

BOARD OF GOVERNORS

Finance & Budget Committee

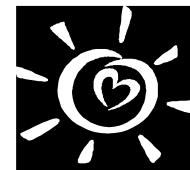
Meeting Minutes – October 25, 2022

1055 W. 7th Street, Los Angeles, CA 90017

Members

Ilan Shapiro MD, MBA, FAAP, FACHE, *Chairperson*
Stephanie Booth, MD
Hector De La Torre
Hilda Perez
G. Michael Roybal, MD

*Absent ** Via Teleconference



L.A. Care
HEALTH PLAN

Management/Staff

John Baackes, *Chief Executive 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*
Richard Seidman, MD, MPH, *Chief Medical 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 the Boards will review that decision on an on-going basis as provided in the Brown Act. Members of the public had the opportunity to listen to the meeting via teleconference, and share their comments via voicemail, email, or text.

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
CALL TO ORDER	<p>Ilan Shapiro MD, <i>Committee Chairperson</i>, called the L.A. Care and JPA Finance & Budget Committee meetings to order at 1:02 p.m. He welcomed everyone and summarized the process for public comment during this meeting. The meetings were held simultaneously. He welcomed everyone to the meetings.</p> <ul style="list-style-type: none">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.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.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.	

APPROVED

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	<ul style="list-style-type: none"> 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. <p>He provided information on how to submit a comment live and directly using the “chat” feature.</p>	
APPROVE MEETING AGENDA	The Agenda for today's meeting was approved.	Approved unanimously by roll call. 5 AYES (Booth, De La Torre, Perez, Roybal and Shapiro)
PUBLIC COMMENTS	There were no public comments.	
APPROVE CONSENT AGENDA	<p>Board Member Booth requested to extract FIN A.1022 from the Consent Agenda for clarifications.</p> <p>The Committee voted on the following:</p> <ul style="list-style-type: none"> September 20, 2022 meeting minutes iColor Printing Contract Amendment <u>Motion FIN 100.1122</u> To authorize staff to amend contract to increase funds in the amount of \$1,795,200 for a new total not to exceed amount \$4,090,200 with I Color Printing and Mailing Inc. to provide L.A. Care MPSS Premium Billing Unit with printing, storage, postage/mailing, reporting, and order fulfillment services through June 30, 2025. <p>Board Member Booth expressed that motion FIN A.1022 is well-written. It outlined what is needed (Retarus); what it does (faxing); which program it is needed by (Care Catalyst of Syntranet) to help “members, providers and business partners for daily business interactions”; who the contract is with (Instant Infosystems); and why this task is being outsourced. There does not seem to be any missing data. Board Member Booth added that the budget impact explains an error and the relatively small amount means minimal impact overall.</p> <p>She asked about the amount included in the total, which appears to be rounded-up by \$34,240 to get to \$1.3 million. She suggested increasing the “overage” amount instead. For</p>	<p>Approved unanimously by roll call. 5 AYES</p> <p>The Committee approved including FIN 100 to the Consent Agenda for the November 3, 2022 Board of Governors' meeting.</p>

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	<p>example, if the overage was increased to \$120,000, the round-up to \$1.3 million would only be \$4,240, which is less than 1% of total expense. Or, with an overage of \$124,240, there is \$0 round-up. An overage of \$120,000 represents roughly 10% cost of the project that seems reasonable. She invited the board to consider how the concept of “overage” versus “round up” may influence the public perception of how L.A. Care values and spends money.</p> <p>She noted that the category of overage represents important money that the team may need to complete the project. If the overage it is not spent, it is returned to the budget for other important work. In contrast, a round-up represents money that does nothing more than make the numbers easier to discuss; it is not money for the project; this trivial amount of money is just a place-keeper.</p> <p>Board Member Booth added that the Board members knows, whatever category the money is in, the funds will be used directly or indirectly for patient care, because that is what L.A. Care does. The Board makes decisions on millions of dollars on a regular basis. However, to most people, who are not accustomed to thinking about such large amounts, \$34,000 holds great value. She ventured L.A. Care should not use place-keepers with such a high value.</p> <p>Board Member Booth urged those who write motions to consider both of her comments. She added that if someone knows a good reason to keep the higher round-up figure, or has different thoughts about these issues, she hopes they will contact her for a discussion.</p> <ul style="list-style-type: none"> • Instant Infosystems Contract <u>Motion FIN A.1022</u> To authorize staff to renew the contract with Instant Infosystems in an amount not to exceed \$1.3 million to continue to provide faxing services to members, providers, and business partners through October 1, 2023. 	<p>Approved unanimously by roll call. 5 AYES</p> <p>FIN A does not require full Board approval.</p>
CHAIRPERSON'S REPORT	There was no report from the Chairperson.	
CHIEF EXECUTIVE OFFICER'S REPORT	John Baackes, <i>Chief Executive Officer</i> , reported that L.A. Care staff is waiting for the 2023 rate development information from the California Department of Health Care Services (DHCS). The information will enable staff to continue planning for 2023.	
• Grants and Sponsorship Report	Legal Services Policy 603 (Grants & Sponsorships) was revised to improve the efficiency of the Community Health Investment Fund (CHIF) grant approval for the Board of Governors. As required by the revised policy, a monthly report on entities that have received	

