

# BOARD OF GOVERNORS

## Finance & Budget Committee

### Meeting Minutes – August 28, 2024

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



**L.A. Care**  
H E A L T H P L A N

#### Members

Stephanie Booth, MD, *Chairperson*

Alvaro Ballesteros, MBA

G. Michael Roybal, MD \*\*

Nina Vaccaro \*\*

*\*Absent \*\* Via Teleconference*

#### Management/Staff

John Baackes, *Chief Executive Officer*

Sameer Amin, MD, *Chief Medical Officer*

Terry Brown, *Chief of Human Resources*

Augustavia Haydel, *General Counsel*

Todd Gower, *Interim Chief Compliance Officer*

Linda Greenfeld, *Chief Products Officer*

Alex Li, MD, *Chief Health Equity Officer*

Tom MacDougall, *Chief Technology & Information Officer*

Noah Paley, *Chief of Staff*

Acacia Reed, *Chief Operating Officer*

Afzal Shah, *Chief Financial Officer*

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
CALL TO ORDER	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.	
APPROVE MEETING AGENDA	The Agenda for today's meeting was approved.	Approved unanimously by roll call. 3 AYES (Ballesteros, Booth, and Vaccaro)
PUBLIC COMMENTS	There were no public comments.	
APPROVE CONSENT AGENDA	<ul style="list-style-type: none"><li>June 26 2024 Meeting Minutes</li><li>Quarterly Investment Report <u>Motion FIN 100.0924</u> To accept the Quarterly Investment Report for the quarter ending June 30, 2024, as submitted.</li><li>Hyland Contract for Salesforce Integration, Appeals &amp; Grievances, QNXT Integration (Utilization Management) <u>Motion FIN A.0824</u> To authorize staff to execute a contract with Hyland (i3/Kiriworks) in an amount of \$ 1,319,160 (total not to exceed amount of \$4,018,278) to provide Appeals &amp;</li></ul>	Approved unanimously by roll call. 3 AYES  The Committee approved placing FIN 100 on the Consent Agenda for September 5, 2024 Board of Governors meeting.

**APPROVED**

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<p><b>Grievances (A&amp;G) services and QNXT FAX Ingestion/Hyland Intelligent Document Processing platform for the period thru December 31, 2026.</b></p> <ul style="list-style-type: none"> <li>Contract with NTT America Contract Amendment (<b>FIN B</b>)  <b><u>Motion FIN B.0824</u></b>  <b>To authorize staff to amend the contract with NTT America, in an amount not to exceed \$3,300,000 for the purpose of amending NTT America's Cisco Enterprise Agreement contract thru April 2026.</b></li> </ul>	<b>FIN A and FIN B do not require full Board approval.</b>
<b>CHAIRPERSON'S REPORT</b>	There was no report from the Chairperson.	
<b>CHIEF EXECUTIVE OFFICER'S REPORT</b>	There was no report from the CEO.	
<b>COMMITTEE ITEMS</b>		
<b>Chief Financial Officer's Report</b> <ul style="list-style-type: none"> <li>Financial Report</li> </ul>	<p><i>(Board Member Roybal joined the meeting.)</i></p> <p>Jeffrey Ingram, <i>Deputy Chief Financial Officer</i>, reported on the Financial Performance as of July 2024 <i>(a copy of the report can be obtained by contacting Board Services).</i></p> <p><u>Membership</u>  Total membership for July 2024 was approximately 2.6 million members, around 155,000 favorable to the 4+8 forecast. Year-to-date (YTD) member months was approximately 26 million; 539,000 favorable to the 4+8 forecast. The majority of favorability is coming from Medi-Cal as higher than expected enrollment has been reported post-redeterminations. L.A. Care Covered (LACC) has also been a main driver in favorability primarily due to SB260 and its competitive price position.</p> <p><u>Consolidated Financial Performance</u>  There was a \$7.6 million net loss for July 2024, excluding Housing and Homelessness Incentive Program (HHIP)/Incentive Payment Program (IPP) which was \$5 million favorable to forecast. Revenue was favorable to forecast \$57.9 million, primarily driven by membership, +\$52.5 million. Medical Expense was unfavorable to forecast \$82.3 million. Higher membership brings higher capitation costs (\$50.5 million). There was also a \$31 million adjustment to Ground Emergency Medical Transportation (GEMT) covering 2018-</p>	

