BOARD OF GOVERNORS
Finance & Budget Committee
Meeting Minutes – March 26, 2025
1055 W. 7th Street, Los Angeles, CA 90017

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

Management/Staff
Martha Santana-Chin, *Chief Executive Officer*
Sameer Amin, MD, *Chief Medical Officer*
Terry Brown, *Chief of Human Resources*
Todd Gower, *Interim Chief Compliance Officer*
Linda Greenfeld, *Chief Products Officer*
Augustavia Haydel, Esq. *General Counsel*
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*

**Absent* ** *Via Teleconference*

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 meetings 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. 3 AYES (Booth, Roybal and Vaccaro)**
PUBLIC COMMENTS	There were no public comments.	
APPROVE MEETING MINUTES	Chairperson Booth commented on what she has been talking about "waste" as something that is money spent on patients, that is a waste and that is far from what she meant. Chairperson Booth added she is changing the minutes to not reflect all of what she said. She clarified what she said. Chairperson Booth did not think it really changes the meaning of what she said, it was just how they were written. Chairperson Booth provided staff the following statement that should be reflected on the minutes of February 26, 2025. *"Chairperson Booth commented that at the Compliance & Quality Committee meeting last week, she used the words "waste of money". She thought it may not have come across as she meant it and wanted to clear up any misunderstanding. She thinks it might have been better to say "money not well-spent." And*	**Approved unanimously by roll call. 3 AYES**

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	she believes money can be "not well-spent" at L.A. Care. One of the examples she gave is this: L.A. Care supports a project meant to improve member health, and the metrics prove the project did not have the positive impact the project leaders expected. To use more money for this project, would not be spending the money well, because it is not doing what it was supposed to do. When L.A. Care leaders recognize an expense is not purchasing what they wanted and they stop that spending, that is known as practicing good stewardship of the health care dollars entrusted to them." The February 26, 2025 meeting minutes were approved, as amended.	
CHAIRPERSON'S REPORT	There was no Chairperson Report.	
CHIEF EXECUTIVE OFFICER'S REPORT	Martha Santana-Chin, *Chief Executive Officer*, noted Afzal Shah, *Chief Financial Officer*, and Jeffrey Ingram, *Deputy Chief Financial Officer*, have done a phenomenal job of pulling a few schedules together to give an update on how L.A. Care is doing financially. They will provide a more in-depth report. Ms. Santana-Chin noted L.A. Care is closely monitoring the state's reported budget shortfall. She referred to materials included in the packet related to an article from Cal Matters, on a reported a $6.2 billion shortfall. A loan and new budget allocations have been requested from the state budget. L.A. Care health plan has not received any direction from the California Department of Healthcare Services (DHCS) on its contracts, so L.A. Care is continuing to operate with no immediate changes. L.A. Care is closely monitoring the state budget situation, which hopefully will have a little more clarity once the Governor's May revise is released. L.A. Care is monitoring the situation at the federal level, with negotiations between the Senate and the House, expected to continue well into the summer. L.A. Care is just continuing with advocacy for health care coverage, making sure that L.A. Care is fighting for a best case scenario and informing the conversation about potential devastating impacts of funding cuts. L.A. Care will continue with preparedness and planning as well as advocacy in a leadership role and through coalitions. Ms. Santana-Chin expressed her appreciation of the committee's focus on supporting L.A. Care's efforts throughout the year, which may be a tough one. She asked Mr. Shah and Mr. Ingram to provide an in-depth report of L.A. Care's efforts.	

