

BOARD OF GOVERNORS

Finance & Budget Committee

Meeting Minutes – August 26, 2019

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

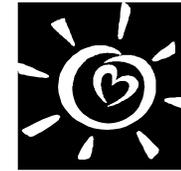
Members

Robert H. Curry, *Chairperson*
 Stephanie Booth, MD
 Hector De La Torre
 Hilda Perez
 G. Michael Roybal, MD

Management/Staff

John Baackes, *Chief Executive Officer*
 Terry Brown, *Chief Human Resources Officer*
 Augustavia J. Haydel, Esq., *General Counsel*
 Dino Kasdagly, *Chief Operating Officer*
 Marie Montgomery, *Chief Financial Officer*
 Tom Schwaninger, *Chief Information Officer*
 Richard Seidman, MD, MPH, *Chief Medical Officer*

*Absent ** Via Teleconference



L.A. Care
 HEALTH PLAN

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
CALL TO ORDER Robert H. Curry	Robert H. Curry, <i>Treasurer</i> , called the meeting to order at 1:01 p.m. He welcomed everyone to the meeting and announced that members of the public may address the Committee on each matter listed on the agenda before or during the Committee's consideration of the item, or on any other topic at the Public Comment section.	
APPROVE MEETING AGENDA Robert H. Curry	The Agenda for today's meeting was approved.	Approved unanimously. 5 AYES (Booth, Curry, De La Torre, Perez, and Roybal)
PUBLIC COMMENTS	There were no public comments.	
APPROVE MEETING MINUTES Robert H. Curry	The minutes of the June 24, 2019 meeting were approved as submitted.	Approved unanimously. 5 AYES
APPROVE CONSENT AGENDA	Member Booth requested that motions FIN B, FIN C and FIN D be taken off from the Consent Agenda for discussion. <ul style="list-style-type: none"> Quarterly Investment Report <u>Motion FIN 100.0919</u> To accept the Quarterly Investment Report for the quarter ending June 30, 2019, as submitted. 	Motions FIN 100, FIN 101, FIN A, and FIN E

APPROVED

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	<ul style="list-style-type: none"> • Information Technology Staff Augmentation Contract Amendments (FIN 101) <u>Motion FIN 101.0919</u> To authorize additional spending with the following vendors: Cognizant, FlexTech, HCL, Infosys, Solugenix Corp, and Synaptix in an amount not to exceed \$5,090,499 for IT Professional Services expenditures through January 31, 2020. • Los Angeles Network Enhancement Services Contract Renewal (FIN A) <u>Motion FIN A.0819</u> To renew the participation contract with Los Angeles Network for Enhanced Services (LANES) to provide health information exchange services for L.A. Care members (excluding Plan Partner membership) at a cost not to exceed \$2 million through March 31, 2021. • SafetyNet Connect Contract Amendment (FIN E) <u>Motion FIN E.0819</u> To approve an amendment extending the existing contract for one year for the period of October 1, 2019 through September 30, 2020 with additional fees not to exceed \$420,000 for an overall total not to exceed \$2,420,000 for the four-year period from October 2016 to September 2020. • Ansafone Contract Amendment (FIN B) <u>Motion FIN B.0819</u> To authorize staff to amend the Ansafone contract in the amount of \$1.1 million (not to exceed \$22.842 million) to continue to provide 24/7 call center operations through December 31, 2019. Clarification on above motion was discussed. • Claris Health Contract (FIN C) <u>Motion FIN C.0819</u> To authorize staff to execute a contract in the amount estimated at \$2 million with Claris Health for the clinical review platform and services for the period of September 1, 2019 through December 31, 2021. Member Booth stated that in FIN C.0819 Claris Health contract, it stated that L.A. Care members will not be impacted, however, it certainly has the potential to affect patient 	<p>were approved unanimously. 5 AYES</p> <p>The Committee approved including motions FIN 100 and FIN 101 on the Consent Agenda for the September 5, 2019, Board of Governors meeting.</p> <p>Motions FIN B, FIN C, and FIN D were approved unanimously. 5 AYES</p>

