

# BOARD OF GOVERNORS

## Finance & Budget Committee

### Meeting Minutes – March 27, 2024

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



**L.A. Care**  
HEALTH PLAN

**Members**

Stephanie Booth, MD, *Chairperson*  
Alvaro Ballesteros, MBA  
G. Michael Roybal, MD \*\*  
Nina Vaccaro \*\*

*\*Absent \*\* Via Teleconference*

**Management/Staff**

John Baackes, *Chief Executive Officer*  
Sameer Amin, MD, *Chief Medical Officer*  
Terry Brown, *Chief of Human Resources*  
Augustavia Haydel, *General Counsel*  
Todd Gower, *Interim Chief Compliance Officer*  
Linda Greenfeld, *Chief Products Officer*

Alex Li, MD, *Chief Health Equity Officer*  
Tom MacDougall, *Chief Technology & Information Officer*  
Noah Paley, *Chief of Staff*  
Acacia Reed, *Chief Operating Officer*  
Afzal Shah, *Chief Financial Officer*

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
<b>CALL TO ORDER</b>	<p>Stephanie Booth, MD, <i>Committee Chairperson</i>, called the L.A. Care and JPA Finance &amp; Budget Committee regular meeting to order at 1:01 p.m. The meetings were held simultaneously. She welcomed everyone and summarized the process for public comment during this meeting.</p> <ul style="list-style-type: none"> <li>• 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 the Committee needs to finish the business on the Agenda today.</li> <li>• 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.</li> <li>• 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.</li> <li>• Public comment will be made before the Committee starts to discuss an item. If the comment is not for a specific agenda item, it will be read at the general Public Comment.</li> <li>• Chairperson Booth provided information on how to submit a comment in-person, or live and directly using the “chat” feature.</li> </ul>	
<b>APPROVE MEETING AGENDA</b>	The Agenda for today’s meeting was approved.	<b>Approved unanimously by roll call. 3 AYES (Booth, Roybal, and Vaccaro)</b>

**APPROVED**

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
<b>PUBLIC COMMENTS</b>	There were no public comments.	
<b>APPROVE CONSENT AGENDA</b>	<ul style="list-style-type: none"> <li>• February 28, 2024 Meeting Minutes</li> <li>• Contract with Microsoft (via SHI International) to provide product support services for Information Technology staff supporting critical virtual production infrastructure <b><u>Motion FIN 100.0424</u></b> <b>To authorize staff to execute a contract in the amount of \$9,500,000 with Microsoft to provide product support services for the period of May 2024 to May 2027.</b></li> <li>• Contract Amendment with Cloud Technology Innovations, LLC (Healthcare Fraud Shield) to provide Special Investigations Unit (SIU) Case Management and Data Analytics tool <b><u>Motion FIN A.0324</u></b> <b>To authorize staff to amend a contract in the amount of \$1,048,000 with Cloud Technology Innovations, LLC (Healthcare Fraud Shield), increasing the total contract value from \$2,335,000 to \$3,383,000 to provide SIU Case Management and Data Analytics tool for the period of September 1, 2023 to December 31, 2025.</b></li> </ul>	<p><b>Approved unanimously by roll call. 3 AYES</b></p> <p><b>The Committee approved placing FIN 100 on the Consent Agenda for April 4, 2024 Board of Governors meeting</b></p>
<b>CHAIRPERSON'S REPORT</b>	There was no Chairperson report.	
<b>CHIEF EXECUTIVE OFFICER'S REPORT</b>	<p>John Baackes, <i>Chief Executive Officer</i>, reported:</p> <ul style="list-style-type: none"> <li>• As reported at the March Board of Governor's meeting, Change Healthcare is L.A. Care's sole clearinghouse vendor for the submission of electronic claims. Upon learning of the recent cyber-attack, L.A. Care immediately notified Providers to switch to paper claims submission to keep their claims current. For many providers, it was not easy.</li> <li>• L.A. Care immediately began working with Change Healthcare, which is owned by United Health, which also owns a number of other entities, including Optum. Change Healthcare provided access to an alternate platform provided by Optum. L.A. Care reviewed and tested the platform before it activated on March 12. That particular connection did not work for many of L.A. Care's smaller vendors and community-based organizations, such as skilled nursing facilities.</li> <li>• L.A. Care is also working with its former clearinghouse vendor, Office Ally. While L.A. Care has not yet finalized an agreement to bring Office Ally back online, claims that some of L.A. Care's providers can use a connection to the Optum clearinghouse. L.A.</li> </ul>	

