San Joaquin County Clinics (SJCC) Finance Committee
Minutes of August 24, 2020 Meeting

San Joaquin General Hospital (SJGH)
Web Conference Meeting
French Camp, CA

Present
Rod Place (SJCC Board Chair); Alicia Yonemoto (SJCC Board Vice-Chair); Esgardo Medina (SJCC Board Member); David Culberson (SJGH CEO); Greg Diederich (HCS Director); Dr. Farhan Fadoo (SJCC Executive Director); Monica Nino (SJ County Administrator); Chris Roberts (SJGH CFO); Alice Souligne (SJCC COO); Kris Zuniga (SJCC CFO); Carlos Jimenez (Wipfli Consultant); Adelé Gribble (SJCC ACS OTC)
Excused:
Brian Heck (SJCC Board Member); Lynn Kelly (SJGH Pt. Financial Services Deputy Director)
Absent
Luz Maria Sandoval (SJCC Board Treasurer)

I. Call to Order

The meeting was called to order by Rod Place at 4:04 p.m.

II. Approval of Minutes from May 21, 2020 (Rod Place, Board Chair)

A quorum was established for today's Finance Committee. The minutes were reviewed by present board members. Esgardo Medina made a motion to approve the minutes from 07/27/2020. Alicia Yonemoto seconded the motion and all board members present unanimously approved the minutes.

III. Introductions (Rod Place, Board Chair)

There were no introductions for this meeting.

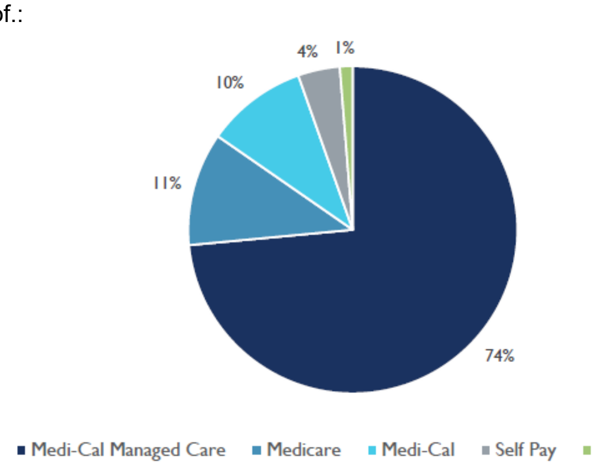
IV. PPS Reconciliations (Kris Zuniga, FQHC CFO)

Kris Zuniga advised we will speak about our MediCal PPS Rate Process and the PPS reconciliations received for San Joaquin County Clinics (SJCC) this afternoon.

He acknowledged this information is not straightforward but as the Finance Committee, as members of the Board, he is presenting this information for the Board's education, for their information. It is not the Board's responsibility to calculate anything discussed today, it is merely an introduction.

The presentation this afternoon will cover four areas: MediCal PPS rate in general and what settlement means and is for our MediCal PPS rates; SJCC specific PPS rates and what settlement can mean there; MediCal PPS reconciliation process (associated with Managed Care Population); SJCC specific PPS reconciliations settlements and summation of what that means for our financial statements.

SJCC's payer mix is shown below as a pie chart. This is our business, our visits, this is essentially what EMMI collects off of.:



This diagram depicts 100% of our patient population by financial class or major payer. The percentage make-up of our payer mix is as follows: The larger portion (74%) is MediCal Managed Care, followed by Medicare at 11%, Traditional MediCal at 10%, Self-Pay at 4% and Commercial at 1%.

This afternoon's discussion will cover two pieces of the pie: 10% for traditional MediCal and 74% for MediCal Managed Care.

- MediCal Federally Qualified Health Center (FQHC) Reimbursement is based on the Prospective Payment System (PPS Rate). *This effectively means a method of reimbursement in which a payment is made on a predetermined fixed amount.*
- FQHC's are paid at a static interim PPS rate until a final PPS rate is determined for each clinic site
- PPS Rate = Base-Year Total Allowable Costs/Base-Year Total Billed Visits
  - EXAMPLE FOR ONE CLINIC:
    - 2,000,000 ALLOWABLE COSTS/10,000 BILLED VISITS = $200 PPS RATE
- When the PPS rate is set, the state pays a retroactive settlement payment for each traditional Medi-Cal visit since inception (in our case, inception was July 1st, 2014).
- Annual PPS Rate increases occur each October

