# BOARD OF GOVERNORS
## Finance & Budget Committee
### Meeting Minutes – January 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*

**Management/Staff**
John Baackes, *Chief Executive Officer*
Terry Brown, *Chief of Human Resources*
Linda Greenfeld, *Chief Product Officer*
Augustavia Haydel, *General Counsel*
James Kyle, MD, *Chief of Equity & Quality Medical Director*
Tom MacDougall, *Chief Technology & Information Officer*
Thomas Mapp, *Chief Compliance 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 |
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| **CALL TO ORDER** | Ilan Shapiro MD, *Chairperson*, called the L.A. Care and JPA Finance & Budget Committee meetings to order at 1:01 p.m. He welcomed everyone and summarized the process for public comment during this meeting.<br>Board Meetings are conducted electronically so that everyone participating can be safe and practice social distancing.<br>• Comments from anyone who would like to address the Board and its committees are welcome and there are instructions on the Agenda.<br>• 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.<br>• Staff sends all comments received before the meeting to the Board members in writing. | |

**APPROVED**

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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.<br>• 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.<br>• 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.<br>• 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. 5 AYES (Booth, De La Torre, Perez, Roybal and Shapiro)** |
| **PUBLIC COMMENTS** | There were no public comments. | |
| **APPROVE CONSENT AGENDA** | • November 15, 2021 Meeting Minutes<br>Board Member Booth requested to amend the foul words in the public comments be reflected as "expletive".<br><br>Board Member Perez asked if Board members can use the chat function in WebEx to ask questions. Victor Rodriguez, *Board Specialist II, Board Services,* responded that the chat function will be used for public comments only.<br>• Quarterly Investment Report<br>**<u>Motion FIN 100.0222</u>**<br>**To accept the Quarterly Investment Report for the quarter ending December 31, 2021, as submitted.**<br><br>• Verizon Business Contract Amendment for Session Initiating Protocol (SIP) Trunking Service<br>**<u>Motion FIN 101.0222</u>** | **Approved unanimously by roll call. 5 AYES**<br><br>**The Committee approved including FIN 100, FIN 101, FIN 102, and FIN 103 to the Consent Agenda for the February 3, 2022 Board of Governors' meeting.**<br><br>**FIN A and FIN B do not require full Board approval.** |



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| | **To authorize staff to amend the Session Initiating Protocol (SIP) Trunking Service contract under Verizon for a two-year term, in an amount not to exceed $2.2 million.**<br><br>• PaySpan Contract Amendment<br>**<u>Motion FIN 102.0222</u>**<br>**To authorize staff to amend a contract in the amount of $1,000,000 with PaySpan to provide Electronic Funds Transfer services through its Electronic Data Interchange System through December 31, 2023 for a new contract total of $2,875,000.**<br><br>• Toney Healthcare Consulting Contract Amendment Scope of Work 3<br>**<u>Motion FIN 103.0222</u>**<br>**To authorize an amendment extending the current contract with Toney Health Care Consulting (SOW 3) for Utilization Management services through June 30, 2022, at an additional cost of $188,571, for a total contract not to exceed $10,520,571.**<br><br>• Toney Healthcare Consulting Contract Amendment Scope of Work 7<br>**<u>Motion FIN A.0122</u>**<br>**To authorize an amendment extending the current contract with Toney Health Care Consulting (SOW 7) for Utilization Management services through June 30, 2022, at an additional cost of $126,000, for a total contract not to exceed $1,432,000.**<br><br>• O'Neil Digital Solutions, LLC Contract Amendment<br>**<u>Motion FIN B.0122</u>**<br>**To authorize staff to amend a contract with O'Neil Digital Solutions, LLC in the amount of $400,000 (total amount not to exceed $1,550,000), through January 31, 2023 for printing and mailing services.** | |
| **CHAIRPERSON'S REPORT** | Chairperson Shapiro noted that we started the year with a lot of challenges such as the surge of the Omicron variant in the pandemic. He added that it's good that California is in an improved and positive trajectory for caring for the community compared to the past. He also noted the challenges with the new program California Advancing and Innovating Medi-Cal (CalAIM) program, and L.A. Care's efforts to implement the program. | |



