

# BOARD OF GOVERNORS

## Finance & Budget Committee

### Meeting Minutes – January 24, 2023

1055 W. 7<sup>th</sup> Street, Los Angeles, CA 90017

#### Members

Stephanie Booth, MD, *Chairperson*

Al Ballesteros

Hilda Perez

G. Michael Roybal, MD

Nina Vaccaro

*\*Absent \*\* Via Teleconference*



**L.A. Care**  
HEALTH PLAN

#### Management/Staff

John Baackes, *Chief Executive Officer*

Sameer Amin, MD, *Chief Medical Officer*

Terry Brown, *Chief of Human Resources*

Augustavia Haydel, *General Counsel*

Linda Greenfeld, *Chief Products Officer*

Tom MacDougall, *Chief Technology & Information Officer*

Marie Montgomery, *Chief Financial Officer*

Noah Paley, *Chief of Staff*

Acacia Reed, *Chief Operating Officer*

Afzal Shah, *Deputy Chief Financial Officer*

State and local officials continue to impose or recommend measures to promote social distancing to reduce transmission of the COVID 19 virus. It is prudent to use caution in protecting the health of the public, L.A. Care's employees and its members where adequate virtual means exist to permit the meeting to occur by teleconference/videoconference with the public being afforded the ability to comment in real time. The Board of Governors and all legislative bodies of the L.A. Care Health Plan, and the Board of Directors and all legislative bodies of the Joint Powers Authority will continue to meet virtually and in person, and the Board will review that decision on an on-going basis as provided in the Brown Act. Members of the public had the opportunity to attend and share comments in person, or to listen to the meeting via teleconference, and share their comments via voicemail, email, or text.

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
<b>CALL TO ORDER</b>	Stephanie Booth, MD, <i>Committee Chairperson</i> , called the L.A. Care and JPA Finance & Budget Committee meetings to order at 1:01 p.m. The meetings were held simultaneously. She welcomed everyone and summarized the process for public comment during this meeting. <ul style="list-style-type: none"><li>• For those who provided public comment for this meeting by voice message or in writing, L.A. Care is glad that they provided input today. The Committee will hear their comments and they also have to finish the business on the Agenda today.</li><li>• For people who have access to the internet, the meeting materials are available at the lacare.org website. If anyone needs information about how to locate the meeting materials, they can reach out to L.A. Care staff.</li><li>• Information for public comment is on the Agenda available on the web site. Staff will read the comment from each person for up to three minutes.</li></ul>	

**APPROVED**

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	<ul style="list-style-type: none"> <li>The Chairperson will invite public comment before the Committee starts to discuss an item. If the comment is not on a specific agenda item, it will be read at the general Public Comment.</li> <li>She provided information on how to submit a comment live and directly using the “chat” feature.</li> </ul>	
<b>APPROVE MEETING AGENDA</b>	The Agenda for today’s meeting was approved.	<b>Approved unanimously by roll call. 5 AYES (Ballesteros, Booth, Perez, Roybal and Vaccaro)</b>
<b>PUBLIC COMMENTS</b>	There were no public comments.	
<b>APPROVE CONSENT AGENDA</b>	<p>Chairperson Booth requested that Motions FIN 100 and FIN C be removed from the Consent Agenda for further clarification.</p> <ul style="list-style-type: none"> <li>November 15, 2022 meeting minutes</li> <li>Toney Health Care Consulting (THCC) to provide Utilization Management Frontline Nursing and Leadership Staffing Augmentation <b><u>Motion FIN 101.0223</u></b> <b>To authorize amendment extensions of the current contracts with Toney Health Care Consulting (SOWs 3 &amp; 7) for UM services through September 30, 2023, at an additional cost of \$1,509,200 for a total UM contract not to exceed \$15,186,571.</b></li> <li>Milliman Contract Amendment for L.A. Covered <b><u>Motion FIN A.0123</u></b> <b>To authorize staff to amend Statement of Work No. 2 with Milliman in the amount of \$400,000 (for a new contract total of \$1,650,000) to provide Actuarial models and services for the period of January 1, 2023 to December 31, 2023.</b></li> <li>Milliman Contract Amendments for L.A. Care Medicare’s line of business <b><u>Motion FIN B.0123</u></b> <b>To authorize staff to amend Statement of Work No. 1 with Milliman in the amount of \$300,000 (for a new contract total of \$1,599,000) for Milliman to provide Actuarial models and services for L.A. Care’s Medicare lines of business for the period of January 1, 2023 to December 31, 2023.</b></li> </ul>	<b>Motions FIN 101, FIN A and FIN B were approved unanimously by roll call. 5 AYES</b>

