

**THE SAN MATEO HEALTH COMMISSION
Regular Meeting
May 13, 2026 - 12:30 p.m. Pacific Time
Health Plan of San Mateo
801 Gateway Blvd., Boardroom
South San Francisco, CA 94080**

This meeting of the San Mateo Health Commission will be held in the Boardroom at 801 Gateway Blvd., South San Francisco. Members of the public wishing to view this meeting remotely may access the meeting via YouTube Live Stream using this link:

<https://youtube.com/live/c47Jmk47pKw?feature=share>

Please note that while there is an opportunity to provide public comment in person, there is no means of doing so via the Live Stream link.

AGENDA

- 1. Call to Order/Roll Call**
- 2. Public Comment/Communication**
- 3. Approval of Agenda***
- 4. Consent Agenda***
 - 4.1 Draft Community Advisory Committee Minutes – April 15, 2026
 - 4.2 Finance/Compliance Report – March 30, 2026
 - 4.3 Approval of San Mateo Health Commission Meeting Minutes from March 11, 2026
- 5. Specific Discussion/Action Items**
 - 5.1 Approval of Audited Financial Results for the twelve-month period ending December 2025*
 - 5.2 501 (c)(3) Update
 - 5.3 Scenario Planning
- 6. Report from Chief Executive Officer**
- 7. Other Business**
- 8. Adjournment**

**Items for which Commission action is requested.*

Government Code §54957.5 requires that public records related to items on the open session agenda for a regular commission meeting be made available for public inspection. Records distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of the members of the Commission. The Commission has designated the Clerk of the San Mateo Health Commission located at 801 Gateway Boulevard, Suite 100, South San Francisco, CA 94080, for the purpose of making those public records available for inspection. Meetings are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation (including auxiliary aids or services) to participate in this meeting, or who have a disability and wish to request an alternative format for the agenda, meeting notice, agenda packet or other writings that may be distributed at the meeting, should contact the Clerk of the Commission at least two (2) working days before the meeting at (650) 616-0050. Notification in advance of the meeting will enable the Commission to make reasonable arrangements to ensure accessibility to this meeting and the materials related to it.



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DRAFT

**HEALTH PLAN OF SAN MATEO
COMMUNITY ADVISORY COMMITTEE MEETING
Meeting Minutes
Wednesday, April 15, 2026
801 Gateway Blvd. – 1st Floor Boardroom
South San Francisco, CA 94080**

Agenda Item: 4.1

Date: May 13, 2026

Committee Members Present: Amira Elbeshbeshy, Angela Valdez, Jill Dawson, Kay Lee, Lizelle Lirio de Luna, Giselle Espinoza.

Committee Members Absent: Hazel Carillo, Ana Avendano Ed.D., Kathryn Greis, Ligia Andrade-Zuniga, Rob Fucilla

Staff Present: Megan Noe, Greg Mays, Colleen Murphy, Rustica Magat-Escandor, Mackenzie Moniz, Taylor Berends, Karla, Sarah Munoz, Veronica Alvarez

Call to Order/Introductions: The meeting was called to order by Amira Elbeshbeshy at 12:09 pm. Quorum was not initially met; however, additional members joined later in the meeting, enabling the committee to conduct formal business and take votes.

- 1.0 Public Comment:** The Chair invited public comments and community announcements. No comments were submitted in advance via email, and no comments were made during the meeting.
- 2.0 Approval of Meeting Minutes for January 21, 2026:** The minutes for January 21, 2026, were approved as presented. **Valdez /Dawson MSP**
- 3.0 Consent Agenda:** The consent agenda was approved as presented. **Valdez /Dawson MSP**
- 4.0 HPSM Operational Reports and Updates:**
 - **Leadership Update:** Chief Operating Officer Colleen Murphy, reported on behalf of CEO Amy Scribner. Colleen reported A leadership update was delivered on behalf of Amy Scribner, who was unable to attend. The update focused on several significant system and policy challenges currently affecting the health plan and its members. Leadership reported ongoing declines in Medi-Cal enrollment, averaging approximately 2 percent per month, largely driven by eligibility redeterminations, six-month renewal requirements, and the ongoing impacts of the 90-day cure period. While some members have regained eligibility after curing, these returns have not offset overall enrollment losses, which are tracking closely with state projections.

The update further highlighted concerns regarding the financial sustainability of core safety-net providers, particularly Federally Qualified Health Centers (FQHCs) and hospitals. Beginning July 1, changes in state reimbursement policy will significantly impact provider financing, especially for members with unsatisfactory immigration documentation status. Leadership noted that these changes could restrict access even for members who remain enrolled, due to provider capacity and financial strain. In response, the health plan is engaging in state-level advocacy while also holding direct conversations with individual FQHCs and hospitals to support planning and mitigate potential service disruptions.

Members were also informed of an upcoming dental care eligibility change effective July 1, 2026. Under this change, members with unsatisfactory immigration status will no longer be eligible for HPSM dental benefits, subject to certain exceptions. Leadership acknowledged the complexity of the policy and emphasized the importance of clear communication. Planned outreach includes written notices to affected members, establishment of a dedicated call line, and development of call scripts to help staff address member questions.

Despite the difficult environment, leadership emphasized the health plan's commitment to supporting members by acting as a trusted messenger, convener, and steward of limited financial resources. The plan currently has approximately one month of uncommitted operating reserves, and leadership is intentionally directing these funds toward high-impact, sustainable investments that either stabilize access or help members address acute needs during this period of uncertainty.

- **Well Baby Packages:** Health Promotion Program Specialist, Taylor Berends reports an overview and update on the Well Baby Package initiative. These packages are provided to Medi-Cal members who have recently given birth and are typically distributed either by mail or in person before the infant reaches five months of age. The presenter reviewed the current contents of the packages, which focus on commonly requested information such as enrolling a newborn in Medi-Cal, selecting a primary care provider, scheduling well-child visits, and early dental care.

The team shared that First 5 San Mateo County is phasing out its corresponding baby kits, prompting HPSM to replace several items previously included through this partnership. New items will include a dental-team-approved baby toothbrush, multilingual baby books reflecting the most commonly spoken languages among members, and other practical educational materials. Additionally, two new educational components will be added: one addressing maternal mental health and postpartum support, and another providing guidance

on safe and effective use of the toothbrush. These updates align with broader organizational priorities around maternal mental health and preventive dental care.

Committee members were invited to provide feedback on proposed materials, drawing from both lived experience and professional perspectives. Feedback will be collected through an anonymous survey distributed via QR code and paper form.

- **Member Satisfaction (CAHPS) Survey Results:** Program Manager, Member Experience & Engagement Mackenzie Moniz reports The Member Experience team presented detailed findings from the CAHPS (Consumer Assessment of Healthcare Providers and Systems) survey. The survey, which contains more than 50 required questions that cannot be modified, is administered annually to eligible members who have been enrolled for at least six months. Results presented were from the 2025 survey cycle, reflecting member experiences from 2024 and received in late 2025, creating an inherent time lag.

Response rates remained consistent with prior years and national averages, with Care Advantage members showing the highest participation. Overall results indicated strong performance in areas such as flu vaccination and specialist care. Persistent opportunities for improvement were identified in getting care quickly and provider communication.

Demographic analysis revealed variation in experience across gender, age, race, education level, and self-reported health status, with notably lower satisfaction among male members and Asian members, and higher satisfaction among those reporting excellent overall health.

Based on CAHPS results and additional feedback sources, the organization has established 2026 priorities focused on access to care, customer service and navigation, care coordination, and equity. The team also shared plans to modify internal surveys to allow identification of respondents, enabling direct outreach and follow-up with members who report challenges or unmet needs.

- **Grievance and Appeals Report:** Grievance and Appeals Analyst, Greg Mays reports The Grievance and Appeals Department provided an overview of its role and recent activity. The department is responsible for ensuring a fair, objective, and timely process to resolve member grievances and appeals, including those submitted by providers. The presenter reviewed standard and expedited timelines, intake methods, and departmental goals.

Data showed that grievance volume remains highest within Medi-Cal, with common categories including customer service, billing, and quality of care. Care Advantage grievance and appeal volumes were comparatively lower. The report also highlighted primary care

provider change requests, which were most often driven by difficulty obtaining appointments, dissatisfaction with service, or provider-member incompatibility. Department representatives explained how grievance trends are regularly shared with Provider Services and addressed through joint operating meetings, quality committees, and targeted provider interventions.

Committee discussion explored how feedback is communicated to providers and how serious or recurring issues are escalated. Staff described multiple pathways for follow-up, including ad hoc issue resolution, financial incentives tied to access, and practice coaching.

- **Provider Services (PS) Report:** An update was presented by Colleen Murphy on behalf of Luarnie Bermudo, Director of Provider Services. Provider Services presented a comprehensive update on network development and strategic investments focused on safeguarding member access. Updates included progress in dental network expansion, particularly in endodontic care and pediatric anesthesia, as well as efforts to strengthen non-emergency medical transportation by credentialing additional small and local providers. Behavioral health access remains a priority, with recent additions to psychiatry capacity and attention to reimbursement parity with neighboring counties.

The presentation also reviewed recent and planned payment investments, including primary care rate enhancements, specialty and hospital outpatient adjustments, and a forthcoming population health management payment for primary care providers. These investments aim to support activities not traditionally reimbursed, such as panel management, outreach, and addressing social determinants of health. The team also discussed preparations to offset the upcoming loss of Prop 56 dental funding to maintain provider participation and network stability.

- **Member Services Report:** Member Services Manager, Karla Mendoza-Pina reported on enrollment changes and operational performance. Since the prior meeting, Medi-Cal enrollment declined by 4.87 percent, while ACE enrollment increased by more than 22 percent. HealthWorks and CCS saw slight declines. Call center metrics for the first quarter showed strong performance, including an 88 percent call answer rate, abandonment below 5 percent, and an average call handle time under six minutes. Staffing updates included ongoing recruitment for Spanish- and Tagalog-speaking navigators. Early after-call survey results showed high satisfaction across professionalism, courtesy, and issue resolution.

Committee members and community partners shared positive feedback regarding Member Services responsiveness, particularly in resolving urgent transportation and appointment

issues.

- **CareAdvantage (CA) Enrollment and Call Center Report:** Call Center Supervisor, Rustica Magat-Escandor provided a report on behalf of CareAdvantage (CA) Manager Charlene Barairo. The Care Advantage team reported steady membership growth, with enrollments exceeding disenrollments in the first quarter. Call center performance met regulatory standards across all key metrics. Billing, transportation, and Part D issues remained the most common call reasons. Outreach and enrollment events conducted in partnership with community organizations were highlighted as effective, resulting in new enrollments and increased awareness of Care Advantage benefits.

Discussion included challenges related to continuity of navigator contact for community partners managing complex cases. Staff explained existing documentation and tracking processes and acknowledged opportunities to improve communication and follow-up consistency.

5.0 New Business: There was no new business.

6.0 Adjournment: The meeting was adjourned at 1:30 pm by Amira Elbeshbeshy.

FINANCE/COMPLIANCE COMMITTEE MEETING

Meeting Summary

March 30, 2026, 12:30 pm

Agenda Item: 4.2

Date: May 13, 2026

County Executive Conference Room, 500 County Center, Redwood City, CA 94064

-or-

Health Plan of San Mateo-Boardroom 801 Gateway Blvd, South San Francisco, CA 94080

Members: Bill Graham, Manuel Santamaria, Shabnam Gaskari

Members absent: Mike Callagy

Staff present: Pat Curran, Trent Ehrgood, Chris Esguerra, M.D., Colleen Murphy, Amy Scribner, Katie-Elyse Turner, Cheryl Serafino, Michelle Heryford

- 1.0 Call to Order** – The meeting was called to order by Commissioner Graham at 12:36 pm. A quorum was met.
- 2.0 Public Comment** – There was no public comment.
- 3.0 Approval of Meeting Summary for February 23, 2026** – The meeting summary for February 23, 2026 was approved as presented. **Santamaria/Gaskari M/S/P**
- 4.0 Draft Audited Financial Statements for the 12-month period ending December 31, 2025** – Rianne Suico and Chris Pritchard, representatives from the auditing firm Baker-Tilley, presented the draft audited financial statements for 2025, detailing the audit process and key findings. Ms. Suico explained that the audit was conducted in accordance with governmental accounting standards board (GASB) and the American Institute of CPA (AICPA) auditing standards. They focused on whether HPSM's financial statements were reasonably stated and free of material misstatement. It included a review of internal controls related to financial reporting and claims processing but does not include a

formal audit of internal controls. The presentation included a detailed review of assets, liabilities, and net position, confirming the accuracy of cash, investments, receivables, and claims liabilities. The audit process began in October/November of the previous year and included walkthroughs of key internal controls, sample testing of claims disbursement, analytical and substantive procedures, and confirmation of balances with financial institutions. No significant issues were found during these procedures. Key areas of audit focus included internal controls, management override of controls, revenue recognition (especially capitation revenues from the state), incurred but not reported (IBNR) claims liability, and pension-related estimates, all of which were tested and found to be reasonable and consistent with industry standards. The auditors found no material misstatements, no audit adjustments, and no disagreements with management, and are prepared to issue an unmodified audit opinion, indicating the financial statements are fairly presented in accordance with GAAP. An unmodified opinion is the highest level of assurance that can be given by an auditing firm.

Trent Ehrgood, HPSM CFO described HPSMs methodology for estimating claims liabilities. The team uses lag triangles and other data-driven methods to estimate IBNR claims, updating these estimates monthly and refining them as more information becomes available. Auditors reviewed the estimation process and found that management's estimates were reasonable, with historical lookbacks showing that estimates closely matched actual claims paid, indicating a well-calibrated process. Strong internal controls were highlighted, with the finance team maintaining oversight of complex financial flows and ensuring accurate tracking and accounting, as confirmed by the audit findings.

The committee discussed the growing liability to the state due to overpayments and risk corridors, outlining the upcoming reconciliation process with the Department of Health Care Services (DHCS). Final payments will result in reductions to cash and corresponding liabilities, but is not expected to have much impact to the bottom line, except for any true-ups to previous estimates. Liabilities to the state include capitation overpayments, risk corridor adjustments, and other reconciliations, with amounts set aside as liabilities until the state finalizes the required repayments. DHCS is prioritizing the reconciliation of these liabilities, some of which date back a decade, the process will involve comparing estimates with state calculations.

Mr. Pritchard reviewed HPSMs' tangible net equity (TNE), noting that it is significantly above regulatory requirements and higher than many peer plans, some of which are at or near the minimum threshold. Stakeholders and providers may increasingly look to these reserves for support as financial pressures mount. HPSM is advised to monitor reserve levels closely to avoid excessive

drawdowns. HPSM implemented provider rate increases proactively, using reserves to support reimbursement, which contributed to the current year's loss but was an intentional use of reserves.

Mr. Ehrgood provided a side-by-side comparison showing the preliminary Q4 financials versus the final audited version, with the final loss reduced by \$2.6M due to updated estimates and adjustments. These adjustments were considered client proposed adjustments. The largest adjustment was a \$2.5M increase in revenue from a refined estimate of the UIS risk corridor, along with a \$530k reduction in pension plan obligations and a \$44k adjustment for the baby bonus program, all based on updated information and actuarial reports. An additional \$440k expense was recognized for the community reinvestment obligation, required when there is a Medi-Cal profit, with the amount to be finalized through a state process.

The committee discussed expected membership loss, which may increase the risk profile and acuity of remaining members, potentially leading to higher costs and short-term losses until funding models adjust. Recommendations include automating administrative functions, leveraging AI for compliance and patient experience improvements, and aligning cost structures with health system trends to maintain efficiency. TNE and claims acuity are identified as critical metrics to monitor, with a suggestion to maintain higher reserves (potentially 600% of the minimum required) given anticipated network and provider challenges. The provider network is expected to face increasing financial strain, which may lead to greater demands on reserves and require ongoing vigilance and strategic planning.

The financial audit was approved and will proceed to the full Commission at the May meeting.

Gaskari/Santamaria MSP

5.0 Other Business – There was no other business.

6.0 Adjournment – The meeting was adjourned at 1:25 pm by Commissioner Graham.

Respectfully submitted:

M. Heryford

M. Heryford

Clerk to the Commission

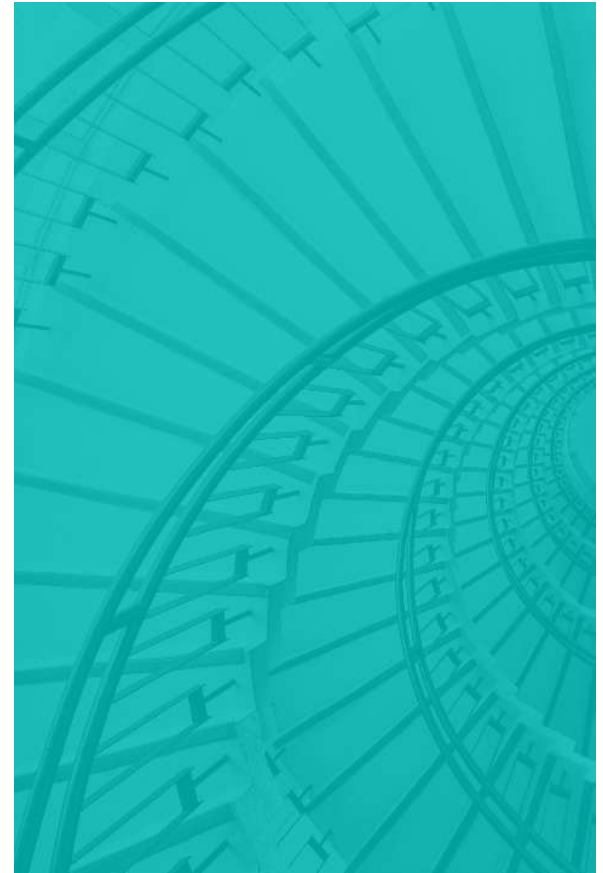


San Mateo Health Commission (d.b.a. Health Plan of San Mateo)

2025 Audit Results

Discussion with the Commissioners

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Agenda

1. Your Service Team
2. Audit Objectives
3. Required Communications to Those Charged with Governance
4. Our Responsibility
5. Audit Process
6. Significant Risks Identified and Areas of Emphasis
7. Scope of Services
8. 2025 Audited Financial Statements
9. Report of Independent Auditors
10. Statements of Net Position
11. Operations
12. Important Board Communications



Your Service Team



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Engagement Reviewer
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Chris Pritchard
Relationship Principal
chris.pritchard@bakertilly.com
415-677-8262



Joelle Pulver
Quality Control Reviewer
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(415) 677-8291

Other Team Members:

Hongxiao Wang
Engagement In-Charge



Audit Objectives

- Opinion on whether the financial statements of San Mateo Health Commission (d.b.a. Health Plan of San Mateo) are *reasonably* stated and free of material misstatement in accordance with generally accepted accounting principles.
- Consideration of internal controls.
- Audits are required by the State of California Department of Managed Health Care.