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| **CHIEF EXECUTIVE OFFICER'S REPORT** | John Baackes, *Chief Executive Officer,* reported:<br>• L.A. Care successfully launched CalAIM with a transition for affected members. L.A. Care has contracted with 59 vendors to meet the needs of members. The CalAIM program includes a host of new programs, including implementation of Enhanced Care Management (ECM) benefits. There were similar benefits in the previously-existing Health Homes and Whole Person care programs. ECM expands those programs. He commended staff across L.A. Care for their work in this plan-wide effort which included new contracts for services and assigning members to receive needed services. CalAIM implementation also required the new Community Supports program. L.A. Care has developed contracts with 50 new vendors to provide those services which will be implemented in stages over the next two years. At the February 3 Board meeting, Mr. Baackes will provide a more complete report on the number of people who were transitioned from the previous programs on January 1 and the number of members who are being evaluated for a future transition. He is very proud that L.A. Care launched CalAIM with no major issues and has met the regulatory requirements to date.<br>• He complimented L.A. Care's Pharmacy Department, led by Yana Paulson, Pharm.D., *Chief Pharmacy Officer* for the effective management of the transition of the Medi-Cal pharmacy benefit carve out. Dr. Paulson and her team worked directly with members and pharmacists to intervene with Magellan and ensure members received their prescribed medications. Some other plans in California have had greater issues. It is too early to determine if the carve out will be a success, but L.A. Care's members are not being harmed, which was our main concern.<br>• Mr. Baackes noted that L.A. Care's enrollment surpassed 2.5 million on January 1, 2022, with a large increase in Medi-Cal enrollment. This is due, in part, to enrollment of some Medi-Cal members that had been previously excluded from managed care.<br>• L.A. Care's Covered California enrollment is very robust; with about 10,000 new members added in January and more new members are expected in February and March. | |
| **COMMITTEE ITEMS** | | |
| **Chief Financial Officer's Report** | Marie Montgomery, *Chief Financial Officer,* reported:<br><br><u>Membership</u><br>Membership in December was 2,496,545; 19,257 members favorable to the budget; 50,505 member months favorable YTD versus the budget, driven by the suspension of the redeterminations. The budget assumed redeterminations would likely restart in January but | |



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| | the public health emergency declaration has been extended through 1st quarter. Membership for L.A. Care Covered (LACC) continues to stay strong over 101,000 members.<br><br><u>Consolidated Financial Performance for the month</u><br>December 2021 net surplus is $7 million; $2.8 million favorable to the budget driven primarily by operating margin favorability of $8.6 million vs the budget. There are several large items impacting operating margin this month. On the favorable side:<br>• Higher institutional revenue due to higher member count than budget of $8.4 million.<br>• Recognized the Plan Partner portion of the Coordinated Care Initiative (CCI) revenue corridor this month. There was overall favorability of $13.6 million.<br>• Recognized revenue from the vaccination program of $6.6 million<br>• Incurred claims were favorable to budget for the month by $7 million.<br><br>These favorable items were offset by an adjustment to our LACC Risk Adjustment Factor (RAF) score from 0.80 to 0.75. The impact of that adjustment was $17.5 million.<br><br>The cap expense was unfavorable $5.2 million due to members moving from shared risk to dual risk, although favorability is seen in the incurred claims which offsets that. Pharmacy was also unfavorable for the month by $3.6 million. This is the last month before the Pharmacy benefit carve-out by the State.<br><br>The administrative expenses in December is $534,000 unfavorable. Non-operating is $5.3 million unfavorable in the month due to timing of grant spending and a decrease to the unrealized gains.<br><br><u>Consolidated Financial Performance Year-To-Date (YTD)</u><br>The YTD net surplus is $33.5 million, $7 million favorable to the budget. Many of the items driving favorability for the month and YTD are the same.<br>• Institutional revenue YTD is favorable by $18 million.<br>• The CCI revenue corridor is favorable by $10.6 million.<br>• Vaccination program is $6.6 million favorable.<br><br>On the healthcare costs side, incurred claims are unfavorable YTD by $3.6 million. Cap expense is unfavorable $14.1 million YTD due to members moving from shared risk to dual risk. These items are offset somewhat by favorability in CBAS of $5.6 million. There is also the $17.5 million unfavorable impact of the LACC RAF decreasing from 0.80 to 0.75 mentioned earlier. | |