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	<p>Chairperson Booth requested clarifications on the following motions:</p> <ul style="list-style-type: none"> <li>With regard to FIN 100 (Cognizant Contract Amendment for Healthcare Effectiveness Data and Information Set (HEDIS) and Align. Measure. Perform (AMP) services, why was an RFP conducted and the vendor changed after July 2023, if the HEDIS piece is satisfactory and AMP services are doing well. Sameer Amin, MD, <i>Chief Medical Officer</i>, responded that this contract amendment would be short term. The current contract expired as a result of changes by the vendor, for which a new account manager was assigned. There was not enough time to review a newly created scope of work while L.A. Care is in a HEDIS audit. L.A. Care is currently getting needed services.</li> </ul> <p><b><u>Motion FIN 100.0223</u></b>  <b>To authorize staff to execute a 4 month-amendment to the existing contract with Cognizant to provide Healthcare Effectiveness Data and Information Set (HEDIS) &amp; Align. Measure. Perform (AMP) software and services for the period of April 2023 through July 2023 with fees not to exceed \$300,000 for a contract total \$2,200,000.</b></p> <ul style="list-style-type: none"> <li>For FIN C (Transform Health Contract), Chairperson Booth asked for a summary of the contract. Dr. Amin noted that the contract is for the CalAIM programs for mental and physical health to improve the provider network. William Alamo, <i>Safety Net Programs Manager</i>, added that the motion would address needed services to achieve program goals. L.A. Care is working with the vendor to support the provider network launched last year for Enhanced Care Management (ECM). Chairperson Booth asked if this would meet the requirements of the Department of Health Care Services (DHCS). Dr. Amin responded that it would facilitate work with providers on ECM and Enhanced Community Supports (ECS) services in the community.</li> </ul> <p><b><u>Motion FIN C.0123</u></b>  <b>To authorize an expenditure of up to \$1,211,000 for the Transform Health (TH) two-year service contract to support L.A. Care through February 29, 2024.</b></p>	<p><b>Motions FIN 100 and FIN C were approved unanimously by roll call. 5 AYES</b></p> <p><b>The Committee approved to include Motions FIN 100 and FIN 101 to the Consent Agenda for the February 2, 2023 Board of Governors meeting.</b></p> <p><b>FIN A, FIN B and FIN C do not require full Board approval.</b></p>
<p><b>CHAIRPERSON'S REPORT</b></p>	<p>Chairperson Booth expressed that she thinks that all can agree, that the response to the regulatory bodies should deter future non-compliance. She noted that an evaluation of L.A. Care's performance should also recognize the difficulties in meeting the standards set for health plans. When non-compliance is deliberate, or a result of an intent to defraud or hide errors, or when it is due to the reckless disregard of risks for a bad outcome, negative consequences should be expected to deter future non-compliance in that organization. The</p>	