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	<p>2024, with \$5 million in associated interest. Operating Expense was flat to forecast. Non-Operating was \$8.9 million favorable, driven by unrealized gains and other income.</p> <p>YTD, there was \$368 million net surplus, \$133 million favorable to the forecast when HHIP and IPP are excluded. That was an income percentage of 4.1%, however, that drops to 2.1% when investment income is removed.</p> <p>Revenue was favorable \$122.2 million which includes a final acuity adjustment of (\$118 million) to CY 2023 rates. Offsetting that was higher membership, which accounts for \$185 million. There is favorability in LACC and Dual Eligible Special Needs Plan (DNSP) as well.</p> <p>Medical Expense is favorable to forecast by \$26.6 million. Drivers include <i>(parentheses indicate negative impacts, +indicates positive impacts)</i>:</p> <ul style="list-style-type: none"> <li>• (\$171 million) Membership</li> <li>• (\$41 million) Incurred Claims</li> <li>• (\$31 million) GEMT 2018-2024</li> <li>• (\$23 million) Hospital &amp; Skilled Nursing Facility (SNF) Pay for Performance (P4P) Incentives</li> <li>• (\$19 million) CY 2023 Shared Risk True-Up</li> <li>• +\$168 million Capitation</li> <li>• +\$43 million Provider Incentives (excl. SBHIP, P4P &amp; IPP)</li> <li>• +\$36 million CY 2023 Rates</li> <li>• +\$28 million HHIP/IPP</li> <li>• +11 million Medical Admin</li> <li>• +\$7 million SBHIP Incentive</li> <li>• +\$6 million Shared Risk</li> <li>• +\$4 million Retro ECM/HHSS cleanup</li> </ul> <p>Operating Expense was \$11.3 million unfavorable driven by \$11 million in Medical Administrative costs. There was an equivalent offset within the healthcare costs. Non-Operating was \$23.4 million favorable, driven by higher interest income, unrealized gains and lower non-operating expenses than forecasted.</p> <p>The YTD key financial metrics are all good.</p> <ul style="list-style-type: none"> <li>• Medical Cost Ratio: 91.8% vs 93%</li> <li>• Administration Ratio: 6.0% vs 5.9%</li> </ul>	

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	<p>Working Capital, Cash to claims, and Tangible Net Equity (TNE) were all ahead of benchmarks.</p> <p><b><u>Motion FIN 101.0924</u></b>  <b>To accept the Financial Reports as of July 2024, as submitted.</b></p>	<p><b>Approved unanimously by roll call. 4 AYES (Ballesteros, Booth, Roybal, and Vaccaro)</b></p>
<ul style="list-style-type: none"> <li>Fiscal Year 2024-25 Operating and Capital Budget</li> </ul>	<p>Afzal Shah, <i>Chief Financial Officer</i>, presented the Fiscal Year 2024-25 Operating and Capital Budget. <i>(A copy of the report can be obtained by contacting Board Services).</i></p> <p><u>Membership Assumptions</u></p> <ul style="list-style-type: none"> <li>FY 2024-25 Budget assumes 3.9% annual decline in Medi-Cal membership from previous year (0.33% p/month). This accounts for post unwinding activity after the end of the redetermination period as well as ongoing renewal processing delays.</li> <li>The California State budget projects a 4.38% decrease in the statewide Medi-Cal caseload for FY 2024-25. Nearly 1.5 million outstanding Medi-Cal renewals statewide were not completed during the unwinding period as of July 2024. L.A. Care believes it has about 240,000 of those outstanding renewals.</li> <li>D-SNP assumes 6% member growth from previous year.</li> <li>LACC assumes growth of 11% over previous year. This assumes #1 price position and retention rate of 90%.</li> <li>The projected membership gain for FY 2024-25 Budget vs FY 2023-24 4+8 Forecast is expected to be 69,000 members or 2.9 %, with member months falling approximately 720,000 or 2.3 %. D-SNP and LACC growth is expected to offset moderate losses in Medi-Cal, which gets net September 2024 vs September 2025 increase of 2.9%.</li> </ul> <p><u>Revenue Assumptions</u></p> <ul style="list-style-type: none"> <li>Medi-Cal - CY 2024 aligned with current Department of Healthcare Services (DHCS) rates. CY 2025 based on preliminary actuarial assumption, pending DHCS draft release.</li> <li>LACC &amp; D-SNP - CY 2024 consistent with CY 2024 rates. CY 2025 aligns with respective bids.</li> <li>PASC - CY 2025 projected to continue at current rates.</li> </ul> <p><u>Healthcare Cost Assumptions</u></p> <ul style="list-style-type: none"> <li>Global Sub Capitation - CY 2024 in line with current draft rates. CY 2025 rate methodology based on preliminary actuarial assumptions.</li> </ul>	

