BOARD OF GOVERNORS
Finance & Budget Committee
Meeting Minutes – November 15, 2021

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*

Management/Staff
John Baackes, *Chief Executive Officer*
Terry Brown, *Chief Human Resources Officer*
Linda Greenfeld, *Chief Product Officer*
Augustavia J. Haydel, Esq., *General Counsel*
Tom MacDougall, *Chief Information & Technology Officer*
Marie Montgomery, *Chief Financial Officer*
Francisco Oaxaca, *Chief of Communications & Community Relations*
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	Ilan Shapiro MD, *Chairperson*, called the L.A. Care and JPA Finance & Budget Committee meetings to order at 1:06 p.m. He welcomed everyone and summarized the process for public comment during this meeting. Board Meetings are conducted electronically so that everyone participating can be safe and practice social distancing. • Comments from anyone who would like to address the Board and its committees are welcome and there are instructions on the Agenda. • L.A. Care members need us to continue the work of the Board, and the meetings are run so that members of the public can hear the meeting and can participate by submitting comments. • Staff sends all comments received before the meeting to the Board members in writing.	

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	• All public comment is included in the minutes of the meeting, and any comments received that were not read during the meeting are added at the end of the minutes. • Submitters of public comment must identify the Agenda item which the comment is addressing. If the submitter does not identify an agenda item for the comment to be read, the submitter's comment will be read for three minutes at the "Public Comment" item. • At the appropriate item on the Agenda, staff will read for three minutes the public comment from each submitter. Depending on how many comments are submitted, the three-minute time could be adjusted to allow for more submitters to have their comments read. • The Board will continue reviewing and improving how public comments are received and distributed to Board members.	
APPROVE MEETING AGENDA	The Agenda for today's meeting was approved.	**Approved unanimously by roll call. 3 AYES (Booth, De La Torre, and Shapiro)**
PUBLIC COMMENTS	There were no public comments.	
APPROVE CONSENT AGENDA	• October 25, 2021 Meeting Minutes • North Star Alliance Contract Amendment **<u>Motion FIN A.1121</u>** **To authorize staff to increase the total funds available in the existing $975,000 contract with North Star Alliances, LLC by $625,000 for a new total amount of $1,600,000 to provide event planning, logistics, staffing and execution services through October 1, 2022.**	**Approved unanimously by roll call. 3 AYES**
CHAIRPERSON'S REPORT • Committee meeting day change to fourth Tuesday	Committee Chairperson Dr. Shapiro announced that the Committee will now meet every 4th Tuesday of the month beginning in January 2022 at 1 pm. He also noted that challenges of the past year. L.A. Care is meeting those challenges.	

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CHIEF EXECUTIVE OFFICER'S REPORT	Public Comment Received via text Nov 15, 8:46 am, from Carolyn Rogers Navarro ***For years LA Care enabled house of horrors doctors and medical centers and retaliated against and intimidated enrollees who reported abusive "medical providers"! They still do so! It is impossible that LA Care had no idea people were being harmed by Synermed blocking access to doctors and denying due process and that people were butchered or died. LA Care is aware of other "managed service organizations "who do not do their jobs, wasting state and federal funds, LA Care doesn't give a [expletive] about the "comprehensive care" they claim to provide, they just want to solicit more members, brag about the number of members, when they are failing existing ones. Some of these fake, [expletive] people on LA Cares board don't represent enrollees best interest, they are just going through motions and just care about their own fake entitled lives, they don't care about special needs and vulnerable people, they need to leave, just like LA Care gets rid of any honest decent employees or board members or they leave on disgust. Stop wasting taxpayer money and retaliating against enrollees, stop lying to enrollees!*** Richard Seidman, MD, MPH, *Chief Medical Officer,* reported on behalf of John Baackes, *Chief Executive Officer*. • Dr. Seidman noted that L.A. Care is preparing for the start of California Advancing and Innovating Medi-Cal (CalAIM) on January 1, 2022, with services under the Enhanced Care Management (ECM) and Community Supports (CS, formerly known as In Lieu of Services) programs. L.A. Care selected four services in the CS program to offer in January 2022, with more to come in July 2022, and even more to come in January 2023. • He reminded Committee Members that in January 2022 health plans will also be responsible for major organ transplantation. In the past, L.A. Care has been responsible for kidney and corneal transplants, and DHCS has been responsible for all the other major organ transplants. L.A. Care's work to prepare the provider network for this new service is going smoothly and no interruption of care is expected for patients requiring major organ transplants. • L.A. Care has completed ten flu clinics, immunizing more than 2,300 people against influenza. Public Health experts look to the recent experience in the Southern Hemisphere as a predictor of the influenza activity in the Northern Hemisphere. This year, the activity in the Southern Hemisphere looked quite low. This is not a guarantee,	