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	<p>Care is at times receiving twice the volume of claims it would normally receive, and is staying current in processing the claims received.</p> <ul style="list-style-type: none"> <li>• L.A. Care has agreements to provide \$28,893,000 to 81 providers in cash advances against future claims.</li> <li>• L.A. Care has received feedback from CEOs who expressed appreciation for L.A. Care’s transparency and cooperation. Providers are moving to capitation arrangements, particularly the hospitals.</li> </ul> <p>Chairperson Booth noted that things are tight for many. She asked if L.A. Care is able to provide some of the money for solo or small group practices. Mr. Baackes noted that most small group practices receive capitation payment from L.A. Care, which are not affected by the Change Healthcare situation. Over 500 primary care doctors in L.A. Care’s direct network are capitated and do not rely on claims submissions.</p> <p>Mr. Baackes is in regular contact with the Director of the California Department of Managed Healthcare (DMHC) and the Director of the Department of Health Care Services (DHCS) providing weekly updates.</p> <p>Board Member Vaccaro asked if L.A. Care has determined the origins of new Medi-Cal members that are not part of redetermination process. Mr. Baackes that since June 2023, L.A. Care has added 459,000 new members. Of those, 155,000 are from the Medi-Cal expansion population of undocumented residents ages 26-49 years.</p> <p>L.A. Care is not seeing that these are members who were previously enrolled with L.A. Care. Staff is working closely with Board Member Jackie Contreras, Director of the Los Angeles County Department of Public Social Services (DPSS). Board Member Contreras is theorizing that many of these people found the redetermination process more cumbersome than completing new paperwork.</p> <p>Mr. Baackes noted there are two months left of the redetermination process. About 340,000 members still have to complete the process. Information will be mailed to those with renewal dates in April and May. Members that are dis-enrolled will have 90 days to reapply. L.A. Care will have final total enrollments on October 1.</p>	
<b>COMMITTEE ITEMS</b>		
<b>Chief Financial Officer’s Report</b>	Jeffrey Ingram, <i>Deputy Chief Financial Officer</i> , reported the January 2024 Financial Performance. <i>(A copy of the report can be obtained by contacting Board Services.)</i>	

**APPROVED**

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<ul style="list-style-type: none"> <li>Financial Report</li> <li>FY 2023-24 4+8 Forecast</li> </ul>	<p><u>Membership</u> January 2024 total membership was 2.49 million members, around 56,000 unfavorable to the budget. The large drop between December 2023 and January 2024 for both the budget and actuals was the loss of Kaiser (approximately 266,000 members).</p> <p>Medi-Cal membership was 79,000 unfavorable to budget. The budget assumed roughly 150,000 new members associated with the 26-49 years old expansion, split equally over January and February. Actual January 2024 enrollment was closer to 10,000, with the majority of those assumed members enrolled in February 2024.</p> <p>L.A. Care Covered (LACC) was 22,000 favorable to budget. At the time of budget completion, the final pricing position for LACC was unknown. The favorable price position drove the higher enrollment.</p> <p>Year to date (YTD) membership was at 10.8 million member months, almost 113,000 unfavorable to the budget. This is driven by the January impact along with the larger than expected "on-hold" status that hit in October 2023.</p> <p><u>Financial Performance for January Month to date (MTD)</u> January 2024 net surplus was \$55 million, which is \$48 million favorable to the budget when Housing and Homelessness Incentive Program/ Incentive Payment Program (HHIP/IPP) were excluded.</p> <p>Revenue was \$113 million behind budget, driven by an \$81 million retroactive acuity adjustment for CY 2023 that was recognized in January 2024 reporting.</p> <p>Healthcare costs (HCC) were \$146 million favorable to budget driven by incurred claims being favorable roughly \$35 million. Fee-for service (FFS) expenses came in lower than anticipated, primarily in Inpatient. There were retroactive Unsatisfactory Immigration Status (UIS)/Satisfactory Immigration Status (SIS) adjustments of \$34 million. There was also some reduction in capitation related to the CY 2023 acuity adjustment of \$28 million.</p> <p>Administrative expenses were unfavorable \$8 million for the month. The drivers include higher headcount than included in the budget, timing on contract spend for annual mailers, and an update to Government Accounting Standards Board Statement No. 96 (GASB96) which affects depreciation and amortization.</p> <p>Non-operating income was favorable \$13.1 million driven by the continued benefit of investments earning more in a higher rating environment.</p>	

