyama described the following requirement that the Governing must meet at least every 30 days to establish factual findings that find a State of emergency decree, or local orders regarding social distancing and other supporting materials such as Center for Disease Control (CDC) or local health department recommendations to support the recommendation to meet via teleconference.

Ms. Maruyama stated that SFHP would like the Governing Board to approve that it would take action on behalf of the Board and its Standing Committees – Finance, Quality Improvement, Member Advisory and Pharmacy and Therapeutics and approve two, ten-minute meetings in December to allow the January 5, 2022 Board meeting to be held via teleconference.

The Board unanimously approved the additional Governing Board meetings to comply with AB 361 Teleconference Brown Act Flexibilities.

5. Federal and State Updates

Sumi Sousa, Chief Officer of Policy Development and Coverage Programs, provided the Board with an overview of Governor's State budget. (Detailed PowerPoint slides were provided in the Board packet.)

Ms. Sousa stated Governor Newsom defeated the recall. She explained that this means Medi-Cal's major new programs and benefits (CalAIM, Student Behavioral Health Initiative, Medi-Cal expansion for undocumented aged 50+years and homelessness proposals) can continue to be planned for, rolled out.

Ms. Sousa shared the following Medi-Cal Managed Care Procurement Updates:

- DHCS will open the Medi-Cal managed care commercial plan contracts for an RFP. The effective date of the new commercial contracts will be January 2024. Public plans (County Organized Health Systems, such as Health Plan of San Mateo, and Local initiatives, such as San Francisco Health Plan) are not subject to the procurement
- In San Francisco, other commercial health plans and Anthem Blue Cross must apply to be the commercial plan option for Medi-Cal managed care members. It is possible there would be new commercial plan that competes with SFHP for membership that is not Anthem Blue Cross.

- The draft Request for Proposal (RFP) was released in June 2021 and DHCS received extensive comments. As a result, DHCS will delay the release of the RFP for Medi-Cal managed care commercial plans to February 2, 2022.
- The January 1, 2024 implementation date remains unchanged.

Ms. Sousa then provided the Board with Federal updates:

- Within the \$1.85T Reconciliation Bill, there was increased funding for Medicaid Home and Community Based Services.
- \$190B in increased funding for services to elderly and disabled in Medicaid that allow them to stay at home/in the community.
- Makes increased APTC/Covered CA affordability subsidies permanent.
- American Rescue Plan provided funding for two years for the following:
 - 12-month continuous eligibility for kids in Medicaid.
 - 12-month continuous Medicaid eligibility for pregnant and post-partum individuals.

6. Member Advisory Committee Report

Maria Luz Torre and Irene Conway provided the Board with a Member Advisory Committee (MAC) report.

Ms. Torre reported at the September meeting, SFHP staff attended to discuss ADHD, which is one of the Committee's goals. At the October meeting, the Committee, SFHP staff attended to discuss grievances and concerns about mental health under stress and grievances. A question was raised, if a grievance is filed will there be repercussion with the person that filed the grievance? Fiona Donald, MD, CMO, who attended the meeting, assured MAC members that there would not be any retaliation or negative repercussions for filing a grievance.

Dr. Fugaro thanked Ms. Torre and Ms. Conway for their report.

7. Chief Medical Officer's Report

Dr. Donald provided the Board with CalAIM, Medi-Cal, and COVID-19 Vaccine updates. (Detailed PowerPoint slides were provided in the Board packet.)

Dr. Donald reviewed the launch of the following new Medi-Cal benefits on January 1, 2022:

- Major Organ Transplants, in addition to the existing kidney only and cornea transplants, will be carved into managed care. Other organ transplants were covered under Medi-Cal fee-for-service, but would now be under Medi-Cal managed care.
- Enhanced Care Management & Community Supports (formerly "In Lieu of Services") Target Populations, which will cover specific eligible populations, particularly those that are high utilizers of services, members with a diagnosis of Serious Emotional Disturbance or Serious Mental Illness and individuals experiencing homelessness, among other eligibility criteria.

Dr. Donald also provided the following updates regarding Medi-Cal Rx, the pharmacy benefit, which will also be implemented on January 1, 2022:

- The administration of the formulary, pharmacy network, and claims payment are the responsibilities of DHCS/Magellan.
- SFHP will continue to monitor quality and provide care coordination.
- SFHP will support high-risk transition members.

Dr. Donald informed the Board that SFHP and San Francisco County continue to lead the state in Medi-Cal members that are vaccinated, but the Department of Health Care Services (DHCS) created an incentive program to continue efforts to close the vaccination gap between the general population and Medi-Cal members. DHCS is providing health plans with funds for member incentives of \$50 gift cards when they complete the vaccination series. There are also outreach funds available, which SFHP will use to fund projects through a grant application process.

Dr. Donald closed with the following HEDIS and CAHPS highlights from Measurement Year 2021.

- SFHP is accredited with NCQA with a rating of four stars.
- Like other health plans, SFHP is experiencing an impact in primary care access and utilization due to COVID-19. This will likely have an impact on SFHP's "Use of Preventive Health Care" measures, but there is an NCQA allowance for telehealth visits for many measures.
- To help improve CAHPS scores related to member experience, SFHP created a video series to help inform members about how to use their benefits and work with their health care providers and health plan.

8. CEO Report – Highlighted Items – Updates on Healthy San Francisco, Operations, and Board Reappointments

Mr. Grgurina highlighted the status of staff vaccinations. As we continue to plan a safe return to the workplace, we began collecting COVID-19 vaccination status of all our employees. The data will provide critical data needed for planning purposes and prepare us for potential reporting obligations, e.g. to the City and the County of San Francisco. We collected this information via ADP using the ADP Mobile app. The deadline to respond was October 22, 2022 and here are the results:

- Total Number of Employees Vaccinated – 323 (90%)
- Declined to Answer – 4 (1%)
- Not Vaccinated – 9 (3%)
- No response – 22 (6%)

Human Resources will be reaching out to the 22 employees who did not respond to collect their response and provide assistance, if needed.

The Board Adjourned to Closed Session.

9. Search Committee Updates and Next Steps for CEO Recruitment

This item was discussed in closed session.

The Board resumed in Open Session.

10. Report on Closed Session items

Dr. Fugaro reported that there were no actions taken in closed session.

11. Adjourn

Dr. Fugaro adjourned the meeting.

Reece Fawley, Secretary/Treasurer