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	<ul style="list-style-type: none"> <li>• Capitation               <ul style="list-style-type: none"> <li>○ Medi-Cal - CY 2024 aligns with June '24 capitation. CY 2025 trend consistent with historical increases.</li> <li>○ LACC                   <ul style="list-style-type: none"> <li>• Risk Adjustment Factor (RAF) of 0.64</li> <li>• CY 2024 uses June 2024 rates</li> <li>• CY 2025 trend consistent with historical increases</li> </ul> </li> <li>○ D-SNP - Aligns with June 2024 Capitation</li> <li>○ Fee-for-Service (FFS) Cost                   <ul style="list-style-type: none"> <li>• Incurred But Not Reported (IBNR) files from May 2024 and CY 2023 trends</li> <li>• FFS trends were developed using a base period of CY 2023 and projected using actuarial assumptions</li> </ul> </li> </ul> </li> </ul> <p><u>FY24-25 Budget vs. FY23-24 4+8 Forecast P&amp;L – Total L.A. Care (excl. HHIP/IPP)</u></p> <ul style="list-style-type: none"> <li>• Revenue is \$278 million higher than prior year forecast. The primary driver of the increases are tied to the growth in LACC and D-SNP</li> <li>• Healthcare Costs (HCC) are \$168 million higher than the 4+8 forecast.               <ul style="list-style-type: none"> <li>○ Lower capitation tied to lower member months.</li> <li>○ FFS trend discussed earlier accounts for increase in FFS claims.</li> <li>○ Provider incentives favorability includes Student Behavioral Health Incentive Program (SBHIP) timing in current fiscal year.</li> <li>○ Medical Administrative increase is associated with administrative increases tied to activities within Health Services</li> </ul> </li> <li>• Operating margin is projected to improve \$109 million</li> <li>• MCR of 93.2% vs 94.1% forecast</li> <li>• Overall Administrative is increasing \$60 million from the 4+8 forecast</li> <li>• Administrative ratio of 6.5% vs 6.1%</li> <li>• Salaries &amp; Benefits increasing \$36 million due to primarily carrying existing staff - Temporary labor increasing \$6 million. This is more of a difference on where it was accounted for in the forecast.</li> <li>• Professional &amp; Purchased Services increasing \$2.7 million               <ul style="list-style-type: none"> <li>○ Increase in printing/contracted services</li> <li>○ Broker commissions tied to higher LACC enrollment</li> <li>○ Pharmacy and Behavioral Health (BH) administrative fees</li> </ul> </li> </ul>	

