BOARD OF GOVERNORS
Finance & Budget Committee
Meeting Minutes – May 22, 2024
1055 W. 7th Street, Los Angeles, CA 90017

Members	Management/Staff	
Stephanie Booth, MD, *Chairperson*	John Baackes, *Chief Executive Officer*	Alex Li, MD, *Chief Health Equity Officer*
Alvaro Ballesteros, MBA	Sameer Amin, MD, *Chief Medical Officer*	Tom MacDougall, *Chief Technology & Information Officer*
G. Michael Roybal, MD **	Terry Brown, *Chief of Human Resources*	Noah Paley, *Chief of Staff*
Nina Vaccaro **	Augustavia Haydel, *General Counsel*	Acacia Reed, *Chief Operating Officer*
	Todd Gower, *Interim Chief Compliance Officer*	Afzal Shah, *Chief Financial Officer*
Absent* * Via Teleconference*	Linda Greenfeld, *Chief Products Officer*	

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
CALL TO ORDER	Stephanie Booth, MD*, Committee Chairperson*, called the L.A. Care and JPA Finance & Budget Committee regular meeting to order at 1:02 p.m. The meetings were held simultaneously. She welcomed everyone and summarized the process for public comment during this meeting.	
APPROVE MEETING AGENDA	The Agenda for today's meeting was approved.	**Approved unanimously by roll call. 4 AYES (Ballesteros, Booth, Roybal, and Vaccaro)**
PUBLIC COMMENTS	There were no public comments.	
APPROVE CONSENT AGENDA	• March 27, 2024 Meeting Minutes • Quarterly Investment Report **<u>Motion FIN 100.0624</u>** **To accept the Quarterly Investment Report for the quarter ending March 31, 2024, as submitted.** • ImageNet, LLC Contract Amendment **<u>Motion FIN A.0524</u>** **To authorize staff to enter into Amendment #5 to SOW #1 with ImageNet, LLC increasing the overall contract amount from $3,750,000 to $4,350,000, an**	**Approved unanimously by roll call. 4 AYES** **The Committee approved placing FIN 100 on the Consent Agenda for June 6, 2024 Board of Governors meeting.**

APPROVED

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	incremental increase of $600,000, and increasing contract terms from July 1, 2024 through June 30, 2025, an incremental term of 1 year. This amendment will allow ImageNet, LLC. to continue to support L.A. Care with paper to electronic claims conversion services through June 30, 2025.	**Motion FIN A.524 does not require full Board approval.**
CHAIRPERSON'S REPORT	There was no Chairperson report.	
CHIEF EXECUTIVE OFFICER'S REPORT	John Baackes, *Chief Executive Officer,* reported that California's Governor released the May Revision to the 2024-25 State Budget, which will be reviewed by the legislature for approval. Disappointingly, the revision eliminates Medi-Cal funding from the managed care organization (MCO) tax adopted a year ago, directing tax revenue to the general fund instead to help close the budget gap. The MCO tax revenue was expected to be $2.6 billion this year, more next year and most of the funding was pushed to later years. Funding from the 2024 tax to improve Medi-Cal reimbursement to 87.5% of Medicare reimbursement is secure for about 760 aid codes. There will be an initiative on the November 2024 ballot to secure proceeds to improve Medi-Cal reimbursement. The action by the Governor to divert proceeds exemplifies the need for the ballot initiative to secure the tax proceeds for the intended purpose of increasing Medi-Cal reimbursement to providers. There will be 17 propositions on the November ballot. When it was agreed to adopt the MCO tax with a portion going to the general fund the Governor did not oppose or endorse the ballot initiative. The initiative becomes even more important going forward to secure funding. Mr. Baackes expressed his observation that people in the same party as the Governor seldom challenge him. They make noise and press conferences, but when the votes are counted, they generally go with the direction the Governor wanted. One of the things that happened in the course of this is that the Governor's office called the Coalition before the May budget revise announcement to say what they were going to announce. They asked if the Coalition would withdraw their ballot initiative, the Coalition would get the money in 2026. Fortunately the person that answered the phone had the common sense to say "no thank you". The question now is whether the Governor will oppose the ballot initiative or not. Originally, the Governor was going to remain neutral, which the Coalition said was fine. So that is up in the air now again. The difficulty is that there was money adopted from the MCO tax in 2024.	

