**ALAMEDA ALLIANCE FOR HEALTH**
**FINANCE COMMITTEE**
**REGULAR MEETING**

**April 5th, 2022**
**8:00 am – 9:00 am**

**SUMMARY OF PROCEEDINGS**

**Meeting Conducted by Teleconference**

**Committee Members on Conference Call:** Dr. Rollington Ferguson, Dr. Michael Marchiano, Nick Peraino, Gil Riojas

**Board of Governor members on Conference Call:** James Jackson

**Alliance Staff on Conference Call:** Scott Coffin, Tiffany Cheang, Richard Golfin III, Sasi Karaiyan, Dr. Steve O'Brien, Anastacia Swift, Matt Woodruff, Shulin Lin, Carol van Oosterwijk, Linda Ly, Christine Corpus

| AGENDA ITEM SPEAKER | DISCUSSION HIGHLIGHTS | ACTION | FOLLOW UP |
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| **CALL TO ORDER, ROLL CALL, and INTRODUCTIONS** | | | |
| **Dr. Rollington Ferguson** | Dr. Ferguson called the Finance Committee meeting to order at 8:00 am.<br><br>The following public announcement was read.<br><br>"The Board recognizes that there is a proclaimed state of emergency at both the State and the local Alameda County level, and there are recommended measures to promote social distancing in place. The Board shall therefore conduct its meetings via teleconference in accordance with Assembly Bill 361 for the duration of the proclaimed state of emergency."<br><br>"Audience, during each agenda item, you will be provided a reasonable amount of time to provide public comment."<br><br>A telephonic Roll Call was then conducted. | | |

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| **CONSENT CALENDAR** | | | |
| **Dr. Rollington Ferguson** | Dr. Ferguson presented the Consent Calendar.<br><br>March 8th, 2022, Finance Committee Minutes were approved at the Board of Governors meeting March 11th, 2022, and not presented today. | There were no modifications to the Consent Calendar, and no items to approve. | |
| **a.) CEO Update** | | | |
| **Scott Coffin** | Scott Coffin provided updates to the committee on the following:<br><br>**<u>Fiscal Year 2023 Budget</u>:** Preliminary fiscal year 2023 Budget is tracking to complete in the month of May and will be presenting to the Finance Committee and Board of Governors in June. Highlights of what we are seeing include: 1) Enrollment in the Medi-Cal program has been increasing by 1,200 to 1,500 per month and setting record-highs each month; 2) California's Public Health Emergency (PHE) is coming to a close, and Governor Newsom is expected to terminate the PHE in April. The executive orders related to Medi-Cal re-determination will also be terminated, resulting in the resumption of Medi-Cal disenrollment processes through the Alameda County Social Services Agency; and 3) Administrative expenses are expected to increase due to increases in labor expenses, related to regulatory compliance.<br><br>**<u>Insourcing of Mild to Moderate and Autism Spectrum Services:</u>** The initiaiveis on schedule to complete on October 1st, 2022. Next month a presentation will be delivered to the Finance Committee on the implementation timeline and updated costs. The Committee will recall that in April 2021, the Board of Governors approved the insourcing of services no later than December 2022. At that time, we projected implementation costs up to $1.7 million, and annual recurring costs ranging from $3.0 million to $4.5 million dollars. This original cost pro-forma includes the addition 36 new employees, distributed across the eight divisions in the Alliance organization.<br><br>**<u>Operational Readiness</u>**: The project portfolio includes more than 25 projects. Preparation and implementation of the following CalAIM initiatives, mandated by the State of California, crosses over our current and next fiscal years (between April 2022 and December 2022):<br>1) Insourcing of mental health & autism spectrum – 10/1/22<br>2) New ECM Populations of Focus in 2023 | Informational update to the Finance Committee<br><br>Vote not required | |