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	but helps predict how the flu season will be in the United States. Before the COVID-19 pandemic, Dr. Seidman reported regularly during flu season about the influenza activity in Los Angeles County. There is a concern about the effect of both flu and COVID-19 cases. Last year a nearly disastrous spike in COVID-19 cases was recorded during the flu season. This year there is concern about a fifth wave and increased demand on the hospital systems. So far the levels are low. It is hoped that the numbers of susceptible people are such that if there is a spike, it won't be as high as last year. • In January 2022, the pharmacy benefits of Medi-Cal members will be "carved out" of managed care health plan coverage. L.A. Care has done all it can to persuade state officials not to move forward with this, but it is scheduled to happen on January 1, 2022. The state has sent the official notification to members. L.A. Care is being asked to do the same. There is concern about confusion of members. The state has made it clear that L.A. Care should not engage the members on this issue, the pharmacy benefit manager will handle questions on the state's behalf. Board Chairperson De La Torre asked Dr. Seidman to send him the communication from the state dissuading L.A. Care not to communicate with members about the change in pharmacy benefit administration. Dr. Seidman noted he was not sure if the instruction was in writing, this is staff's interpretation from the myriad communications received from the state. Board Chairperson De La Torre would like to see the written communication if it exists. *(Board Member Perez joined the meeting.)*	
COMMITTEE ITEMS		
Chief Financial Officer's Report	Marie Montgomery, *Chief Financial Officer,* reported: <u>Membership</u> Membership for September of 2,466,421 was 15,396 members favorable to the forecast, approximately 47,000 member months favorable to the year to date (YTD). The suspension of the redeterminations continues to drive the membership favorability in September. Commercial is just above forecast by approximately 6,000 members. Membership for LACC continues to be just over 101,000 members, which sets L.A. Care up nicely for next fiscal year. <u>Consolidated Financial Performance – Forecast vs. Actuals</u>	

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	The net surplus for September is $22 million; $3 million unfavorable to the forecast. Operating Margin is favorable by $22 million mainly due to fee-for-service claims, which are favorable $46 million to the forecast. That amount includes a $15.7 million release to the GEMT reserve. There is also favorability of $5 million for the vaccination incentive program. These items were offset by the HCBS High and Institutional member reclassification adjustment which had a net impact of -$22.6 million. Pharmacy was unfavorable $7 million due to timing of rebates. The unfavorability in administrative expenses of -$25 million in September is due to an adjustment of -$22.5 million for PCORI fees - a governmental fee for Commercial products. This fee has not been paid and has been in place since the Affordable Care Act (ACA) was passed in 2010. Non-operating is almost flat to the forecast in September. Board Member Booth asked why it turned out as administrative expense. Ms. Montgomery explained that the MCO tax is only for Medi-Cal and it is put in non-operating as the state reimburses L.A. Care dollar for dollar. The PCORI fee is more of a fee that is applied to commercial, so it is inherently a component of revenue that qualifies as administrative expense. Board Member Booth asked for clarification on the reserves because we expect to pay for 21 years old and younger patients that we are not getting paid for. Ms. Montgomery explained the overall issue is that in the files that the state provides that support L.A. Care's revenue, they discovered that the institutional flag and the HCBS high indicator flag within their files were incorrect. The state wanted to go back and reopen the membership revenue for that time period. This is a new issue resulting from the IHSS reconciliation. It is very complicated and there's a lot of moving parts within that calculation. Staff did its best estimate based on what the state originally signaled in terms of wanting to do a full correction and reconciliation of the flags. <u>Consolidated Financial Performance – Year-To-Date (YTD)</u> The YTD net surplus is $133 million; $3.3 million unfavorable to the forecast. The variance for September are the primary drivers of the YTD variance. Operating margin is favorable by $21 million similar to the September variance and admin is unfavorable due to the PCORI fee. YTD incurred claims are favorable to forecast by $44 million which includes the $15.7 million release to the GEMT reserve. Pharmacy is unfavorable by -$14.5 million, shared risk	