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	<ul style="list-style-type: none"> <li>○ Offset by reduced staff augmentation spend</li> <li>• Advertising decreasing \$6 million. The 4+8 forecast was too high.</li> <li>• Business Fees &amp; Occupancy/Leases increasing \$17.7 million               <ul style="list-style-type: none"> <li>○ DMHC and LACC participation fees</li> <li>○ Software licenses/maintenance</li> </ul> </li> <li>• Medical Administrative increasing \$4.8 million               <ul style="list-style-type: none"> <li>○ Reduces administrative amount</li> <li>○ Increases to Health Services-related activities</li> </ul> </li> <li>• Depreciation and Amortization increasing \$16.8 million               <ul style="list-style-type: none"> <li>○ Subscription-Based Information Technology Arrangement (SBITA) geography changes (\$15 Million)</li> <li>○ Assets placed in service</li> </ul> </li> <li>• Non-Operating – a slight decrease in interest income because the Federal Reserve is expected begin to cut rates in September.</li> <li>• Overall Surplus of 1.5%. If interest income is removed, there would have a slight loss.</li> </ul> <p><u>FY 2024-25 Budget – Margin by Segment</u></p> <ul style="list-style-type: none"> <li>• Most segments are showing an improvement over the 4+8 forecast.</li> </ul> <p><u>FY 2024-25 Budget – Opportunities</u></p> <ul style="list-style-type: none"> <li>• CY 2025 Revenue Rates. Continued rate advocacy efforts with DHCS related to a safety net adjustment and acknowledging acuity of remaining members post redeterminations.</li> <li>• Membership. Reduce dis-enrollment rates, increase renewals along with overall higher new sales growth for LACC and DSNP segments.</li> <li>• Business Transformation/Sunset Legacy Systems &amp; Processes. Driving cost savings via administrative value-based procurement, selective workforce conversions and realizing efficiency gains due to new systems and processes.</li> <li>• Headcount Management. Evaluate the effectiveness of incremental staffing on operational metrics and expected cost savings. Resource management relative to like-sized plans, accounting for percentage of delegation.</li> </ul> <p><u>FY 2024-25 Budget – Risks</u></p> <ul style="list-style-type: none"> <li>• CY 2025 Rates - Additional pressure due to overall acuity assumptions, risk adjustment, county-wide averaging, administrative adjustments and/or negative economic development adding pressure to CA general fund.</li> </ul>	

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	<ul style="list-style-type: none"> <li>• Medi-Cal Targeted Rate Increase (TRI) Rates - TRI Rates from DHCS less than L.A. Care's obligations for payment. There is also a risk of providers not agreeing to the Medi-Cal TRI payments, provider disputes, and L.A. Care not able to attest by December 31, 2024.</li> <li>• Covid Testing - Costs are continuing to increase this summer with an uptick in Covid cases.</li> <li>• Utilization and Unit Cost Trends - FFS and Capitation trends higher than assumed in the budget.</li> <li>• Administrative Costs - Exceeding budgetary assumptions due to unplanned/uncontrolled cost.</li> </ul> <p><u>FY 2024-25 Budget – Balance Sheet Comparison</u> The balance sheet continues to be a source of strength for L.A. Care. Investments at fair value could increase by more than projected if the Federal Reserve aggressively cuts rates throughout next calendar year.</p> <p><u>Board Designated Funds</u> The Community Health Investment Fund is projected to have \$37.7 million at fiscal year-end. Staff is projecting \$98.6 million for the Workforce Development Initiative or Elevating the Safety Net and \$0 remaining for Community Resource Centers (CRCs) maintenance and expansion.</p> <p><u>Tangible Net Equity (TNE)</u> TNE is showing a slight drop next year with the fund balance increasing. Days of cash on hand decreasing slightly but still in good shape.</p> <p><u>FY 2024-25 Capital Projects and Programs</u> Staff is proposing total project spend of \$88.7 million with \$78.3 million in capital and \$10.4 million in operating. It is 33% less than what was spent last fiscal year. The 2023-24 Budget was \$129 million. It covers strategic projects and leasehold improvements. The leasehold improvements are primarily for the CRCs.</p> <p>Tom McDougall, <i>Chief Information and Technology Officer</i>, presented and summarized the following L.A. Care's Strategic Programs.</p> <ul style="list-style-type: none"> <li>• Appeals &amp; Grievance (A&amp;G) System Replacement.</li> <li>• Care Catalyst – New Health Services Clinical System.</li> <li>• Clinical Data Repository (CDR) Phase 2</li> </ul>	