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| | The YTD administrative expenses are $1.6 million favorable due to timing in spending.<br>YTD Non-operating is $5.2 million unfavorable due to a decrease to our unrealized gains.<br><br>Operating Margin by Segment<br>• Overall our MCR is 93.5% versus budget of 93.8%.<br>• All Medi-Cal segments are favorable to the budget.<br>• CMC MCR is unfavorable to the budget due to higher FFS claims<br>• The Commercial segment is unfavorable 95.7% vs. budget of 80.7% due to the impact of the RAF score adjustment from 0.80 to 0.75.<br><br><u>Reported vs. Paid Claims Trend</u><br>December 2021 saw paid claims continue to decrease from August and reported claims have dropped the past two months. The reported claims are consistent with recent periods. Staff will continue to monitor the prior month development.<br><br><u>Key Financial Ratio</u><br>The Medical Care Ratio is 93.5%. The administrative ratio was 4.9%, better than the Budget of 5.0% due to timing in spending. Working Capital and Tangible Net Equity are ahead of benchmarks. Cash to claims ratio is below the target. The cash to claims ratio will not fully recover until the IHSS balances is settled with the Department of Health Care Services.<br><br><u>Tangible Net Equity & Days of Cash on Hand</u><br>December 2021 Fund Balance was $1.08 billion which represents 533% of Tangible Net Equity. There is enough cash to cover operating expenses for the next 43 days.<br><br>**<u>FY 2021-22 3+9 Forecast Update</u>**<br><u>3+9 Forecast Membership Assumptions</u><br>The forecast used the following assumptions for membership:<br>• Plan Partners and MCLA.<br>    o Forecast assumes public health emergency will be extended through 1st Quarter of 2022. Six months trend was used to determine growth assumption through March.<br>    o Beginning in April 2022, forecast estimates Medi-Cal membership to decrease 5% annually through end of the fiscal year.<br>    o Expected loss will be offset by the following items:<br>        ▪ 16,853 members for MCLA beginning Jan 2022 due to mandatory managed care enrollment initiative under CalAIM. | |



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| | ▪ 58,800 members for Plan Partners and MCLA due to Medi-Cal expansion for undocumented adults over 50. Increase is spread out over six months beginning in May 2022.<br>o Overall increase in membership of 2.38% expected over course of the year.<br>• Cal MediConnect (CMC): Forecast assumes 4% decrease for the year due to sales staffing challenges.<br>• Commercial<br>o PASC-SEIU: Six months trend was used to project 2.3% decrease for the year.<br>o LACC: Forecast for Open Enrollment 2022 updated from 100K to 110K members due to price position in both regions for LA County.<br><br><u>Membership: 3+9 Forecast vs Budget</u><br>Overall projection is an increase in membership of 138,000 members and 964,000 member months. The majority of that increase is in Temporary Assistance to Needy Families (TANF) and Medi-Cal Expansion (MCE) due to the forecast assuming the public health emergency will be extended through 1st quarter of 2022 and the two additional populations mentioned earlier. Commercial sees an increase of over 8,000 members and 97,000 member months due to the increased projection of 110,000 members for LACC.<br><br>The increase in January is due to the additional 16,853 members in MCLA under the mandatory managed care enrollment initiative under CalAIM. A slight increase in March is expected with the enrollment of undocumented adults over 50 under MCE. These additional members offset the decrease that would have expected once the public health emergency ends in March. In the budget, the public health emergency was expected to end in January.<br><br>Revenue and healthcare costs assumptions for the 3+9 forecast:<br>• Rate increase for CY 2022 Classic Medi-Cal Rates consistent with Draft CY2022 rates. There are still no final rates.<br>• 10% rate increase for Long Term Care (LTC) rate and healthcare expense extended through March 2022<br>• ECM and Major Organ Transplant expenses are in line with the revenue<br>• CalAIM incentive funding will cover the shortfall in the Community Supports revenue for transitioning Whole Person Care members<br>• FFS incurred costs based on current run rate plus explicit COVID-19 increases in January and February<br>• CY 2022 LACC RAF decreased from 0.8 to 0.75 | |