Kris presented the below table (SJCC traditional Medi-Cal PPS Rates), reminding the board that items shown in green are final rates, yellow items are still pending (Family Practice Clinic California Street):

GREEN IS FINAL….YELLOW IS NOT

	Effective Date	Family Medicine Clinic	Children's Health Services	Primary Medicine Clinic	Healthy Beginnings California St.	Healthy Beginnings French Camp	Effective Date	Family Practice Clinic California St.***
Interim PPS Rate	7/1/2014	129.02	129.02	129.02	129.02	129.02	7/1/2015	158.85
Base Year PPS Rate	7/1/2014	**172.37**	**208.46**	**142.30**	**217.36**	**268.47**	7/1/2015	**242.41**
Today's PPS Rate	10/1/2019	**182.96**	**221.27**	**151.04**	**230.72**	**284.97**	10/1/2019	**255.26**

***FPCC is an estimate as of 8-10-20

The interim rates at the first five initial clinics were all the same at $129.02 but as of May 2020 we learned our final PPS rates for that base year were $172.37 through $268.47 respectively for the five clinics. Because the state has issued us increases every October 1st, our current PPS rates at those clinics are $182.96 through $284.97. We have also been conducting the audit process with the State of California for the FPCC and that process has concluded. Kris stated they expect our final PPS rate later this week. He anticipates coming in at $242.41. If their calculations are correct, we will be at $250.00. This means the FQHC has really healthy PPS rates. Kris reiterated that the above is still speaking about the 10% piece of the pie.

When the PPS rate is set, the State pays a retroactive settlement for each traditional MediCal visit **since inception.**

The Annual PPS rate increases occur **each October.**

The State will determine the final retroactive settlement payment amounts.

Estimated receivables below do not include FPCC

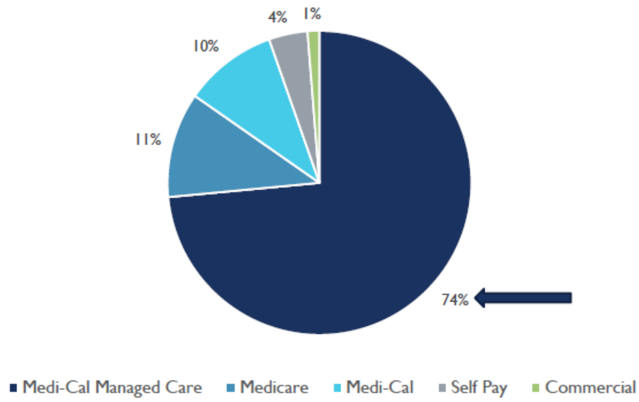
	Family Medicine Clinic	Children's Health Services	Primary Medicine Clinic	Healthy Beginnings California St.	Healthy Beginnings French Camp
Interim Rate	129.02	129.02	129.02	129.02	129.02
7/1/2014	**172.37**	**208.46**	**142.30**	**217.36**	**268.47**
10/1/2015	**173.75**	**210.13**	**143.44**	**219.10**	**270.62**
10/1/2016	**175.66**	**212.44**	**145.02**	**221.51**	**273.60**
10/1/2017	**177.77**	**214.99**	**146.79**	**224.17**	**276.88**
10/1/2018	**180.26**	**218.00**	**148.81**	**227.31**	**280.76**
10/1/2019	**182.96**	**221.27**	**151.04**	**230.72**	**284.97**

Kris advised while we may have been conducting our business at a rate of $129.02 across all five of our clinics, the State of California will compensate us for every traditional MediCal visit at their respective PPS rate that was in effect for that visit date, all the way back to inception.

Kris stated they have estimated what that means to our clinics for each Fiscal Year. Wipfli is estimating our MediCal business will return approximately $$3.9M to the clinics from the State of California for our Traditional MediCal visits that have occurred through the years of our history. The State will look at all our visits and determine the final total.