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	<p>access to care. If analysis for overpayments is done well, L.A. Care can help physicians and other providers to improve their documentation to meet legal requirements and to receive a correct and supportable payment the first time they request reimbursement.</p> <p>If overpayment analysis is done poorly, it will continue to create unnecessary work for physicians:</p> <ul style="list-style-type: none"> • in providing access to their charts for others to review; • and in re-billing for services -- especially if they are not certain what they did incorrectly or do not learn how to correct an error. <p>It becomes a good deal of additional work to receive proper reimbursement for what a physician's work really is - caring for patients.</p> <p>Of course, L.A. Care should not pay for services that are not provided or for services that are not documented to the extent required by law.</p> <p>L.A. Care is aware that unnecessary overpayment analysis and errors in retrieval of overpayments could be highly frustrating to providers.</p> <p>L.A. Care seeks to strengthen our partnership with physicians and other health care providers as we all strive to provide high-quality health care for our mutual customers.</p> <p>Staff will revise the motion summary to reflect above comments.</p> <ul style="list-style-type: none"> • Center for the Study of Services Contract (FIN D) <u>Motion FIN D.0819</u> To authorize staff to execute a contract with Center for the Study of Services (CSS) for an amount not to exceed \$1,226,860, to conduct the 2019 CG-CAHPS member experience survey. <p>Clarification on above motion was discussed.</p>	
CHAIRPERSON'S REPORT	Chairperson Curry noted that the change in public charge rules for immigrants will affect people served by hospitals.	
CHIEF EXECUTIVE OFFICER REPORT	<p>John Baackes, <i>Chief Executive Officer</i>, reported:</p> <ul style="list-style-type: none"> • Several new regulations which could impact L.A. Care members, including the public charge could affect about 170,00 members. These new regulations will take effect in October 2019. 	

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	<ul style="list-style-type: none"> • The Texas v. Azar case concerning the constitutionality of the Affordable Care Act (ACA) in light of the elimination of individual mandate is moving forward on appeal and is expected to go to Circuit Court this fall, then likely to the supreme court. • L.A. Care has joined the opioid lawsuit which is now in the federal district court in Ohio. • Mr. Baackes provided an update on Governor Newsome’s proposed changes to Medi-Cal pharmacy benefit. <p>Member Roybal asked about 170,000 members that could be affected by the new ruling on public charge. Wendy Schiffer, <i>Senior Director, Strategic Planning</i>, noted that this is calculated based on UCLA and Urban Institute data. The 170,000 represents the “chilling” effect (those who are afraid to enroll).</p> <p>Mr. Baackes reported on the change in the allocation of funds for FIN A.0319, the approved motion for lease and improvements to 1200 West 7th Street. The tenant improvement allowance from the landlord will cover all of the construction costs for the 5th floor of the 1200 building. The cost of furniture originally estimated at \$1,575,000 is too low. The reason it is too low is that management decided to make every workstation desk and office desk as sit-stand for ergonomic reasons to help mitigate workers’ compensation claims. Every desk will also be standardized with dual monitors on arms to provide a clean surface for employees to work from. These upgrades are now estimated to raise the cost of furniture by \$320,000 to a new total of \$1,895,000. Management is proposing to use a portion of the unused construction funds to cover this additional furniture cost. The overall not to exceed budget of \$3,974,881 will not be exceeded.</p>	
COMMITTEE ITEMS		
Chief Financial Officer’s Report Financial Performance Report for months ending June and July 2019 Capital & Operating Budget FY 2019-20	Marie Montgomery, <i>Chief Financial Officer</i> , referred to the written reports included in the meeting material. <i>(A copy of her reports may be requested by contacting Board Services.)</i> Financial Highlights for June and July 2019: <ul style="list-style-type: none"> • \$8.3 million net surplus for July 2019, slightly favorable to the forecast year-to-date, and \$252 million surplus for the year. • Revenue year-to-date is \$ \$1.4 million unfavorable to the forecast. • Medical expenses are unfavorable year to date by \$6.2 million driven by higher overall fee for service claims this month. 	