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	<p><u>Financial Performance YTD</u>  YTD net surplus was \$267 million, \$201 million favorable to the budget when HHIP and IPP were excluded.</p> <p>Revenue is \$99 million behind budget. The drivers include the retro acuity adjustment in January 2024, IPP/HHIP timing, and CY 2023 favorability related to UIS/SIS assumptions.</p> <p>HCC were \$257 million favorable to budget driven by lower FFS expenses, retro UIS/SIS adjustments, and the offset to the retro acuity adjustments.</p> <p>Administrative expense was \$17.8 million unfavorable. Details were in the 4+8 forecast. Non-operating income was favorable \$58.7 million driven by interest income &amp; unrealized gains.</p> <p><u>Operating Margin by Segment</u></p> <ul style="list-style-type: none"> <li>• Overall Medical Care Ratio (MCR) was 88.8% vs the budgeted 93.3% excluding HHIP/IPP.</li> <li>• Medi-Cal is performing closer to 90% due to lower FFS claims than anticipated.</li> <li>• Duals Special Needs Plan (DSNP) was 81.8% vs 89.5%, which was up from last month's 77.4%.</li> <li>• LACC was at 70.0% vs the 83.7%. Increased enrollment drove higher revenue paired with prior period Incurred but not Reported (IBNR) adjustments. February 2024 will see some Risk Adjustment Factor (RAF) adjustments that bring the MCR above 80%.</li> <li>• PASC is running at 100.5% vs the budgeted 109%</li> </ul> <p><u>Key Financial Ratios</u></p> <ul style="list-style-type: none"> <li>• MCR was 88.8%</li> <li>• Administrative ratio was 5.7% vs 5.1%</li> <li>• Balance sheet metrics all healthy again this month with no caveats for pass-through payments.</li> </ul> <p><u>Tangible Net Equity (TNE)</u>  TNE was at 861% with days of cash on-hand at 117.</p> <p><u>4+8 Forecast Update</u></p> <p><u>Membership</u></p> <ul style="list-style-type: none"> <li>• Medi-Cal updates include:</li> </ul>	

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	<ul style="list-style-type: none"> <li>○ Increased disenrollment rate due to backlog in redetermination processing post June 2024.</li> <li>○ Disenrollment rate trend differentiated by segment; Budget applied flat rate across all segments.</li> <li>○ Updated timing of the UIS 26-49 expansion members.</li> <li>● D-SNP: 8% growth rate due to sales and retention efforts vs budgeted 6%</li> <li>● LACC: Refreshed outlook based on results of open enrollment period</li> <li>● Overall, the total membership was lowered by 483,000 member months - 1.5% from the budget expectation.</li> </ul> <p><u>FY 2023-24 4+8 Forecast vs Budget P&amp;L – L.A. Care (excl. HHIP/IPP)</u></p> <p>Revenue was \$395 million lower than originally budgeted:</p> <ul style="list-style-type: none"> <li>● This is inclusive of YTD January variance including the CY 2023 retro acuity adjustment</li> <li>● CY 2024 rates were lower than we originally anticipated</li> </ul> <p>HCC was \$269 million lower than originally budgeted:</p> <ul style="list-style-type: none"> <li>● Reductions in revenue have a portion that are offset in global sub-capitation arrangements</li> <li>● FFS expenses net to \$45M lower <ul style="list-style-type: none"> <li>○ Reduction on the Inpatient budget, but offsetting increases across all other categories.</li> </ul> </li> <li>● Provider incentives includes Student Behavioral Health Incentive Program (SBHIP) timing</li> <li>● Medical Administrative increase is associated with administrative increases tied to activities within Health Services</li> </ul> <p>Operating margin is projected to decrease \$126 million.</p> <p>Administrative was increasing \$75 million for the year</p> <ul style="list-style-type: none"> <li>● Largest driver is tied to Salaries and Benefits</li> <li>● Increased benefits burden from 23.5% to 31.1% <ul style="list-style-type: none"> <li>○ Budget utilized older model</li> <li>○ Medical premiums, retirement matching</li> </ul> </li> <li>● Vacancy factor decreased from 15.7% to 15.0%</li> <li>● Total headcount increased 290</li> <li>● Second largest driver is within Depreciation and Amortization</li> </ul>	