Required Communications to Those Charged with Governance

●	Auditor's responsibility under applicable auditing standards
●	Planned scope and timing of audit
●	Significant audit findings
	Qualitative aspects of accounting practices
	Difficulties encountered in performing the audit
	Corrected and uncorrected misstatements
	Management representations
	Management consultations with other independent accountants
●	Other audit findings or issues



Our Responsibility

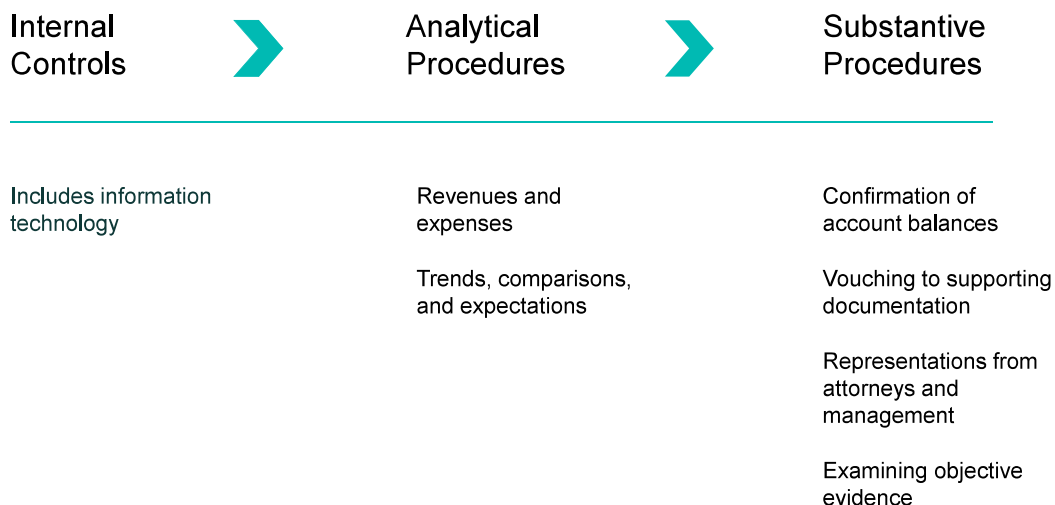
- Our responsibility under U.S. Generally Accepted Auditing Standards.









- To express our opinion on whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, and in accordance with U.S. GAAP. However, our audit does not relieve you or management of your responsibilities.
- To perform an audit in accordance with generally accepted auditing standards issued by the AICPA, and design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.
- To consider internal control over financial reporting as a basis for designing audit procedures but not for the purpose of expressing an opinion on its effectiveness or to provide assurance concerning such internal control.
- To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.



Audit Process



Significant Risks Identified and Areas of Emphasis

	Walk-throughs of the design and implementation of key internal controls
	Management override of controls
	Revenue recognition – capitation revenues
	Incurred but not reported claims payable
	Fair value of investments, including fair value of your pension plan assets
	Pension-related assumptions

Scope of Services

We have performed the following services for San Mateo Health Commission (d.b.a. Health Plan of San Mateo) :

Annual Audit

- Annual financial statement audit for the year ended December 31, 2025.

Non-Attest Services

- Assist management with drafting the financial statements for the year ended December 31, 2025.



2025 Audited Financial Statements

- Management's Discussion and Analysis
- Report of Independent Auditors
- Financial Statements
 - Statements of Net Position*
 - Statements of Revenues, Expenses, and Changes in Net Position*
 - Statements of Cash Flows*
 - Statements of Fiduciary Net Position*
 - Statements of Changes in Fiduciary Net Position*
 - Notes to Financial Statements*
- Supplementary Information
 - Supplementary Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios*
 - Supplementary Schedule of Contributions*
 - Supplementary Schedule of Investment Returns – Health Plan of San Mateo Retirement Plan Fund*



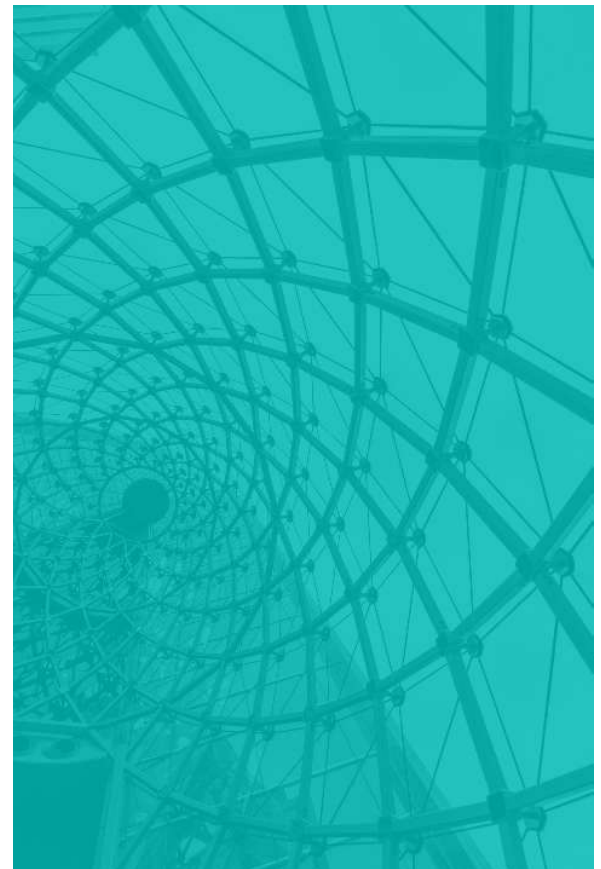
Report of Independent Auditors

Unmodified Opinion

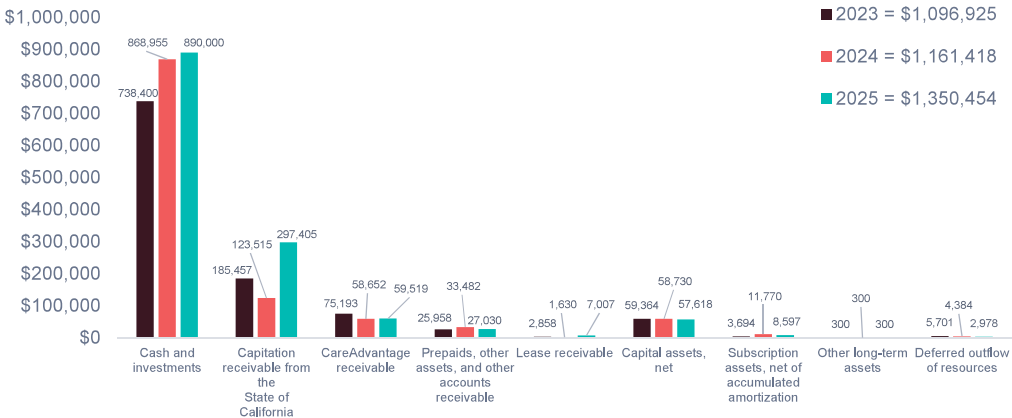
Financial statements are presented fairly and in accordance with generally accepted accounting principles.



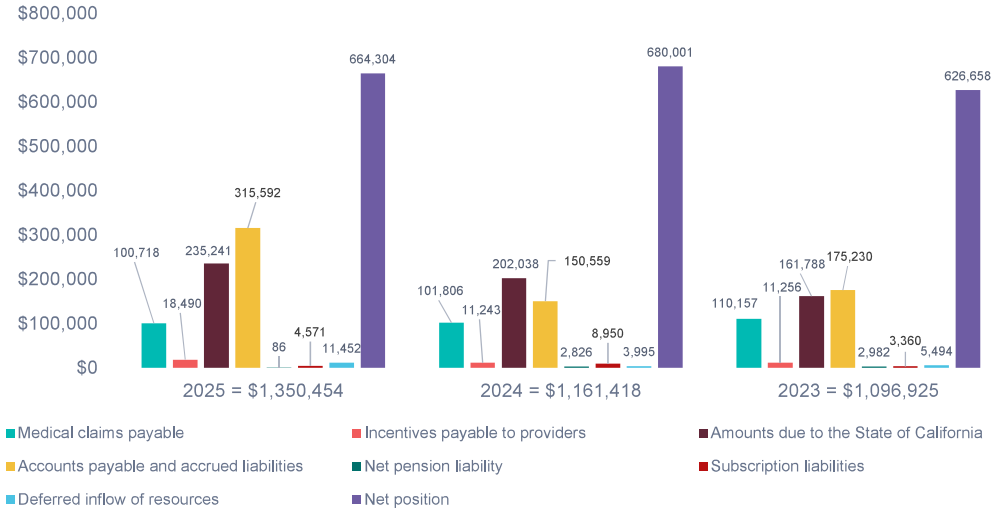
Statements of Net Position

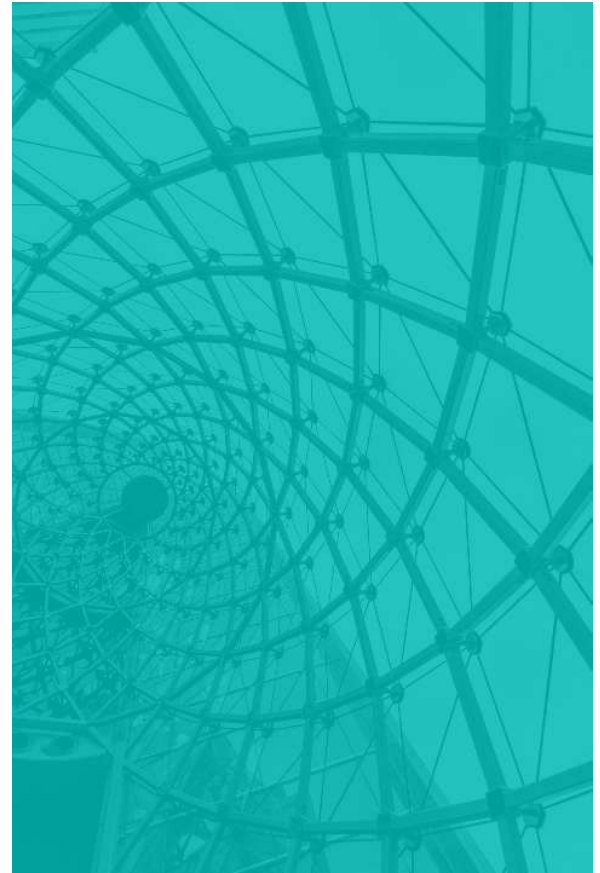


Assets Composition (in thousands)



Liabilities and Net Position Composition (in thousands)

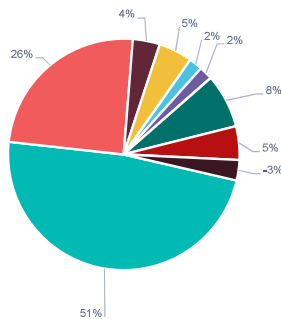




Operations

Income Statements (in millions)

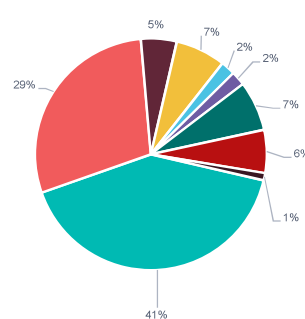
December 31, 2025
(Net Operating Revenues)
\$1,543.3



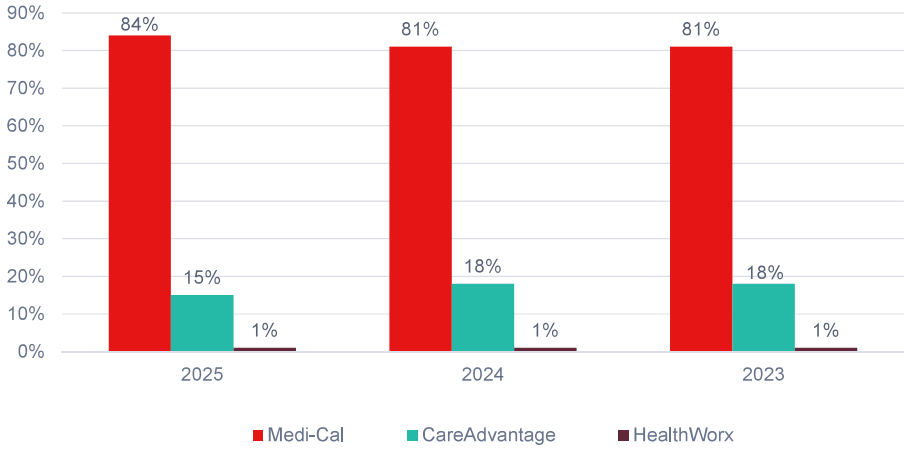
Total Operating Expenses
as a % of Net Operating Revenues

- Medical
- Hospital inpatient
- Pharmacy
- MCO tax
- PCP cap
- Utilization management
- Others
- General and administrative
- Excess

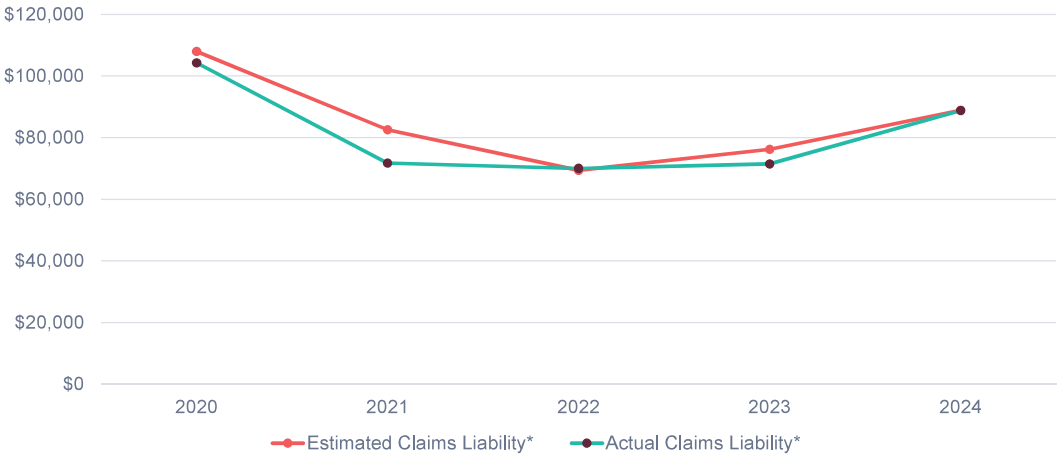
December 31, 2024
(Net Operating Revenues)
\$1,239.7



Revenue Trend

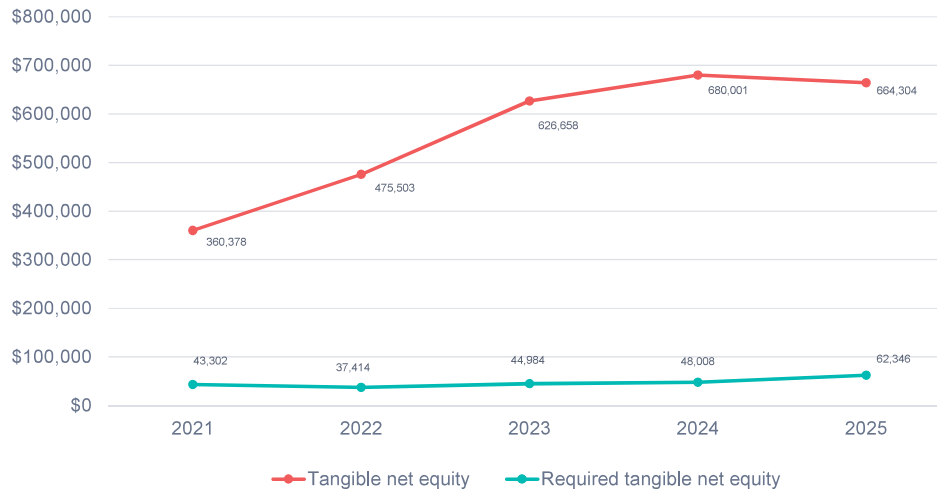


Historic Estimated Claims Liability and Historic Actual Claims Liability (in thousands)



Source: HPSM's internal reports

Tangible Net Equity(in thousands)



Source: Annual Department of Managed Health Care Filing



Important Board Communications

- AU-C Section 260 – *The Auditor’s Communication with Those Charged with Governance*
- Significant accounting policies
- Accounting estimates are reasonable
- No audit adjustments
- No issues discussed prior to our retention as auditors
- No disagreements with management
- No awareness of material instances of fraud or noncompliance with laws and regulations



**THANK
YOU**



Health evaluated options such as expanding into Covered California or increasing county participation, but found these alternatives unviable due to market competition, insufficient eligible population, and financial constraints. San Mateo County Health representatives, including Nicole McKay, discussed ongoing efforts to ensure that all current Healthworx members that are IHSS workers will transition to other insurance products without loss of coverage, through discussions involving SEIU. They have looked at a wide array of options and plan to have their negotiations on these benefits finalized by the end of summer at the latest.

Commission members raised concerns about ending the program without finalized alternative coverage, prompting assurances from county representatives that no termination will occur until viable options are secured, and that updates will be provided to the Commission throughout the transition process. Following discussion, the Commission voted to notify San Mateo County, the City of San Mateo, and the Department of Managed Health Care of the intent to terminate the Healthworx program, with ongoing monitoring and future agenda items planned to address coverage for uninsured populations.

Commissioner Speier moved to notify San Mateo County, The City of San Mateo, and the Department of Managed Healthcare of termination the Healthworx program. (Second: Tai) Commissioner Corzo abstained **M/S/P**

5.2 501 (c)(3) Update: Chris Esguerra, M.D., Chief Medical Officer, provided an update on the formation of the 501 (c)(3). Dr. Esguerra outlined the foundation's mission to address community health needs, including social determinants of health, housing access, service navigation, and support for uninsured populations, emphasizing flexibility to serve both current and non-member residents of San Mateo County. The Commission debated the optimal board size and appointment process, ultimately favoring a nine-member board with a majority designated by HPSM leadership. They also discussed mechanisms to balance control, community representation, and legal requirements for nonprofit independence. Commissioners expressed the importance of embedding controls in the foundation's bylaws, articles of incorporation, and funding agreements to ensure alignment with HPSM's mission and to prevent the foundation from diverging from its intended purpose over time.

The proposal includes a one-time \$25 million gift from HPSM's uncommitted equity, with restrictions on use, reporting requirements, and provisions for HPSM to reclaim funds if the foundation deviates from agreed-upon purposes. Investment strategies and financial management infrastructure were also discussed. HPSM is committed to providing written materials and draft governance documents for further Commission review. The topic will be revisited at the May meeting.

- 6. Report from Chief Executive Officer:** Mr. Curran shared items of discussion planned for the May Commission meeting. They include an update on Q1, including financial results and enrollment trends. The meeting will fall on the day before the State May revise so there may not be definitive State budget information. There will be a follow-up from the February Finance/Compliance meeting where they spoke about the state of HPSM and scenario planning for the future. Mr. Curran also acknowledged the departure of Chief Medical Officer Chris Esguerra expressing appreciation and gratitude for his service and outlining plans to ensure continuity during the leadership transition. Commissioner Graham thanked Dr. Esguerra for the phenomenal job he has done as Chief Medical Officer, wishing him well in his future endeavors.

- 7. Other Business:** Commissioner Si France announced his resignation from the Commission and the Finance/Compliance sub-committee. He thanked the group for their support and conveyed his appreciation and honor in serving. He assured the group that he would still be around to support the community and Commission in other ways and outlined some of his plans going forward. Commissioner Graham thanked him for his service and for the help and support he provided when Commissioner Graham first joined the Commission.

Commissioner Graham updated the group on the search committee's efforts to find a replacement for outgoing CEO, Pat Curran. The group is working with San Mateo County Human Resources to select an external recruitment firm for the CEO search, aiming to maintain the established timeline. They will continue to keep the Commission informed of their progress.

- 8. Adjournment:** The meeting was adjourned at 2:08 pm by Commissioner Graham.