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	Afzal Shah, *Chief Financial Officer*, noted determining the increase from converting those fee schedule adjustments to bring them up to 87.5% of the repayments we get and then determining the capitation payments to cascade down to providers is a formula that is apparently eluding everyone, but they are working on it. That will remain in place, even with the proposed change that the Governor had in the budget for 2025-26, because they are meeting a Centers for Medicaid & Medicare Services (CMS) mandate to get those codes to 87.5%. This will go on and not be eliminated, but any additional money that would have come out in next year, which was $2.6 billion in additional funding for Medi Cal, and it was all press in prescribed buckets is gone. Mr. Shah added that the Proposition 56 (Prop 56) money for physician services is being absorbed into Targeted Rate Increase (TRI). The reason at least for 2024, the amounts that Mr. Baackes mentioned are so small. Prop 56 was getting the Medi-Cal fee schedule to about 80% of Medicare so really the 7.5% would be the numbers. The concerns and issues are that the Prop 56 tax revenue is underfunded, so there is a gap in the revenue. Operationally, this is going to be a challenge for L.A. Care because of TRI codes, and Prop 56 going away. It is almost the middle of the year in terms of decisions around do you actually pay Prop 56 directly, which we are leaning towards and then fill the gap by TRI codes, which is going to be a fairly complicated exercise, both in a capitation and a fee for service context. Mr. Baackes noted that if the ballot initiative passes, it will create a problem for the Governor in 2026 because he will not be able to sweep the 2026 money in doing that budget. The Governor will have to find another source of revenue. Mr. Shah explained why this has become a CMS mandate. The MCO tax has not become, but getting those codes to 87.5% of Medicare was what CMS was trying to do around the country. The MCO tax and TRI are not necessarily related. The TRI problem was created by the adoption of the MCO tax which did away with Prop 56 as a directed payment and had it built into the base rate and then the appropriated money. He clarified that the money that was appropriate in 2024 will continue to be there in future years. That was not wiped away, but it was only $241 million - that was the connection now. MCO tax money was supposed to fund TRI increases as Mr. Baackes mentioned, the Governor, in addition to these services: OB, behavioral health, non-specialty, behavioral health, primary care. The State and the Governor initially had proposed many more increases and these services were going to go to 90 or 100% of Medicare. Then there was going to be funding for hospitals, for outpatient services - that was in the initial proposal that is going away. So right now for 2025, whatever there is for 2024, that is going to these three, PCPs, non specialty, behavioral health and OB	

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	services at 87.5%. That is going to continue and that is the TRI. These are the only TRI increases being funded by MCO tax. All the other potential TRIs are going away because they are taking the MCO tax into the general funds not necessarily for provider increases or even Medi-Cal. Staff will have a brief summary sent to Committee members, of what is being cut in the Governor's proposal that would have been funded next year. There was $2.6 billion for primary care, specialty care, hospital, etc. Those will be gone if the budget passes. The $241 million that was appropriated will continue this year and in 2025. There is no funding for increased rates for other Medi-Cal services. L.A. Care is getting a lot of providers calling asking what happened, and they are not happy. Mr. Baackes reiterated that when you meet with state legislators and considering about a 3rd of them this year are new and you start talking about this, their eyes glaze over, then you realize most of them do not know the difference between Medicare and Medi-Cal. It is a very uninformed legislative body with about 40 new representatives after this year's election for the exiting assembly and senators who said they are not going to run again. Board Member Roybal asked Mr. Baackes if there will be cuts for the expansion for the undocumented population. Mr. Baackes responded that surprisingly they did not propose any cut in coverage. The newly expanded undocumented residents are continuing to be covered. Mr. Baackes noted this is the first increase on the base rates to physicians in 25 years, and now most of that is being wiped away. There is still the challenge of providing enough reimbursement to get providers to come into the Medicaid program and to stay in the Medicaid program. Board Member Vaccaro expressed her concern with the elimination of navigator programs that community members rely on to get help with enrollment into the Medi-Cal program. Without this program that will help support the consumer members, you are looking at the limitation of consumers moving into Medi-Cal when they are eligible for it. Mr. Baackes responded that L.A. Care is trying to get more of its Medicaid or Medi-Cal product staff educated, so they do some of this work in place of the navigators. Mr. Baackes added the newly enrolled undocumented residents will not be eligible for the In-Home Support Services (IHSS) program.	

