London N. Breed
Mayor

Greg Wagner
Chief Operating Officer

MEMORANDUM

August 12, 2020

TO: President Dan Bernal and Honorable Members of the Health Commission

FROM: Greg Wagner, Chief Operating Officer, SFDPH

RE: Patient Rates Ordinance

As part of the FY 2020-21 and FY 2021-22 proposed budget, the San Francisco Department of Public Health (SFDPH) is proposing updates to its patient rates. Staff requests Health Commission Approval of the proposed rates at the August 18, 2020 meeting. The proposed update to the Patient Rates Ordinance is attached. This memo summarizes the impact of the proposed changes and related issues.

- SFDPH estimates the proposed ordinance will increase revenue to DPH by $2.63 million compared to the most recently adopted patient rates ordinance, mainly from commercial insurance companies.
- The proposed rates in the ordinance are based on a study commissioned in 2019 comparing SFDPH's rates with peer hospitals.
- SFDPH has implemented several new policies to protect patients from "balance billing" for medical services received at SFDPH facilities, including setting out-of-pocket maximums for patients at all income levels. Because of these changes protecting patients, the proposed rates have little relationship to the amount a patient will pay for services.

Background

SFDPH charges fees for certain health care services provided in its clinics and hospitals. The rates for these services are established under a Patient Rates Ordinance recommended by the Health Commission and approved by the Board of Supervisors. SFDPH staff periodically recommend updates to the department's patient rates. Patient rates included in the ordinance are patient charges, and are the Usual and Customary Rates (UCR) for DPH. These Usual and Customary Rates differ from rates reimbursed by Medi-Cal, Medicare, and other health insurance payers. Revenue from billing Medicare, Medi-Cal and private insurance is critical to sustain DPH's services. In FY 2019-20, $1.68 billion of SFDPH's $2.43 billion budget (69%) was funded with external revenue, with the remaining $751.8 million (31%) from the City's General Fund.

During FY 2018-19 it became clear that a particular group of patients at Zuckerberg San Francisco General Hospital (ZSFG) were being negatively affected by the process known as "balance billing" (or "surprise billing"), where a patient's insurance covers only a portion of a hospital bill and the patient becomes responsible for the remainder. In some circumstances, this

practice can leave patients with unmanageable medical expenses or, even in circumstances where billing issues are resolved favorably for the patient, lead to a stressful, anxious and frustrating experience.

Balance billing can affect a subset of patients who are commercially insured under certain insurance plans, in cases when the insurance company is unwilling to cover the full cost of care for the patient. The majority of patients at ZSFG have health coverage that protects them from balance billing. In FY 2017-18, 94% of patients at ZSFG were covered either by Medicare, Medi-Cal, or existing financial assistance policies for the uninsured. The remaining 6% were commercially insured. SFDPH estimates that 73% of this subset of commercially insured patients were not candidates for balance billing, while up to 27% (approximately 1,700 patients, or 1.6% of total patients) could have been affected by balance billing. Those affected by balance billing can receive large and in some cases unexpected bills.

At its April 16, 2019 meeting, the Health Commission adopted significant changes to billing and patient assistance policies for DPH, and approved a resolution adopting proposed amendments to the Sliding Scale Policy. These changes to SFDPH policies are designed to protect patients financially (including in cases of "balance billing"), while still allowing DPH to actively pursue fair reimbursement from private insurance companies. Key changes included:

- Created a new policy establishing that insured patients receiving services out-of-network at ZSFG are billed no more than the cost sharing amount the patient would pay for the same services at an in-network, contracted hospital under the patient's insurance policy.
- Modified Charity Care and Discount Programs to create an income-based out-of-pocket maximum payment for ZSFG patients at all income levels. The newly established out-of-pocket maximums range from $0 for those earning below 138% of the federal poverty level ($16,753 for an individual or $34,638 for a family of four) to a maximum of $4,800 for those above 1,000% of the federal poverty level (above $121,400 for an individual or $251,400 for a family of four).[1]
- Improved communications and customer service for patients around financial issues to reduce complexity, stress and uncertainty. Changes included: more proactive assessment of patients' eligibility for financial assistance programs; improved communication around account status; changes to account statements to improve language clarity and provide access to financial counseling services; and promotion of the patient financial services hotline and FAQs on billing and financial issues.

Because the in-network cost sharing and out-of-pocket maximum policies place a cap on the total amount that individual patients can be asked to pay, ZSFG's charges have little relationship to the amount a patient will pay for services. The primary purpose of the rates is to ensure fair reimbursement from commercial insurance companies. The only situation where a rate change would incrementally affect an individual's cost would be for smaller accounts where

[1] One exception to the individual out-of-pocket maximum are cases where commercial insurance pays a claim for medical expenses directly to the patient, instead of directly to the hospital. In these cases, SFDPH will attempt to collect the insurance payment intended for the hospital prior to applying the out-of-pocket cap. This exception prevents bad actors from using the out-of-pocket maximum to shield them from turning over insurance payments intended for the hospital.

the patient's share of cost is already below the in-network amount or out-of-pocket maximums described above.

Methodology for Determining Recommended Rates

In addition to implementing the changes described above, in 2019 SFDPH committed to retaining a third party consultant to evaluate its patient rates relative to market peers. Although the new safeguards insulate patients from the impacts of rate changes, the department wished to ensure its rates are reasonable and in line with market standards.

