ALAMEDA ALLIANCE FOR HEALTH
FINANCE COMMITTEE
REGULAR MEETING

May 7th, 2024
8:00 am – 9:00 am

SUMMARY OF PROCEEDINGS

Meeting Conducted in-person and by Teleconference.

Committee Members in-person: Dr. Rollington Ferguson, Yeon Park, Gil Riojas
Committee Members on Conference Call: James Jackson

Board of Governor members in-person and on Conference Call: Rebecca Gebhart, Colleen Chawla, Andrea Ford

Alliance Staff in-person and on Conference Call: Matt Woodruff, Tiffany Cheang, Sasi Karaiyan, Richard Golfin III, Anastacia Swift, Lao Paul Vang, Ruth Watson, Shulin Lin, Carol van Oosterwijk, Linda Ly, Brenda Martinez, Renan Ramirez, Danube Serri, James Zhong Xu, Christine Corpus

CALL TO ORDER, ROLL CALL, AND INTRODUCTIONS

Dr. Ferguson called the Finance Committee meeting to order at 8:00 am. A roll call was then conducted.

CONSENT CALENDAR

Dr. Ferguson presented the Consent Calendar.

There were no modifications to the Consent Calendar, and no items to approve.

a.) CEO UPDATE

Matt Woodruff provided updates to the committee on the following:

- **Audit**
  Matt informed the committee that our annual DHCS Audit is scheduled for June 17th through June 28th. We received our file pull on Friday, May 3rd, and the team is performing an internal audit on the file pull which will be reviewed at next week's Senior Leadership meeting. Matt will provide an update at next month's Compliance Committee meeting, ahead of the audit. Of particular interest, DHCS has pulled more files than usual, and specifically from departments they have not pulled from before such as Transportation, and Behavioral Health.

- **New Board Members**
  On Friday we will see two new Board Members for the Alliance. The last two open seats that we have had since we became a Single Plan Model will be filled. We have two nominees coming forward for the Hospital Council seat, both very qualified.

- **Finance**
  From a Finance perspective, the Alliance is still doing very well. Projections indicate a positive Net Income for the year, slightly above the Board reserve ratio of 1%. The financial outlook suggests that we are on track to end the year on a positive note.

  Matt provided insight into the ongoing growth of enrollment within the Alliance. This topic will be further elaborated upon in an upcoming presentation scheduled for Friday.

Matt emphasized the significance of this enrollment growth, attributing it to changes implemented by the Alameda County Social Services Agency. These changes were made last fall following state allowances for county-level adjustments. Matt commended the Social Services Agency for their efforts, noting the positive impact these changes have had on Alameda County.

Matt underscored the importance of this growth, acknowledging the collaborative efforts between the Alliance and the county in achieving this outcome.

Informational update to the Finance Committee. Voting is not required.

b.) REVIEW AND APPROVE FEBRUARY AND MARCH MONTHLY FINANCIAL STATEMENTS

Gil provided the following update prior to reviewing the monthly financial statements:

- Budgeting Process: Gil informed the committee about the ongoing efforts in the finance department regarding budgeting for the upcoming fiscal year. He mentioned that the team is currently working on the second pass of the budget, which involves refining the initial draft. In the first pass, all requests from different departments, including their FTEs (Full-Time Equivalents) and operating expenses, were received. Additionally, the finance team has been modeling medical expense trends for the next fiscal year, with enrollment being a significant factor influencing projections. Gil noted the second pass of the budget should be complete by the end of the week. The preliminary budget will then be presented to the Finance Committee first, followed by presentation to the full board in June.
- Audit Engagement: Gil shared that the Alliance has recently engaged Moss Adams for audit services by signing an engagement letter. Moss Adams is scheduled to conduct their audit typically in August or September, with the results expected in October.

<u>FEBRUARY 2024 Financial Statement Summary</u>

Enrollment:

As Matt mentioned, our Enrollment unexpectedly increased by 1,700 members. By category of aid, we saw increases in our Child, Adult, and Optional Expansion. We also saw slight increase in our Group Care category, with SPD and Duals remaining relatively flat.

Net Income:

For the month ending February 29th, 2024, the Alliance reported a Net Income of $5.4 million (versus budgeted Net Income of $3.4 million). The favorable variance is attributed to higher than anticipated Premium Revenue and lower than anticipated Administrative Expense. This was offset somewhat by higher than anticipated Other Expense, Medical Expense, and net MCO Tax. For the year-to-date, the Alliance recorded a Net Income of $32.8 million versus a budgeted Net Income of $20.0 million.

Premium Revenue:

For the month ending February 29th, 2024, actual Revenue was $165.9 million vs. our budgeted amount of $161.5 million. This slight positive variance is primarily due to the timing of revenue recognition. Our actual year-to-date Revenue is currently at $1.2 billion versus budgeted Revenue of $1.1 billion.

Gil provided a comprehensive explanation of the new term "Premium Revenue" in relation to Targeted Rate Increases (TRI). These TRI represent a State initiative aimed at allocating additional revenue to healthcare providers, particularly focusing on specific services, notably Primary Care.

