

# BOARD OF GOVERNORS

## Finance & Budget Committee

Meeting Minutes – November 18, 2019

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



**L.A. Care**  
HEALTH PLAN

### 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 Resource Officer*  
Augustavia J. Haydel, Esq., *General Counsel*  
Marie Montgomery, *Chief Financial Officer*  
Tom Schwaninger, *Chief Information Officer*  
Richard Seidman, MD, MPH, *Chief Medical Officer*

*\*Absent \*\* Via Teleconference*

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
CALL TO ORDER	Hector De La Torre, <i>Board Chairperson</i> , called the meeting to order at 1:05 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	The Agenda for today's meeting was approved.	Approved unanimously. 4 AYES (Booth, De La Torre, Perez, and Roybal)
PUBLIC COMMENTS	There were no public comments.	
APPROVE MEETING MINUTES	The minutes of the September 23, 2019 meeting were approved as submitted.	Approved unanimously. 4 AYES
CHAIRPERSON'S REPORT	There was no report from the Chairperson.	
CHIEF EXECUTIVE OFFICER'S REPORT	There was no report from the CEO.	

**APPROVED**

AGENDA ITEM/PRESENTER COMMITTEE ITEMS	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
<p>Chief Financial Officer's Report</p> <p>Financial Performance Update</p>	<p>Marie Montgomery, <i>Chief Financial Officer</i>, provided an update on the financial performance for September, 2019. <i>(A copy of her presentation may be requested by contacting Board Services.)</i></p> <p>Highlights:</p> <ul style="list-style-type: none"> <li>• September 2019 membership is 2,171,636, 2,540 members unfavorable to the forecast, and 18,758 member months unfavorable for the year forecast. The forecast assumed a 3% decrease in membership for Plan Partners and a 0.50% decrease for MCLA. The auto assignment proportion will be higher (76%) due to higher HEDIS scores which will take effect in January 2020.</li> <li>• September 2019 surplus is approximately \$4 million, unfavorable to the forecast by about \$4 million. Staff continued to see higher fee for service claims for the month, which are unfavorable to the forecast by almost \$41 million. This was offset by true-ups for both Prop 56 and Shared risk, \$32 million and \$15 million respectively.</li> <li>• Year to date surplus of about \$237 million is \$33 million behind the forecasted surplus but still a strong surplus number for the fiscal year.</li> <li>• Revenue year to date is \$13 million favorable, driven by a reclassification of Seniors and People with Disabilities (SPD) members for FY 2018-19 as reported last month. Revenues are recorded based on the invoice detail payment report from the State, which contained no member details. Staff is now using the enrollment file with member details, which allows to identify SPD members, who have a much higher capitation rate.</li> <li>• Year to date medical expenses are unfavorable to forecast by \$73 million, driven by fee for service claims and provider settlements. This was offset by favorability in capitation expense from the Prop 56 and shared risk true-up, and favorability in Pharmacy claims. Operating margin is \$60 million unfavorable to forecast.</li> </ul> <p><i>(Member Curry joined the meeting.)</i></p> <ul style="list-style-type: none"> <li>• Administrative expenses are favorable to forecast by \$3 million, due to timing of advertising, printing, and various vendor expenditures.</li> <li>• Non-operating income is favorable by over \$23 million, driven by \$16.1 million grant timing, \$3.6 million investment income, and \$3.2 million in unrealized gains on investments.</li> </ul>	

**APPROVED**

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	<ul style="list-style-type: none"> <li>Overall medical care ratio (MCR) is 92.2% due to higher fee for services claims. It was forecast at 91.4%. Plan Partners MCR is slightly above forecast. SPD/CCI SPD and CCI MCR is behind the forecast due to unfavorable claim trends.</li> <li>As prompted by a question from the Committee at the last meeting, Ms. Montgomery presented the administrative expenses by department. The unfavorable variances at the department level are not significant. Staff redeploys resources as needed throughout the year.</li> <li>The administrative ratio was 5.3%, equal to forecast.</li> <li>Working Capital and Tangible Net Equity are ahead of benchmarks.</li> <li>Cash to claims ratio is also ahead of target.</li> </ul> <p><b><u>Motion FIN 100.1219</u></b> To accept the Financial Report as submitted, for the period ended September 2019, as submitted.</p>	<p>Approved unanimously. 5 AYES (Booth, Curry, De La Torre, Perez, and Roybal)</p>
<p>Quarterly Investment Report</p>	<p><b><u>Motion FIN 101.1219</u></b> To accept the Quarterly Investment Report for the quarter ending September 30, 2019, as submitted.</p>	<p>Approved unanimously. 5 AYES (Booth, Curry, De La Torre, Perez, and Roybal)</p> <p>The Committee approved including this motion on the Consent Agenda for the December 5, 2019, Board of Governors meeting.</p>
<p>Revisions to Accounting &amp; Financial Services Policies</p>	<p>Ms. Montgomery presented revisions to the Accounting &amp; Financial Services Policies. Annually, L.A. Care's Financial policies are brought to the Board for review and approval. A summary of these policies is provided below:</p> <p><b><u>AFS-006 (Authorization and Approval Limits)</u></b></p> <ul style="list-style-type: none"> <li>Policy defines the types of expenditures that require approvals by designated management personnel.</li> <li>Policy includes authorization and approval amounts by management level.</li> </ul>	