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	<p>punitive actions imposed typically consist of financial penalties as well as an investigation of the problem and creating, implementing, following and monitoring a Corrective Action Plan. If negative consequences are significant, they may deter similar types of non-compliant activity in other organizations.</p> <p>She noted that, on the other hand, inadvertent errors and very high goal-setting also lead to difficulty in meeting and maintaining compliance. L.A. Care is already working across the entire organization to improve quality and performance and to be and remain compliant. A financial penalty or additional work related to fulfilling requests, reporting internal audit investigations and sharing the progress of a self-imposed Corrective Action Plan may not facilitate improvement. This may be especially true when more than one agency imposes negative consequences.</p> <p>Chairperson Booth urged stakeholders to consider the potential negative consequences of enforcing the burden of financial penalties and corrective action plans upon an organization. L.A. Care demonstrates an intent to be and remain compliant, to continually improve quality and performance in fulfilling its mission “to provide access to quality health care for Los Angeles County's vulnerable and low-income communities and residents and to support the safety net required to achieve that purpose.”</p> <p>A brief discussion of the Committee’s meeting schedule was held. Board Member Vaccaro expressed that she will have a challenge with the current meeting day and time. Staff will poll Committee members on their availability.</p>	
<p><b>CHIEF EXECUTIVE OFFICER’S REPORT</b></p>	<p>John Baackes, <i>Chief Executive Officer</i>, reported that he is currently attending the annual strategic meeting with Board members of the Local Health Plans of California (LHPC). The meeting focused on some of the issues mentioned by Committee Chairperson Booth in her report.</p> <ul style="list-style-type: none"> <li>• The California Department of Health Care Access and Information (HCAI), a new regulatory oversight office created by the State charged with setting cost targets, presented information. One concern is the administrative burden of new data that would be required from health plans. The amount of data required from health plans has increased dramatically in the 8 years since he became CEO. The amount of work required of the Finance Department seems to have quadrupled. LHPC members will collectively monitor this issue and make sure legislators are aware of the impact of these additional reporting requirements. L.A. Care will reach out to providers to gather input.</li> </ul>	

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	<p>Lower compensation for Medi-Cal covered services can contribute to physician burn out, and loss of providers impacts member access to care.</p> <ul style="list-style-type: none"> <li>• LHPC reviewed the work of the California Safety Net Coalition and fully supports the goal to seek a pathway to increase the base rate funding for Medi-Cal providers. Other state trade associations are interested in participating. A momentum is building that could lead to a ballot initiative in 2024 to identify a revenue source and permanently direct those funds toward Medi-Cal supplemental rates.</li> <li>• Year 2023 rate development appears to be positive, but there are many changes which were discussed at the meeting that will impact 2024 rates. A quality component has been included in the rate.</li> <li>• Beginning in 2024, Kaiser Permanente, will have its own direct contract and there are many questions about how that might affect rates.</li> </ul> <p>The announcement of Department of Health Care Services’ (DHCS) intent to contract with commercial plans for Medi-Cal was cancelled. In Los Angeles County, Health Net will continue to be the commercial plan. Health Net will be required to split enrollment with Molina Healthcare (Molina) as a subcontractor or a plan partner. DHCS apparently will assign 50% of Health Net members to Molina on January 1, 2024. Although the question about those members who do not want to move to Molina has not been addressed, and a 50% split of the enrollment going forward would seem to override the patients’ choice. It might occur through the default algorithm which splits the members who do not select a plan when they sign up for Medi-Cal. L.A. Care currently is assigned 67% of the default enrollment, which is based on quality scores.</p> <p>Board Member Roybal asked if the rate setting for Kaiser would be the same as other plans. Mr. Baackes noted there are many assumptions and it is not clear what method will be used, which is a growing concern among Medi-Cal health plans.</p> <p>Marie Montgomery, <i>Chief Financial Officer</i>, noted that currently the cost allocation methodologies lean toward reporting higher costs for Medi-Cal. Some counties apply adjustments to Kaiser’s submissions. Questions remain about what it might mean for countywide averaging in Los Angeles County.</p> <p>Afzal Shah, <i>Deputy Chief Financial Officer</i>, noted that Kaiser would have a risk adjustment in the rates when they become a separate plan, whether it would be 100% countywide averaged or some portion of the countywide average. Within L.A. Care’s current enrollment, Kaiser</p>	