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	Mr. Baackes noted the other program being eliminated is the Equity and Practice Transformation (EPT). The State is going to help in terms of looking at systems to make those efficient, addressing those with the highest need which in the long run ultimately creates more slots and access. Because you are more properly able to address the total census that exists within a particular practice. Six months ago, a lot of organizations he talked to felt this program was the State's first attempt to try to provide resources into the system, which could actually make a difference in terms of scheduling population management which ultimately creates more access given the shortage of primary care providers. And now this happens - it seems like the rug is being pulled out of that one, which does not make a lot of sense. About two thirds of that funding is being wiped out. Dr. Amin noted there are no details yet about the EPT program. He believes the initial cohort of $4.6 million in the initial payment, is still going through, but it is not going to be enough to support the program. It is unclear what portions of this program are actually going to be able to continue to be functional without continued funding. The concern is this entire Medi-cal program is standing on multiple legs. Some of it is the State making sure that L.A. Care has the right goals and metrics for the health plan. That is all the Department of Health Care Services (DHCS) Medi-Cal Accountability Set (MCAS) metrics, having the right access and availability and some of that is the MCO tax. Also making sure that these practices can function in a value based way through things like EPT. The State is going to put forward metrics, provide reimbursements at a higher clip for greater access and availability and help transform some of these practices. Dr. Amin thinks there was a real sense that we are going to be able to move forward but slowly. The problem is without EPT and without the access and availability from the increased payments, this will not work. Then DHCS will require L.A. Care to meet MCAS metrics which is going to be very difficult. L.A. Care is aware and understands that its providers are overburdened, they are not paid enough, and there are not enough providers. It is very difficult even with all the advocacy that L.A. Care is doing.	
COMMITTEE ITEMS		
Chief Financial Officer's Report • Financial Report	Jeffrey Ingram, *Deputy Chief Financial Officer,* reported the March 2024 Financial Performance. *(A copy of the report can be obtained by contacting Board Services.)* <u>Membership</u> March 2024 total membership was 2.6 million members, around 58,000 favorable to the 4+8 forecast.	

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	• The favorability was driven by retroactive membership of 44,000 in Medi-Cal, going back to February 2023 with majority of retroactivity occurring in Feb 2024.
	• Staff reports membership on a reported basis, which means any retroactivity for prior months is posted in the current reporting month.
	• When the Medi-Cal retroactivity is removed from total, the variance was much more in line with forecast (~+7,500 favorable to forecast).
	• L.A. Care Covered (LACC) was favorable to forecast by 6,000, continuing to outpace projections.
	
	Year-to-date (YTD), there were 16 million member months, 62,000 favorable to the forecast, driven by the same segments and activity as March MTD.
	
	<u>Financial Performance March 2024</u>
	Net surplus for March 2024 was $48.2 million, $42.9 million favorable to the forecast when Housing and Homelessness Incentive Program (HHIP) and Incentive Payment Program (IPP) are excluded.
	
	Income percentage of 5.2%, but if excluded, the interest income would have an income percentage of 2.6%
	
	<u>Revenue $12.4 million favorable</u>
	• Biggest driver is membership with an offset in healthcare costs; +$21 million
	• Other drivers include:
	  o +$5 million in Risk Corridors; primarily Coordinated Care Initiative (CCI) for Calendar Year 2021 +$4 million
	  o +$4 million Maternity Kick with small offset in Capitation
	• +$4M Equity Payment & Transformation Incentive Revenue (CalAIM)
	• Offset by timing in HHIP/IPP ($17 million with offset in Healthcare Costs [HCC]) & CY 2024 Plan Partner Rates ($3 million)
	
	<u>Medical Expense +$20.1 millio</u>n favorable
	• Capitation favorability +$30 million
	• Provider Incentives excluding IPP and Student Behavioral Health Incentive Program (SBHIP) are favorable +$10 million
	• Offset of CY 2024 Plan Partner rates +$7 million	

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	• Retro Enhanced Care Management (ECM)/ Homeless Housing and Support Services (HHSS) Membership Cleanup +$4 million
	• Timing of HHIP/IPP +$2 million
	• Offset by Membership impact ($20 million), Incurred Claims ($10 million), CY 2023 Shared Risk True-Up ($2 million), and Risk Corridors ($1 million)
	
	<u>Operating Expense $5.5 million favorable</u>
	Favorability driven primarily by timing of Supplies & Other +$6 million (Accounting entries)
	
	<u>Non-Operating Expense $4.9 million favorable</u>
	Favorability driven by interest income and timing of grant spending
	
	<u>Financial Performance (YTD)</u>
	Net surplus YTD was $339 million, $68.3 million favorable to the forecast when HHIP and IPP are excluded. Net income % is 6.3%; 4.6% less investment income.
	