Estimated Receivables	
Fiscal Year 15	$ 622,109
Fiscal Year 16	$ 583,253
Fiscal Year 17	$ 590,865
Fiscal Year 18	$ 688,190
Fiscal Year 19	$ 719,915
Fiscal Year 20	$ 742,311
Estimated Total	**$ 3,946,643**

74% of SJCC's business (Medi-Cal Managed Care) reflects the following:



- More complicated than traditional Medi-Cal FQHC reimbursement (with traditional Medi-Cal visits, the patient comes into the clinic, we get our PPS rate for that visit).
- Reimbursement comes in three forms:
  1. Capitation payments – monthly payments per Managed Care member for a bundle of services (outlined in our Managed care contract)
     - Example: 1,000 enrolled members x $10 per member = $10,000 per month
  2. Wrap payments (formerly known as Code 18 payments) – payments per visit
     - Wrap rate is issued to each clinic
     - Billed by EMMI
     - Paid by the State
  3. Managed Care Fee-For-Service payments – payments per visit for service not covered under capitation
     - Billed by EMMI
     - Paid by HPSJ

For the Managed Care Fee-For-Service, EMMI will bill these services out directly to the health plan and they will pay us.

- At the conclusion of each fiscal year, all California FQHC's are required to file a per-site PPS reconciliation report with the Department of Health Care Services (DHCS)
- The reconciliation compares FQHC payments received (3 components) versus a calculation of what the FQHC is "entitled" to receive
- Entitlement per site is equal to the total Managed Care billed visits multiplied by the individual site's PPS rate
  - EXAMPLE FOR ONE CLINIC: 5.000 managed care visits x $250 PPS rate = $1,250,000 entitlement reimbursement
  - CONCLUSION: **VISITS DICTATE ENTITLEMENT** *(the more visits we have, the more money we can keep at the end of the fiscal year)*
- If the payments received are greater than the entitlement amount, then the FQHC owes monies back to the State
- If the payments received are less than the entitlement amount, then the FQHC is owed monies from the State
- The final PPS reconciliation settlement amount is determined by the DHCS, not the FQHC.

Taking this information and applying it specifically to SJCC, this large schedule below represents our PPS reconciliation submissions from FY15 through FY20 (not final, estimated)

- The schedule below estimates annual PPS reconciliation liabilities inclusive of the Family Practice Clinic but calculated at the **interim PPS rate**
- The State is usually about three years behind on finalizing PPS reconciliations
- All fiscal years have been submitted to DHCS except for fiscal year 2020

Fiscal Year	2015	2016	2017	2018	2019	2020	Aggregate
Managed Care Wrap Around Visits	50,078	48,746	57,735	70,557	74,880	91,939	393,935
Total Entitlement	8,708,282	8,975,699	10,659,487	12,980,066	13,716,166	16,360,268	71,399,968
Average Entitlement Amount Per Visit	**173.89**	**184.13**	**184.63**	**183.97**	**183.18**	**177.95**	**181.25**
Less:							
Medi-Cal Wrap Around Payments	5,669,267	5,828,797	6,752,064	7,903,747	8,429,004	9,722,084	44,304,963
Managed Care FFS Payments	5,642,254	682,830	803,790	1,537,250	3,106,507	1,964,943	13,737,574
Managed Care Capitation Payments	-	5,945,541	5,974,366	5,657,849	5,538,716	5,275,425	28,391,897
Total Payments Received	11,311,521	12,457,168	13,530,220	15,098,846	17,074,227	16,962,452	86,434,434
Average Payment Received Per Visit	**225.88**	**255.55**	**234.35**	**214.00**	**228.02**	**184.50**	**219.41**
Estimated Settlement	**(2,603,239)**	**(3,481,469)**	**(2,870,733)**	**(2,118,780)**	**(3,358,061)**	**(602,185)**	**(15,034,467)**

Kris advised the State is usually three years behind on finalizing these PPS reconciliations, for example, the June 30, 2020 PPS reconciliation is due November 30, 2020. We don't expect the State to get to it and finalize that submission for another two to three years. All fiscal years have been submitted to DHCS except for FY20. If we find that our liabilities are not in line with our expectations, or are too high, the leadership may pursue the wrap-rates If FY20 is indeed an indication of where we are, and where we are trending, we might not adjust those wrap-rates at all. General practices dictate an FQHC is a net borrower from the State because of this three-year issue.