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	<ul style="list-style-type: none"> <li>○ GASB96</li> <li>○ Timing of capital projects being placed in service</li> <li>● Last call-out is tied to purchased services <ul style="list-style-type: none"> <li>○ Increase in staff-augmentation <ul style="list-style-type: none"> <li>● \$5 million related to claims</li> <li>● \$4 million related to Utilization Management (UM)</li> <li>● \$4 million related to call center</li> </ul> </li> </ul> </li> </ul> <p>Non-operating income is expecting to increase \$141 million tied to higher earnings on investments, with a more realistic interest income forecast than incorporated in the budget.</p> <p>Due to the decrease in overall revenue, the expectation was adjusted downwards \$60 million for a surplus of \$147 million for the full year.</p> <p>Future financials against the 4+8 will be reported until a refreshed view later in the year. Additional one-time adjustments are fully anticipated as the fiscal year progresses.</p> <p><u>Waterfall Variance</u></p> <p>Mr. Ingram displayed a visual representation of the variance he just discussed. One item to call out is the (\$32 million) CY 2023 Rates. That is made up of \$22 million due to UIS/SIS proportion updates and the net acuity adjustment; \$81 million Revenue, \$27 million healthcare costs = (\$54 million net)</p> <p>Overall forecasted MCR is 94.1% vs the budgeted 93.2% excluding HHIP/IPP  Medi-Cal is at 95%, up from 93.7%  DSNP is 90.6 vs 89.2%  LACC is 79.0% vs 82.0%  PASC is 100.7% vs 102.5%</p> <p><b><u>Motion FIN 101.0424</u></b>  <b>To accept the Financial Reports for January 2024, as submitted.</b></p>	<p><b>Approved unanimously by roll call. 3 AYES</b></p>
<ul style="list-style-type: none"> <li>● Monthly Investment Transactions Reports</li> </ul>	<p>Mr. Ingram referred to the investment transactions reports included in the meeting materials (<i>a copy of the report is available by contacting Board Services</i>). This report is to comply with the California Government Code as an informational item. L.A. Care's total investment market value as of January 31, 2024 was \$3.5 billion.</p> <ul style="list-style-type: none"> <li>● \$3.4 billion managed by Payden &amp; Rygel and New England Asset Management (NEAM)</li> <li>● \$35 million in Local Agency Investment Fund</li> </ul>	

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	<ul style="list-style-type: none"> <li>\$80 million in Los Angeles County Pooled Investment Fund</li> </ul>	
Faneuil, Inc. Contract Extension and Funding for Customer Solution Center	<p>Acacia Reed, <i>Chief Operating Officer</i>, presented a motion requesting approval to amend a contract with Faneuil, Inc. The current contract Amendment 1 to SOW 2 is \$22,000,000, effective until March 31, 2025. Staff requests approval to amend the existing contract with Amendment #2 to SOW2, extending the contract term through March 31, 2027 (an incremental term of two years) and increasing the overall contract amount from \$22,000,000 to \$64,287,729 (an incremental increase of \$42,287,729). The vendor will continue providing support to existing and prospective members, and to providers for call center services. The vendor will also provide incremental staffing. This will allow the L.A. Care Call Center to meet Key Performance Indicators and regulatory requirements. A request for proposal (RFP) process was conducted in October 2021 for call center services. L.A. Care has used Faneuil Inc. since January 14, 2022, and is pleased with the performance.</p> <p><b><u>Motion FIN 102.0424</u></b>  <b>To authorize the staff to enter into Amendment 2 for SOW 2 with Faneuil, Inc., increasing the overall contract amount from \$22,000,000 to \$64,287,729 (an incremental increase of \$42,287,729) and increasing the contract terms from January 14, 2022 - March 31, 2025 to April 1, 2025 - March 31, 2027, (an incremental term of 2 years). This amendment will allow Faneuil, Inc. to continue to support L.A. Care with 24/7 call center operations through March 31, 2027.</b></p> <p><i>(Board Chairperson Ballesteros joined meeting)</i></p>	Approved unanimously by roll call. 3 AYES
Public Comments on the Closed Session agenda items.	There were no public comments.	
<b>ADJOURN TO CLOSED SESSION</b>	<p>The Joint Powers Authority Finance &amp; Budget Committee meeting adjourned at 1:40 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 1:41 p.m.</p> <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 March 2026</p>	

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	CONTRACT RATES Pursuant to Welfare and Institutions Code Section 14087.38(m) <ul style="list-style-type: none"> <li>• Plan Partner Rates</li> <li>• Provider Rates</li> <li>• DHCS Rates</li> </ul>	
<b>RECONVENE IN OPEN SESSION</b>	The meeting reconvened in open session at 1:47 pm.  Augustavia J. Haydel, Esq., <i>General Counsel</i> , advised the public that no reportable action from the closed session.	
<b>ADJOURNMENT</b>	The meeting adjourned at 1:48 p.m.	

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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 Stephanie Booth, MD, *Chairperson*  
 Date Signed 7/4/2024 11:22 AM PDT

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