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| | 3) Long-Term Care – 1/1/23<br>4) Justice Involved – 1/1/23<br>5) Behavioral health in schools – 1/1/23<br>6) Population health – 1/1/23<br>7) Single Plan Model – 1/1/24<br><br>The team will report back to the Finance Committee to discuss the financial implications of these projects as we proceed throughout the year. | | |
| **b.) Review and approve February 2022 Monthly Financial Statements** | | | |
| **Gil Riojas** | **<u>February 2022 Financial Statement Summary</u>**<br><br>**Enrollment:**<br>Current enrollment is 303,173 and continues to trend upward. Total enrollment has increased by 6,445 members from January 2022, and 15,898 members since June 2021. As discussed in prior meeting, the significant increase in enrollment last month was due primarily to the mandatory enrollment in Managed Care that took place in January. Enrollment for February returned to more recent trends. The increases were primarily in the Child, Adult, and Optional Expansion categories of aid, and include slight increases in the Duals category of aid. SPD and Group Care remain relatively flat.<br><br>Future enrollment trends will be impacted by the anticipated end of the Public Health Emergency (PHE) and addition of new members scheduled to transition from the County HealthPAC program in May.<br><br>**Net Income:**<br>For the month ending February 28th, 2022, the Alliance reported a Net Income of $3.4 million (versus budgeted Net Loss of $337,000). The favorable variance is attributed to lower than anticipated Administrative Expenses and Medical Expenses, which was slightly offset by lower than anticipated Revenue. For the year-to-date, the Alliance recorded a Net Income of $4.5 million versus a budgeted Net Loss of $7.1 million.<br><br>**Revenue:**<br>For the month ending February 28th, 2022, actual Revenue was slightly lower than anticipated at $92.1 million vs. our budgeted amount of $95.9 million. We are slightly under budget on Revenue. The unfavorable variance in Revenue is | | |

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| | largely due to unfavorable $6.0 million retroactive MCO Tax adjustment for FY14 through FY16. Our internal analysis projected a $6M liability which we have accrued. DHCS projected a $12M liability. We are working closely with the DHCS to understand the differences between what we calculated versus what they calculated and also to ascertain what tax rate they used to calculate the tax on a Per Member Per Month (PMPM) basis. We are hopeful that the State may revise the liability and reduce it to a level closer to where we believe it to be.<br><br>**Question:** Dr. Ferguson asked why the liability hit the revenue versus showing as an expense somewhere. Gil Riojas answered that the liability is categorized as a contra-revenue. It directly impacted the Revenue we had previously received in a negative way, and we wanted to be clear in how we reported it. Shulin Lin added that for accounting purpose we need to be consistent for historical reporting. In this case, the State paid us $6.0 million, but they want to take back $12.0 million.<br><br>Dr. Ferguson then explained that the period we are looking at was also the period that the Federal Government informed the State of California that it was not compliant with the guidelines for the MCO Tax and questioned the State's ability to perform this action. Gil Riojas confirmed that it was around 2014 that the Federal Government asserted that California's existing MCO Tax calculation did not align with CMS's understanding with how that Tax should work and added that the State was able to get a new calculation template approved very quickly to correct the error. It has taken the State these subsequent years to calculate the Plan's liability. Our plan and process is to work with the State to determine how they calculated their number versus ours. Given the number of years that have passed we want to ensure the State is using relevant tax rates to calculate the liability. Scott Coffin offered support for Gil's response and further explained we would first work with the State to determine the correct liability amount and then would look at their overall authority to collect.<br><br>**Question:** Dr. Marchiano asked what would be the most favorable outcome we could hope for? Gil Riojas answered that the best-case scenario is that the State would determine that our original calculation of $6.0 million was correct and that there would not be any addition liability. | | |

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| | **Medical Expense:**<br>Actual Medical Expenses for the month were \$83.2 million, vs. our budgeted amount of \$85.6 million. For the year-to-date, actual Medical Expenses were \$733.1 million versus budgeted \$736.5 million. Drivers leading to the favorable variance can be seen on the tables on page 11. Further explanation of the variances can be seen on pages 11 and 12, with specific call out of the Net Reinsurance favorable variance.<br><br>**Medical Loss Ratio:**<br>Our MLR ratio for this month was reported at 90.3%. Year-to-date MLR was at 94.0% vs our annual budgeted percentage 91.5%.<br><br>**Administrative Expense:**<br>Actual Administrative Expenses for the month ending February 28th, 2022 were \$5.4 million vs. our budgeted amount of \$10.7 million. Our Administrative Expense represents 5.8% of our Revenue for the month, and 5.4% of Net Revenue for year-to-date. Reasons for the favorable month-end variances, as well as the favorable year-to-date variances can be attributed to 1) COVID-19 Vaccination Incentives, 2) Delayed timing of new project start dates for Consultants, Computer Support Services, and Purchased Services, and 3) Delayed hiring of new employees.<br><br>**Other Income / (Expense):**<br>As of February 28th, 2022, our YTD interest income from investments was \$387,817.<br><br>YTD claims interest expense is \$262,135.<br><br>**TangibleNet Equity (TNE):**<br>We reported a TNE of 541%, with an excess of \$172.5 million. This remains a healthy number in terms of our reserves.<br><br>**Cash and Cash Equivalents:**<br>We reported \$283.7 million in cash; \$185.4 million is uncommitted. Our current ratio is above the minimum required at 1.70 compared to regulatory minimum of 1.0. | | |