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	<p>member categories have historically lower risk scores than the rest of L.A. Care’s member population.</p> <p>Member Roybal asked that if Kaiser needs more money to cover its cost structure, then it seems like more of an argument to support some methodology to increase the baseline rate for Medi-Cal as whole.</p> <p>Mr. Baackes expressed that he hopes the most dire outcome does not happen. A special rate for one health plan would be hard to sell. Public and PEACH hospitals would protest, as well as other providers, particularly those that are community-based providers. L.A. Care is using reserve funds to support Elevating the Safety Net programs designed to help recruit doctors, because it is difficult to compete with Kaiser. So if Kaiser receives more funds, it would undermine the base rate reimbursement for other organizations contracted to provide health services for Medi-Cal enrollees.</p>	
<ul style="list-style-type: none"> <li>Grants and Sponsorship Report</li> </ul>	<p>Legal Services Policy 603 (Grants &amp; Sponsorships) was revised to improve the efficiency of the Community Health Investment Fund (CHIF) grant approval for the Board of Governors. A monthly report on entities that have received more than \$300,000 in grant funding, or more than \$450,000 combined in grants and sponsorships within the fiscal year are reported to this Committee. The written report is included in the meeting materials. <i>(A copy of the report can be obtained from Board Services).</i></p>	
<b>COMMITTEE ITEMS</b>		
<p><b>Chief Financial Officer’s Report</b></p>	<p>Ms. Montgomery presented Financial Reports for October and November 2022 <i>(a copy of the report is available by contacting Board Services).</i></p> <p><u>Membership</u></p> <p>November membership was 2.75 million which was nearly flat to the budget; 756 member months unfavorable on a year-to-date (YTD). The unfavorability in Plan Partners were due to the same reasons discussed at the end of the last fiscal year:</p> <ul style="list-style-type: none"> <li>A Plan Partner terminated a provider group contract and the related members were moved from the Plan Partner to MCLA since that provider group is in L.A. Care’s network.</li> <li>There was an error in the budget which over-counted Kaiser by approximately 5,400 members. This error will carry forward until the 3+9 budget is complete.</li> </ul>	

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	<p>L.A. Care Covered (LACC) membership is over 112,000, which was unfavorable to the budget. In August, Covered California disenrolled members who did not meet the eligibility requirements during the Reasonable Opportunity Period. The estimated impact to L.A. Care was approximately 2,500 members. The Commercial team is working to contact those members to get them re-enrolled.</p> <p><u>Financial Performance</u></p> <p>The \$14 million net deficit for November 2022 is \$18 million unfavorable to the budget. From an operating margin standpoint, it was unfavorable to the budget by \$23 million driven primarily by the incurred claims, which are \$4.5 million unfavorable to the budget. This includes the corrected claims recovery. Other unfavorable items include adjustments for LACC's Risk Adjustment Factor (RAF) score from 0.75 which was assumed in the budget to 0.67. There was also a Risk Adjustment Data Validation (RADV) adjustment of \$3 million based on an annual audit of the risk adjustment data. All health plans in California were negatively impacted by RADV except Kaiser, which benefitted by \$70 million. Pharmacy was unfavorable by \$6 million due to the timing of rebates.</p> <p>There was continued favorability in Community Based Adult Services (CBAS) as these services have moved back in the centers this month and staff expects this favorable trend to continue. PASC cap deduct for pharmacy was favorable and will be adjusted in the 3+9 forecast.</p> <p>Administrative expenses were flat to the budget. Non-operating is favorable \$4.4 million vs the budget driven by unrealized gains, and higher interest income, but offset by higher grant spending due to timing.</p> <p>YTD had \$5.3 million net surplus which was \$5.3 million unfavorable to the budget driven by variances similar to the variances for the month.</p> <p>Operating margin was \$16.6 million unfavorable to the budget driven primarily by the incurred claims. This was unfavorable to the budget by \$18 million, including the corrected claims recovery. This includes the SNF 10% fee schedule increase and is offset by higher institutional member revenue of \$6 million due to higher member count. The higher incurred claims also includes the higher COVID testing claims. The LACC RAF and RADV adjustments also impacted the YTD variance. There was favorability in CBAS of \$3 million and Pharmacy of \$5 million.</p>	