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	Afzal Shah, *Chief Financial Officer*, provided highlights on the state budget contacts, federal funding risks and L.A. Care's preparedness efforts. There's a $6.2 billion shortfall in the Medi-Cal program through this budget cycle, July 2024 through June 2025, attributed to higher-than-expected enrollment and rising pharmacy costs. During the May budget revise process, it is expected that the Governor will provide some insight about the 2025-26 California budget, what changes are happening to the program, and the timing for implementation of changes. There are proposed federal reductions in funding that could significantly impact both Medi-Cal and the Affordable Care Act (ACA) programs. The expectation for the ACA funding is that the enhanced subsidies would expire December 31, 2025. There is a wide range of estimates in the value of the Medi-Cal reductions for California. There is a federal impact, California impact, L.A. Care impact and the wide range is somewhere between $10-20 billion. The US Senate proposal did not have any reductions, but the House proposal has close to $900 billion in reductions, and there will be a reconciliation process. L.A. Care represent somewhere between 16-20% of the overall Medi-Cal program enrollment. L.A. Care could expect funding cuts between $1.5 - 4 billion, based on the range of proposals being considered. Mr. Shah noted there is a wide range of proposals, including elimination or reduction of provider taxes which would include the managed care organization (MCO) taxes. There are proposals for implementation of work requirements, reduction of the Federal Medical Assistance Percentage (FMAP) overall and specifically for the expansion population. FMAP currently contributes $0.90 for every $0.10 that the state contributes. The FMAP could be cut to around 50% match, depending on the state. The federal government may introduce either block grants and/or per capita cost. There is a potential reduction in potential fraud waste and abuse, closing loopholes, getting to efficiency, or benefit coverage changes. The negotiations between the House and the Senate are expected to continue through the summer. Concerns are that cuts would lead to increases in uncompensated care, putting additional financial strain on hospitals - especially in the rural areas. This can destabilize provider networks, including hospital networks, and reduce the number of individuals covered through the programs. These will severely impact access to care and negatively impact L.A. Care members. L.A. Care's advocacy work continues, directly and through coalitions. L.A. Care has developed a comprehensive set of educational materials (videos, fact sheets, press	

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	conferences, legislative briefings, and other strategies) to inform members and elected officials and what's at stake. L.A. Care is expected to continue its preparedness. L.A. Care has an advocacy group that meets weekly to continuously develop and refine its strategy and evolve it. L.A. Care is modeling a range of potential impacts on funding and operations, prioritizing the strategic planning process to position the organization for resilience and adaptability. L.A. Care is looking at its overall expenses in a holistic way, whether it is medical costs, a unit cost, utilization changes, identifying vendor spend, re-evaluating capital expenditures and prioritizing automation efforts to drive efficiencies. L.A. Care is committed to its mission of providing high quality care to all eligible members despite the ongoing federal changes and state budget challenges. L.A. Care will continue to keep this committee informed of developments and mitigation strategies. Chairperson Booth asked if it was true FMAP began with the ACA, to help states fund their expansion programs. She asked if that was why, with FMAP, the federal contribution for the expansion population has been 90:10, whereas the rest of the funds put up by the state are matched by the federal government at 50:50? Mr. Shah confirmed the state is looking at the Unsatisfactory Immigration Status (UIS) component to assess funding. Mr. Shah understands that L.A. Care was surprised regarding the state budget situation and news of the loan request and additional budget allocation. The rise in expenses is attributed to the expansion of Medi-Cal to cover individuals in the UIS status as well as rising pharmacy costs. Ms. Santana-Chin noted that staff is reviewing all costs. L.A. Care has not heard directly from DHCS or any other resource confirming a definitive decision around coverage for the UIS Medi-Cal population. Based on current information, everything is on the table.	
COMMITTEE ITEMS		
Chief Financial Officer's Report • Financial Report	Jeffrey Ingram, *Deputy Chief Financial Officer,* reported on Financial Performance for January 2025 *(a copy of the report can be obtained by contacting Board Services).* *(Board Member Ballesteros joined meeting)* <u>Membership</u> Total membership for January 2025 was 2.63 million members, which is flat to the 3+9 forecast. Year-to-date (YTD) member months are at 10.5 million, also flat to the forecast. This is the first month comparing to the new forecast. Membership was virtually flat from December 2024 to January 2025 with a small increase of 0.07%. The forecast does not	