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	<p>more than \$300,000 in grant funding, or more than \$450,000 combined in grants and sponsorships within the fiscal year should be submitted to this Committee.</p> <p>Mr. Baackes referred Committee Members to the written report included in the meeting materials (<i>a copy of the report can be obtained from Board Services</i>).</p>	
COMMITTEE ITEMS		
Chief Financial Officer's Report	<p>Marie Montgomery, <i>Chief Financial Officer</i>, presented Financial Reports for August 2022 (<i>a copy of the presentation can be obtained from Board Services</i>).</p> <p><u>Membership</u> August 2022 is 2.7 million members; 2,599 members unfavorable to the 9+3 forecast, and 21,151 unfavorable year-to-date (YTD). The unfavorability was due to: 1) a Plan Partner who terminated a provider group contract. As a result, 6,000 members moved from Plan Partners to MCLA since that provider group is in our network; and 2) there was error in the forecast which over counted Kaiser by 5,400 members. This error will carry forward through the end of the year.</p> <p>Membership of 115,000 for L.A. Care Covered (LACC) was slightly favorable to the forecast. In August, Covered California dis-enrolled members who did not meet the eligibility requirements, with an estimated decrease in L.A. Care enrollment of approximately 2,500 members. The commercial product team is contacting those members about their enrollment.</p> <p><u>Consolidated Financial Performance</u> The net deficit for August 2022 is \$13 million; \$6 million unfavorable to the 9+3 forecast. Operating margin is unfavorable to the forecast by \$12 million, driven primarily by incurred claims, which are unfavorable to the forecast by \$32 million.</p> <p>Paid claims for August are high, especially outpatient claims. The higher outpatient claims were due primarily to transportation costs and COVID testing. The higher incurred claims are offset corrected claims recovery accrual and higher institutional member revenue of \$9.3 million. Community Based Adult Services (CBAS) continue to show favorability. Pharmacy expenses are favorable by \$2.5 million.</p> <p>Administrative expense is \$3.5 million favorable to the forecast due to lower spending in salaries and benefits because of open positions and timing of business fees and insurance. Non-operating expense is \$2.7 million favorable to the forecast due to timing of grant</p>	

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	<p>spending, lower Community Resource Center (CRC) expenses, and higher interest income; offset by unrealized losses.</p> <p><u>Year-to-Date (YTD) Consolidated Financial Performance</u></p> <p>Net surplus is \$17.4 million; \$7.5 million unfavorable to the forecast. The drivers of the YTD variances are very similar to the drivers of the variances for the month.</p> <p>Operating margin is \$32 million unfavorable to the forecast primarily due to incurred claims, which are unfavorable to the forecast by \$42 million. This was offset by higher institutional member revenue due to higher member count, lower CBAS expenses, and Pharmacy costs.</p> <p>Administrative was \$7.6 million favorable to the forecast due to the reasons discussed earlier. Non-operating expense was favorable \$17 million vs the forecast due to timing of grant spending, lower CRC expenses, and higher interest income; but offset some by our unrealized losses.</p> <p><u>Operating Margin by Segment</u></p> <ul style="list-style-type: none"> Overall Medical Cost Ratio (MCR) is 93.8% vs forecast of 93.5%. <p><u>Reported vs Paid Claims Trend</u></p> <p>After a dip in July, August saw a record high paid claims month driven by the items discussed earlier. The reserve development continues to be unfavorable. Staff will focus attention on the recent trends. Membership continues to grow so revenue should increase but operating margin is unfavorable to the forecast by \$32 million for YTD August. We are currently working on closing the fiscal year-end for September. As part of the audit, Deloitte will be reviewing L.A. Care's reserve position. The higher paid claims, a much lower claims inventory level, and corrected claims process introduces uncertainty for the reserve position. We will present the year-end results at the November Finance & Budget Committee meeting.</p> <p><u>Key Financial Ratios</u></p> <ul style="list-style-type: none"> The Medical Care Ratio of 93.8% is higher than the forecast of 93.5% The administrative ratio was 5.5%, lower than the forecast of 5.6%. Working Capital and Tangible Net Equity are ahead of benchmarks. Cash to claims is below the benchmark. As previously reported the cash to claims ratio will not fully recover until the IHSS balances are settled with DHCS. 	