Submitted by:

M. Heryford

M. Heryford, Clerk of the Commission

Healthworx Program

HPSM Health Commission

March 11, 2026



History of Healthworx



- Healthworx is a commercial health plan licensed by the Department of Managed Health Care (DMHC).
- It was formed and started serving members in 2001.
- Membership is comprised of two arrangements:
 - Approximately **1,300** IHSS (In-Home Supportive Services) workers who receive health coverage from the San Mateo County Public Authority through its agreement with SEIU
 - **10-15** individuals, mostly part-time employees, of the City of San Mateo
- Membership has remained fairly constant throughout the life of the program.
- HPSM uses its Medi-Cal network as the provider network and pays Medi-Cal rates to providers for covered services.
- San Mateo is one of several counties in the state with this type of program (San Francisco, Santa Clara, Los Angeles, Monterey, and Alameda)

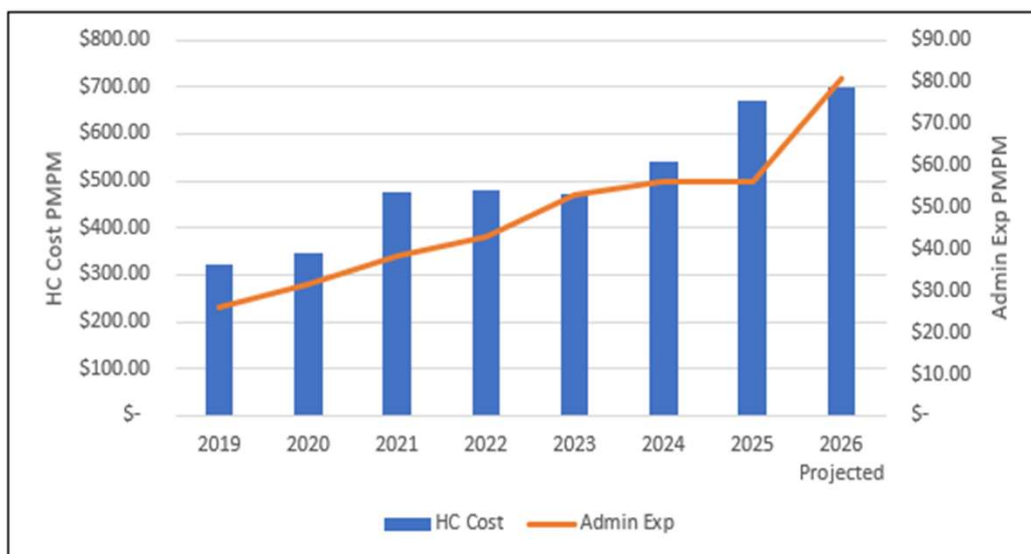
Current State of Healthworx



- Historically, the DMHC has regulated these plans separately from commercial plans as a special category (so-called “**IHSS Plans**”).
- Due to the passage of legislation, as well as DMHC interpretation of regulatory policies, Healthworx is **increasingly regulated** by the same rules as any licensed commercial health plan in California.
- This has resulted in significant **workload increase for staff**, especially in areas such as behavioral health, compliance, claims, financial reporting, and IT (i.e., mandates for transparent pricing tools on plan websites).
- Due to **low membership**, the financial performance can fluctuate dramatically.

3

Health Care Cost and Admin PMPM



4

Financing



- San Mateo County funds the premium of its IHSS workers through a complicated arrangement with the State of California:
 - After the passage of the Affordable Care Act (ACA), the county had and still has an approximately \$28.82M obligation due to Maintenance of Effort (MOE). The intent of MOE is that state and local agencies not discontinue coverage programs already in place before passage of the ACA.
 - The MOE amount includes the costs to cover the county portion of healthcare premium costs for the 1,300 members. The remaining costs are shared between state and federal funds if it does not exceed a specified maximum dollar amount per IHSS hour worked.
 - The county has not historically exceeded this maximum dollar amount, though with increased costs it could in the future.

5

Action Items from August 2023



- ✓ Increased the Healthworx member premium in 2024 and 2025 and communicate to both San Mateo County and the City of San Mateo.
- ✓ Invested additional dollars in administrative support for the program to address increasing regulatory oversight.
- ✓ Engaged a consultant in an overall market assessment to determine options for the Healthworx program moving forward.

6

Market Assessment in 2024



- HPSM engaged Health Management Associates (HMA) to understand the coverage needs of the community, especially for low-income residents.
- HMA evaluated two options to grow Healthworx that may align with HPSM’s mission:
 - Expand Healthworx to the Covered California marketplace
 - Offer Healthworx as a commercial insurance product to uninsured San Mateo County residents

7

Report Findings – Program Viability



- To ensure longer term viability, Healthworx needs to have membership of 5,000-10,000.
- Entering Covered California is not a viable option due to the administrative complexity, high risk of potential losses, and low opportunity to attract membership based on current health plan competition.
- Increasing enrollment in Healthworx with San Mateo County to include more than the 1,300 members is not feasible.
- If HPSM were to address the uninsured members in San Mateo County, the best vehicle would be a non-insured coverage program similar to ACE.

8

Conclusion



- The current Healthworx program is not able to increase membership beyond 1,300 (current) and will become increasingly expensive to both operate and to offer to the county as an option.
- It would take significant administrative work and financial investment in systems and reserves to develop a new product for Covered California with little opportunity to grow membership.
- Any potential coverage expansion for county residents would involve developing a new non-licensed coverage program or adapting the current ACE program.
- We worked with San Mateo County Health throughout 2025 to allow sufficient time to explore other coverage options for members starting January 2027.

9

Recommendation



- Formally notify San Mateo County and City of San Mateo that HPSM will no longer offer Healthworx as an option beyond December 31, 2026.
- Continue to explore affordable coverage options for low-income San Mateo County residents. This could mean using the existing framework of the ACE program as a template.

10

Questions and Discussion



Invest for the Future
HPSM Strategic Goal 6
Update on our 501(c)(3) Formation Effort

March 2026
Chris Esguerra, MD



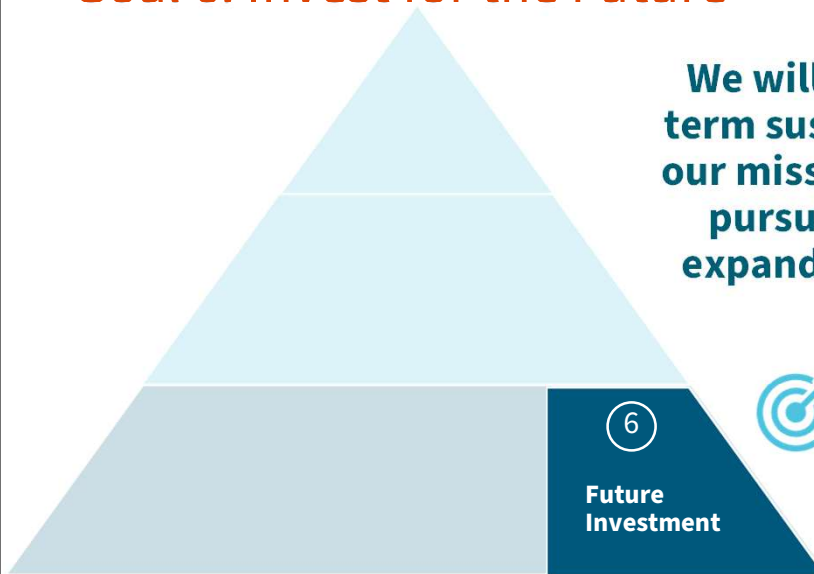
Agenda



- Provide a recap of our journey and discussions for the new entity
- Update on the work towards the 501(c)(3) and discussions
- Further Decisions

Goal 6: Invest for the Future

We will ensure HPSM's long-term sustainability to advance our mission, by evaluating and pursuing opportunities to expand or invest differently.

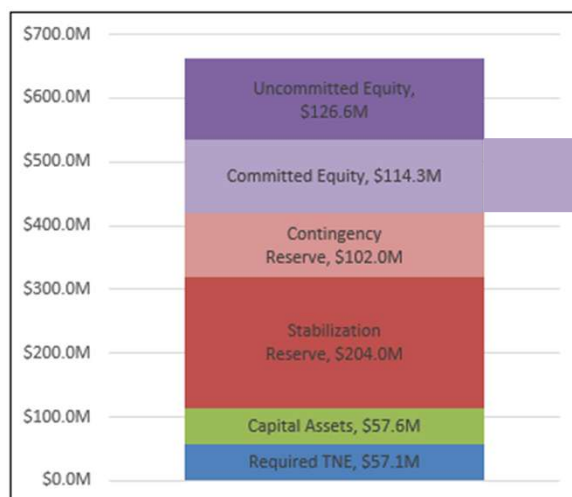


All investments of HPSM reserves were made applying our impact criteria.

Tangible Net Equity (TNE)

Balance at 12/31/2025 = \$661.7M

Uncommitted portion = \$129.6M



Committed Equity:

	Funding	Spend	Balance
Provider	\$100.0M	\$18.5M	\$81.5M
Primary Care	\$30.0M	\$3.7M	\$26.3M
Baby Bonus	\$7.0M	\$0.5M	\$6.5M
	\$137.0M	\$22.7M	\$114.3M

Grounding: approaching uncertainty with clear high-level priorities



1

- **Core operations** to uphold our mandate as a local, community-organized Medi-Cal and Duals plan

2

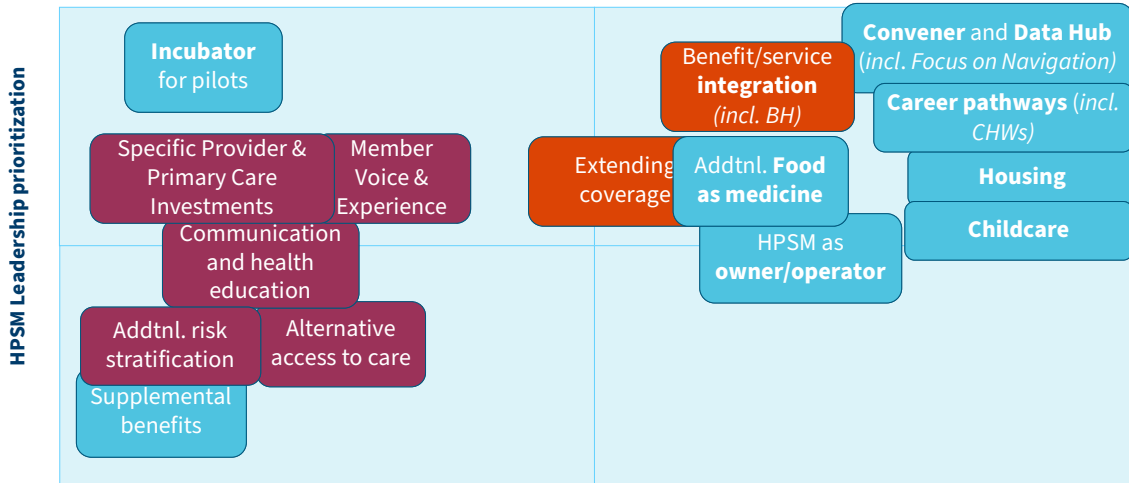
- **Long-standing precedents** aligned with our Mission, Vision, and local priorities

3

- **New opportunities** to consider to advance our strategic goals, including long-term sustainability

Retreat x HPSM Leadership Prioritization

Prioritization of themes



1. Core Operations

2. Long-standing precedents

3. New opportunities

Top priorities in brief



What

- **Employment** (incl. CHWs)*
- Supporting **Housing** Access*
- Service & System **Navigation***
- **Childcare**
- **Behavioral Health** ecosystem*
- **Food as Health***
- Preserving **Healthcare Coverage**

How

- Strong support for HPSM leveraging our strengths as a **convener** and **data hub**
- Endorsement to continue our precedent of **piloting integration efforts**

← Emerging priority

* Early exploration and/or piloting underway in these areas

Timeline



Why a New Entity?

New Capabilities, Community Impact

- Focuses on the community broadly
- Anchor funder
 - Receiving and distributing
- Organizer and convener
- Entity as operator
- Testing and learning
 - Supporting and/or deploying pilots

Address HPSM's Limitations

- Focus on core operations as defined by regulations and longstanding precedents
- Efforts limited to HPSM members

The What: New Entity Considerations

Legal

- 501(c)(3) Foundation

Governance

- Strong HPSM influence on the board with community voice

Mission

- Align with HPSM
- Serve the community, with a focus on those with higher needs

Capabilities

- Align private/public funding
- Leverage HPSM's expertise

Summary

What we did

Defined the why and broadly the what 501(c)(3) focused on San Mateo County

Authorized HPSM to begin the process of legally establishing the 501(c)(3) organization

What we will do

Decide on articles of incorporation, bylaws, funding

Current Progress

- Engaged with firm Delfino Madden to assist with 501(c)(3) formation
- Gathered information from IEHP Foundation
- Learning process, key decisions, and key boundaries

Learnings: IEHP Foundation



IEHP Foundation

- Board
 - 11 members, 2 designated by IEHP CEO (bylaws indicate at least 7 members)
- Focus
 - Inland Empire and surrounding communities
 - Invest in the strength and capacity of local community-based organizations
 - Focusing on those serving families with children in low income communities with the poorest health outcomes
- How
 - Build organizational strength
 - Systems change

Foundation Scope, Activities, and Governance



Nonprofit Scope	Nonprofit Activities	Governance
<ul style="list-style-type: none">• Employment (incl. CHWs)• Supporting Housing Access• Service & System Navigation that promotes Access• Childcare• Behavioral Health ecosystem• Food as Health• Preserving Healthcare Coverage	<ul style="list-style-type: none">• Funding and supporting organizations that support the scope• Help develop community capabilities to fulfill the scope when there are insufficient existing resources• Leverage and align dollars from other funders to fulfill scope• Facilitate testing and evaluation of new models to promote innovation	<ul style="list-style-type: none">• Considerations<ul style="list-style-type: none">• Conflicts of interest rules (for HPSM and from IRS for nonprofit)• Brown Act• Election of directors<ul style="list-style-type: none">• Election by Nonprofit board• Selected by CEO• Length of terms

Scope Language



The specific purposes of this corporation are to ensure San Mateo County's underserved residents have access to high-quality care services and supports so they can live the healthiest lives possible by:

- (i) providing financial and other forms of support for charitable and educational programs and organizations in San Mateo County and surrounding communities, including but not limited to programs that promote employment opportunities in healthcare, housing access and stability, service and system navigation to promote access to healthcare for individuals and families, access to affordable childcare, food security and nutrition initiatives, behavioral health services and supports, and efforts aimed at preserving healthcare coverage for underserved residents;
- (ii) providing support to and promoting activities and programs that meet unique or underserved healthcare needs and healthy living in innovative ways, and ensure the availability of and access to high-quality care services;
- (iii) engaging in any other activities in furtherance of the purposes for which the corporation is formed; and
- (iv) receiving, investing and utilizing funds, property and in-kind materials or services acquired through the solicitation of contributions, donations, grants, gifts, and bequests and the like for the purposes for which the corporation is formed.

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Governance Discussion



What we have learned

- Keep the number of 501(c)(3) board members reasonable
- HPSM CEO can designate 501(c)(3) board members (control)
- HPSM CEO can remove a designated 501(c)(3) board member (control)
- The 501(c)(3) board can elect to remove an elected director by majority
- Bylaws can set a high bar for changes (durability, binding to HPSM mission)

Our proposal

- 5 board members, 3 selected by HPSM CEO (nuance discussion)
- HPSM CEO can remove designated 501(c)(3) board member (not elected)
- 501(c)(3) board can elect to remove an elected director by majority
- 4/5 vote needed to update Bylaws (nuance discussion)

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Governance Options to Discuss

501(c)(3) Board appointment

Option 1: HPSM CEO appoints 3 of 5. Appointee can be a HPSM Commissioner or former Commissioner

Option 2: HPSM Commission appoints 3 of 5. Appointee can NOT be a current or incoming HPSM Commissioner

501(c)(3) bylaws and articles changes

Option 1: HPSM Commission has the right to approve substantial changes to 501(c)(3) bylaws and articles after 4/5 approval vote from foundation board

Option 2: 501(c)(3) bylaws and articles change can occur upon 4/5 approval vote from foundation board

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Learnings: HPSM funding

HPSM Funding of a Foundation

- Must be a public purpose
- Purpose is within HPSM's scope
- HPSM's funding can be restricted to fulfill requirements

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Funding

Safeguards

- Articles of Incorporation and Bylaws of the 501(c)(3) define its activities
- IRS regulations over 501(c)(3)
- Restricted gift agreement for HPSM funds (only HPSM can modify the terms of the gift)

Proposal

- One time, \$25,000,000 restricted gift¹
 - ~20% of uncommitted reserves
- Restricted gift language to align with HPSM's mission, boundaries of use of funds, and define reporting and accountability

¹ These funds would not be counted towards HPSM's medical expense or incurred claims

Forthcoming: What we will recommend and decide

- Articles of Incorporation
- Bylaws
- Funding and Restricted Gift Agreement

Thank you



MEMORANDUM

AGENDA ITEM: 5.1

DATE: May 13, 2026

DATE: May 6, 2026

TO: San Mateo Health Commission

FROM: Patrick Curran, Chief Executive Officer
Trent Ehrgood, Chief Financial Officer

RE: Approval of Audited Financial Statements for Period Ending December 31, 2025

Recommendation

Approve HPSM's 2025 final audited financial statements.

Background information

HPSM's auditors, Baker Tilly, completed their annual audit of HPSM's 2025 financial statements in March 2026. Moss Adams presented reports to the Finance/Compliance Committee on March 30th, including details of their audit process, and results of their findings. Two separate reports, described below, are included in this packet for Commission review. Also included are slides summarizing the audit outcome.

Communication to Commissioners

The first report is the required communication to the Commission and includes a description of the audit scope and any findings resulting from the audit.

Report of Independent Auditors and Financial Statements with Supplementary Information

The second report is the full set of audited financial statements with footnotes. The auditors issued an unmodified opinion (which is good). There were no audit adjustments, but management included some proposed adjustments to refine estimates based on more recent information. The final audited financial result is a net loss of \$15.7M for the year.

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**RESOLUTION OF THE
SAN MATEO HEALTH COMMISSION**

**IN THE MATTER OF ACCEPTANCE OF THE
AUDIT REPORT FOR FISCAL YEAR ENDING
DECEMBER 31, 2025**

RESOLUTION 2026 -

RECITAL: WHEREAS,

- A. Baker Tilly, LLP, a firm of certified public accountants has conducted an audit of the San Mateo Health Commission financial statements for the fiscal year ending December 31, 2025, and issued an unmodified opinion; and
- B. The San Mateo Health Commission has reviewed the resulting report submitted by Baker Tilly.

NOW, THEREFORE, IT IS HEREBY RESOLVED AS FOLLOWS:

- 1. The San Mateo Health Commission formally accepts the audit report for the fiscal year ended December 31, 2025 as prepared by Baker Tilly.

PASSED, APPROVED, AND ADOPTED by the San Mateo Health Commission this 13th day of May 2026 by the following votes:

AYES:

NOES:

ABSTAINED:

ABSENT:

Bill Graham, Chair

ATTEST:

APPROVED AS TO FORM:

BY: _____
M. Heryford, Clerk

Kristina Paszek
DEPUTY COUNTY ATTORNEY

2025 Financial Audit Results

Presentation to Commission

May 13, 2026



2025 Financial Audit Summary



- Baker Tilly (formerly Moss Adams) completed their annual financial audit for 2025. The timeline started in October 2025 to perform interim audit procedures, returned in February 2026 to perform final field work, and then finalized adjustments and prepared financial statements and footnotes in early March 2026.
- Baker Tilly presented details of their audit procedures and their findings to Finance/Compliance Committee on March 30th.
- No audit adjustments were made by the auditors, but HPSM accounting staff proposed some adjustments based on updated information, which were incorporated into the financials.
- Final approval by HPSM Commission today, May 13, 2026.
- Audited financials were submitted to DMHC (due April 30, 2026).

Audit Deliverables



- Communication to the Commissioners
- Financial statements with audit report and footnotes to the financial statements

3

Report of Independent Auditors



Unmodified Opinion

Financial statements are fairly presented in accordance with generally accepted accounting principles.