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	<p><u>AFS-025 (Tangible Net Equity and Working Capital Reserves)</u></p> <ul style="list-style-type: none"> <li>• Policy provides for the establishment, maintenance, and utilization of Tangible Net Equity.</li> <li>• Policy includes allocation of Board-Designated Reserve Funds.</li> </ul> <p><u>AFS-027 (Travel Expenses)</u></p> <ul style="list-style-type: none"> <li>• Policy defines approvals and appropriate expenses related to travel.</li> <li>• Establishes Board reporting and oversight of related spending.</li> </ul> <p><u>AFS-029 (Annual Budgets and Board of Governors Oversight)</u></p> <ul style="list-style-type: none"> <li>• Policy establishes the authority of spending assigned to the Board of Governors.</li> <li>• Defines the related oversight for Financial Audits</li> </ul> <p><b><u>Motion FIN 102.1219</u></b>  <b>To approve the following Accounting &amp; Financial Services Policies as attached:</b></p> <ul style="list-style-type: none"> <li>• <b>AFS-006 (Authorization and Approval Limits)</b></li> <li>• <b>AFS-025 (Tangible Net Equity and Working Capital Reserves)</b></li> <li>• <b>AFS-027 (Travel Expenses)</b></li> <li>• <b>AFS-029 (Annual Budgets and Board of Governors Oversight)</b></li> </ul>	<p><b>Approved unanimously. 5 AYES</b></p> <p><b>The Committee approved including this motion on the Consent Agenda for the December 5, 2019, Board of Governors meeting.</b></p>
<p><b>Year-End Quarterly Reports Required by Internal Policies FY 2018-2019</b></p>	<p>Ms. Montgomery referred to reports required by L.A. Care’s internal policies for the FY 2019-20, included in the meeting materials. <i>(A copy of the reports can be obtained by contacting Board Services):</i></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>	
<p><b>Investment Monthly Transactions Report</b></p>	<p>Ms. Montgomery referred to a 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"> <li>• As of September 30, 2019, L.A. Care’s total investment market value was \$2.5 billion <ul style="list-style-type: none"> <li>○ \$2.3 billion managed by Payden &amp; Rygel and New England Asset Management</li> <li>○ \$61 million in Local Agency Investment Fund</li> <li>○ \$105 million in Los Angeles County Pooled Investment Fund</li> </ul> </li> </ul>	

**APPROVED**

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
Language Line Contract Amendment	<p>Richard Seidman, MD, MPH, <i>Chief Medical Officer</i>, summarized a request to amend the contract with Language Line. Since the original contract execution in April 2018, the expenditure has increased by 64% more than initial forecast. The increase is due to a higher average rate of face-to-face interpreting appointment requests from the previous year and the implementation of the Affordable Care Act Section 1557 and the California Department of Health Care Services All Plan Letter 17-011 on language assistance notification in 16-non-English languages (also known as tagline) to be accompanied with member information materials.</p> <p>Member Roybal asked if American Sign Language (ASL) is used, and if metrics kept of all issues with vendors. Margaret Macias, <i>Director, Health Education, Cultural &amp; Linguistic Services</i>, responded yes to both.</p> <p>Member Perez asked if records are kept of members who are using the professional services rather than having family members interpret during provider visits. Ms. Macias responded that staff is promoting the use of professional interpreters instead of family members. Member Perez added that she would like to help make this service more attractive and available for members.</p> <p><b><u>Motion FIN A.1219]</u></b>  <b>To amend an existing contract with Language Line to increase total compensation from \$900,000 to \$1,650,000 by adding \$750,000.</b></p>	<p>Approved unanimously. 5 AYES</p>
ADJOURN TO CLOSED SESSION	<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 1:35 pm.</p> <p><b>CONTRACT RATES</b>  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> <p><b>REPORT INVOLVING TRADE SECRET</b>  Pursuant to Welfare and Institutions Code Section 14087.38(n)  Discussion Concerning New Service, Program, Technology, Business Plan  Estimated date of public disclosure: <i>November 2021</i></p>	

**APPROVED**

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
RECONVENE IN OPEN SESSION	The meeting reconvened in open session at 1:45 pm. No reportable actions were taken during the closed session.	
ADJOURNMENT	The meeting was adjourned at 1:46 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:

  
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 Robert H. Curry, *Chair*  
 Date Signed 11/27/2020

**APPROVED**