DPH contracted with Deloitte Consulting LLP to perform industry benchmarking research to evaluate ZSFG's charges. The study compared rates at 15 peer hospitals. The study concluded that compared to peer hospitals, ZSFG's rates vary across services, with some higher, some lower, and others consistent with other hospitals. For example, services including room and board rates, Emergency Room outpatient rates, and pharmacy prices were high compared to the other hospitals. ZSFG's prices are below many hospitals in the comparison group for intensive care unit/critical care units, Emergency Room Trauma rates, and outpatient procedures.

Recommendations

The study analyzed scenarios for adjusting ZSFG's rates on a case by case to bring them in line with comparable hospitals. The study recommended:

- For rates where ZSFG is higher than market peers, reduce rates to bring them to no higher than the 75th percentile of the hospitals studied. This would better align ZSFG's rates with industry peers, while accounting for the fact that San Francisco is a higher-cost environment than many other locations in the comparison group. Deloitte recommended one exception to this approach. For standard Room and Board rates, Deloitte recommended freezing rates at currently levels, and allowing rates to converge with peer hospitals as their rates rise over time with inflation.

- For rates where ZSFG is lower than the comparison group, increase rates to no higher than the 75th percentile.

While SFDPH has largely accepted the recommendations of the Deloitte study in the proposed patient rates ordinance, the department is recommending the following modification:

- The Deloitte study was performed prior to the COVID-19 emergency and associated impacts on the City's financial outlook. To mitigate the impact to the City's General Fund, SFDPH recommends phasing in certain recommended changes over time, rather than implementing the changes in a single year as contemplated in the Deloitte model—mirroring Deloitte's recommended approach for Room and Board rates. Specifically, Emergency Department rates (which were identified as being high relative to peer hospitals) would be frozen at the current level in the ordinance, allowing rates to better align over time with other hospitals as their prices rise with inflation. Conversely, Emergency Department Trauma service rates (identified as significantly lower than peer hospitals) would be frozen at current levels and could be adjusted upward incrementally over time in future rate proposals. This phased

approach will mitigate the short-term impact on commercial reimbursement and the City's General Fund, while achieving the intended outcome over a period of three to five years.

Financial Impact

In recent years and prior to the Deloitte study, SFDPH has proposed annual rate adjustments including a flat percentage rate increase for all lines of service. Most recently, at SFDPH's recommendation, the Board of Supervisors approved 7 percent across-the-board increase in rates for all lines of service for FY 2019-20. That increase would have resulted in a net increase in $7.97 million in revenue to SFDPH. (Due to the concerns around billing practices discussed above, SFDPH did not implement this rate increase and left rates flat at FY 2018-19 levels pending the industry benchmarking study).

SFDPH estimates that adopting the recommendations of the Deloitte rate study would increase net revenues by $5.26 million, or $2.71 million less than the adopted patient rates ordinance for FY 2019-20. As discussed above, SFDPH is proposing to modify the Deloitte recommendations to phase in rate changes for Emergency Department and Emergency Department Trauma services over time instead of implementing the changes in a single year. This modification would increase estimated net revenue by $5.35 million in FY 2020-21 compared to the Deloitte recommendation, for a total increase of $10.61 million, or $2.63 million higher than the most recently adopted patient rates ordinance. All revenue estimates are based on historical billing data and may vary based on future changes to patient population, volume, payer mix and external factors such as impacts of the COVID-19 pandemic.

	Net Revenue Increase/(Decrease)				
Line of Service	**Estimated Net Revenue Change based on FY19-20 Adopted Patient Rates**	**Estimated Net Revenue Change based on Deloitte Model**	**DPH Recommended Mofication to Deloitte Model**	**Estimated Net Revenue Change - Proposed FY 20-21 Patient Rates Ordinance**	**Proposed FY 20-21 Patient Rates Ordinance vs. FY 19-20 Adopted Patient Rates**
Non-ICU R&B	$1,079,302	$0		$0	($1,079,302)
ED	$1,471,941	($7,865,134)	$7,865,134	$0	($1,471,941)
Lab	$684,629	$1,931,467		$1,931,467	$1,246,838
Other	$837,597	$3,992,879		$3,992,879	$3,155,282
Imaging	$984,051	$4,079,205		$4,079,205	$3,095,154
ICU	$942,071	$2,246,047		$2,246,047	$1,303,977
Supplies	$353,422	$0		$0	($353,422)
E/M	$36,335	$202,132		$202,132	$165,798
Procedures	$196,037	$1,005,689		$1,005,689	$809,653
Trauma	$791,984	$2,517,623	($2,517,623)	$0	($791,984)
Nursery	$29,711	$33,056		$33,056	$3,346
Dx Testing	$37,949	$198,414		$198,414	$160,465
Ventilation Mgmt	$66,139	$367,932		$367,932	$301,794
Labor & Delivery	$5,960	$6,632		$6,632	$671
Therapy	$459	$641		$641	$182
Pharmacy	$455,915	($3,456,023)		($3,456,023)	($3,911,938)
Total	**$7,973,501**	**$5,260,560**	**$5,347,511**	**$10,608,071**	**$2,634,571**

Next Steps

DPH intends to refresh the peer benchmarking analysis of its patient rates every two to three years. The proposed patient rates ordinance will be submitted to the Board of Supervisors for approval during the FY 2020-21 and FY 2021-22 budget process.