4

Statement of Revenue and Expenses Final Audited



	<u>2025</u>	<u>2024</u>
Capitation revenue	1,543,339,814	1,239,683,958
Healthcare cost	1,438,215,663	1,076,146,610
Administrative expenses	75,738,890	69,038,855
MCO Tax	81,835,846	78,726,161
Income/(loss) from operations	<u>(52,450,585)</u>	<u>15,772,332</u>
Non-operating revenue	37,194,010	40,920,645
Non-operating (expense)	(440,000)	(3,350,000)
Net income/(loss)	<u>(15,696,575)</u>	<u>53,342,977</u>

5

Balance Sheet – Final Audited



	<u>12/31/2025</u>	<u>12/31/2024</u>
Assets:		
Cash and Investments	890,000,924	868,954,857
Capitation and other receivables	364,365,491	200,751,470
Other current assets	20,787,671	16,195,906
Capital assets	57,617,588	58,729,820
Other LT assets and deferred outflows	17,682,504	16,786,062
Total assets and deferred outflows	<u>1,350,454,178</u>	<u>1,161,418,115</u>
Liabilities:		
Medical claims payable	100,718,035	101,806,272
Provider incentives payable	18,489,882	11,243,578
Amounts due to the State of California	235,240,774	202,037,524
Accounts payable, accrued liabilities, other	317,236,621	154,937,799
Net LT pension liability, deferred outflows, other	14,464,495	11,391,996
Total liabilities and deferred inflows	<u>686,149,807</u>	<u>481,417,169</u>
Net Position (Reserves)	<u>664,304,371</u>	<u>680,000,946</u>

6

Commission Action Item



- Questions?
- Action item to accept/approve audited financial statements.

7

Thank you



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COMMUNICATIONS WITH THE
COMMISSIONERS

**SAN MATEO HEALTH COMMISSION
(D.B.A. HEALTH PLAN OF SAN MATEO)**

December 31, 2025

**Communications with Those Charged with Governance
in accordance with AU-C 260
[Firm Letterhead]**

Communications with the Commissioners

To the Commissioners
San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of San Mateo Health Commission d.b.a. Health Plan of San Mateo (a stand-alone government entity appointed by the San Mateo County Board of Supervisors) as of and for the year ended December 31, 2025, and have issued our report thereon dated [REDACTED], 2026.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated August 28, 2024, we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). As part of an audit conducted in accordance with U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the San Mateo Health Commission d.b.a. Health Plan of San Mateo's internal control over financial reporting. Accordingly, we considered San Mateo Health Commission d.b.a. Health Plan of San Mateo's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

The supplementary information was subject to certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter dated August 28, 2024.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by San Mateo Health Commission d.b.a. Health Plan of San Mateo are described in Note 1 to the financial statements. During fiscal year 2025, San Mateo Health Commission d.b.a. Health Plan of San Mateo adopted Government Accounting Standards Board No. 102, *Certain Risk Disclosures*. No other new accounting policies were adopted and there were no changes in the application of existing policies during 2025. We noted no transactions entered into by San Mateo Health Commission d.b.a. Health Plan of San Mateo during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the liability for incurred but unreported claims expense is based on historical claims experience and known activity subsequent to year end. We evaluated the key factors and assumptions used to develop the incurred but unreported claims expense in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the capitation receivable and revenue for eligible program beneficiaries is based upon a historical experience methodology using contracted rates and member counts. We evaluated the key factors and assumptions used to develop the capitation receivable in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management recorded an estimated amount due to the State of California. The estimated payable for eligible Medi-Cal program beneficiaries is based upon estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. We evaluated the key factors and assumptions used to develop the estimated net realizable amounts. We found management's basis to be reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the fair market values of investments in the absence of readily-determinable fair values is based on information provided by the fund managers. We have gained an understanding of management's estimate methodology and examined the documentation supporting this methodology. We found management's process to be reasonable.

- Management's estimate of the net pension liabilities is actuarially determined using assumptions on the long-term rate of return of plan assets, the discount rate used to determine the present value of benefit obligations, and the rate of compensation increases. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the financial statements taken as a whole.
- Management's estimates of the discount rate, useful lives, and lease terms related to the lease assets and deferred inflow of resources. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the financial statements taken as a whole.
- Management's estimates of the discount rate, useful lives, and subscription terms related to the subscription assets and subscription liabilities. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the financial statements taken as a whole.
- Management's estimates of useful lives of capital assets are based on the intended use and are within accounting principles generally accepted in the United States of America. We found management's basis to be reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were medical claims payable and capitation revenue.

Significant Unusual Transactions

We encountered no significant unusual transactions during our audit of San Mateo Health Commission d.b.a. Health Plan of San Mateo's financial statements.

Significant Difficulties Encountered in Performing the Audit

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the San Mateo Health Commission d.b.a. Health Plan of San Mateo's financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Circumstances that Affect the Form and Content of the Auditor's Report

There may be circumstances in which we would consider it necessary to include additional information in the auditor's report in accordance with U.S. GAAS. There were no circumstances that affected the form and content of the auditor's report.

Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements, whose effects, as determined by management were material, both individually or in the aggregate, to the financial statements taken as a whole.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated [redacted], 2026.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to San Mateo Health Commission d.b.a. Health Plan of San Mateo’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Audit Findings or Issues

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

This information is intended solely for the use of the Commissioners and management of San Mateo Health Commission d.b.a. Health Plan of San Mateo, and is not intended to be, and should not be, used by anyone other than these specified parties.

[Signature]

San Francisco, California

April [redacted], 2026

Report of Independent Auditors and
Financial Statements with Supplementary Information

San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)

December 31, 2025 and 2024

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Management's Discussion and Analysis

San Mateo Health Commission (d.b.a. Health Plan of San Mateo) Management’s Discussion and Analysis December 31, 2025, 2024, and 2023

In accordance with the Governmental Accounting Standards Board Codification Section 2200, *Annual Comprehensive Financial Report*, the management of the San Mateo Health Commission (d.b.a. Health Plan of San Mateo) (HPSM or the Commission), provides an overview of the Commission’s financial activities for the years ended December 31, 2025, 2024, and 2023. Please read it in conjunction with the Commission’s audited financial statements and accompanying notes, which begin on page 10.

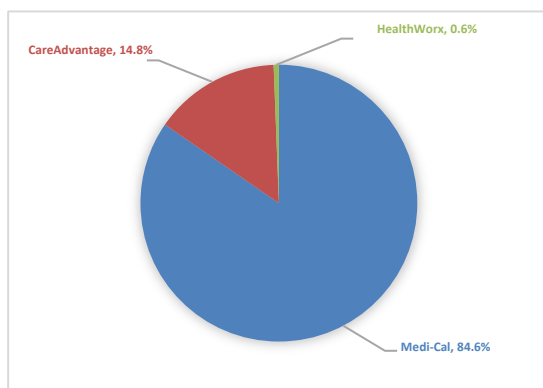
OVERVIEW OF FINANCIAL STATEMENTS:

This *Annual Comprehensive Financial Report* consists of a series of financial statements: Statements of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. These financial statements provide information about the activities of the Commission as a whole. Additionally, certain required supplemental information contains information regarding the Commission’s budget and how actual operating results compare to the budget adopted by the Commission.

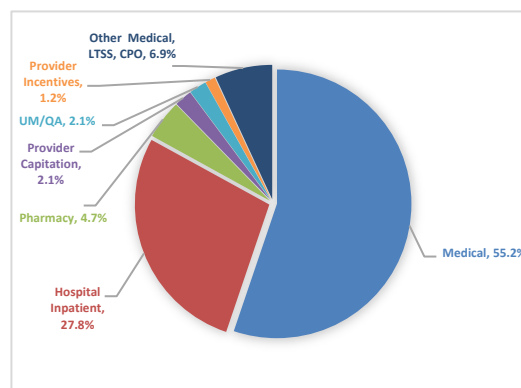
FINANCIAL HIGHLIGHTS – PROPRIETARY FUND

- Total member months increased by 1.34% to 1,892,406 in 2025, decreased by 2.47% to 1,867,349 in 2024, and increased by 5.73% to 1,914,599 in 2023.
- Net position decreased by \$15,696,575 to \$664,304,371 in 2025, increased by \$53,342,977 to \$680,000,946 in 2024, and increased by \$151,155,470 to \$626,657,969 in 2023.
- Net operating revenues increased by \$303,655,856 (24.49%) in 2025, decreased by \$36,775,299 (2.88%) in 2024, and increased by \$245,565,369 (23.82%) in 2023.
- Net operating expenses increased by \$371,878,773 (30.38%) in 2025, increased by \$73,621,186 (6.40%) in 2024, and increased by \$233,102,593 (24.06%) in 2023. A breakdown of the 2025 health care expense by category is provided below.

2025 Percentage of Revenue by LOB



2025 Health care Expenses by category



**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Management's Discussion and Analysis
December 31, 2025, 2024, and 2023**

CONDENSED STATEMENTS OF NET POSITION

	2025	2024	2023	Change 2025 to 2024		Change 2024 to 2023	
				Amount	% Change	Amount	% Change
CURRENT ASSETS	\$ 1,275,154,086	\$ 1,085,902,233	\$ 1,026,234,982	\$189,251,853	17.43%	\$59,667,251	5.81%
CAPITAL ASSETS, NET	57,617,588	58,729,820	59,364,274	(1,112,232)	-1.89%	(634,454)	-1.07%
OTHER ASSETS	14,704,500	12,402,174	5,624,086	2,302,326	18.56%	6,778,088	120.52%
Total assets	1,347,476,174	1,157,034,227	1,091,223,342	\$190,441,947	16.46%	65,810,885	6.03%
DEFERRED OUTFLOWS OF RESOURCES	2,978,004	4,383,888	5,701,361	(1,405,884)	-32.07%	(1,317,473)	-23.11%
Total assets and deferred outflows of resources	<u>\$ 1,350,454,178</u>	<u>\$ 1,161,418,115</u>	<u>\$ 1,096,924,703</u>	<u>\$ 189,036,063</u>	<u>16.28%</u>	<u>\$ 64,493,412</u>	<u>5.88%</u>
CURRENT LIABILITIES	\$ 671,685,312	\$ 470,025,173	\$ 459,647,694	\$ 201,660,139	42.90%	\$ 10,377,479	2.26%
NET PENSION LIABILITY	86,154	2,825,906	2,982,121	(2,739,752)	-96.95%	(156,215)	-5.24%
NONCURRENT LIABILITIES	2,926,213	4,571,270	2,142,820	(1,645,057)	-35.99%	2,428,450	113.33%
Total liabilities	674,697,679	477,422,349	464,772,635	197,275,330	41.32%	12,649,714	2.72%
DEFERRED INFLOWS OF RESOURCES	11,452,128	3,994,820	5,494,099	7,457,308	186.67%	(1,499,279)	-27.29%
Total liabilities and deferred inflows of resources	<u>\$ 686,149,807</u>	<u>\$ 481,417,169</u>	<u>\$ 470,266,734</u>	<u>\$ 204,732,638</u>	<u>42.53%</u>	<u>\$ 11,150,435</u>	<u>2.37%</u>
NET POSITION							
Invested in capital assets	\$ 57,617,588	\$ 58,729,820	\$ 59,364,274	\$ (1,112,232)	-1.89%	\$ (634,454)	-1.07%
Restricted by legislative authority	300,000	300,000	300,000	-	0.00%	-	0.00%
Unrestricted							
Designated for stabilization reserve	398,947,600	305,977,907	376,750,900	92,969,693	30.38%	(70,772,993)	-18.79%
Committed and Unrestricted	207,439,183	314,993,219	190,242,795	(107,554,036)	-34.14%	124,750,424	65.57%
Total net position	<u>\$ 664,304,371</u>	<u>\$ 680,000,946</u>	<u>\$ 626,657,969</u>	<u>\$ (15,696,575)</u>	<u>-2.31%</u>	<u>\$ 53,342,977</u>	<u>8.51%</u>

Assets and Deferred Outflows of Resources

For 2025, assets increased \$189,036,063 (16.28%) from \$1,161,418,115 in 2024, due primarily to an increase in capitation receivable from the State of California for prior year private hospital directed payments offset by a decrease in other receivables, and an increase in prepaids and other assets. For the same period, deferred outflows of resources for the pension plan, which represents the difference between projected and actual retirement investment earnings that are deferred under Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, decreased from \$4,383,888 to \$2,978,004.

For 2024, assets increased \$64,493,412 (5.88%) from \$1,096,924,703 in 2023 due to more timely capitation payments from the State of California and Centers for Medicaid & Medicare (CMS) resulting in increased cash; an increase in reinsurance receivable and the close-out of the Kaiser sub-capitation arrangement; along with an increase in net Subscription-Based Information Technology Arrangements (SBITA) Assets of \$8,076,256 from \$3,693,823. For the same period, deferred outflows of resources for the pension plan, which represents the difference between projected and actual retirement investment earnings that are deferred under Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, decreased from \$5,701,361 to \$4,383,888.

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Liabilities and Deferred Inflows of Resources

For 2025, liabilities increased \$197,275,330 (41.32%) from \$477,422,349 in 2024 due to an increase in accrued liabilities related to timing differences for the distribution of private hospital directed payments, and an increase in funds due to the State of California for over payment of capitation related to the Unsatisfactory Immigration Status (UIS) population risk corridor. For the same period, deferred inflows of resources, which represents changes in assumptions and the difference between expected and actual experience, increased by \$7,457,308 (186.67%) from \$3,994,820 primarily due to a 5-year extension of the 2nd floor lease, and updates to the experience (investment performance and demographic) assumptions for the pension plan.

For 2024, liabilities increased \$12,649,714 (2.72%) from \$464,772,635 in 2023 due to a risk corridor for the UIS Medi-Cal population and an increase in subscription short-term liability, which were offset by a decrease in medical claims and accounts payable due to the timing of year-end check runs. For the same period, deferred inflows of resources, which represents changes in assumptions and the difference between expected and actual experience, decreased by \$1,499,279 (27.29%) from \$5,494,099 primarily due to annual run-out of existing rental leases.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Membership by Source at December 31,	2025	2024	2023	Change 2025 to 2024		Change 2024 to 2023	
				Amount	% Change	Amount	% Change
MediCal	1,776,196	1,751,626	1,796,776	24,570	1.40%	(45,150)	-2.51%
CareAdvantage	100,402	100,651	103,281	(249)	-0.25%	(2,630)	-2.55%
HealthWorx	15,808	15,072	14,542	736	4.88%	530	3.64%
Total Membership	1,892,406	1,867,349	1,914,599	25,057	1.34%	(47,250)	-2.47%
ACE - TPA Participants	16,786	257,492	282,214	(240,706)	-93.48%	(24,722)	-8.76%
OPERATING REVENUES							
Capitation and premiums							
Medi-Cal	\$ 1,305,712,817	\$ 1,002,970,274	\$ 1,032,181,149	\$ 302,742,543	30.18%	\$ (29,210,875)	-2.83%
HealthWorx	9,469,572	7,856,506	6,957,387	1,613,066	20.53%	899,119	12.92%
CareAdvantage	228,157,425	228,857,178	237,320,721	(699,753)	-0.31%	(8,463,543)	-3.57%
Net operating revenues	1,543,339,814	1,239,683,958	1,276,459,257	303,655,856	24.49%	(36,775,299)	-2.88%
OPERATING EXPENSES							
Health care expenses	1,438,215,663	1,076,146,610	1,031,939,924	362,069,053	33.64%	44,206,686	4.28%
General and administrative	75,738,890	69,038,855	60,779,795	6,700,035	9.70%	8,259,060	13.59%
MCO tax	81,835,846	78,726,161	57,570,721	3,109,685	3.95%	21,155,440	36.75%
Total operating expenses	1,595,790,399	1,223,911,626	1,150,290,440	371,878,773	30.38%	73,621,186	6.40%
Loss (income) from operations	(52,450,585)	15,772,332	126,168,817	(68,222,917)	-432.55%	(110,396,485)	-87.50%
NONOPERATING REVENUE (EXPENSE)							
Interest and other income	36,939,010	40,665,645	32,817,597	(3,726,635)	-9.16%	7,848,048	23.91%
Third Party Administrator, Net	255,000	255,000	2,169,056	-	0.00%	(1,914,056)	-88.24%
Other nonoperating expense	(440,000)	(3,350,000)	(10,000,000)	2,910,000	-86.87%	6,650,000	-66.50%
Total nonoperating revenue	36,754,010	37,570,645	24,986,653	(816,635)	-2.17%	12,583,992	50.36%
Changes in net position	(15,696,575)	53,342,977	151,155,470	(69,039,552)	-129.43%	(97,812,493)	-64.71%
NET POSITION, beginning of year	680,000,946	626,657,969	475,502,499	53,342,977	8.51%	151,155,470	31.79%
NET POSITION, end of year	\$ 664,304,371	\$ 680,000,946	\$ 626,657,969	\$ (15,696,575)	-2.31%	\$ 53,342,977	8.51%

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MEMBERSHIP

During 2025, overall membership increased by 25,057 (1.34%) member months from 1,867,349 in 2024 to 1,892,406 in 2025. Medi-Cal membership increased due to an overall uptick in the Adult Expansion and Full Dual populations, while slightly offset by a decline in the UIS population for traditional Medi-Cal. The full scope Medi-Cal increase is directly related to the decline in San Mateo County Access and Care for Everyone (ACE) third-party administrator (TPA) as many participants were able to transition from one program to the other.

During 2024, overall membership decreased by 47,250 (2.47%) member months from 1,914,599 in 2023 to 1,867,349 in 2024. Medi-Cal membership declined due to the completion of the first full cycle of the redetermination process, which was paused during the COVID-19 public health emergency. The decline was partially offset by an expansion of the Medi-Cal program to those with UIS. This expansion also explains the decline in the San Mateo County ACE TPA, as many participants were able to enroll in full scope Medi-Cal.

OPERATING REVENUES

During 2025, operating revenue increased by \$303,655,856 (24.49%) from \$1,239,683,958 in 2024 to \$1,543,339,814 in 2025. A large portion of increased revenue in 2025 is catch-up funding from DHCS for hospital directed payments (for 2023 and 2024), for which there is a health care cost offset. The remaining reason is a combination of higher Medi-Cal enrollment in 2025, and increased Medi-Cal rates. Medicare rates were slightly higher in 2025 as well. This is offset by lower DHCS incentive revenue in 2025, as this program ended in 2024.

During 2024, operating revenue decreased by \$36,775,299 (2.88%) from \$1,276,459,257 in 2023 to \$1,239,683,958 in 2024. The decrease is partially due to declining membership for both Medi-Cal and Medicare programs. Medi-Cal capitation funding decreased on average per member after accounting for return of premiums for various risk corridors (Enhanced Care Management and UIS). In addition, there was increased revenue recognition for hospital directed payments, but lower revenue recognition for DHCS incentive programs.

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OPERATING EXPENSES

Health care Expenses

During 2025, health care expenses increased by \$362,069,053 (33.64%) from \$1,076,146,610 in 2024 to \$1,438,215,663 in 2025. Similar to revenue, a large portion of increased health care costs in 2025 is catch-up payments for hospital directed payments (for 2023 and 2024), for which there is a revenue offset. HPSM also started implementing provider rate increases and provider grants in a phased approach in 2025. These increases are part of the \$130M in reserves committed to provider reimbursement and capacity building grants to be paid over three years. Provider rates for Long-Term Care (LTC) increased substantially in 2025, which are published by DHCS annually. Hospital utilization was also higher in 2025 for Medi-Cal and Medicare lines-of-business, especially in the second half of the year. Other areas that had increased utilization included dental, mostly for newly eligible adults, and Behavioral Health Treatment (BHT), due to expanding the provider network, resulting in increased access for this service.