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| | • Prop 56 VBP program ends July 2022<br><br><u>Financial Performance Comparison – 3+9 Forecast vs. Budget</u><br>• Operating Margin is favorable by $53 million vs. the budget. There are large variances in both revenue and healthcare costs that will be covered on the variance walk slide.<br>• Administrative expenses have increased by almost $32 million from the budget. This is primarily due to additional staffing for the A&G remediation effort, as well as the admin portion for the new CalAIM programs.<br><br><u>Variance Walk: Budget to 3+9 Forecast</u><br>The original budgeted surplus was $90.8 million vs the forecasted surplus of $111 million. The impact to the operating margin due to the increase in membership is about $23 million. The biggest item is the CY 2022 classic rates, which are favorable to the budget by $98 million. The budget had assumed an increase of 3% and the actual rates received from the state were about double that. There is also the favorability from the Plan Partner portion of the CCI Revenue Corridor. Incurred claims are favorable by about $27 million. Pharmacy is also favorable by $17 million due to factoring in a rebate tail.<br><br>On the unfavorable side, capitation expense is unfavorable to the budget by $86 million. About $66 million of that is due to the members moving from shared risk to dual risk, although the favorability is seen in the incurred claims from those members. The remaining amount is due to various capitation rate increases to our PPG's. There is also adjustment to the LACC RAF score from 0.80 to 0.75, which is unfavorable by $22 million. CBAS is unfavorable by $20 million.<br><br>Administrative expense is unfavorable by $32 million due to additional spending in salaries and benefits ($22 million) and higher purchased services ($7 million). The biggest driver is increased funding for Appeals & Grievances ($15 million). Other increases in administrative expenses are for CalAIM ($6 million) and PCORI ($5 million) which are not included in the Budget. Non-Operating expense is unfavorable by $1.4 million due to the decrease in unrealized gain position.<br><br>Opportunities<br>• Earn the full amount of available CalAIM incentive funds<br>• Continued shifting of more contracts to dual risk arrangement<br>• Hospital contract simplification and negotiation | |



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| | Risks<br>• Continued uncertainty with the impact of COVID-19 on inpatient cost<br>• CBAS cost continues to be higher<br>• Higher costs for ECM & Major Organ Transplant cost, but losses will be limited by the risk corridor<br>• LACC RAF for CY21 and CY22 is lower than forecast assumption<br>• Capitation rates increase to account for COVID-19 testing costs<br><br>**<u>Motion FIN 104.0222</u>**<br>**To accept the Financial Report as submitted for October, November & December 2021.** | **Approved unanimously by roll call. 5 AYES** |
| • 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 December 31, 2021 was $1.7 billion.<br>• $1.4 billion managed by Payden & Rygel and New England Asset Management (NEAM)<br>• $73 million in Local Agency Investment Fund<br>• $253 million in Los Angeles County Pooled Investment Fund | |
| • Quarterly/Annual Internal Policies Reports | Ms. Montgomery referred to the 1st Quarter Expenditure Reports required by L.A. Care Internal Policies for the FY 2021-22, 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.<br>• Policy AFS-004 (Non-Travel Expense Report)<br>• Policy AFS-027 (Travel Expense Report)<br>• Policy AFS-006 (Authorization and Approval Limits)<br>• Policy AFS-007 (Procurement) | |