Estimated Receivables		
Fiscal Year 15	$	622,109
Fiscal Year 16	$	583,253
Fiscal Year 17	$	590,865
Fiscal Year 18	$	688,190
Fiscal Year 19	$	719,915
Fiscal Year 20	$	742,311
Estimated Total	**$**	**3,946,643**

Estimated Payables		
Fiscal Year 15	$	(2,603,239)
Fiscal Year 16	$	(3,481,469)
Fiscal Year 17	$	(2,870,733)
Fiscal Year 18	$	(2,118,780)
Fiscal Year 19	$	(3,358,061)
Fiscal Year 20	$	(602,185)
Estimated Total	**$**	**(15,034,467)**

What we have noticed is our Managed Care visits are trending upward, therefore our entitlement is trending upwards. When we look at the total payments received, that is also increasing. When we look at the estimated settlements, beginning at FY16, that decreases. The more visits we have, the more we are earning and therefore the less we expect to pay back. There is one exception (2019), and we are currently looking at that year's filing because we have good reason to believe that perhaps our reported Fee-For-Service payments at $3.1M were way too high. Kris advised they are working with Wipfli on this and if it is determined we over reported our payments, we will notify the State and come to a reduced amount that we owe the State back.

Across the horizontal, we are looking at what the balances were in our financial records at the end of May 2020. At the end of May 2020, for accrued liabilities for the PPS reconciliations, we had $18.4M accrued in liabilities. Our analysis estimates $15M so there is cause for adjustment on our financial records of $3.3M to the positive. This is a $3.3M increase in FY20 revenues and reductions of liabilities.

Below are two schedules, one that represents the liabilities associated with our PPS reconciliations and the second for receivables for traditional MediCal business.

ANNUAL PPS RECONCILIATION ACCRUED LIABILITIES

GL ACCOUNT CODE	ACCOUNT DESCRIPTION FQ	5/31/20 BALANCE	RECOMMENDED 6/30/20 BALANCES	RECOMMENDED ADJUSTMENTS	
2062015	DUE TO MCMC CD 18 FY15 FQ	(4,254,789)	(2,603,239)	1,651,550	
2062016	DUE TO MCMC CD 18 FY16 FQ	(5,108,533)	(3,481,469)	1,627,064	
2062017	DUE TO MCMC CD 18 FY17 FQ	(4,912,655)	(2,870,733)	2,041,922	
2062018	DUE TO MCMC CD 18 FY18 FQ	(3,591,068)	(2,118,780)	1,472,288	
2062019	DUE TO MCMC CD 18 FY19 FQ	-	(3,358,061)	(3,358,061)	
2062020	DUE TO MCMC CD 18 FY20	(550,000)	(602,185)	(52,185)	
	TOTAL ACCRUED	(18,417,045)	(15,034,467)	3,382,578	REDUCTION IN ACCRUED LIABILITY

Kris stated, looking at the receivables for the traditional MediCal visits, we can see that as of the May 2020 financials, we had accrued $1M in receivables. Our estimations say that number is closer to $3.9M. We can realize a difference on our P&L of $3M associated with these receivables. We have not yet booked this receivable adjustment on our books because we are taking a conservative approach. We are submitting to our auditors and have them examine our work and therefore sign off on our accrual. If they sign off on the accrual this will mean another $3M in addition to the already discussed $3.3M for the liability, bringing the total balance sheet adjustment to $6.3M and total increase in FY20 FQHC revenues of $6.3M as well.

TRADITIONAL MEDI-CAL DIFFERENTIAL RECEIVABLE RESULTING FROM FINAL PPS RATE SETTING

GL ACCOUNT CODE	ACCOUNT DESCRIPTION	5/31/20 BALANCE	RECOMMENDED 6/30/20 BALANCES	RECOMMENDED ADJUSTMENTS	
1052015	DUE FROM MCAL	193,460	622,109	428,649	
1052016	DUE FROM MCAL	170,204	583,253	413,049	
1052017	DUE FROM MCAL	185,747	590,865	405,118	
1052018	DUE FROM MCAL	473,969	688,190	214,221	
1052019	DUE FROM MCAL	-	719,915	719,915	
1052020	DUE FROM MCAL	-	742,311	742,311	
	TOTAL ACCRUED	1,023,380	3,946,643	2,923,263	INCREASE IN ACCRUED RECEIVABLE
			TOTAL BALANCE SHEET ADJUSTMENT	6,305,841	
			ADDITIONAL FY20 FQHC REVENUES	6,305,841	

Monica Nino asked Kris if there were any reserves established as a result of the anticipation of possibly having to pay back once our rates came in. Will part of that liability (when this becomes final), get reduced and be able to be paid for. It would be good to see our Net Income but what liability remains to have a cash perspective from the balance sheet.