During 2024, health care expenses increased by \$44,206,686 (4.28%) from \$1,031,939,924 in 2023 to \$1,076,146,610 in 2024. The increase is due to increased medical costs for several factors including rate negotiations with certain hospitals and other facilities, implementation of DHCS Targeted Rate Increase (TRI), increased cost with the D-SNP pharmacy benefit, increased expense recognition for hospital directed payments, and increased utilization of non-medical transportation. Dental cost also increased due to continued efforts to increase access and high-cost restorative care. These increases are offset by lower membership and from lower utilization of newly eligible UIS population.

General and Administrative Expenses

During 2025, general and administrative expenses increased by \$6,700,035 (9.70%) from \$69,038,855 in 2024 due to increased staffing costs and an intended effort to reinvest in our provider network through various training and grant programs.

During 2024, general and administrative expenses increased by \$8,259,060 (13.59%) from \$60,779,795 in 2023 due to increases in the costs for employee benefits, along with increased staffing needs to expand the provider network (both medical and dental) and support for other programs related to the 2024 Medi-Cal contract with DHCS.

MCO Tax

HPSM paid \$85,581,738 in 2025, \$109,930,791 in 2024, and \$10,076,110 in 2023 for MCO taxes. HPSM's tax liability of \$22,620,199 as of December 31, 2025; \$26,366,091 as of December 31, 2024; and \$57,570,721 as of December 31, 2023, is included in current liabilities in the statements of net position.

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NONOPERATING REVENUE AND EXPENSE

For 2025, interest and other income decreased \$3,726,635 (9.16%) from \$40,665,645 in 2024 due to a decline in interest rates. The average rate of return for investments decreased to 3.57% from 4.06%. Effective 2024, the Medi-Cal contract requires Managed Care Organization (MCO) to allocate a calculated percentage of program surpluses towards reinvestment in surrounding communities. For 2025, HPSM expensed \$440,000, which is an 86.87% decrease from \$3,350,000 in 2024. Liabilities of the same amounts are included in current liabilities in the statements of net position.

For 2024, interest and other income increased \$7,848,048 (23.91%) from \$32,817,597 in 2023 due to cash reserves and strong interest rates. The average rate of return for investments decreased to 4.06% from 4.67%. Effective 2024, the Medi-Cal contract requires MCOs to allocate a calculated percentage of program surpluses towards reinvestment in surrounding communities. HPSM expensed \$3,350,000 as of December 31, 2024. A liability of the same amount is included in current liabilities in the statements of net position.

CONDENSED CASH FLOW

HPSM intentionally holds a greater cash position due to the uncertainty of rate increases (or cuts) and cash flow from the State of California. HPSM invests excess cash in the San Mateo County Investment Pool Fund, Local Agency Investment Fund (LAIF), and Wells Fargo Money Market and Investment accounts. All investment accounts are considered liquid and available on demand.

	2025	2024	2023	Change 2025 to 2024		Change 2024 to 2023	
				Amount	% Change	Amount	% Change
Cash flows from operating activities	\$ (11,055,803)	\$ 99,631,303	\$ 127,310,123	\$ (110,687,106)	-111.10%	\$ (27,678,820)	-21.74%
Cash flows from investing activities	36,171,058	33,955,443	17,809,247	2,215,615	6.53%	16,146,196	90.66%
Cash flows from financing activities	(4,378,928)	(5,431,178)	(2,323,642)	1,052,250	-19.37%	(3,107,536)	133.74%
Net increase in cash and cash equivalents	20,736,327	128,155,568	142,795,728	(107,419,241)	-83.82%	(14,640,160)	-10.25%
CASH AND CASH EQUIVALENTS, beginning of year	680,831,174	552,675,606	409,879,878	128,155,568	23.19%	142,795,728	34.84%
CASH AND CASH EQUIVALENTS, end of year	\$ 701,567,501	\$ 680,831,174	\$ 552,675,606	\$ 20,736,327	3.05%	\$ 128,155,568	23.19%

MINIMUM TANGIBLE NET EQUITY

Tangible net equity (TNE) is the value of assets minus liabilities, minus the value of intangible assets. It's a measure of worth based on its physical assets, rather than intangible assets. HPSM is required by the Department of Managed Health Care (DMHC) to maintain a minimum level of TNE. HPSM has met the minimum TNE requirement with total net position of \$664,304,371 in 2025, \$680,000,946 in 2024, and \$626,657,969 in 2023.

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FISCAL BUDGET VARIANCE

	<u>2025 Actual</u>	<u>2025 Budgeted</u>	<u>Variance</u>
REVENUES			
Medi-Cal	\$ 1,305,712,817	\$ 942,553,074	\$ 363,159,743
HealthWorx	9,469,572	9,253,182	216,390
CareAdvantage	228,157,425	235,966,003	(7,808,578)
Total revenues	<u>1,543,339,814</u>	<u>1,187,772,259</u>	<u>355,567,555</u>
HEALTH CARE EXPENSES			
Medical	794,634,773	383,760,527	410,874,246
Hospital inpatient	400,331,443	364,038,810	36,292,633
Pharmacy	67,230,976	71,304,611	(4,073,635)
Dental	58,716,646	51,735,200	6,981,446
Utilization management (UM) and quality assessment (QA) allocation	30,508,614	27,178,456	3,330,158
Primary care physician capitation	29,561,887	26,401,019	3,160,868
Provider incentives	17,265,559	15,897,500	1,368,059
Care Plan Options/In-lieu of Services	16,060,606	12,122,623	3,937,983
Transportation	13,336,809	18,868,790	(5,531,981)
Enhanced Care Management	3,769,454	4,936,705	(1,167,251)
Other Provider health care	3,447,375	-	3,447,375
Long-term support services	2,507,130	1,725,697	781,433
Other medical - dental, reinsurance, etc. - net of reinsurance recoveries	844,391	6,447,838	(5,603,447)
Total health care expenses	<u>1,438,215,663</u>	<u>984,417,776</u>	<u>453,797,887</u>
ADMINISTRATIVE EXPENSES			
Salaries and fringe benefits	66,355,772	67,585,305	(1,229,533)
Contract services	17,386,632	20,023,600	(2,636,968)
Office supplies and maintenance	7,733,329	10,460,100	(2,726,771)
Occupancy, equipment, and depreciation expense	3,676,307	4,176,100	(499,793)
Postage and printing	2,359,236	2,758,100	(398,864)
Other administrative expenses	4,313,585	2,714,425	1,599,160
UMQA health care allocation	(26,085,971)	(26,345,012)	259,041
Total administrative expenses	<u>75,738,890</u>	<u>81,372,618</u>	<u>(5,633,728)</u>
MCO tax	81,835,846	80,032,159	1,803,687
Total expenses	<u>1,595,790,399</u>	<u>1,145,822,553</u>	<u>449,967,846</u>
Income from operations	<u>(52,450,585)</u>	<u>41,949,706</u>	<u>(94,400,291)</u>
NONOPERATING REVENUE (EXPENSE)			
Net interest and investment income	35,771,771	36,600,000	(828,229)
Other revenue and rental income	1,167,239	1,263,194	(95,955)
Third-party administrator fees	255,000	255,000	-
Other nonoperating expense	(440,000)	-	(440,000)
Total nonoperating revenue (expense)	<u>36,754,010</u>	<u>38,118,194</u>	<u>(1,364,184)</u>
Net income	(15,696,575)	80,067,900	(95,764,475)
Net position at beginning of year	680,000,946	680,000,946	-
Net position at end of year	<u>\$ 664,304,371</u>	<u>\$ 760,068,846</u>	<u>\$ (95,764,475)</u>

**San Mateo Health Commission
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BUDGET VARIANCES

The main drivers for lower than budgeted net income includes lower than budget Medi-Cal capitation rates and lower Medicare revenue per member. In addition, a return of premium for the UIS population was accrued, but not included in the budget, which lowered revenue further. Higher revenue for hospital directed payment funding was offset by corresponding higher health care costs, so minimal impact to the bottom line. On the health care cost side, provider rate increases associated with HPSM's strategic use of reserves was implemented in 2025 but was not included in the budget. Higher utilization for hospital admissions, dental services, BHT, and Community Supports contributed to the negative budget variance too. The higher LTC cost was attributed to higher LTC per-diem rates published by DHCS, which HPSM contractually pays to LTC providers. These negative budget variances were partially offset by lower than budget administrative cost.

FINANCIAL HIGHLIGHTS – FIDUCIARY FUND

The table below is a summarized comparison of the assets, liabilities, and fiduciary net position of the Health Plan of San Mateo Retirement Plan Fund as of December 31, and the changes in fiduciary net position for the years ended December 31:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
TOTAL ASSETS	\$ 46,334,050	\$ 40,509,437	\$ 35,396,257
TOTAL LIABILITIES	-	-	-
TOTAL FIDUCIARY NET POSITION	<u>46,334,050</u>	<u>40,509,437</u>	<u>35,396,257</u>
TOTAL ADDITIONS, NET	8,475,687	6,380,781	7,325,442
TOTAL DEDUCTIONS	<u>2,651,074</u>	<u>1,267,601</u>	<u>1,210,116</u>
INCREASE IN FIDUCIARY NET POSITION	5,824,613	5,113,180	6,115,326
FIDUCIARY NET POSITION - BEGINNING OF YEAR	<u>40,509,437</u>	<u>35,396,257</u>	<u>29,280,931</u>
FIDUCIARY NET POSITION - END OF YEAR	<u>\$ 46,334,050</u>	<u>\$ 40,509,437</u>	<u>\$ 35,396,257</u>

Total fiduciary fund net position as of December 31, 2025, increased by \$5,824,613 from December 31, 2024, due to an increase in fair value of investments.

Total fiduciary fund net position as of December 31, 2024, increased by \$5,113,180 from December 31, 2023, due to an increase in fair value of investments.

Total fiduciary fund net position as of December 31, 2023, increased by \$6,115,326 from December 31, 2022, due to an increase in fair value of investments.

Report of Independent Auditors

The Commissioners
San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of San Mateo Health Commission d.b.a. Health Plan of San Mateo (a stand-alone government entity appointed by the San Mateo County Board of Supervisors), as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise San Mateo Health Commission d.b.a. Health Plan of San Mateo's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and aggregate remaining fund information of San Mateo Health Commission d.b.a. Health Plan of San Mateo as of December 31, 2025 and 2024, and the respective changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of San Mateo Health Commission d.b.a. Health Plan of San Mateo and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about San Mateo Health Commission d.b.a. Health Plan of San Mateo's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of San Mateo Health Commission d.b.a. Health Plan of San Mateo's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Mateo Health Commission d.b.a. Health Plan of San Mateo's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 9 and the supplementary schedule of changes in the net pension asset liability (asset) and related ratios, supplementary schedule of contributions, and supplementary schedule of investment returns – Health Plan of San Mateo Retirement Plan on pages 45 through 47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Francisco, California

April _____, 2026

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Financial Statements

San Mateo Health Commission
(d.b.a. Health Plan of San Mateo) – Proprietary Fund
Statements of Net Position
December 31, 2025 and 2024

	2025	2024
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 701,567,501	\$ 680,831,174
Investments	188,433,423	188,123,683
Capitation receivable from the State of California	297,404,828	123,514,833
CareAdvantage receivable	59,518,906	58,652,343
Other accounts receivable	7,441,757	18,584,294
Prepays and other assets	19,587,793	14,897,737
Lease receivable - current	1,199,878	1,298,169
Total current assets	1,275,154,086	1,085,902,233
CAPITAL ASSETS, NET		
Nondepreciable	15,667,814	15,667,814
Depreciable, net of accumulated depreciation and amortization	41,949,774	43,062,006
Total capital assets, net	57,617,588	58,729,820
LEASE RECEIVABLE - NONCURRENT	5,806,884	332,095
SUBSCRIPTION ASSETS, NET OF ACCUMULATED AMORTIZATION	8,597,616	11,770,079
ASSETS RESTRICTED AS TO USE	300,000	300,000
Total assets	1,347,476,174	1,157,034,227
DEFERRED OUTFLOWS OF RESOURCES		
Total assets and deferred outflows of resources	\$ 1,350,454,178	\$ 1,161,418,115
LIABILITIES AND DEFERRED INFLOWS		
CURRENT LIABILITIES		
Medical claims payable	\$ 100,718,035	\$ 101,806,272
Providers incentives payable	18,489,882	11,243,578
Amounts due to the State of California	235,240,774	202,037,524
Accounts payable and accrued liabilities	315,591,563	150,558,870
Subscription liabilities - current	1,645,058	4,378,929
Total current liabilities	671,685,312	470,025,173
NET PENSION LIABILITY	86,154	2,825,906
SUBSCRIPTION LIABILITIES - NONCURRENT	2,926,213	4,571,270
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - lease	7,069,975	1,575,382
Deferred inflows of resources - pension	4,382,153	2,419,438
Total deferred inflows of resources	11,452,128	3,994,820
Total liabilities and deferred inflow of resources	\$ 686,149,807	\$ 481,417,169
NET POSITION		
Invested in capital assets	\$ 57,617,588	\$ 58,729,820
Restricted by legislative authority	300,000	300,000
Unrestricted	606,386,783	620,971,126
Total net position	\$ 664,304,371	\$ 680,000,946

See accompanying notes.

San Mateo Health Commission
(d.b.a. Health Plan of San Mateo) – Proprietary Fund
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Capitation and premiums		
Medi-Cal	\$ 1,305,712,817	\$ 1,002,970,274
HealthWorx	9,469,572	7,856,506
CareAdvantage	228,157,425	228,857,178
Net operating revenues	<u>1,543,339,814</u>	<u>1,239,683,958</u>
OPERATING EXPENSES		
Health care expenses		
Medical	794,634,773	511,704,438
Hospital inpatient	400,331,443	354,438,341
Pharmacy	67,230,976	66,845,314
Dental	58,716,646	40,056,915
Utilization management (UM) and quality assessment (QA) allocation	30,508,614	25,819,979
Primary care physician capitation	29,561,887	25,940,033
Provider incentives	17,265,559	22,250,533
Care plan options/In-lieu of services	16,060,606	12,046,857
Transportation	13,336,809	17,234,020
Enhanced care management	3,769,454	3,118,437
Other provider health care	3,447,375	-
Long-term support services	2,507,130	1,804,615
Other medical - reinsurance, etc. - net of reinsurance (recoveries) premiums	844,391	(5,112,872)
Total health care expenses	<u>1,438,215,663</u>	<u>1,076,146,610</u>
General and administrative		
Salaries and fringe benefits	66,355,772	60,596,251
Contract services	17,386,632	16,168,958
Office supplies and maintenance	7,733,329	6,454,892
Occupancy, equipment, and depreciation expense	3,676,307	3,671,339
Postage and printing	2,359,236	2,378,416
Other administrative expenses	4,313,585	2,205,967
UMQA health care allocation	(26,085,971)	(22,436,968)
Total general and administrative expenses	<u>75,738,890</u>	<u>69,038,855</u>
MCO tax	<u>81,835,846</u>	<u>78,726,161</u>
Total operating expenses	<u>1,595,790,399</u>	<u>1,223,911,626</u>
(Loss) income from operations	<u>(52,450,585)</u>	<u>15,772,332</u>
NONOPERATING REVENUE (EXPENSE)		
Net interest and investment income	35,771,771	39,508,306
Rental income	1,167,239	1,157,339
Third-party administrator fees	255,000	255,000
Other nonoperating expense	(440,000)	(3,350,000)
Total nonoperating revenue (expense)	<u>36,754,010</u>	<u>37,570,645</u>
Changes in net position	(15,696,575)	53,342,977
NET POSITION, beginning of year	<u>680,000,946</u>	<u>626,657,969</u>
NET POSITION, end of year	<u>\$ 664,304,371</u>	<u>\$ 680,000,946</u>

See accompanying notes.

San Mateo Health Commission
(d.b.a. Health Plan of San Mateo) – Proprietary Fund
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Capitation and premium revenues	\$ 1,560,082,969	\$ 1,369,353,002
Health care expenses	(1,421,949,245)	(1,089,132,987)
General and administrative expenses	(149,509,858)	(176,139,249)
Other	320,331	(4,449,463)
Net cash (used in) provided by operating activities	<u>(11,055,803)</u>	<u>99,631,303</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	36,841,526	34,916,699
Payments for purchase of capital assets	(670,468)	(961,256)
Net cash provided by investing activities	<u>36,171,058</u>	<u>33,955,443</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on subscription liabilities	(4,378,928)	(5,431,178)
Net cash used in financing activities	<u>(4,378,928)</u>	<u>(5,431,178)</u>
Net increase in cash and cash equivalents	20,736,327	128,155,568
CASH AND CASH EQUIVALENTS, beginning of year	680,831,174	552,675,606
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 701,567,501</u>	<u>\$ 680,831,174</u>
RECONCILIATION OF (LOSS) INCOME FROM OPERATIONS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		
(Loss) income from operations	\$ (52,450,585)	\$ 15,772,332
Adjustment to reconcile (loss) income from operations to net cash provided by operating activities:		
Depreciation and amortization	4,955,163	4,541,431
Changes in operating assets and liabilities:		
Capitation receivable from the State of California	(173,889,995)	61,942,634
CareAdvantage receivable	(866,563)	16,540,480
Other accounts receivable	5,766,039	(4,295,149)
Prepays and other assets	407,280	(2,927,606)
Net pension liability	628,847	842,053
Medical claims payable	(1,088,237)	(8,351,149)
Providers incentives payable	7,246,304	(11,996)
Amounts due to the State of California	33,203,250	40,249,240
Accounts payable and accrued liabilities	165,032,694	(24,670,967)
Net cash (used in) provided by operating activities	<u>\$ (11,055,803)</u>	<u>\$ 99,631,303</u>

See accompanying notes.

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo) –
Health Plan of San Mateo Retirement Plan
Statements of Fiduciary Net Position
December 31, 2025 and 2024**

	2025	2024
ASSETS		
Cash and cash equivalents	\$ 1,369,557	\$ 1,261,120
Investments, at fair value		
Mutual funds	8,325,253	7,212,272
Pooled, common, and collective trusts	36,634,220	32,031,017
Total investments, at fair value	44,959,473	39,243,289
Net pending trades	-	(24,500)
Interest and dividends receivable	5,020	29,528
Total assets	46,334,050	40,509,437
NET POSITION RESTRICTED FOR PENSION	\$ 46,334,050	\$ 40,509,437

See accompanying notes.

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo) –
Health Plan of San Mateo Retirement Plan
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2025 and 2024**

	2025	2024
ADDITIONS		
Employer contributions	\$ 3,015,314	\$ 2,721,107
Investment income		
Net appreciation in fair value of investments	5,152,600	3,373,200
Dividends	273,658	202,664
Interest	34,115	83,810
Total investment income	5,460,373	3,659,674
Total additions	8,475,687	6,380,781
DEDUCTIONS		
Benefits paid to participants	2,651,074	1,267,601
INCREASE IN NET POSITION	5,824,613	5,113,180
NET POSITION RESTRICTED FOR PENSION		
Beginning of year	40,509,437	35,396,257
End of year	\$ 46,334,050	\$ 40,509,437

See accompanying notes.

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements**

Note 1 – Description of Operations and Summary of Significant Accounting Policies

Basis of organization – The San Mateo Health Commission (the Commission) (d.b.a. Health Plan of San Mateo) (HPSM) was formed and organized by the Board of Supervisors of San Mateo County (the County) under an ordinance pursuant to Section 14087.51 of the Welfare and Institutional Code as a Health Insuring Organization (HIO). The majority of HPSM's revenues are generated from a contract with the State of California Medi-Cal Program and the Centers for Medicare & Medicaid Services (CMS) for Medicare. HPSM is included in the County of San Mateo's basic financial statements as a discretely presented component unit.

HPSM is responsible for managing a capitated prepaid health care system for residents of the County who are eligible for services under the Medi-Cal Program. The California Legislature authorized the prepaid system in March 1986 and HPSM began operations on December 1, 1987, under a contract with the State of California (the State). HPSM has an executed contract with the State for the period of January 1, 2009, through December 31, 2026.