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	include any impacts to membership related to actions pending by the Federal government or impacts because of State budget deficits. Staff will continue to monitor trends and make revisions in either the 6+6 or 9+3 forecast. <u>Consolidated Financial Performance - January 2025 YTD</u> There was a net surplus of $37 million, which is favorable to the forecast when Housing and Homelessness Incentive Program/ Incentive Payment Program (HHIP/IPP) are excluded. If the $45 million in investment activities is removed, there is a net deficit of ($8 million). Revenue is $3 million favorable driven by favorability of $2 million in L.A. Care Covered (LACC)/Duals Special Needs Plan (DSNP) Revenue, $2 million favorable in Risk Corridors/Adjustments (primarily Unsatisfactory Immigration Status [UIS]), and offset ($1 million) in Medi-Cal Revenue. Medical Expenses are $19 million favorable driven by a $11 million Targeted Rate Increase (TRI) adjustment, $8 million in Provider Incentives (excluding Student Behavioral Health Incentive Program (SBHIP) & IPP), and $3 million in Medi-Cal rate favorability; offset by ($3 million) in Incurred Claims. Operating Expenses are ($8 million) unfavorable driven by ($4 million) in timing of Advertising & Promo spend for DSNP Annual Enrollment Period and LACC Open Enrollment Period campaigns, and ($2 million) in timing of printing spend for LACC related member materials. L.A. Care may make additional investments through the end of this year that will apply pressure to the 9 + 3 target and 3 + 9 target. Staff will update those in the 6 + 6 or 9 + 3, or just keeping the door open as staff monitor the spend. Staff is looking how it can offset, but there is potential for additional spend in the current fiscal year on administrative expenses to respond to what is going on outside L.A. Care. Non-Operating Income was favorable almost $16 million, primarily around the managed care organization (MCO) tax revenue for calendar year 2024. The MCO tax program set the liability ahead of time and then set rates annually. The idea is at the end of the program, it will be break even. Year in-year out there may be pluses or minuses, so for the current fiscal year L.A. Care will be receiving about $16 million of help. In future years when rates are set, it is likely that will be offset. <u>Operating Margin by Segment</u> • Medi-Cal is favorable due to the TRI adjustment.	

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	• DSNP is favorable due to CY 2025 mid-year Risk Adjustment Factor (RAF) adjustment. The 3+9 forecast is also slightly under-projecting revenue for DSNP. • LACC is favorable due to lower inpatient and outpatient spend. We continue to see pressures on member mix. • PASC is flat to forecast. In aggregate, medical care ratio (MCR) was favorable to forecast, largely driven by Medi-Cal (95.1% vs 93.1% excl HHIP/IPP). <u>Key Financial Ratios</u> The Administrative Ratio is slightly behind forecast. Balance sheet metrics all satisfying benchmarks with no caveats for pass-through funds. <u>Tangible Net Equity (TNE)</u> TNE is healthy at 850% this month with days of cash on-hand at 60 days. Pressures on the revenue, but essentially the RAF score continues to decrease which is applying pressure to L.A. Care's revenue and squeezing the margins. L.A. Care has a lot of internal workgroups discussing how to respond to that and address some additional rising costs within the pharmacy and inpatient line within LACC. This is another area that L.A. Care needs start focusing on is to move forward to setting perspective in terms of L.A. Care's fund balance like how it is doing with interest rates. In terms of a market value, L.A. Care's fiscal year forecast had about $12 billion in revenue. If L.A. Care were to make 1% surplus every year holding everything else constant, that is about $120 million a year, it would take L.A. Care 27 years to build up an equivalent to what L.A. Care currently has in its investment portfolio of about $3.3 billion. This is a healthy spot, but in terms of the operating expenses it is 60 days, so that $3.3 billion can go pretty quick. Board Member Roybal asked Mr. Ingram to elaborate a bit around like the commitments against that reserve and why even though it is like 850% in the 60 days and the fact that part of the reserves on the balance sheet are actually committed. Mr. Ingram noted the number of things that go into the fund balance. L.A. Care has $3.3 billion in the actual investments. In the fund balance, L.A. Care has about $2.6 billion, meaning that L.A. Care already has obligations that are currently out. This is similar to Incurred But Not Reported (IBNR). There are claims that are due that have not been	