	<u>Revenue $1.8 million favorable</u>
	• Biggest driver is Membership; +$17 million
	• Other drivers include:
	   o +$9 million Maternity Kick with small offset in Capitation ($1 million)
	   o +$8 million in Risk Corridors; primarily Major Organ Transplant (MOT) +$6 million & CCI +$4 million
	   o +$4 million Equity Payment & Transformation Incentive Revenue (CalAIM)
	• Offset by timing of HHIP/IPP ($33 million with offset in HCC), CMC CY 2021 Disenrollment Penalty ($4 million) and CY 2024 Plan Partner (PP) rates ($3 million with offset in HCC).
	
	<u>Medical Expense $45 million</u> favorable
	• Capitation favorability +$51 million
	• Pay for Performance (P4P) & Value Initiative for IPA Performance (VIIP) provider incentives are favorable +$20 million
	• Timing of HHIP/IPP +$9 million
	• Student Behavioral Health Incentive Program (SBHIP) favorable +$7 million
	• CY 2024 PP rates +$7 million
	• Retro ECM/ Homeless Housing and Support Services (HHSS) Membership Cleanup +$4 million	

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	• Cal MediConnect (CMC) Disenrollment penalty offset +$3 million
	• Offset by Incurred Claims ($25 million) and CY 2023 Shared Risk True-Up ($17 million), and Membership ($17 million)
	
	<u>Operating Expense $2 million</u> unfavorable
	Unfavorability driven by higher contract spend in Purchased Services; partially offset by timing favorability in Supplies & Other.
	
	<u>Non-Ops $710,000 favorable</u>
	Favorability due to timing of grant spending offset by unrealized losses.
	
	<u>Operating Margin by Segment</u>
	• Overall Medical Cost Ratio (MCR) is 89.9% vs the forecasted 91.2%, excl. HHIP/IPP
	• Medi-Cal performing around 90%, ahead of forecast
	• Duals Special Needs Plan (DSNP) is 88.4% vs 85.8% forecast
	  ○ This includes a shared risk adjustment from last month; the MCR would be 82.6% without adjustment
	• LACC is at 83.7% vs 78.7% forecast.
	  ○ In February, there was an adjustment to the risk adjustment factor (RAF) estimate for CY 2023 and YTD CY 2024, reducing it from .70 to .66
	  ○ Higher paid claims in March
	• PASC running at 102%, behind forecast of 100.1%
	
	<u>Key Financial Ratios</u>
	• Administrative ratio is equal to forecast
	• Balance sheet metrics all healthy again this month. Cash to claims was inflated by approximately $1 billion in cash from Department of Health Care Services (DHCS) for pass-through payments. Without those funds, cash to claims would be 0.89 this month, in line with previous months.
	
	<u>Tangible Net Equity (TNE)</u>
	TNE was at 873%, with days of cash on-hand at 124, which is inflated due to the previously discussed pass-through funds. If those are removed, days of cash is at 89 days.
	
	<u>Motion FIN 101.0624</u>
	To accept the Financial Reports for March 2024, as submitted.
		Approved unanimously by roll call. 4 AYES

APPROVED

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
• Monthly Investment Transactions Reports	Mr. Ingram referred to the investment transactions reports included in the meeting materials (*a copy of the report is available by contacting Board Services)*. This report is to comply with the California Government Code as an informational item. L.A. Care's total investment market value as of March 31, 2024 was $4.7 billion. • $4.46 billion managed by Payden & Rygel and New England Asset Management (NEAM) • $5 million in Local Agency Investment Fund • $81 million in Los Angeles County Pooled Investment Fund • $109 million in BlackRock Liquidity T-Fund	
• Quarterly Reports Required by Internal Policies	Mr. Ingram referred to the 2nd Quarter Expenditure Reports required by L.A. Care Internal Policies for FY 2023-24 included in the meeting materials. (*A copy of the report is available by contacting Board Services)*. L.A. Care internal policies require reports on 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, and do not require approval. • Policy AFS-004 (Non-Travel Expense Report) • Policy AFS-027 (Travel Expense Report) • Policy AFS-006 (Authorization and Approval Limits) • Policy AFS-007 (Procurement)	
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 adjourned at 1:33 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 1:33 p.m. 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 *May 2026*	

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	CONTRACT RATES Pursuant to Welfare and Institutions Code Section 14087.38(m) • Plan Partner Rates • Provider Rates • DHCS Rates	
RECONVENE IN OPEN SESSION	The meeting reconvened in open session at 2:02 pm. Augustavia J. Haydel, Esq., *General Counsel*, advised the public that no reportable action from the closed session.	
ADJOURNMENT	The meeting adjourned at 2:02 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:

Signed by:
Stephanie R. Booth-Millen
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Stephanie Booth, MD, *Chairperson*
Date Signed 8/30/2024 | 9:43 AM PDT

APPROVED