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	<ul style="list-style-type: none"> <li>• Clinic Based Assignment and FQHC APM</li> <li>• CMS Interoperability Mandate</li> <li>• Edifecs Enhancements</li> <li>• Medicare Advantage Prescription Drug (MA-PD) Product Launch</li> <li>• PQI System Replacement for Provider Quality Review</li> <li>• Provider Roadmap</li> <li>• SAP/ERP</li> <li>• VOICE - Customer Relationship Management (CRM) &amp; Telecom</li> <li>• I.T. Member Experience Program</li> <li>• Performance Optimization Program (Enterprise &amp; Network)</li> <li>• QNXT Upgrade &amp; Transformation</li> <li>• Leasehold Improvements</li> </ul> <p><i>Board Members Ballesteros and Vaccaro may have financial interests in Plans, Plan Participating Providers or other programs and as such should consider refraining from the discussion of such issues. In order to expedite the process, those Board Members' vote on the Budget reflects a vote concerning the entire budget excluding those items for which the member is abstaining, as identified below:</i></p> <p><i>For the Community Health Improvement Programs:</i>  <u>Board Members Ballesteros and Vaccaro</u>  Community Health Investment Fund  SCOPE Fund  <u>Board Members Ballesteros</u>  Work Force Development Initiative Provider Recruitment Program</p> <p><b><u>Motion FIN 102.0924</u></b>  <b>To approve the Fiscal Year 2024-25 Operating and Capital Budget, as submitted.</b></p>	<p><b>Approved unanimously by roll call with potential conflicts noted. 4 AYES</b></p>
<ul style="list-style-type: none"> <li>• Monthly Investment Transactions Reports</li> </ul>	<p>Mr. Ingram 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 as of July 31, 2024, L.A. Care's total investment market value was \$3.7 billion.</p> <ul style="list-style-type: none"> <li>• \$3.6 billion managed by Payden &amp; Rygel and New England Asset Management (NEAM)</li> <li>• \$88 million in BlackRock Liquidity T-Fund</li> </ul>	

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	<ul style="list-style-type: none"> <li>\$11 million in Los Angeles County Pooled Investment Fund</li> <li>\$6 million in Local Agency Investment Fund</li> </ul>	
<ul style="list-style-type: none"> <li>Quarterly Internal Policy Reports</li> </ul>	<p>Mr. Ingram referred to the 3<sup>rd</sup> Quarter Expenditure Reports required by L.A. Care Internal Policies for FY 2023-24 included in the meeting materials. <i>(A copy of the report is available by contacting Board Services).</i> L.A. Care internal policies require reports on expenditures for business related travel expenses incurred by employees, members of the Board of Governors, Stakeholder Committees, and members of the Public Advisory Committees. The Authorization and Approval Limits policy requires reports for executed vendor contracts for all expenditures and the Procurement Policy requires reports for all sole source purchases over \$250,000. These are informational items, and do not require approval.</p> <ul style="list-style-type: none"> <li>Policy AFS-004 (Non-Travel Expense Report)</li> <li>Policy AFS-027 (Travel Expense Report)</li> <li>Policy AFS-006 (Authorization and Approval Limits)</li> <li>Policy AFS-007 (Procurement)</li> </ul>	
<b>Infosys Contract (FIN 103)</b>	<p>Mr. MacDougall presented a motion requesting approval of contract with Infosys for Quality Assurance testing (QA Test), totaling \$23,715,760 and yielding a savings of \$5,200,000. The new 3-year total contract with Infosys (FY25 to FY27) would cost \$18,515,760 for Solutions Delivery and EDM combined.</p> <p><b><u>Motion FIN 103.0924</u></b>  <b>To authorize staff to execute a contract in the amount of \$18,515,760 with Infosys to provide Information Technology (IT) testing services for the period of October 1, 2024 to September 30, 2027.</b></p>	<p><b>Approved unanimously by roll call. 4 AYES</b></p> <p><b>The Committee approved placing FIN 103 on the Consent Agenda for September 5, 2024 Board of Governors meeting.</b></p>
Public Comments on the Closed Session agenda items.	There were no public comments.	

**APPROVED**

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
<b>ADJOURN TO CLOSED SESSION</b>	<p>The Joint Powers Authority Finance &amp; Budget Committee meeting adjourned at 1:55 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 1:55 p.m.</p> <p>REPORT INVOLVING TRADE SECRET</p> <p>Pursuant to Welfare and Institutions Code Section 14087.38(n)</p> <p>Discussion Concerning New Service, Program, Technology, Business Plan</p> <p>Estimated date of public disclosure <i>August 2026</i></p> <p>CONTRACT RATES</p> <p>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>	
<b>RECONVENE IN OPEN SESSION</b>	<p>The meeting reconvened in open session at 2:24 pm.</p> <p>Ms. Haydel advised the public that no reportable action from the closed session.</p>	
<b>ADJOURNMENT</b>	The meeting adjourned at 2:25 p.m.	

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:

Signed by:

*Stephanie Booth, MD.*

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Stephanie Booth, MD, *Chairperson*

Date Signed 10/24/2024 | 6:55 PM PDT

**APPROVED**