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| | **Capital Investments:**<br>We have spent $112,000 in Capital Assets year-to-date. Our annual capital budget is $1.4 million.<br><br>**Question:** Dr. Ferguson asked why COVID-19 initiatives were considered Administrative Expenses versus categorizing them as Medical Expenses, and what are the implications. Gil Riojas answered that the initiatives could be things like an outreach campaign, it could be billboards or radio spots, and these are things we cannot tie directly to patient care and therefore should not be considered Medical Expenses. Dr. Ferguson asked if it could be argued that everything we do for COVID-19 initiatives is ultimately for Primary Prevention Care? Gil Riojas explained that because the State has offered incentive funding to accommodate the expenses we incurred, adding the incentive expenses to our Medical Expense side would be "double-dipping" because not only are we paid now, but if it affected our future reimbursement rate, we would get paid later as well. Matt Woodruff added that we just submitted our first report to the State a two weeks ago for reimbursement from the State for Member Incentive Reimbursement, and the State allowed us to not only include the incentives the State was responsible for, but also our own. So, the State is reimbursing us for the $50 gift cards we issued to members. Scott Coffin offered that we would circle back with DHCS to confirm that we are booking the expenses appropriately. | Motion to accept **February 2022 Financial Statements**<br><br>Motion: N. Peraino<br>Seconded: Dr. Marchiano<br><br>Motion Passed<br><br>No opposed or abstained | |
| **c.) Environmental Social Governance (ESG) Investing Update** | | | |
| **Gil Riojas** | Gil Riojas shared a PowerPoint presentation to provide and ESG Investing update.<br><br>***Highlights of Presentation:***<br><br>Gil provided a recap of our Existing Portfolio<br>• Average daily balance of invested funds is $280M. This is divided up as follows:<br>➢ 78% of investments maturing within 90 days<br>➢ 21% maturing within 180 days<br>➢ 1% maturing over 180 days.<br>• Portfolio in compliance with California Government Code 53600<br>• Focus on liquidity and quality of investments. | | |

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| | Scott Coffin joined Gil in a meeting with the Alliance's investment banker at City National Rochdale and worked out a sample analysis:<br><br>ESG Sample Analysis:<br>• ESG scoring and investments are an emerging market.<br>• Modeled using \$50M allocated for long-term investments.<br>• Assumed 1/3rd (\$16.5M) allocated to ESG type investments.<br>• Short-term investments remain in the current strategy.<br>• Evaluated ESG investments that were the same quality and maturity as investments in the current strategy.<br>• Shifted a portion of investments to taxable municipal "green" bonds that meet appropriate ESG characteristics.<br><br>ESG Analysis Estimated Results:<br>• Five municipal bonds and one US Treasury were used to model the potential returns.<br>• Credit rating for ESG investments mirrors existing portfolio rating (A and above)<br>• Based on existing performance, there would be a projected loss of three basis points in the portfolio by shifting \$16.5M to these five investment vehicles.<br>• Potential loss of \$15-20K of annual investment return, moving the estimated long-term portfolio return from \$685K to \$670K.<br><br>**Question:** Dr. Ferguson asked if given the anticipated increase in interest rates, wouldn't that cover any loss that might be projected? Gil Riojas answered that it might be provide more clarity to say that there is potential for losing a little bit of our investment return that we may have gotten otherwise, but that as short-term interest rates go up it reduces the likelihood of that scenario. | <u>Motion to:</u> <u>**Allocate 1/3rd (\$16.5 M) of our Long-**</u> | |

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| | Recommendation:<br>• Allocate 1/3rd ($16.5M) of our long-term investment portfolio to ESG investments.<br>• Measure actual performance against the remaining 2/3rd of the long-term portfolio<br>• Reconvene in 12 months to determine actual results and determine if a shift in ESG investments is needed.<br>• Overall investment returns may improve as the federal Reserve implements new rate hikes over the next 12-18 months. | **Term Investment Portfolio to ESG Investments**<br><br>Motion: Dr. Ferguson<br>Seconded: N. Peraino<br><br>Motion Passed<br><br>No opposed or abstained | |
| **ADJOURNMENT** | | | |
| **Dr. Rollington Ferguson** | Dr. Ferguson motioned to adjourn the meeting.<br><br>The meeting adjourned at 8:55 am. | Motion to adjourn:<br>Dr. Ferguson<br>Seconded: N. Peraino<br><br>No opposed or abstained. | |

Respectfully Submitted by:
Christine E. Corpus, Executive Assistant to CFO