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	<ul style="list-style-type: none"> • Claims have been higher in recent months especially in July. Retroactive adjustments were done for SNF state fee schedule increase and GEMT payments but there also appears to be an increase in paid claims. Staff is working with the Operations Group to see what is driving it. This increase was offset by favorability in Pharmacy of \$7.3 million, due to timing of pharmacy rebates. • Administrative expenses are lower than the forecast by \$2 million. • Non-Operating expenses is favorable by \$6 million primarily due to the timing of the Elevating the Safety Net expenditures. • Membership Trend <ul style="list-style-type: none"> ○ January 2018 – March 2018: L.A. Care Covered (LACC) open enrollment increased from 24,000 in December 2017 to 73,000 in March 2018. Medi-Cal membership increased by 20,000 members during the same time period. ○ FY 2018-19: Membership showed a steady decline beginning in November 2018, primarily affecting Plan Partners and MCLA. This is due to the annual redetermination process, low unemployment rates as well as saturation of the market in our region. The decline in Medi-Cal membership was offset by LACC membership increasing from 69,000 to 82,000 during the open enrollment period. <p><u>Budget FY 2019-20 Membership Projections</u> The Budget assumed some modest growth. Overall projected membership growth between FY 2018-19 and FY 2019-20 is expected roughly at 32,000 members or 1.5%.</p> <ul style="list-style-type: none"> • Medi-Cal membership closely reflects the California Budget assumptions of flat growth, except the Medi-Cal Expansion (MCE) segment which should see an increase due to expansion of undocumented young adults which will begin in January 2020. • LACC and Cal MediConnect (CMC) are modeled to include retention and new membership driven by broker support. <p><u>Budget FY 2019-20 Financial Performance</u></p> <ul style="list-style-type: none"> • Operating margin to decrease by approximately \$74 million. L.A. Care’s bridge rates that take through to the end of calendar 2020 are about a 2.5% increase while it is expected that the fee for service claim trends to be 4.5%. • There is no In-Home Support Services (IHSS) assumptions for FY 2019-20, but there may be additional changes in IHSS cost and revenue as the prior periods is reconciled with the State, and the risk corridor calculations for Duals thru March 2016 and for the non-Duals thru June 2016 are finalized. 	

APPROVED

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	<ul style="list-style-type: none"> • The original budgeted surplus was \$121 million. The 4+8 forecast surplus was \$206 million and the 8+4 forecasted at \$270 million. The final surplus for the year will depend upon the final claim reserve position and other year-end adjustments. • There was an increase to the risk adjustment transfer estimate as a result of the 2017 audit. • For the budget, staff is estimating a surplus of almost \$153 million. • The budget reflects a \$25.5 million increase to administrative expenses. Salaries and benefits reflect the new positions that have been added for Health Homes and IT positions to convert consultants to salaried staff. The salaries budget includes a 3.25% merit and a vacancy factor of 18.8%. • Other categories of administrative expenses include increases for the software licenses, rent for the new space in the 1200 building, the CAHPs survey, and expenses to provide adequate resources for other functional initiatives. This increases the administrative pmpm to \$16.89 or 5.6% administrative ratio. • Other income expense includes various grant spending. Both the forecast and the budget have reclassified the federal grants revenue and expenses to non-operating expenses to better align health plan activities with operating margin. • Interest income assumed \$36 million, a similar amount to the forecast. This will be influenced by interest rate movements. It was assumed there is no Managed Care Organization (MCO) tax which expired on June 30 but is expected to be reinstated. <p><u>Budget Assumptions</u></p> <ul style="list-style-type: none"> • For revenue assumptions, the most significant is the bridge rate for the 18-month period ending at the end of calendar year 2020. The increases across the rating categories equates to about 2.5% overall. • For CCI Duals, we have not received our CY2019 rates, nor our SFY 2019-20 non duals rates. Staff have conservatively assumed no increase. • For CMC, assumed the current rates in the absence of these rate actions. • LACC revenue is based on the CY 2019 and the filed CY 2020 rates and assumed the Risk Adjustment Factor (RAF) factor to be .78. • Shared risk and provider incentive assumptions are pretty comparable to FY 2018-19. Shared risk at \$19 million and Provider Incentives at \$54 million. 	