Kris advised these are balance sheet reserves from an accounting perspective. From a cash perspective, the story is a little different. When the State finally says, for FY15 for example, we are sending you a bill for $2.6M. How that plays out is the State will take those funds out of remittance advises that you are currently receiving, so it is not like you have to write a check because they are taking it out of the payments that they will be sending you at that time. Monica stated you may have overstated revenue in the current fiscal year, unless you included this assumption as part of the budget for 2021. Kris stated reported revenues will not be affected. The accounting involved will recognize the current year revenues in the current years and those current revenues will not be reduced because the State is taking money back that they are owed. From a cash piece, it does not make sense, but this is effectively what it is. Monica stated you have to show the payment. At the end when you close the books at June 30, 2021, hopefully this is all resolved. Is there the potential that current receivable that are due from the State will be reduced by $15M or some portion of that?

Kris stated it will be closer to Monica's last statement. He reminded the committee that the FQHC does not have $15M sitting in a bank account, there is no cash reserve.

Kris stated, fortunately for us, his experience with the State for receivables, we can employ certain strategies. They know for an average FQHC, a cash hit, like a $15M bill is unsustainable to an average FQHC. Most FQHCs are not tied to accounting, they are on their own and they have their cash balances, how they pay their staff and their bills. In Kris' experience, he has negotiated with the State, payment plans to deal with the liabilities to make the cash flow easier to swallow. What is more encouraging than how we are going to deal with the cash business, is the fact that our visits are going up. That visit level supports a larger entitlement amount and there is every reason to believe we will be at these levels, if not better for FY21. These large liabilities may not be a reality of our business. They were a reality of these fiscal years and the ramping up of our FQHC. Our billable visits are trending upward, which, going forward, are going to improve this liability situation with the State.

Monica stated while the rates are good news, her biggest concern is how do we capture a greater level of recovery through the MediCal (74%) and more timely, but also what we anticipate, and if we should be putting some sort of reevaluating our revenues on the 2021 fiscal year (depending on what the timing is of the State reducing what we receive on the $15M).

Carlos Jimenez stated the clinics will not get into a situation where the State is going to take back monies on the reconciliations. The State has been particularly good with Counties who are ramping up these huge amounts (may counties are in the same situation). There will be some type of repayment plan put in place. In terms of our cash position, SJCC will have to pay out monies to satisfy these liabilities, but that does not impact what we are going to get paid for the services going forward. When Kris speaks about the revenues, the revenue situation being way different, what we will get on a real time basis is going to be based on the new rates issued this year and the one forthcoming. In terms of a cash perspective there is no revenue adjustment to be made prospectively. What will happen is there will need to be a way to pay those liabilities. In conversations had with the State, it is likely that FY15, FY16 and FY17, now that the reports have been done and when FPCC is finished, the State will move to try and close those years out fairly quickly. Carlos advised our first installment plan will be for those three years. The State understands they are behind, and their target is to get to these in eighteen months to two years going forward. During the process, we specifically asked the State not to collect parts until this point in time. This is a positive in that we did not have to pay any monies out until we knew what it would be.

Monica asked if the State will be requiring interest. Carlos responded if we go to installment basis, there will be an interest assessment. At this point it will not be accumulating interest because they are not actual settlements calculated. Until we receive a letter with the final amount owed, there is a grace period. If the FQHC does not come up with the payment up front, we will move to a payment plan and there will be an interest rate assessed (approximately 5%-10%). Monica asked when this will be finalized. Carlos advised he anticipates FY15 will be completed by the end of this calendar year or thirty to sixty days into the new year.

Carlos advised once they finish the audit, issue the final report and then we will know if the $2.6M is valid. As soon as these hits, we start negotiations with the State to ask them to do the subsequent years in as short a period as they can, so we can establish an overall liability and do an installment, at least one time for a number of the years. We will then know from a cash flow perspective what we are looking at. We do not want to do every two years another installment where you eventually have five or six. The State is really good working particularly with the counties because they understand the cash implications.

V. <u>Adjournment (Rod Place, Board Chair)</u>

There being no further discussion, Rod Place adjourned the meeting at 4:49 p.m.

Attachments: Finance Agenda 08.24.20
Minutes of July 27, 2020
MediCal PPS Rates & PPS Reconciliations