CMS originally approved the State's request for HPSM to operate under a federal Medicaid freedom of choice waiver in November of 1987. The 1915(b) waiver allows for mandatory participation by Medi-Cal eligible San Mateo County residents in HPSM. Effective November 1, 2010, CMS transitioned all existing California 1915(b) waivers, including HPSM's, into the State's 1115(a) waiver. CMS renewed the State's 1115(a) waiver and 1915(b) waiver for November 1, 2010, through December 31, 2026.

The eleven commissioners of HPSM (Commissioners) are appointed by the County Board of Supervisors. The current Commissioners include two members of the San Mateo County Board of Supervisors, the County Manager or his designee, a physician, four public members (a beneficiary or representative of a beneficiary served by the Commission, a representative of the senior and/or minority communities in San Mateo County, a representative of the business community in San Mateo County, and a public member at large), a representative of the San Mateo Medical Center physicians that serve members of HPSM, a representative of a hospital located in San Mateo County that serves members of HPSM, and a pharmacist.

HPSM acquired a license under the Knox-Keene Health Care Services Plan Act of 1975, as amended (the Act) on July 31, 1998, and is regulated by the State's Department of Health Care Services (DHCS) and California Department of Managed Health Care (DMHC). For the HealthWorx program, HPSM contracted with the San Mateo Public Authority for coverage of the In-Home Support Services (IHSS) employees as of August 1, 2001, and the City of San Mateo for Non-Merit Part-Time and Library Per Diem employees as of January 1, 2009. The current HealthWorx contracts are for the following periods: (1) IHSS – January 1, 2025, to December 31, 2026, and (2) the City of San Mateo – January 1, 2009, to December 31, 2026.

Effective September 1, 2007, HPSM entered into an agreement with the County of San Mateo to provide third-party administrator (TPA) services to administer the benefits of their indigent care program (ACE). The current agreement ends September 30, 2027.

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements**

Effective April 1, 2014, HPSM entered into a three-way contract with CMS and the State of California for Cal MediConnect. The Cal MediConnect demonstration program promotes coordination of care to seniors and people with disabilities who are dually eligible for both Medi-Cal and Medicare. The agreement results in a third Medi-Cal contract and a second Medicare contract. The contract period was through December 31, 2022, at which time the demonstration program ended. HPSM is currently awaiting final risk corridor reconciliations from CMS and the State of California.

In September 2022, HPSM entered into a direct contract with CMS and became a Medicare Advantage Organization (MAO) under the commercial name CareAdvantage. As an MAO, HPSM provides medical services to its dual eligible members, known as a D-SNP program. The service contract for fiscal year 2025 became effective on January 1, 2025, through December 31, 2025, and was extended through December 31, 2026.

Health Plan of San Mateo Retirement Plan Fund accounts for the assets of the employee benefit plan held by HPSM in a trustee capacity. See Note 11.

Accounting standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, HPSM's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989.

Proprietary fund accounting – HPSM utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and financial statements are prepared using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents are stated at cost which approximates current market value due to their short-term nature. All highly liquid investments with original maturities of three months or less when purchased are considered cash equivalents.

Investments – Investments include mutual funds, pooled, common and collective trusts, debt obligations of the U.S. Government and its agencies, certificates of deposits, and money markets as permitted by the California Government Code for Investments. All short-term investments with a maturity of three months or less at the date of purchase are considered to be cash equivalents. These investments are carried at fair market value. The fair values of investments are based on quoted market prices. Changes in fair value of investments are included in net interest and investment income in the statements of revenues, expenses, and changes in net position.

Capital assets – Capital assets include property and equipment which are stated at cost. Depreciation is provided on the straight-line basis over the asset's estimated useful lives which are as follows:

Leasehold improvements	5 years
Building and improvements	39 years
Furniture and equipment	3–7 years

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements**

Leasehold improvements are amortized over the life of the improvement or the lease term, whichever is shorter. Upon retirement or disposal of capital assets, any gain or loss is included in results of operations in the period disposed.

Capital assets of \$9,000 or more are depreciated over their useful lives. Leasehold improvements of \$9,000 or more are amortized over the term of the related lease or their estimated useful lives.

HPSM evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset.

Assets restricted as to use – HPSM is required by the California DMHC to restrict cash of \$300,000 as of December 31, 2025 and 2024, for the payment of member claims in the event of its insolvency.

Medical claims payable – HPSM contracts with various providers, including physicians and hospitals, to provide certain health care products and services to enrolled Medi-Cal, CareAdvantage, and HealthWorx beneficiaries. The cost of the health care products and services provided or contracted for is accrued in the period in which it is provided to a member and includes an estimate of the cost of services that have been incurred but not yet reported. The estimate for reserves for claims is based on projections of hospital and other costs using historical studies of claims paid. Estimates are monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions.

Amounts due to the State of California – When HPSM is made aware of changes to the State rate structure, such as rate decreases, risk corridors or program reconciliations, that significantly impact the financial outlook, an accrual for the estimated change is recorded. Such estimates are subject to the impact of changes in the regulatory environment and are subject to third-party review. At the end of December 31, 2025 and 2024, HPSM had the following included in Amounts due to the State of California in the accompanying statements of net position:

	2025	2024
Risk corridor	\$ 130,366,684	\$ 97,163,434
Medi-Cal Expansion (MCE) medical loss ratio (MLR) reserve	3,666,077	3,666,077
Overpayments	101,208,013	101,208,013
Total	\$ 235,240,774	\$ 202,037,524

Risk corridor – HPSM's contract with DHCS is subject to various risk corridors. The Coordinated Care Initiative (CCI) demonstration program for full-dual members has multiple risk corridors that triggered liabilities. A medical loss ratio (MLR) risk corridor for the first two years (July 2014 through June 2016) resulted in an estimated return of premiums (payable to DHCS) of \$19,789,224 as of December 31, 2025 and 2024. Settlement of these liabilities is pending final reconciliation with DHCS.

San Mateo Health Commission
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Notes to Financial Statements

Cal MediConnect (CMC) Members and Dual Managed Long Term Services and Supports (MLTSS) Risk Corridor – A separate member mix risk corridor triggered an additional return of premiums of \$0 for calendar years 2025 and 2024, recorded as a reduction to capitation and premium revenue as of December 31, 2025. The member mix risk corridor resulted in an estimated payable of \$17,450,000, as of December 31, 2025 and 2024. Settlement of these liabilities is pending final reconciliation.

CalAIM risk corridor reserve – Effective January 1, 2022, California launched a multi-year initiative called California Advancing and Innovating Medi-Cal (CalAIM) to improve the quality of life and health outcomes of the Medi-Cal managed care population through the implementation of broad delivery system, program, and payment reforms across the Medi-Cal program. CalAIM initiatives include the delivery of new Enhanced Care Management (ECM) benefits. DHCS has implemented two-sided risk corridors on ECM services as of January 1, 2022, under which managed care plans are fully at risk for losses up to 95% and gains over 105% on applicable ECM services. Managed care plans will owe a remittance to the State or be owed a payment from the State if gains or losses exceed 5 percent of the applicable ECM rates received. The CalAIM risk corridor reflects the potential amount due to the State for ECM gains in excess of the 105% risk corridor. During the years ended December 31, 2025 and 2024, the reduction of premium revenue related to CalAIM risk corridors was \$9,579,700 and \$6,268,315, respectively. The CalAIM risk corridor reserve resulted in an estimated payable to DHCS of \$18,398,300 and \$13,624,210 as of December 31, 2025 and 2024, respectively. Settlement of these liabilities is pending final reconciliation with DHCS.

Unsatisfactory Immigration Status (UIS) Adult and ACA Expansion risk corridor reserve – Effective January 1, 2024, DHCS utilizes a risk corridor for the capitation rates specific to the UIS population. HPSM is subject to DHCS requirements to meet a minimum of 95% medical expenditure for this population. Specifically, HPSM will be required to expend at least 95% of the Medi-Cal capitation revenue received for this population on allowable medical expenses as defined by DHCS. In the event HPSM expends less than the 95% requirement, HPSM will be required to return to DHCS the difference between the minimum threshold and the actual allowed medical expenses. The risk corridor resulted in an estimated payable to DHCS of \$74,729,160 and \$46,300,000, as of December 31, 2025 and 2024. Settlement of these liabilities is pending final reconciliation with DHCS.

Medi-Cal Expansion (MCE) MLR reserve – Effective with the enrollment of the Adult Expansion Population per the Affordable Care Act on January 1, 2014, HPSM is subject to DHCS requirements to meet a minimum of 85% MLR for this population. Specifically, HPSM will be required to expend at least 85% of the Medi-Cal capitation revenue received for this population on allowable medical expenses as defined by DHCS. In the event HPSM expends less than the 85% requirement, HPSM will be required to return to DHCS the difference between the minimum threshold and the actual allowed medical expenses. The original 85% MLR requirement was for January 2014 through June 2016, a 30-month period. In 2018, HPSM made a payment to the State of \$109 million related to the original reporting periods of January 2014 – June 2016. In 2019, HPSM made a payment to DHCS in the amount of \$15 million related to July 1, 2016 – June 30, 2017. As of December 31, 2025 and 2024, HPSM estimated a remainder liability of \$3,666,077, relating to reporting period July 1, 2016 – June 30, 2017. There are no estimated liabilities for DHCS between the minimum threshold and the actual allowed medical expenses for the reporting period July 2017 to June 2022.

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements**

Overpayments – DHCS pays HPSM based on the most recent CMS approved rates for the various Medi-Cal programs. HPSM records revenue using the anticipated final rates and records a liability for the excess payment received.

Accounts payable and accrued liabilities – Included in accounts payable and accrued liabilities on the statements of net position are the following:

	2025	2024
Intergovernmental (IGT) and Directed Payments payable	\$ 236,354,244	\$ 65,476,160
MCO tax payable	22,620,199	26,366,091
Hospital Quality Assurance Fee (HQAF) payable	16,845,345	16,569,053
Other program payable	24,286,107	28,268,069
Accounts payable and accrued expenses	11,504,069	10,843,888
Other health care liabilities	3,981,599	3,035,609
Total	\$ 315,591,563	\$ 150,558,870

IGT payable – Welfare and Institutions Code provides for an IGT program relating to the Medi-Cal managed care capitation rates and the capitation rate ranges. Governmental funding agencies, defined as counties, cities, special purpose districts, state university teaching hospitals, and other political subdivisions of the state, are eligible to transfer the non-federal share of the available IGT amounts. The IGT is used to fund the non-federal share of increases in Medi-Cal managed care actuarially sound capitation rates.

Directed payments payable – Beginning with the July 1, 2017, rating period, the DHCS has implement managed care Directed Payments: 1) Private Hospital Directed Payment (PHDP); 2) Designated Public Hospital Enhanced Payment Program (EPP-FFS and EPP-CAP); and 3) Designated Public Hospital Quality Incentive Pool (QIP). (1) For PHDP, the Department will direct Managed Care Plans (MCP) to reimburse private hospitals as defined in WIC 14169.51, based on actual utilization of contracted services. The enhanced payment is contingent upon hospitals providing adequate access to service, including primary, specialty, and inpatient (both tertiary and quaternary) care. The total funding available for the enhanced contracted payments are limited to a predetermined amount (pool). (2) For EPP-FFS and EPP-Capitated Pools, the Department has directed MCPs to reimburse California’s 21 Designated Public Hospitals (DPH) for network contracted services delivered by DPH systems, enhanced by either a uniform percentage or dollar increment based on actual utilization of network contracted services. (3) For QIP, the Department has directed the MCPs to make QIP payments tied to performance on designated performance metrics in four strategic categories: primary care, specialty care, inpatient care, and resource utilization. The payments are linked to the delivery of services under the MCP contracts and increase the amount of funding tied to quality outcomes. To receive QIP payments the DPH and University of California hospitals must achieve specified improvement targets, which grow more difficult through year-over-year improvement or sustained high performance requirements.

San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements

HQAF payable – Established by Assembly Bill (AB) 1653 (AB1653), the HQAF program allows additional draw down of federal funding to be used for increased payments to general acute care hospitals for inpatient services rendered to Medi-Cal beneficiaries. DHCS provides increased capitation payments to Medi-Cal managed health care plans who in turn expend 100 percent of any increased capitation payments on hospital services. In April 2011, SB90 was signed into law, which extended the HQAF through June 30, 2011. SB335, signed into law in September 2011, extended the HQAF portion of Senate Bill (SB) SB90 for an additional 30 months through December 31, 2013. The payments were received and distributed in a manner prescribed as a pass through to revenue. SB239, signed into law October 8, 2013, extended the program for an additional 36 months from January 1, 2014, through December 31, 2016. In November of 2016, California approved Proposition 52, which made SB239 permanent and also created HQAF V. The program period for HQAF V is from January 1, 2017, through June 30, 2019. An extension of the program known as HQAF VI, covering July 1, 2019 – December 31, 2021, was approved by the CMS in February 2020. An additional extension known as HQAF VII was approved in September 2022 covering calendar year 2022. At December 15, 2023, an extension of the program known as HQAF VIII, covering January 1, 2023 – December 31, 2024, was approved by the CMS. A renewal of the program beyond 2024 is still pending approval.

Other program payable – HPSM holds and administers funds to certain other entities who partner on programs to enhance the Community Care Settings Pilot (CCSP) and further HPSM's mission to ensure access to high-quality, affordable health care for San Mateo County's underserved residents.

Starting 2021, DHCS implemented several State-sponsored incentive programs related to behavior health integration, COVID vaccines, student behavior health, ECM, community supports, and housing and homelessness. In 2025, \$298,989 in revenue and \$298,989 in incentive expense was recognized. In 2024, \$11,432,374 in revenue and \$5,444,183 in incentive expense. Unearned incentives included within other program payable include \$4,507,387 and \$6,601,148 in funds received but not yet earned as of December 31, 2025 and 2024, respectively, related to these programs.

Lease receivable and deferred inflows of resources – Pursuant to GASB Statement No. 87, *Leases*, HPSM as a lessor recognized a lease receivable and a deferred inflow of resources in the statements of net position. A lease receivable represents the present value of future lease payments expected to be received by HPSM during the lease term. Under the lease agreement, HPSM may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received. A deferred inflow of resources is recognized corresponding to the lease receivable amount and is defined as an acquisition of net position by HPSM that is applicable to future reporting periods. The deferred inflows of resources are amortized on an effective interest method basis over the term of each lease.

HPSM recognizes lease contracts or equivalents that have a term exceeding one year that meet the definition of an other than short-term lease. HPSM uses the same interest rate it charges to a lessee as the discount rate or that is implicit in the contract to the lessee. Short-term lease receipts and variable lease receipts not included in the measurement of the lease receivable are recognized as income when earned.

San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements

Subscription assets and liabilities – HPSM has recorded subscription assets as a result of implementing GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). The subscription assets are initially measured at an amount equal to the initial measurement of the related subscription liability plus any contract payments made to the subscription-based information technology arrangement (SBITA) vendor at the commencement of the subscription term, capitalizable initial implementation cost, less any incentive payments received from the SBITA vendor at the commencement of the subscription term. The subscription assets are amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying assets.

HPSM recognizes contracts or equivalents that have a term exceeding one year and the cumulative future payments on the contract exceeding \$100,000 that meet the definition of an other than short-term subscription. HPSM uses risk-free rate as the discount rate. Short-term subscription payments are expensed when incurred.

Net position – Net position is classified as invested in capital assets, restricted by legislative authority or unrestricted. Invested in capital assets represents investments in building, furniture, and equipment, net of depreciation. Restricted net position consists of noncapital net position that must be used for a particular purpose, as specified by state regulatory agency, grantors, or contributors external to HPSM. Unrestricted net position consists of net position that does not meet the definition of restricted or invested in capital assets. The Commission, at its discretion, from time-to-time designates portions of unrestricted net position for the establishment of a stabilization reserve.

Capitation and premium revenues – The State of California pays HPSM capitation revenue retrospectively on an estimated basis each month. Capitation revenue is recognized as revenue in the month the beneficiary is eligible for Medi-Cal services. These estimates are continually reviewed, and adjustments to the estimates are reflected currently in the statements of revenues, expenses, and changes in net position. Eligibility of beneficiaries is determined by the County of San Mateo Department of Human Services and validated by the State of California. The State of California provides HPSM the validated monthly eligibility file of program beneficiaries who are continuing, newly added, or terminated from the program in support of capitation revenue for the respective month.

CMS pays HPSM capitation revenue each month. Capitation revenue is recognized in the month the beneficiary is eligible for Medicare services. Eligibility of members is determined by CMS.

The County of San Mateo and the City of San Mateo each pay HPSM HealthWorx premiums by the first of the month of coverage. Subsequent to the end of the quarter, HPSM submits an adjustment invoice for the difference between the actual versus the estimated quarterly membership. Eligibility of members is determined by the San Mateo County Public Authority and the City of San Mateo.

Premium deficiencies – HPSM performs periodic analyses of its expected future medical expenses and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. Should expected costs exceed anticipated revenues, a premium deficiency is recorded. Management determined that no premium deficiency reserves were needed at December 31, 2025 and 2024.

San Mateo Health Commission
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Health care expenses – The cost of health care rendered to eligible beneficiaries is estimated and recognized as expense in the month in which the services are rendered. These estimates are continually reviewed, and adjustments to the estimates are reflected currently in the statements of revenues, expenses, and changes in net position.

MCO tax – In November 2009, DHCS implemented AB1422 or MCO premium tax. This program imposes an assessment on HPSM's revenue. DHCS uses this assessment to obtain matching federal funds, which is used to sustain enrollment in the Healthy Families program. Effective with California SB78 and beginning July 1, 2012, HPSM was required to pay a gross premium tax on Medi-Cal revenue. For July 1, 2013, through June 30, 2016, the tax rate increased to 3.9375%. On March 1, 2016, Senate Bill (SB) X2-2 established a new managed care organization provider tax, to be administered by DHCS, effective July 1, 2016, through June 30, 2019. The tax is assessed by the DHCS on licensed health care service plans, managed care plans contracted with the DHCS to provide Medi-Cal services, and alternate health care service plans (AHCSP), as defined, except as excluded by the bill. This bill established applicable taxing tiers and per enrollee amounts for the 2016–2017, 2017–2018, and 2018–2019 fiscal years, respectively, for Medi-Cal enrollees, AHCSP enrollees, and all other enrollees, as defined. Effective January 1, 2020, Assembly Bill (AB)115 (Chapter 348, Statutes 2019) authorizes the DHCS to implement a Managed Care Organization (MCO) tax on specified health plans subject to approval by the Centers for Medicare and Medicaid Services (CMS). The tax effective date range under CMS approval is January 1, 2020, through December 31, 2022. On June 29, 2023, AB 119 (Chapter 13, Statutes of 2023) reimposed the MCO premium tax effective April 1, 2023, through December 31, 2026. H.R.1, officially titled the *One Big Beautiful Bill Act*, is a comprehensive federal reconciliation bill enacted on July 4, 2025. Under its new federal mandates, H.R.1 imposes federal restrictions on how California uses MCO tax revenue to support its Medi-Cal program. These changes require reassessment by DHCS of the MCO payment structure to ensure compliance with federal guidelines. As of August 1, 2025, DHCS has paused MCO-related payments to Medi-Cal managed care plans until further notice. MCO tax expense was \$81,835,846 and \$78,726,161 for the years ended December 31, 2025 and 2024, respectively. As of December 31, 2025 and 2024, \$22,620,199 and \$26,366,091, respectively, was accrued. These amounts are included in accounts payable and accrued liabilities on the statements of net position.