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	<ul style="list-style-type: none"> • The Department of Healthcare Care Services (DHCS) implemented a Value Based Payments Program, funded by Proposition 56 effective July 1, 2019. The specifics of the program are known but the rates are still unknown. The program is \$544 million state-wide so it will be significant. Staff is still working internally to determine how it will make these payments either through the claims system or as a part of these incentive payments. The budget does not include any amounts for this program. • The Budget included the continuation of Prop 56. Both Prop 56 and the Value Based Payments Program are subject to a two-sided risk corridor. For FY 2018-19, Prop 56 has a one-side Medical Loss Ratio (MLR) floor of 95%. If L.A. Care's payments fall below that level, L.A. Care would owe a rebate to the State. Staff needs more run-out to know if it is in a rebate. • Ms. Montgomery summarized the expected grant spending. Initially, there is \$10 million for the Community Health Improvement Fund. L.A. Care received the Blue Shield Promise Grant spending to rebrand and expand the Family Resource Centers, now called Community Resources Centers. This is in addition to the expected spending of \$7.6 million. • Elevating the Safety Net Programs includes provider recruitment, residency support, physician loan repayment, medical school scholarships and training Total spend on community programs is expected to be \$46 million, and increase from the forecast. <p>Medical Cost Ratio (MCRs) by Segment – FY2019-20</p> <ul style="list-style-type: none"> • Plan Partners - projected to decrease from 94.8% to 93.9% • Seniors and People with Disabilities/Coordinated Care Initiative (CCI)- increases from 90.1% to 92.1% driven by fee for service (FFS) claims trends • Temporary Assistance for Needy Families (TANF)/Medi-Cal Expansion (MCE) - increases from 90.5% to 94.0% is primarily driven by FFS claims trends <ul style="list-style-type: none"> ○ Cal MediConnect (CMC) - increases from 88.8% to 94.1%. The current fiscal year included favorable retroactive updates for Rates, RAF, Shared Risk, and Part D Pharmacy. The MCR may improve in the Budget period for some of the same reasons. ○ Commercial – improvement from 82.2% to 79.1%. The current fiscal year includes an unfavorable adjustment due to Risk Adjustment Data Validation (RADV) audit results of RAF. • Overall MCR from 91.4% to 92.4%. 	

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	<p>Ms. Montgomery summarized the Opportunities and Risks for the fiscal year.</p> <p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Improvements of claims trends • Overpayment recoveries. Staff continues its overpayment recovery activities and could see more than what have been assumed in the budget. • CCI rates for CY 2019 and 2020 • Institutional non-duals rates should provide a bump to revenue not assumed in the budget. <p><u>Risks</u></p> <ul style="list-style-type: none"> • Deterioration of claims trends – Risk claims trends continue to increase. • Membership • Public Charge rule • Deceased Member audit - We should know something before the end of the calendar year. • LACC market competitiveness. LACC is no longer the #1 or #2 lowest priced plan in the silver tier for its regions. As such, open enrollment will likely see fewer members than included in the budget projections. • In Home Support Services (IHSS) Final Reconciliation. The IHSS program is very large and subject to membership, revenue and cost final reconciliations which are expected to occur in FY 2019-20. The IHSS line of business costs removed from managed care January 1, 2018. • CCI Risk Corridor. While L.A. Care have a written outline of how the calculation works, it does not have a specific template for the methodology. The Duals risk corridor ran through March 2016 and the non-Duals through June 2016. • L.A. Care Covered (LACC) 2019 RAF and 2018 RADV Audit results. Assuming a .80 Risk Adjustment Factor (RAF) in the FY 2019-20 Budget. L.A. Care experienced .71 score including the impact of the RADV results. • Some of the key initiatives for FY 2019-20 are to continue to focus on growing the direct network, continue to grow LACC and CMC although retention is more of the focus for LACC. Staff will also continue focusing on a more centralized and better coordinated approach for delegated provider oversight across the functional areas with oversight responsibilities and continued efforts on payment integrity and claims recoveries and identifying administrative efficiencies especially as new technology is deployed. 	