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	<p><u>Tangible Net Equity & Days of Cash on-Hand</u> August 2022 Fund Balance was \$1.07 billion, which represents 522% of the required Tangible Net Equity. There is enough cash to cover operating expenses for 39 days.</p> <p><u>Motion FIN 101.1122</u> To accept the Financial Reports for August 2022, as submitted.</p>	<p>Approved unanimously by roll call. 5 AYES</p>
<ul style="list-style-type: none"> • Accounts & Finance Services Policy AFS-008 (Annual Investment Policy Review) 	<p>L.A. Care policy and procedure requires annual review and approval by the Finance & Budget Committee of the Accounts & Finance Services Policy AFS-008 (Annual Investment Policy). L.A. Care follows the California Government Code, and there were no changes to the Code relevant to L.A. Care. Paragraph 4.1.3 was revised was to clarify the Chief Financial Officer's authority to select an investment custodian and to execute the custody agreement.</p> <p><u>Motion FIN 102.1122</u> To approve Accounting & Financial Services Policy AFS-008 (Annual Investment Policy) as submitted.</p>	<p>Approved unanimously by roll call. 5 AYES</p> <p>The Committee approved including FIN 102 to the Consent Agenda for the November 3, 2022 Board of Governors' meeting.</p>
<ul style="list-style-type: none"> • Authorized Signatories for L.A. Care Health Plan and L.A. Care Health Plan Joint Powers Authority Bank & Investments Accounts 	<p>Staff requested approval of the following authorized signatories for L.A. Care Health Plan and L.A. Care Health Plan Joint Powers Authority (JPA) banking and investment accounts.</p> <ol style="list-style-type: none"> 1. Marie Montgomery, <i>Chief Financial Officer</i>, 2. Afzal Shah, <i>Deputy Chief Financial Officer</i>, 3. Doris Lai, <i>Senior Director, Accounting and Finance Services</i>, and 4. Angela Bergman, <i>Controller</i> <p><u>Motion FIN 103.1122</u> To authorize the employees listed above as authorized signatories for all L.A. Care Health Plan and L.A. Care Health Plan Joint Powers Authority (JPA) banking and investment accounts. This authority is to be renewed whenever the investment policy is brought for approval by the Board, which is approximately annually.</p>	<p>Approved unanimously by roll call. 5 AYES</p> <p>The Committee approved including FIN 103 to the Consent Agenda for the November 3, 2022 Board of Governors' meeting.</p>
<ul style="list-style-type: none"> • Monthly Investment Transactions Reports 	<p>Ms. Montgomery referred to the investment transactions reports included in the meeting materials (<i>a copy of the report can be obtained by contacting Board Services</i>). This report is provided to the Committee to comply with the California Government Code and is presented as an informational item. L.A. Care's total investment market value as of August 31, 2022 was \$1.7 billion.</p> <ul style="list-style-type: none"> • \$1.32 billion managed by Payden & Rygel and New England Asset Management (NEAM) • \$73 million in Local Agency Investment Fund 	

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	<ul style="list-style-type: none"> \$255 million in Los Angeles County Pooled Investment Fund 	
Public Comments on the Closed Session agenda items.	There were no public comments.	
ADJOURN TO CLOSED SESSION	<p>The Joint Powers Authority Finance & Budget Committee meeting adjourned at 1:57 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 1:57 pm.</p> <p>CONTRACT RATES Pursuant to Welfare and Institutions Code Section 14087.38(m)</p> <ul style="list-style-type: none"> • Plan Partner Rates • Provider Rates • DHCS Rates <p>REPORT INVOLVING TRADE SECRET Pursuant to Welfare and Institutions Code Section 14087.38(n) Discussion Concerning New Service, Program, Technology, Business Plan Estimated date of public disclosure: <i>October 2024</i></p> <p>CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION Initiation of Litigation Pursuant to Paragraph (4) of Subdivision (d) of Section 54956.9 One Potential Case</p>	
RECONVENE IN OPEN SESSION	<p>The meeting reconvened in open session at 2:10 pm.</p> <p>Ms. Haydel advised the public that no reportable action from the closed session.</p>	
ADJOURNMENT	The meeting adjourned at 2:10 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:

DocuSigned by:

Ilan Shapiro, MD

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Ilan Shapiro MD, MBA, FAAP, FACHE, Chairperson
 Date Signed 11/15/2022 | 7:59 AM PST