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	received yet, so that is a portion of the fund balance or liability. A lot of L.A. Care's investments or community reinvestment that the board is committed to, like Elevating the Safety Net (ESN), are all portions of the fund balance that have been set aside for commitments related to this. This further depreciates the amount of fund balance set aside given the outstanding obligations. Ms. Santana-Chin added one of the reasons why it is going to be important for L.A. Care to pay attention to this is the hope that its vigorous advocacy is going to be very effective and be able to prevent the devastating cuts that are being proposed by the federal government. L.A. Care hopes that the elected officials in California figure out a way to finance the budget in a sustainable way. There are real threats before us and the managed care industry, and the financing behind it could be foreign, very complicated, and not easily understandable for the average provider or individual. L.A. Care must be prepared for this. There may be misunderstanding about what L.A. Care can and cannot do to sustain the health and wellbeing of providers in the community. Ms. Santana-Chin added that L.A. Care wishes that it had 27 years' worth of cash where it could sustain an entire system, but that is not actually the case. Board Member Roybal noted it might be more interesting to see how it has looked over the last couple years, and what the trend has been with the change in the business and the new things that have been taken on, and how that has affected our overall days of cash on-hand, because 60 days is not a lot of days. Mr. Ingram noted it day of cash on-hand is not counting the full portfolio, because it only has cash and short-term investments under a year. L.A. Care also has investments in bonds that are beyond one year, but then you get into liquidity issues if you start selling those. You are either in a positive or lost or gained, so it is really not a long time at all. Board Member Vaccaro shared the same concern that Board Member Roybal raised. She added perhaps at a future meeting we can talk about what L.A. Care's plans to address that issue and the 60-day target. What is considered acceptable to the organization, considering L.A. Care is lower when compared to other plans? If L.A Care is too low, what should the target be? Mr. Ingram noted L.A. Care can commit to bring that back at future meeting. He thinks L.A. Care is a little unique in terms of its investments. The 60 days is cash and investments under a year. If L.A. Care does an adjusted days of cash on-hand, essentially including its full	

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	market value, Mr. Ingram thinks L.A. Care would be closer to the where the other plans are in terms of days of cash. Staff will provide the trend at a future session. Board Member Vaccaro noted that makes sense and asked if L.A. Care knows if we were comparing apples to apples here with the other plans in terms of how they are disclosing that information. Mr. Ingram noted that it is close, but we can call out the differences when we get to that comparison. **<u>Motion FIN A.0325</u>** **To accept the Financial Reports for January 2025, as submitted.**	**Approved unanimously by roll call. 4 AYES (Ballesteros, Booth, Roybal and Vaccaro)**
• 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 complies with the California Government Code as an informational item. L.A. Care's total investment market value as of as of L.A. Care's total investment market value as of January 31, 2025, was $3.3 billion. • $3.2 billion managed by Payden & Rygel and New England Asset Management (NEAM) • $125 million in BlackRock Liquidity T-Fund • $11 million in Los Angeles County Pooled Investment Fund • $6 million in Local Agency Investment Fund	
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 1:34 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 *March 2027*	

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	No discussion on this issue 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 2:00 pm. Ms. Haydel advised the public that no reportable action from the closed session.	
ADJOURNMENT	The meeting adjourned at 2:01 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:
Signed by:
Stephanie Booth, MD.
084B48A20E5F499
Stephanie Booth, MD, *Chairperson*
Date Signed 5/4/2025 | 9:25 PM PDT

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