Operating revenues and expenses – HPSM's primary operating revenue is derived from capitation. As defined by GASB Codification Section P80, *Proprietary Fund Accounting and Financial Reporting*, all operating revenues are considered program revenues since they are charges for services provided and program-specific operating grants. The primary operating revenue is derived from capitation and other sources in support of providing health care services to its members. Operating expenses are all expenses incurred to provide such health care services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities, result from net investment income, changes in the fair value of investments, and administrative fees relating to providing Third-party Administrator claims processing services for the San Mateo County Access and Care for Everyone (ACE) participants.

Income taxes – HPSM operates under the purview of Internal Revenue Code (IRC) Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal income or state franchise taxes.

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Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Management also discloses contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period based on these estimates and assumptions such as medical claims payable including incurred but not reported liability, capitation receivable from the State of California and CareAdvantage receivable, amounts due to the State of California including MLR and risk corridor, fair market value of investments, and net pension liability. Ultimate results may differ from those estimates.

Concentrations of risk – Financial instruments potentially subjecting HPSM to concentrations of risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance thresholds. HPSM maintains its cash in bank deposit accounts, which, at times, may exceed FDIC insurance thresholds. If the financial institutions with which HPSM does business with were to be placed into receivership, HPSM may be unable to access the cash HPSM has on deposit with such institutions. If HPSM was unable to access its cash and cash equivalents as needed, HPSM's combined financial position and ability to operate its business could be adversely affected. HPSM believes no significant concentration of credit risk exists with these cash accounts.

HPSM's business could be impacted by external price pressure on new and renewal business, additional competitors entering HPSM's markets, federal and state legislation, and governmental licensing regulations of HMOs and insurance companies. External influences in these areas could have the potential to adversely impact HPSM's operations in the future.

HPSM is highly dependent upon the State of California for its revenues. A significant portion of accounts receivable and revenue are from the State of California. Loss of the contracts with the State of California due to nonrenewal or legislative decisions that impact program funding or result in discontinuation could materially affect the financial position of HPSM.

HPSM maintains a majority of their provider contracts with three large provider systems in the region it serves. The loss of one or more of these contracts, or an inability to renew and failure of the contracted provider organization to perform under the contract could have an adverse effect on HPSM.

New accounting pronouncements – In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures* (GASB 102). This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The Statement is effective for fiscal years beginning after June 15, 2024. The adoption of this new standard did not have a material impact on the financial statements and related disclosures.

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In May 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This statement modifies the basic financial statements and MD&A to enhance governmental financial reports. Changes include revisions to MD&A, modifications to proprietary fund statements, elimination of separate extraordinary and special item presentations, and changes to budgetary comparison information. This Statement is effective for fiscal years beginning after June 15, 2025. HPSM is currently evaluating the impact of the adoption of this standard on its financial statements.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* and also requires additional disclosures for capital assets held for sale. This Statement is effective for fiscal years beginning after June 15, 2025. HPSM is currently evaluating the impact of the adoption of this standard on its financial statements.

Note 2 – Cash and Cash Equivalents, Investments, and Assets Restricted as to Use

Cash, cash equivalents, and investments – Cash and cash equivalents and investments as of December 31, consist of the following:

	2025	2024
Cash on hand	\$ 500	\$ 500
Cash deposits	464,536,548	453,520,574
Cash equivalents	237,030,453	227,310,100
Investments	188,433,423	188,123,683
Total cash, cash equivalents, and investments	\$ 890,000,924	\$ 868,954,857

Assets restricted as to use – Assets restricted as to use consist of \$300,000 of certificates of deposits as of December 31, 2025 and 2024.

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The current investment policy of HPSM states the chief financial officer/treasurer has the authority to invest or reinvest HPSM's surplus funds not required for immediate necessities in such a manner as to provide maximum return with adequate protection of the funds. Return on invested funds is secondary to safety of principal and liquidity. The Commission may invest in obligations of the U.S. Treasury and other U.S. agencies, bankers' acceptances, commercial paper from issuing corporations of \$500 million and of the highest letter, and numerical rating as provided by Moody's Investors Service, Inc., or Standard & Poor's Corporation, certificates of deposits, repurchase agreements, and the State Treasurer's Local Agency Investment Fund. No more than 10% of funds invested can be instruments of any single institution other than securities issued by the U.S. Government and its affiliated agencies. Additional restrictions are placed on the concentration of investments and the days until maturity. The following table also identifies certain provisions that address interest rate risk, credit risk, and concentration risk.

Authorized Investment Type	Maximum Maturity	Maximum Specified Percentage Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agencies	None	None	None
Bankers' Acceptances	270 days	40%	30%
Commercial Paper	180 days	10%	None
Negotiable Certificates of Deposits	2 years	30%	None
Repurchase Agreements	10 days	None	None
	75% of holdings - 4.5 years with no single purchase greater than 6 years		
	25% of holdings - month to month		
State Operating Funds and Reserves	month	None	None

State Treasurer's Local Agency Investment Fund – HPSM has an investment in the State Treasurer's Local Agency Investment Fund (LAIF). The investment in LAIF is carried at fair value, which approximates amortized cost. Generally, the investments in LAIF are available for withdrawal on demand. The investment in LAIF does not meet the criteria for risk categorization.

LAIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code (the Code) according to a statement of investment policy that sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally sponsored agencies, U.S. corporate bonds, interest-bearing time deposits in California banks, prime-rated commercial paper, bankers' acceptances, negotiable certificates of deposit, and repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements subject to limits of no more than 10% of PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA cash and investments are recorded at amortized cost, which approximates fair value.

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County of San Mateo Pooled Fund – HPSM also has an investment in the County of San Mateo Pooled Fund (CSMPF). The investment in CSMPF is carried at fair value, which approximates amortized cost.

CSMPF funds are on deposit with the County's Treasurer and are managed in compliance with the Code, according to a statement of investment policy, developed by the Treasurer, reviewed and approved annually by the County Treasury Oversight Committee and the County Board of Supervisors.

The investment policies of the CSMPF are similar to those of the PMIA.

The amounts invested in LAIF and CSMPF are considered investments in an external investment pool and earn interest based on the blended rate of return earned by the entire portfolio in the pool. As HPSM does not own identifiable investment securities of the pool but participates as a shareholder of the pool, these investments are not individually identifiable and were not required to be categorized under GASB Statement No. 62 Section C20, *Cash Deposits with Financial Institutions*.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

HPSM's equity in the investment pool is determined by the dollar amount of HPSM's deposits, adjusted for withdrawals, and distributed investment income. Investment income is determined on an amortized cost basis. Interest payments, accrued interest, accreted discounts, amortized premiums, and realized gains and losses, net of administrative fees, are apportioned to pool participants every quarter. This method differs from the fair value method used to value investments in these financial statements as unrealized gains or losses are not apportioned to pool participants.

Per CSMPF's investment policy, any request to withdraw funds shall be subject to the consent of the Treasurer and shall be released at no more than 12.5% per month, based on the month-end balance of the prior month. In accordance with California Government Code 27136 et seq, and 27133(h) et seq, these requests are subject to the Treasurer's consideration of the stability and predictability of the pooled investment fund, or the adverse effect on the interests of the other depositors in the pooled investment fund.

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Investments and assets restricted as to use not subject to fair value hierarchy as of December 31:

	2025	2024
Certificates of deposit	\$ 300,000	\$ 300,000
San Mateo County Pooled Fund	119,585,234	115,023,833
Local Agency Investment Fund	68,848,189	73,099,850
Total investments and assets restricted as to use	\$ 188,733,423	\$ 188,423,683

There were no investments subject to fair value hierarchy as of December 31, 2025 and 2024.

The custodial credit risk, interest rate, credit risk, and concentration of credit risk under GASB Statement No. 62 Section C20, *Cash Deposits with Financial Institutions*, at December 31, 2025 and 2024, were as follows:

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, HPSM will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code requires financial institutions to secure deposits made by public agencies by pledging securities in an undivided collateral pool held by a depository regulated under State Law. As of December 31, 2025 and 2024, uninsured deposits exposed to custodial credit risk that have been collateralized by the pledging bank were \$701,567,501 and \$680,831,174, respectively.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, HPSM will not be able to recover the value of its investments or collateral securities that are in the possession of another party. As of December 31, 2025 and 2024, HPSM did not hold investments exposed to custodial credit risk.

Interest rate risk – Changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, HPSM manages the risk of market value fluctuations due to overall changes in the general level of interest rates by limiting the weighted average maturity of its portfolio to no more than five years.

The weighted average maturity in years for the \$300,000 certificates of deposit included in assets restricted as to use was 0.31 and 0.47 as of December 31, 2025 and 2024, respectively. The weighted average maturity in years for the portfolio was 0.31 and 0.47 as of December 31, 2025 and 2024, respectively.

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Credit risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Per GASB Statement No. 62 Section C20, *Cash Deposits with Financial Institutions*, unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. Presented below is the minimum rating required by (where applicable) the California Government Code or HPSM’s investment policy and the actual rating as of year-end for each investment type.

Ratings as of December 31, 2025 and 2024, for the certificates of deposit were A-1.

Concentration of credit risk – The investment policy of HPSM contains certain limitations on the amount that can be invested in any one issuer and is listed in the table above. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total HPSM’s investments at December 31, 2025 and 2024.

Note 3 – Capitation Receivable from the State of California

HPSM receives capitation from the State based upon the monthly capitation rate of each aid code (Medi-Cal category of eligibility). The State makes monthly payments based on actual members for the current month and changes for the prior 12 months.

HPSM estimates the current and prior years’ capitation receivable based on the State’s most current actual member counts by aid code. Currently, HPSM records the current year capitation receivable based on the most current actual member counts by aid code. The amounts are trued up on a monthly basis.

Note 4 – Capital Assets, Net

Capital asset, net activity for the fiscal year ended December 31, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Transfers/Reclass	Ending Balance
Furniture and equipment	\$ 13,778,944	\$ 116,483	\$ (3,109,203)	\$ -	\$ 10,786,224
Building improvements	23,461,984	553,985	-	415,000	24,430,969
Building	31,810,055	-	-	-	31,810,055
Land	15,667,814	-	-	-	15,667,814
Construction in process (CIP)	415,000	-	-	(415,000)	-
Total capital assets	<u>85,133,797</u>	<u>670,468</u>	<u>(3,109,203)</u>	<u>-</u>	<u>82,695,062</u>
Less accumulated depreciation and amortization	<u>26,403,977</u>	<u>1,782,700</u>	<u>(3,109,203)</u>	<u>-</u>	<u>25,077,474</u>
Capital assets, net	<u>\$ 58,729,820</u>	<u>\$ (1,112,232)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,617,588</u>

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Capital asset, net activity for the fiscal year ended December 31, 2024, was as follows:

	Beginning Balance	Increases	Decreases	Transfers/Reclass	Ending Balance
Furniture and equipment	\$ 14,246,487	\$ 323,710	\$ (791,253)	\$ -	\$ 13,778,944
Building improvements	23,239,438	222,546	-	-	23,461,984
Building	31,810,055	-	-	-	31,810,055
Land	15,667,814	-	-	-	15,667,814
Construction in process (CIP)	-	415,000	-	-	415,000
Total capital assets	84,963,794	961,256	(791,253)	-	85,133,797
Less accumulated depreciation and amortization	25,599,520	1,595,710	(791,253)	-	26,403,977
Capital assets, net	\$ 59,364,274	\$ (634,454)	\$ -	\$ -	\$ 58,729,820

Depreciation and amortization expense for capital assets for the years ended December 31, 2025 and 2024, was \$1,782,700 and \$1,595,710, respectively.

Note 5 – Medical Claims Payable

HPSM contracts with various providers, including physicians and hospitals, to provide certain health care products and services to enrolled Medi-Cal, Health Worx, and CareAdvantage beneficiaries. The cost of the health care products and services provided or contracted for is accrued in the period in which it is provided to a member and includes an estimate of the cost of services that have been incurred but not yet reported. The estimate for reserves for claims is based on projections of hospital and other costs using historical studies of claims paid. Estimates are monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions.

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Activity for medical claims payable for the years ended December 31 is summarized as follows:

	2025	2024
Balance at beginning of period	\$ 101,806,272	\$ 110,157,421
Incurred		
Current year	951,765,576	826,599,872
Prior year	(2,354,441)	(11,659,808)
	949,411,135	814,940,064
Paid related to		
Current year	850,948,535	734,841,109
Prior year	99,550,837	88,450,104
Total paid	950,499,372	823,291,213
Balance at end of period	\$ 100,718,035	\$ 101,806,272

Medical claims payable decreased by \$1.1 million in comparison to the previous year. \$5.8 million of this is from the accruals and payments of State directed Proposition 56 supplemental payments and \$0.7 million is from the accruals and payments of State directed Ground Emergency Medical Transportation supplemental payments. This is offset by a \$5.4 million increase of the general medical claims payable reserves, and is due to an increase in membership, increase in average cost for certain services, and an increased reserves for high cost cases.

Amounts incurred related to prior years represent changes from previously estimated liabilities. Liabilities at any year end are continuously reviewed and re-estimated as information regarding actual claims payments and expected payment trends become known. Negative amounts reported for incurred related to prior years result from claims being adjudicated and paid for amounts less than originally estimated.

There was a favorable impact to current year operations of \$2.4 million during fiscal year 2025 due to a change between the estimated claim costs accrued as of December 31, 2024, and actual amounts that were subsequently adjudicated and paid during the year ended December 31, 2025. Management believes the decrease in prior year's estimated claim costs is largely a result of actual utilization being lower than the anticipated levels assumed in the December 31, 2024, IBNR estimate.

Note 6 – Incentives Payable to Provider

In October 2019, HPSM implemented a new quality incentive program with nursing facilities that provide skilled and/or long-term care services to HPSM members for meeting targeted quality measures. The program is designed to improve outcomes by incentivizing member access and high-quality care. As of December 31, 2025 and 2024, the Providers incentives payable was \$18,489,882 and \$11,243,578, respectively.

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Note 7 – Reserve for Stabilization and Minimum Tangible Net Equity

The Commission, at its discretion, from time to time designates portions of net position for the establishment of certain reserves. These reserves are Board designated and unrestricted. They are available to satisfy the unreserved net position.

As a limited license plan under the Act, HPSM is required to maintain a minimum level of Tangible Net Equity (TNE). On November 9, 2016, the San Mateo Health Commission approved a change to the stabilization reserve from 250% of the minimum TNE as defined by the DMHC regulation to two (2) months of operating expenses. During 2023, the Commission approved the addition of a contingency reserve equal to one (1) month's operating expenses. As of December 31, 2025, the combined stabilization and contingency reserve was \$398,947,600. As of December 31, 2024, the stabilization reserve (alone) was \$305,977,907.

As of December 31, 2025, the minimum TNE was \$62,346,151. Total net position as of December 31, 2025, was \$664,304,371, which exceeds the minimum TNE by \$601,958,220 and is 1,066% of TNE.

As of December 31, 2024, the minimum TNE was \$48,008,263. Total net position as of December 31, 2024, was \$680,000,946, which exceeds the minimum TNE by \$631,992,683 and is 1,416% of TNE.

Note 8 – Leases

HPSM is a lessor for non-cancelable leases of office space with lease terms through March 31, 2026. HPSM is currently negotiating a five-year renewal with the existing lessee. Management believes it is probable that the renewal option will be exercised and that the lease will be extended accordingly. For the years ended December 31, 2025 and 2024, HPSM recognized \$1,167,239 and \$1,157,339, respectively, included in lease revenue released from the deferred inflows of resources related to the office lease included in rental income on the statements of revenues, expenses, and changes in net position. No inflows of resources were recognized in the year related to termination penalties or residual value guarantees during fiscal years ended December 31, 2025 and 2024.

Note 9 – Subscription Based Information Technology Arrangements

HPSM entered into various agreements for information technology (IT) subscriptions. These agreements range in terms up to year 2027. For the years ended December 31, 2025 and 2024, the total lease payments were \$4,609,976 and \$5,811,206, respectively. Variable payments based upon the use of the underlying IT asset are not included in the subscription liability because they are not fixed in substance—therefore, these payments are not included in subscription assets or subscription liabilities. HPSM did not enter into any additional subscription agreements that have yet to commence as of December 31, 2025.

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HPSM has the following subscription assets activities for the years ended December 31, 2025 and 2024:

	Balance January 1, 2025	Increase	Decrease	Balance December 31, 2025
Subscription assets	\$ 16,263,623	\$ -	\$ 1,067,275	\$ 15,196,348
Less accumulated amortization	4,493,544	3,172,463	1,067,275	6,598,732
Subscription assets, net	<u>\$ 11,770,079</u>	<u>\$ (3,172,463)</u>	<u>\$ -</u>	<u>\$ 8,597,616</u>
	Balance January 1, 2024	Increase	Decrease	Balance December 31, 2024
Subscription assets	\$ 7,714,348	\$ 11,021,977	\$ 2,472,702	\$ 16,263,623
Less accumulated amortization	4,020,525	2,945,721	2,472,702	4,493,544
Subscription assets, net	<u>\$ 3,693,823</u>	<u>\$ 8,076,256</u>	<u>\$ -</u>	<u>\$ 11,770,079</u>

For the years ended December 31, 2025 and 2024, HPSM recognized \$3,172,463 and \$2,945,721, respectively, in amortization expense.

HPSM evaluated the subscription assets for impairment and determined there was no impairment for the years ended December 31, 2025 and 2024.

The following is a summary of changes in subscription liabilities, net, for the years ended December 31:

	Beginning Balance	Increase	Decrease	Ending Balance	Current Portion
2025	\$ 8,950,199	\$ -	\$ 4,378,928	\$ 4,571,271	\$ 1,645,058
	Beginning Balance	Increase	Decrease	Ending Balance	Current Portion
2024	\$ 3,359,400	\$ 11,021,977	\$ 5,431,178	\$ 8,950,199	\$ 4,378,929

The future principal and interest subscription payments as of December 31, 2025, were as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 1,645,058	\$ 150,766	\$ 1,795,824
2027	1,723,119	94,702	1,817,821
2028	1,203,094	42,790	1,245,884
	<u>\$ 4,571,271</u>	<u>\$ 288,258</u>	<u>\$ 4,859,529</u>

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Note 10 – Deferred Compensation Fund

HPSM contributes an amount equal to 7.5% of gross salary on behalf of the employee to an IRC Section 457 deferred compensation plan per Internal Revenue Service (IRS) regulations in lieu of social security. In July 2016, HPSM held a vote of its employees to determine for themselves whether or not to participate in social security effective October 1, 2016. Employees who voted to participate in social security would no longer receive the 7.5% of gross salary contribution. Those voting not to participate would continue to receive the contributions in lieu of social security.

All HPSM employees may participate in this deferred compensation plan under which employees are permitted to defer a portion of their annual salary until future years. For the years ended December 31, 2025 and 2024, HPSM contributed \$770,887 and \$768,004, respectively. The deferred compensation plan is administered by the International City Managers Association, and the funds are invested under the terms of a trust agreement. The amounts are not available to employees until termination, retirement, death, or unforeseeable emergency.

The market value of the investments held equals the liability to plan participants under the deferred compensation plan. The deferred compensation investments consisted of various participant directed uninsured investments.

The assets in the plan are not available to pay the liabilities of HPSM. Therefore, the respective assets and liabilities are not reflected in the statements of net position of HPSM.

Note 11 – Health Plan of San Mateo Retirement Plan – Fiduciary Fund

Effective January 1, 1994, HPSM established the Health Plan of San Mateo Employee Retirement Plan (the Plan). The Plan is a single-employer defined benefit pension (cash balance) plan administered by HPSM. Eligible HPSM employees become members of the Plan on the first day of employment. HPSM has the authority to amend or terminate the Plan at any time and for any reason by action of its Commission. The Plan does not issue a stand-alone financial report.