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	is unfavorable by -$2.7 million but provider incentives are favorable $4.6 million due to timing. There is also favorability in Health Homes of $5 million which includes the $3.6 million of CBCME capitation recoveries. YTD administrative expenses are -$21 million unfavorable driven by the PCORI fees. Non-operating is -$4 million unfavorable YTD due to higher CRC spending and timing in grant spending. <u>Consolidated Financial Performance – Actuals vs. Budget</u> The Budget assumed a net deficit of $169 million and ended with a surplus of $133 million, which was favorable by $302 million. The Budget projected claims to continue at a high level based on what was seen at that time. Staff took a conservative approach given the COVID-19 uncertainties and impacts to claims and revenue. <u>Variance Walk – Budget vs Actuals</u> Ms. Montgomery explained the various moving parts from the budget deficit of $169 million to the final surplus of $133 million. This was mostly driven by the favorability in incurred claims, which were favorable to the budget by $476 million. The claims were developing favorably from what was assumed in the Budget and the claim reserve estimate as of the prior year end. Staff focused on improvement to the medical costs in its internal steering committee efforts. The other big item driving the favorability were the 2021 Classic and CCI rate updates received. The budget originally assumed a rate decrease of 1.5%, but the rate the staff received was an increase of 4%. The Pharmacy carve-out also affected the operating margin. The budget assumed Pharmacy would end January 1, 2021 so it only included 3 months of revenue and expenses which is why there are large variances in revenue and health care costs. The budget also included the COVID-19 Risk Corridor. The State decided not to extend the COVID-19 risk corridor to 2021 however, at the improved claims trend level and higher revenue, the risk mitigation would not have been needed. The impact of this item was unfavorable $278 million. The adjustment of LACC RAF score from 0.76 to 0.80 was favorable in the amount of $29 million. There is also the reinstatement of Prop 56, which the budget assumed would terminate on July 1, 2021. Net impact to operating margin for one quarter is $15 million. Some of the items with a negative impact to the operating margin included the moving of members from shared-risk to dual-risk, which results in $62 million higher capitation expense. However, some of the favorability in incurred claims is due to the moving of those members as well. Capitation expense is $51 million unfavorable mainly related to higher	

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	member months and higher revenue. CBAS expenses are unfavorable $33 million due to increased utilization during COVID-19 with meal delivery and telephonic services rather than in the centers. The administrative cost was $26 million unfavorable to the budget which included $16 million for Navitus fees related to the Pharmacy carve out, and $22.5 million for the PCORI fee accrual. Without those two items, it would have been favorable to the budget by about $12 million. Non-Operating was $7 million favorable. <u>Operating Margin by Segment</u> • Overall MCR is 93.2% versus forecast of 93.5%, slightly favorable • Plan Partners MCR is virtually equal to forecast • SPD/CCI MCR is slightly lower than the forecast • TANF/MCE MCR is slightly lower than the forecast • CMC MCR is unfavorable to the forecast due to higher FFS and Pharmacy claims • Commercial MCR is slightly unfavorable than the forecast due to higher FFS and Pharmacy claims Board Chairperson De La Torre commented that we should try to forecast for 80% for Commercial so we are not doing the refund. Ms. Montgomery explained that the 80% calculation calls for categorization of revenue and expense in a way that when it is compared to the Profit & Loss, it will be more like a 75% MCR to compare with the 80%. There are certain things in the calculation, the numerator and denominator are different than the way L.A. Care records it in the financial statement. As an example, the risk adjustment payable – this is what L.A. Care pays back to the pool and as an HMO. Those amounts are significant. In the Centers for Medicaid & Medicare Services' (CMS) calculation for the rebate they will take that and treat it as more of a medical expense in the calculation. In L.A. Care's financial statement since it is a return of revenue, it is reflected as a reduction in the revenue – a reduction in the denominator vs an addition to the numerator. Board Chairperson De La Torre noted that in order to compare apples to apples, he asked staff if they can put what the equivalent would be for 80% under this formulation to see what the true numbers we are aiming for. He added that when he sees this, he assumes that we are projecting to be at a negative to the requirement which is not good planning. If the formulation is different that would be okay, meaning we don't have to do the refund - the MCR would be equivalent, but he would want to see what that number is.	

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	Ms. Montgomery stated that this will be reflected in future reporting. She added that she does not think it is a matter of planning. L.A. Care has not been in a rebate position before, the calculation was for 2020 on the commercial business and there was certainly an incentive not to go to the doctor in the middle of the pandemic. It is not something we expect to be in a rebate on an annual basis. She thinks this is more related to the pandemic influence in the commercial book. Board Chairperson De La Torre commented when he sees a 77.3% MCR forecast, it's a red flag, he wants to know what was the formulation that would be equivalent to 80%. Ms. Montgomery explained that the rebate is done based on calendar year basis; L.A. Care is on fiscal year basis so L.A. Care always has to look back. Ms. Montgomery added she can report on how CY 2021 is shaping up as we go along. It is a different time frame and calculation. <u>Reported vs. Paid Claims Trend</u> Staff believes that the current reserve position is sufficient to address the more recent COVID-19 surge. The paid claims for September 2021 dropped following an increase in August. Deloitte & Touche is reviewing the August claims reserves which will assist in informing the year-end estimates for September. Staff has been conservative on reserves given the Delta surge, changes in risk arrangements from shared risk to dual risk and continued increases in membership. There are a number of estimates to revisit including the reserve for misclassified members. Staff is working with the DHCS on the IHSS reconciliations and will likely be revising the estimates. Overall, L.A. Care is on track with the forecasted $136 million surplus. <u>Key Financial Ratios</u> • The MCR is 93.2%. • The administrative ratio was 5.1%, higher than forecast due to the PCORI fees accrual. • Working Capital and Tangible Net Equity are ahead of benchmarks. • Cash to claims ratio is below the target and will not fully recover until the IHSS balances are settled with the DHCS. <u>Tangible Net Equity & Days of Cash on Hand</u> • September 2021 Fund Balance was $1.05 billion which represents 523% of Tangible Net Equity.	