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	<ul style="list-style-type: none"> • Tangible Net Equity (TNE) forecast is based on the 8+4 forecast surplus of \$270 million which puts September 2019 TNE at 656%. Based on the budget, TNE improves to 711%. Both are above the goal set at 600%. <p>Dino Kasdagly, <i>Chief Operating Officer</i>, provided a summary of FY 2019-20 Capital Projects and Programs.</p> <ul style="list-style-type: none"> • Enterprise Resource Planning systems applications and products implementation started about a year ago. Completed time and attendance and payroll. Planning for other financial modules to be implemented. • Thrasys to integrate care management and utilization management. Increase direct network and improve effectiveness of delegated network. • Total Provider Management phase three to complete improvements. • Encounters & Risk Adjustment / EDIFECS to improve revenue based on risk scores. • VOICE project focusses on infrastructure of the Call Center. • Progresses further the intelligent desktop to make more efficient. • Provide portals for improved data in the directory. • Programs improve data integration and efficiency. • Leasehold improvements for 5th floor, 1200 W. 7th Street and 4 Family Resource Centers <p><u>Motion FIN 102.0919</u> To accept the Financial Report for the periods ended June and July 2019, as submitted.</p> <p><i>Members Curry, Perez and Roybal may have financial interests in Plans, Plan Participating Providers or other programs and as such refrained from the discussion of those issues identified below. In order to expedite the process, such members' vote on the Budget reflects a vote concerning the entire budget excluding those items for which the member is abstaining, as identified:</i></p> <p><u>Members Curry and Roybal</u> Community Health Investment Fund Sponsorships/ In-Kind and Ad Hoc Grants</p> <p><u>Member Perez</u> Health Promoters/Promotoras Program Elevating Community Health</p>	<p>Approved unanimously. 5 AYES</p>

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<p>Motion FIN 103.0919 To approve the Fiscal Year 2019-20 Capital and Operating Budget, as submitted.</p>	<p>Approved unanimously. 5 AYES except for conflicts as noted.</p>
<p>Quarterly Reports Required by Internal Policies</p>	<p>Ms. Montgomery referred to reports included in the meeting materials required by L.A. Care's internal policies for the third quarter FY 2018-19. <i>(A copy of the reports can be obtained by contacting Board Services):</i></p> <ul style="list-style-type: none"> • Policy AFS-004 (Non-Travel Expense Report) • Policy AFS-027 (Travel Expense Report) • Policy AFS-006 (Authorization and Approval Limits) • Policy AFS-007 (Procurement) 	
<p>Investment Monthly Transactions Report Marie Montgomery</p>	<p>Ms. Montgomery referred to the report on investment transactions included in the meeting materials for Committee member review. <i>(A copy of the report can be obtained by contacting Board Services).</i></p> <ul style="list-style-type: none"> • As of June 30, 2019, L.A. Care's total investment market value was \$1.78 billion <ul style="list-style-type: none"> ○ \$1.61 billion managed by Payden & Rygel ○ \$61 million in Local Agency Investment Fund ○ \$104 million in Los Angeles County Pooled Investment Fund • As of July 31, 2019, L.A. Care's total investment market value was \$1.76 billion <ul style="list-style-type: none"> ○ \$1.59 billion managed by Payden & Rygel ○ \$61 million in Local Agency Investment Fund ○ \$104 million in Los Angeles County Pooled Investment Fund 	
<p>ADJOURN TO CLOSED SESSION</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 1:54 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>August 2021</i></p>	

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RECONVENE IN OPEN SESSION	The meeting reconvened in open session at 1:59 pm. No reportable actions were taken during the closed session.	
ADJOURNMENT	The meeting was adjourned at 2:00 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:

Robert H. Curry, *Chair*

Date Signed _____

APPROVED

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Victor Rodriguez, *Board Specialist II, Board Services*

APPROVED BY:



 Robert H. Curry, *Chair*
 Date Signed 9/23/19

APPROVED