Under the Plan, participants' account balances are credited with contributions equal to 10% of their annual compensation, plus interest of 5% on an annual basis effective January 1, 2005. Benefits are payable in the form of a single-sum payment upon termination or can be deferred through optional payment forms. Participants earn a vested right to accrued benefits upon completion of three years of service and upon death, permanent disability, or employer termination of the Plan. Contributions to the Plan are made by HPSM as no contributions are permitted by participants.

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Summary of Significant Accounting Policies

Basis of accounting – The Plan fiduciary financial statements are prepared using the accrual basis of accounting. HPSM’s contributions are recognized in the period in which contributions are made. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Investments – The Plan’s investments are reported at fair value, including certain investments held in pooled, common, and collective trusts which are maintained for the collective investments are reinvestments of monies contributed to the funds.

Mutual funds – Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Pooled, common, and collective trusts – Units held in pooled investment accounts are valued using the NAV practical expedient of the pooled investment account as reported by the account managers. The NAV is based on the fair value of the underlying assets owned by the pooled investment account, minus its liabilities, and then divided by the number of units outstanding. The NAV of a pooled investment account is calculated based on a compilation of primarily observable market information. The funds invested in the Wells Fargo collective trusts are discretionary accounts managed by Wells Fargo; as a participant of those collective trusts, the Plan purchases and redemption of units from each fund are based on unit values as of the valuation date. Purchases and redemption of units may occur on a daily basis with no redemption fees or other restrictions. Further, the funds do not distribute their investment income to participants but rather reinvest their investment income back into their respective funds.

Investments by fair value level include the following as of December 31, 2025 and 2024:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2025</u>
Investments by fair value level				
Mutual funds	\$ 8,325,253	\$ -	\$ -	\$ 8,325,253
Total investments subject to fair value hierarchy	<u>\$ 8,325,253</u>	<u>\$ -</u>	<u>\$ -</u>	8,325,253
Investments not subject to fair value hierarchy				
Pooled, common, and collective trusts - at NAV				<u>36,634,220</u>
Total investments				<u>\$ 44,959,473</u>

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2024</u>
Investments by fair value level				
Mutual funds	\$ 7,212,272	\$ -	\$ -	\$ 7,212,272
Total investments subject to fair value hierarchy	<u>\$ 7,212,272</u>	<u>\$ -</u>	<u>\$ -</u>	7,212,272
Investments not subject to fair value hierarchy				
Pooled, common, and collective trusts - at NAV				<u>32,031,017</u>
Total investments				<u>\$ 39,243,289</u>

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements**

Plan description – Participant data for the Plan, as of the measurement date for the year indicated, is as follows:

	2025	2024
Retired and beneficiaries	13	14
Inactive	65	61
Active	390	375
Total participants	468	450

All employees are eligible to participate, except for the following: leased employees, nonresident aliens, temporary employees, and individuals designated by the employer as ineligible to participate in the Plan.

Retirement dates are either – Normal – first of the month following or coincident with attainment of age 65. Deferred – first of any month following actual retirement after age 65. Early – any age prior to age 65 following completion of at least 3 years of vesting service.

Benefits at normal retirement – Each participant will receive an accumulated credit account determined as the sum of the following:

- a) Effective January 1, 1994, 10% of compensation received as an employee prior to the effective date;
- b) Effective January 1, 1994, investment credits that would have been credited to the account prior to the effective date if it had been in place;
- c) For each year starting on or after January 1, 1994, 10% of compensation earned during the plan year; and
- d) For each year starting on or after January 1, 1994, an investment credit determined as the Investment Crediting Rate applied to the Accumulated Credit Account at the start of the year, plus the Investment Crediting Rate applied for half a year to the compensation credit for the year.

Investment credits under d) will be pro-rated for the length of participation in the year of payment.

Contribution – HPSM agrees to maintain and contribute funds to the Plan in an amount sufficient to pay the vested accrued benefits of participating members and the beneficiaries when the benefits become due. Members do not make contributions. The Finance Committee makes contributions based on the established funding policy.

San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements

Rate of return – For the years ended December 31, 2025 and 2024, the actual rate of return on the Plan’s investments, net of investment expenses, was 10.21% and 4.54%, respectively.

The following table summarizes changes in pension liability for the year ended December 31, 2025:

	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability
Balance at December 31, 2024	\$ 43,335,343	\$ 40,509,437	\$ 2,825,906
Changes during the year			
Service cost at beginning of year:	2,715,791	-	2,715,791
Interest	3,356,217	-	3,356,217
Differences between expected and actual experience	685,615	-	685,615
Changes in assumptions	(1,021,688)	-	(1,021,688)
Benefit payments	(2,651,074)	(2,651,074)	-
Contributions	-	3,015,314	(3,015,314)
Net investment income	-	5,460,373	(5,460,373)
Net change in total pension liability	<u>3,084,861</u>	<u>5,824,613</u>	<u>(2,739,752)</u>
Balance at December 31, 2025	<u>\$ 46,420,204</u>	<u>\$ 46,334,050</u>	<u>\$ 86,154</u>
Plan fiduciary net position as a percentage of the total pension liability			99.81%
Covered payroll as of December 31, 2025, actuarial valuation			\$ 40,818,663
Net pension liability as a percentage of covered payroll			0.21%

The following table summarizes changes in pension liability for the year ended December 31, 2024:

	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability
Balance at December 31, 2023	\$ 38,378,378	\$ 35,396,257	\$ 2,982,121
Changes during the year			
Service cost at beginning of year	2,423,454	-	2,423,454
Interest	3,013,462	-	3,013,462
Differences between expected and actual experience	787,649	-	787,649
Changes in assumptions	-	-	-
Benefit payments	(1,267,600)	(1,267,600)	-
Contributions	-	2,721,107	(2,721,107)
Net investment income	-	3,659,673	(3,659,673)
Net change in total pension liability	<u>4,956,965</u>	<u>5,113,180</u>	<u>(156,215)</u>
Balance at December 31, 2024	<u>\$ 43,335,343</u>	<u>\$ 40,509,437</u>	<u>\$ 2,825,906</u>
Plan fiduciary net position as a percentage of the total pension liability			93.48%
Covered payroll as of December 31, 2023, actuarial valuation			\$ 37,866,724
Net pension liability as a percentage of covered payroll			7.46%

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements**

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of December 31, 2025 and 2024:

Valuation date: Actuarial cost method: Amortization method: Asset valuation method: Actuarial assumptions: Projected salary increases Mortality Discount rate	Contributions related to the actuarially determined contributions made for the plan year January 1 to December 31 Entry age normal actuarial cost method Level dollar, closed amortization Market value 5% Pri-2012 total dataset table for males and females, with future mortality improvements projected on a fully generational basis using projection scale MP-2021. 7.50%
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The following tables summarize the sensitivity of net pension asset to changes in the discount rates as of December 31, 2025 and 2024:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset) as of December 31, 2025	\$ 3,738,172	\$ 86,154	\$ (3,185,511)
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability as of December 31, 2024	\$ 5,507,633	\$ 2,825,906	\$ 426,712

San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements

Components of pension cost included in salaries and fringe benefits and deferred outflows and deferred inflows of resources, as calculated under the requirements of Accounting and Financial Reporting for Pensions (GASB 68), are as follows:

	<u>2025</u>	<u>2024</u>
Service cost	\$ 2,715,791	\$ 2,423,454
Interest cost	3,356,217	3,013,462
Projected earnings on plan investments	(3,051,620)	(2,708,240)
Current period difference between expected and actual experience	71,418	129,548
Current period difference between projected and actual investment earnings	(481,751)	(190,287)
Current period recognition of prior years' deferred outflows of resources	2,020,081	1,975,574
Current period recognition of prior years' deferred inflows of resources	(879,549)	(1,080,351)
Current-period changes of assumptions or other inputs	(106,426)	-
Total pension cost	<u>\$ 3,644,161</u>	<u>\$ 3,563,160</u>
	<u>2025</u>	<u>2024</u>
Deferred outflows of resources as of December 31		
Difference between expected and actual experience	\$ 1,481,633	\$ 1,390,354
Actual earnings on Defined Benefit Plan investments	-	576,138
Changes in assumptions	9	811
Total	<u>\$ 1,481,642</u>	<u>\$ 1,967,303</u>
	<u>2025</u>	<u>2024</u>
Deferred inflows of resources as of December 31		
Changes in assumptions	\$ 915,657	\$ 2,853
Difference between projected and actual investment earnings	1,970,134	-
	<u>\$ 2,885,791</u>	<u>\$ 2,853</u>

Deferred outflows of resources as of December 31, 2025 and 2024, consist of \$1,496,362 and \$2,416,585, respectively, of deferred inflows from difference between projected and actual investment earnings, presented in a consolidated format per GASB 68.

Amount reported as deferred outflows of resources and deferred inflows of resources to pension will be recognized in pension expense are as follows:

<u>Years Ending December 31,</u>	
2026	\$ 609,029
2027	(964,395)
2028	(510,902)
2029	(387,209)
2030	(24,647)
Thereafter	<u>(126,025)</u>
	<u>\$ (1,404,149)</u>

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Notes to Financial Statements**

Note 12 – Medical Reinsurance (Stop-Loss Insurance)

HPSM has entered into certain reinsurance (stop-loss) agreements with third-parties to limit its losses on individual claims. Under the terms of these agreements, the third-parties will reimburse HPSM certain proportions of the cost of each member's annual health care services in excess of specified deductibles (\$425,000 for all lines of business for all health care expenses excluding pharmacy), limited to \$2,000,000 in aggregate over all contract years per member.

Stop-loss insurance premiums of \$4,672,278 and \$3,589,580 are included in other medical expenses in 2025 and 2024, respectively.

In 2025 and 2024, there is a total of \$2,775,985 and \$7,709,546, respectively, included in recoveries.

Note 13 – Professional Liability Insurance

HPSM maintains insurance coverage for professional liability and errors and omissions insurance. The policy is an occurrence-based policy and designed specifically for health maintenance organizations to provide comprehensive professional liability insurance and errors and omissions insurance for HPSM employees and certain covered physicians. There have been no reductions in coverage or any claims that have exceeded coverage in any of the past three years.

Note 14 – Commitments and Contingencies

In the ordinary course of business, HPSM is a party to claims and legal actions by enrollees, providers, and others. After consulting with legal counsel, HPSM's management is of the opinion that any liability that may ultimately be incurred as a result of claims or legal actions will not have a material effect on the financial position or results of operations of HPSM.

Note 15 – Federal and State Health Care Policy and Budget Cuts

HPSM is subject to risks and uncertainties arising from potential changes in federal health care policy, grants, and budgetary adjustments affecting Medicare and Medicaid programs. Proposed and potential cuts to Medicaid could indirectly impact Medicare beneficiaries by straining state budgets. Cuts to Medicaid, including elimination of the enhanced federal match rate for expansion enrollees or the imposition of work requirements, could lead to significant coverage losses, particularly among low-income individuals, those with disabilities, or chronic conditions. States may respond to reduced federal funding by raising taxes or cutting other essential programs. Potential policy changes under consideration include reductions in the federal Medicaid matching rate, imposition of work requirements, more frequent eligibility redeterminations leading to disenrollments, implementation of per-capita caps on federal funding, and elimination of provider taxes used to offset Medicaid costs. If implemented, such changes could force states to reduce benefits, lower payments to providers, and increase financial pressures on state budgets, which may, in turn, adversely affect HPSM's operations. However, the timing, likelihood, and specific impact of these policy changes remain uncertain.

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Supplementary Information

San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Supplementary Schedule of Changes in the
Net Pension Liability (Asset) and Related Ratios

	2025	2024	2023	2022	2021
Total pension liability					
Service cost at beginning of year	\$ 2,715,791	\$ 2,423,454	\$ 2,125,684	\$ 2,014,298	\$ 1,850,939
Interest	3,356,217	3,013,462	2,691,178	2,422,173	2,156,704
Differences between expected and actual experience	685,615	787,649	420,829	146,710	243,072
Changes in assumptions	(1,021,688)	-	-	-	54
Benefit payments	(2,651,074)	(1,267,600)	(1,210,116)	(1,009,186)	(744,699)
Net change in total pension liability	3,084,861	4,956,965	4,027,575	3,573,995	3,506,070
Total pension liability beginning of fiscal year	43,335,343	38,378,378	34,350,803	30,776,808	27,270,738
Total pension liability end of fiscal year (a)	\$ 46,420,204	\$ 43,335,343	\$ 38,378,378	\$ 34,350,803	\$ 30,776,808
Plan fiduciary net pension					
Contributions	\$ 3,015,314	\$ 2,721,107	\$ 2,654,597	\$ 2,095,537	\$ 1,948,733
Net investment income	5,460,373	3,659,673	4,670,845	(4,955,545)	3,211,839
Benefit payments	(2,651,074)	(1,267,600)	(1,210,116)	(1,009,186)	(744,699)
Net change in Plan fiduciary net position	5,824,613	5,113,180	6,115,326	(3,869,194)	4,415,873
Plan fiduciary net position beginning of year	40,509,437	35,396,257	29,280,931	33,150,125	28,734,252
Plan fiduciary net position end of fiscal year (b)	\$ 46,334,050	\$ 40,509,437	\$ 35,396,257	\$ 29,280,931	\$ 33,150,125
Net pension liability (asset) end of fiscal year					
Plan's net pension liability (asset) (a) - (b)	\$ 86,154	\$ 2,825,906	\$ 2,982,121	\$ 5,069,872	\$ (2,373,317)
Plan fiduciary net position					
as a percentage of the total pension liability	99.81%	93.48%	92.23%	85.24%	107.71%
Covered employee payroll	\$ 40,818,663	\$ 37,866,724	\$ 32,334,540	\$ 28,063,764	\$ 27,278,649
Net pension liability (asset)					
as a percentage of covered payroll	0.21%	7.46%	9.22%	18.07%	-8.70%
	2020	2019	2018	2017	2016
Total pension liability					
Service cost at beginning of year	\$ 1,760,865	\$ 1,555,503	\$ 1,409,343	\$ 1,343,189	\$ 1,187,234
Interest	1,841,604	1,654,496	1,493,432	1,369,003	1,265,064
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	1,514,965	561,651	579,658	641,930	365,418
Changes in assumptions	(15,143)	37,351	(2,171)	977	4,080
Benefit payments	(1,228,597)	(1,800,659)	(1,168,557)	(2,334,774)	(875,405)
Net change in total pension liability	3,873,694	2,008,342	2,311,705	1,020,325	1,946,391
Total pension liability beginning of fiscal year	23,397,044	21,388,502	19,076,797	18,056,472	16,110,081
Total pension liability end of fiscal year (a)	\$ 27,270,738	\$ 23,396,844	\$ 21,388,502	\$ 19,076,797	\$ 18,056,472
Plan fiduciary net pension					
Contributions	\$ 1,772,346	\$ 1,613,011	\$ 1,396,529	\$ 1,313,247	\$ 1,164,095
Net investment income	3,804,419	4,099,419	(1,086,108)	2,920,884	1,401,293
Benefit payments	(1,228,597)	(1,800,659)	(1,168,557)	(2,334,774)	(875,405)
Net change in Plan fiduciary net position	4,348,168	3,911,771	(858,136)	1,899,357	1,689,983
Plan fiduciary net position beginning of year	24,386,084	20,474,313	21,332,449	19,433,092	17,743,109
Plan fiduciary net position end of fiscal year (b)	\$ 28,734,252	\$ 24,386,084	\$ 20,474,313	\$ 21,332,449	\$ 19,433,092
Net pension liability (asset) end of fiscal year					
Plan's net pension liability (asset) (a) - (b)	\$ (1,463,514)	\$ (989,240)	\$ 914,189	\$ (2,255,652)	\$ (1,376,620)
Plan fiduciary net position					
as a percentage of the total pension liability	105.37%	104.23%	95.73%	111.82%	107.62%
Covered employee payroll	\$ 26,690,439	\$ 23,367,767	\$ 22,218,355	\$ 20,084,266	\$ 18,167,831
Net pension liability (asset)					
as a percentage of covered payroll	-5.48%	-4.23%	4.11%	-11.23%	-7.58%

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Supplementary Schedule of Contributions**

	2025	2024	2023	2022	2021
Actuarial determined contribution	3,015,314	\$ 2,721,107	\$ 2,654,597	\$ 2,095,537	\$ 1,948,733
Contributions related to actuarially determined contribution	\$ 3,015,314	\$ 2,721,107	\$ 2,654,597	\$ 2,095,537	\$ 1,948,733
Covered payroll	\$ 40,818,663	\$ 37,866,724	\$ 32,334,540	\$ 28,063,784	\$ 27,278,649
Contribution as % of covered payroll	7.39%	7.19%	8.21%	7.47%	7.14%
Contributions made during the fiscal year	\$ 3,015,314	\$ 2,721,107	\$ 2,654,597	\$ 2,095,537	\$ 1,948,733
	2020	2019	2018	2017	2016
Actuarial determined contribution	\$ 1,772,346	\$ 1,613,011	\$ 1,396,529	\$ 1,313,247	\$ 1,164,095
Contributions related to actuarially determined contribution	\$ 1,772,346	\$ 1,613,011	\$ 1,396,529	\$ 1,313,247	\$ 1,164,095
Covered payroll	\$ 26,690,439	\$ 23,367,767	\$ 22,218,355	\$ 20,084,266	\$ 18,167,831
Contribution as % of covered payroll	6.64%	6.90%	6.29%	6.54%	6.41%
Contributions made during the fiscal year	\$ 1,772,346	\$ 1,613,011	\$ 1,396,529	\$ 1,313,247	\$ 1,164,095

**San Mateo Health Commission
(d.b.a. Health Plan of San Mateo)
Supplementary Schedule of Investment Returns –
Health Plan of San Mateo Retirement Plan Fund**

Years Ended December 31,

Rate of return

2025	13.42%
2024	10.13%
2023	15.57%
2022	-14.71%
2021	10.95%
2020	15.43%
2019	22.21%
2018	-5.06%
2017	16.57%
2016	7.83%

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AGENDA ITEM: 5.2

DATE: May 13, 2026

Item 5.2 – 501(c)(3) Update

A presentation will be provided at the meeting.

AGENDA ITEM: 5.3

DATE: May 13, 2026

Item 5.3 – HPSM Scenario Planning

A presentation will be provided at the meeting.

MEMORANDUM

AGENDA ITEM: 6.0

DATE: May 6, 2026

DATE: May 6, 2026
TO: San Mateo Health Commission
FROM: Patrick Curran
RE: CEO Report – May 2026

State Budget Update on May 14th

We await the announcement of the May Revise, which will take place no later than May 14th. As a reminder, the May Revise includes updated revenue information from the Governor’s original budget announcement in January. It also highlights other proposed changes from the January budget forecast, which could include cuts or enhancements to the Medi-Cal program.

After the May Revise, the Governor’s office and the legislature engage in a flurry of negotiations, resulting in a final state budget by June 15th. The California budget year runs from July 1 through June 30.

Since this announcement will likely take place one day after our Health Commission meeting next week, we will provide an overview of the May Revise, as well as updates on budget discussions, at our June meeting.

There are a few areas we will be watching closely in the budget:

1. Several sources indicate that revenue projections through tax receipts are higher than anticipated. Should that occur, as well as having no significant changes in the stock market over the next month, it may take the pressure off further cuts.
2. Even with increased tax revenue, the state faces structural budget deficits in future years that the Legislative Analyst’s Office (LAO) has urged state leaders to address sooner rather than later. In addition, the state has emphasized that it cannot fill the gap created by reductions in Medicaid funding by the federal government through HR1.
3. The federal government, through CMS, has released State Medicaid Director Letters that address ongoing concerns they have regarding the coverage of undocumented residents through Medicaid. Even though these programs are 100% funded by states, such as California, there are federal matching programs and rule interpretations that complicate the administration of these state-only programs. Therefore, the type of coverage offered to undocumented residents, as well as the delivery model for these individuals (though managed care plans such as HPSM), may be an item in the May Revise.