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	• There is enough cash to cover operating expenses for the next 44 days. **<u>Motion FIN 100.1121</u>** **To accept the Financial Report as submitted for September 2021.**	**Motions FIN 100 and FIN 101 were voted on simultaneously and approved unanimously by roll call. 4 AYES (Booth, De La Torre, Perez, and Shapiro)** **The Committee approved including FIN 101 on the Consent Agenda for the December 2, 2021 Board of Governors' meeting.**
• Quarterly Investment Report	Ms. Montgomery referred to the Quarterly Investment Reports for the quarter ended September 30, 2021, which are included in meeting materials. L.A. Care is in compliance with its investment guidelines. Investment yields have decreased significantly for short-term duration investments. **<u>Motion FIN 101.1121</u>** **To accept the Quarterly Investment Report for the quarter ending September 30, 2021, as submitted.**	
• Monthly Investment Transactions Report	Ms. Montgomery referred to the investment transactions reports included in the meeting materials. (*A copy of the report can be obtained by contacting Board Services)*. 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 September 30, 2021 was $2.1 billion. • $1.8 billion managed by Payden & Rygel and New England Asset Management (NEAM) • $73 million in Local Agency Investment Fund • $253 million in Los Angeles County Pooled Investment Fund	
• Quarterly/Annual Internal Policies Reports	Ms. Montgomery referred to the 4th Quarter and Year-End Expenditure Reports required by L.A. Care Internal Policies for the FY 2020-21, included in the meeting materials. (*A copy of the reports can be obtained by contacting Board Services)*. L.A. Care's internal policies require reports on all 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 only, and do not require approval. • Policy AFS-004 (Non-Travel Expense Report) • Policy AFS-027 (Travel Expense Report)	

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<tr><th>AGENDA ITEM/PRESENTER</th><th>MOTIONS / MAJOR DISCUSSIONS</th><th>ACTION TAKEN</th></tr>
<tr><td></td><td>• Policy AFS-006 (Authorization and Approval Limits)
• Policy AFS-007 (Procurement)

Board Member Booth asked about authorizations for new contracts. The North Star (NSA) contract has been going since 2017, which is why it is being presented as a new contract not an amendment.

JR Nino, Senior Director, Contracting & Procurement, explained that the North Star motion was presented as a contract amendment to add more dollars for 2022 and extension. As the COVID-19 pandemic begins to wind down, activities in the community are expected to increase. In 2022, L.A. Care also expects to open 5 more Community Resource Centers and re-introduce 9 others to their communities. Additional food distribution and vaccination events have also been scheduled which will require support from NSA. L.A. Care staff requests approval to increase the cost of the current agreement from $975,000 to $1,600,000 to accommodate the additional services required. There were some remaining funds on the original contract and to get that approved so we can get an extension done and added money to the contract.
Board Member Booth asked for the total amount used for the first three years. This year they only used $150,000. Mr. Nino will check the amount for the original statement of work and will respond to Dr. Booth.</td><td></td></tr>
<tr><td>Public Comments on the Closed Session agenda items.</td><td>There were no public comments.</td><td></td></tr>
<tr><td>ADJOURN TO CLOSED SESSION</td><td colspan="2">The Joint Powers Authority Finance & Budget Committee meeting was adjourned at 1:57 p.m.

Augustavia J. Haydel, Esq., General Counsel, 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.

CONTRACT RATES
Pursuant to Welfare and Institutions Code Section 14087.38(m)
• Plan Partner Rates
• Provider Rates
• DHCS Rates
• Medi-Cal Managed Care Supplemental Payment</td></tr>
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	Discussion Concerning New Service, Program, Technology, Business Plan Estimated date of public disclosure: *November 2023*	
RECONVENE IN OPEN SESSION	The meeting reconvened in open session at 2:06 pm Ms. Haydel advised the public that no reportable actions were taken during the closed session.	
ADJOURNMENT	There is no meeting in December 2021. The next meeting will be held on January 25, 2022. The meeting was adjourned at 2:07 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 1/25/2022 | 2:12 PM PST

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