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| Approve Accounting & Financial Services Policy AFS 006 (Authorizations and Approvals Limits) | Ms. Montgomery presented a motion requesting approval of the minor changes to the Accounting & Financial Services Policy AFS 006 (Authorization and Approval Limits) policy. The minor updates are as follows:<br>• Policy updates exclusions to better align with business objectives.<br>• Policy updates the reporting section to be consistent with other financial policies that have quarterly reporting requirements.<br><br>**<u>Motion FIN 105.0222</u>**<br>**To Accounting & Financial Services Policy AFS 006 (Authorization and Approval Limits) as submitted.** | **Approved unanimously by roll call. 5 AYES**<br><br>**The Committee approved including FIN 105 on the Consent Agenda for the February 3, 2022 Board of Governors' meeting.** |
| Approve Language Line Contract Amendment | Richard Seidman, MD, MPH, *Chief Medical Officer,* presented a motion requesting approval to execute a contract amendment with the telephonic interpreting vendor Language Line, to extend the term by two years and add funds in the amount of $3.6 million. Per state and federal regulations, no-cost interpreting services must be made available to limited English proficient members 24/7 for all points of contact. Telephonic interpreting services is used by various L.A. Care departments. Language Line was selected through a competitive Request for Proposal (RFP) in November 2017 based on their company credentials, quality assurance and control, health care experience, and capacity to meet L.A. Care's interpreting needs. In 2018, the Board of Governors initially approved a Language Line contract for three years amounting to $9 million, with an option to renew for two consecutive years. Since then, Language Line has been successfully providing services at the performance level specified in the contract.<br><br>The two-year extension and additional funds will ensure compliance with the language assistance regulations and provide uninterrupted interpreting services, while allowing sufficient time to conduct an RFP in Q1 2023 and execute a new contract before expiration of this amendment in 2024. The additional funds were estimated based on the monthly average expenditure of the last two fiscal years and include an additional 10% overage to accommodate for an anticipated utilization increase. The expenditure increased by 6% during the COVID-19 pandemic. This trend is expected to continue in the coming years with new COVID-19 variants, and providers and members preferring telephonic interpretation. L.A. Care added 145,000 Medi-Cal members last year, a growth of 6%. L.A. Care's continuous membership growth is expected to raise the demand for member interpreting needs. | |



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| | **<u>Motion FIN 106.0222</u>**<br>**To approve a contract amendment with Language Line for telephonic interpreting, to extend the contract term by two years (2022-2024), and increase funds in the total amount of $3.6 million (for total contract value not to exceed $12.6 million).** | **Approved unanimously by roll call. 5 AYES**<br>**The Committee approved including FIN 106 on the Consent Agenda for the February 3, 2022 Board of Governors' meeting.** |
| Public Comments on the Closed Session agenda items. | There were no public comments. | |
| **ADJOURN TO CLOSED SESSION** | The Joint Powers Authority Finance & Budget Committee meeting was adjourned at 1:58 p.m.<br>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 1:59 pm.<br>CONTRACT RATES<br>Pursuant to Welfare and Institutions Code Section 14087.38(m)<br>• Plan Partner Rates<br>• Provider Rates<br>• DHCS Rates<br>REPORT INVOLVING TRADE SECRET<br>Pursuant to Welfare and Institutions Code Section 14087.38(n)<br>Discussion Concerning New Service, Program, Technology, Business Plan<br>Estimated date of public disclosure: *January 2024* | |
| **RECONVENE IN OPEN SESSION** | The meeting reconvened in open session at 2:03 pm<br>Ms. Haydel advised the public that no reportable actions were taken during the closed session. | |



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| **ADJOURNMENT** | The next meeting will be held on February 22, 2022.<br><br>The meeting was adjourned at 2:04 pm | |
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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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Ilan Shapiro MD, MBA, FAAP, FACHE, *Chairperson*
Date Signed __________________________________



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| **ADJOURNMENT** | The next meeting will be held on February 22, 2022.<br><br>The meeting was adjourned at 2:04 pm | |
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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 2/22/2022 | 1:58 PM PST



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