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	<p>Administrative expenses were favorable \$8.9 million to the budget due to lower spending in advertising, printing and mailing due to timing. Non-operating was favorable \$2.4 million driven by higher interest income and unrealized gains but offset in part by higher grant spending due to timing.</p> <p><u>Operating Margin by Segment</u> Overall Medical Care Ratio (MCR) is 95.2% versus budget of 94.2%.</p> <p><u>Reported vs. Paid Claims</u> The membership continues to grow so the absolute dollars should increase but again it was unfavorable to the expectations by the \$18 million unfavorable YTD variance mentioned earlier. Prior to fiscal year end, there was some volatility in the paid claims but there is more stability since then.</p> <p><u>Key Financial Ratios</u> The administrative ratio was 5.0%, lower than the budget of 5.5%. Working Capital and Tangible Net Equity are ahead of benchmarks. Cash to claims were below the benchmark. The cash to claims ratio will not fully recover until the In-Home Support Services (IHSS) balances with the Department of Health Care Services (DHCS) is settled. The State is hoping to settle the IHSS balances this year.</p> <p><u>Tangible Net Equity</u> November 2022 Fund Balance was \$1.09 billion, which represents 528% of Tangible Net Equity. The target of 600% was based on the average of these 8 other Local Initiatives and County Organized Health Systems.</p> <p><b><u>Motion FIN 102.0223</u></b> <b>To accept the Financial Reports for October and November 2022, as submitted.</b></p>	<p><b>Approved unanimously by roll call. 5 AYES</b></p>
<ul style="list-style-type: none"> <li>Monthly Investment Transactions Reports</li> </ul>	<p>Ms. Montgomery referred to the investment transactions reports included in the meeting materials (<i>a copy of the report is available by contacting Board Services</i>). This report is to comply with the California Government Code as an informational item. L.A. Care's total investment market value as of November 30, 2022 was \$1.6 billion.</p> <ul style="list-style-type: none"> <li>\$1.39 billion managed by Payden &amp; Rygel and New England Asset Management (NEAM)</li> <li>\$73 million in Local Agency Investment Fund</li> <li>\$156 million in Los Angeles County Pooled Investment Fund</li> </ul>	




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Public Comments on the Closed Session agenda items.	There were no public comments.	
<b>ADJOURN TO CLOSED SESSION</b>	<p>The Joint Powers Authority Finance &amp; Budget Committee meeting adjourned at 1:49 p.m.</p> <p>Augustavia J. Haydel, Esq., <i>General Counsel</i>, announced the items that the Committee will discuss in closed session. There was no public comment on the Closed Session items, and the meeting adjourned to closed session at 1:50 pm.</p> <p><b>CONTRACT RATES</b> Pursuant to Welfare and Institutions Code Section 14087.38(m)</p> <ul style="list-style-type: none"> <li>• Plan Partner Rates</li> <li>• Provider Rates</li> <li>• DHCS Rates</li> </ul> <p><b>REPORT INVOLVING TRADE SECRET</b> Pursuant to Welfare and Institutions Code Section 14087.38(n) Discussion Concerning New Service, Program, Technology, Business Plan Estimated date of public disclosure: <i>January 2025</i></p>	
<b>RECONVENE IN OPEN SESSION</b>	<p>The meeting reconvened in open session at 1:57 pm.</p> <p>Ms. Haydel advised the public that no reportable action from the closed session.</p>	
<b>ADJOURNMENT</b>	The meeting adjourned at 1:58 pm.	

Respectfully submitted by:

Linda Merkens, *Senior Manager, Board Services*  
Malou Balones, *Board Specialist III, Board Services*  
Victor Rodriguez, *Board Specialist II, Board Services*

APPROVED BY:

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084B48A20E5F499  
Stephanie Booth, MD, *Chairperson*  
Date Signed 2/25/2023 | 2:26 PM PST

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