For the Alliance, this initiative involves several operational tasks at the plan level. Essentially, the TRI serves as a mechanism for the State to enhance funding for critical healthcare services, relying on plans such as the Alliance to facilitate the transfer of funds to the relevant providers.

However, it's important to note that despite the implementation of TRI, and the reflection of it in our stated Revenue, the State has not yet provided guidance on how plans are expected to execute this. Therefore, while the Alliance is prepared to comply with this initiative, further clarification and guidance from the State are needed to ensure smooth and effective implementation.

Medical Expense:

Actual Medical Expenses for the month of February were $152.7 million, vs. our budgeted amount of $152.2 million. For the year-to-date, actual and budgeted Medical Expenses were $1.1 billion. Drivers leading to the slight favorable variance can be seen on the tables on pages 14, with further explanation on pages 14 and 15.

Medical Loss Ratio:

Our MLR ratio for this month was reported at 92.0%. Year-to-date MLR was at 93.4%.

Administrative Expense:

Actual Administrative Expenses for the month ending February 29th, 2024 were $6.4 million vs. our budgeted amount of $8.4 million. Our Administrative Loss Ratio (ALR) is 3.8% of our Revenue for the month, and 5.1% of Net Revenue for year-to-date.

Other Income / (Expense):

As of February 29th, 2024, our YTD interest income from investments show a gain of $20.4 million.

YTD claims interest expense is $493,000.

Managed Care Organization (MCO) Provider Tax:

For the month ending February 29th, 2024, we reported $159.8 million unbudgeted MCO Tax Revenue, and $162.5 million unbudgeted MCO Tax Expense.

Tangible Net Equity (TNE):

For the month of February, the DMHC required that we have $55.3 million in TNE, and we reported $356.7 million, so the excess of that is $301.4 million. As a percentage, we are at 645% of required, which remains very healthy.

Cash and Cash Equivalents:

We reported $530.5 million in cash; $225.1 million is uncommitted. Our current ratio is above the minimum required at 1.56 compared to regulatory minimum of 1.0.

Capital Investments:

We have spent $1.2 million in Capital Assets year-to-date. Our annual capital budget is $1.6 million.

Question: Dr. Ferguson inquired about staff returning to the office and its impact on our lease at the 1320 building. Matt, in response, provided an update on the lease status, stating that the lease for the 1320 building is set to expire in May 2025, and the decision has been made not to renew it. He indicated that discussions regarding securing a new building will be forthcoming.

Matt also elaborated on the company's stance regarding staff returning to the office, emphasizing that remote work can continue to be the company practice as long as operational metrics are met. He clarified that there won't be a necessity for the full staff to return to the office on a full-time basis.

MARCH 2024 Financial Statement Summary

Enrollment:

As previously mentioned, in March, the Alliance continued to experience increases in enrollment. Enrollment increased by 1,682 members since February, to 403,941 members, with primary increases in our Child, Adult, and Optional Expansion Categories of Aid. SPD and Duals remained flat, and for the second month in a row we saw a slight increase in our Group Care line of business.

Net Income:

For the month ending March 31st, 2024, the Alliance reported a Net Loss of $3.3 million (versus budgeted Net Loss of $2.3 million). The unfavorable variance is attributed to higher than anticipated Medical and Administrative Expenses, as well as the unbudgeted accrual for MCO Tax. For the year-to-date, the Alliance recorded a Net Income of $29.5 million versus a budgeted Net Income of $17.7 million.

Premium Revenue:

For the month ending March 31st, 2024, actual Revenue was $169.7 million vs. our budgeted amount of $159.9 million. The positive variance is primarily due to favorable Medi-Cal Capitation Rate variance due to the new Targeted Rate Increase, favorable CalAIM Incentive revenue due to an additional award for Housing and Homelessness Incentive Program (HHIP). These were slightly offset by the 2022 Acuity Adjustment reserve. Our actual and budgeted year-to-date Revenue is currently at $1.3 billion.

Gil discussed the state's consideration of acuity adjustments, which retroactively impact revenue back to 2022. Rebecca Gebhart inquired whether non-utilizing members affect the acuity score, suggesting that encouraging them to undergo basic wellness checks might help reverse the situation. Gil affirmed this and explained that non-utilizers do impact the acuity level, which in turn affects rates. Efforts to engage non-utilizers in healthcare can enhance the accuracy of acuity levels in rate calculations. Matt added that the acuity adjustment was part of a statewide initiative, noting that the Alliance was relatively less affected compared to other plans.

Yeon Park then asked about the frequency of reassessment and whether there was an outreach plan. Gil responded that over the last several years, the state typically reassesses member acuity annually based on information provided by plans. This reassessment involves reviewing data and coding to determine if initial assumptions were correct and allows for adjustments to be made accordingly. Matt confirmed that there are outreach plans in place, with initiatives starting as early as last summer and additional ones scheduled for the first quarter of the current calendar year. These outreach efforts target specific measures that impact our HEDIS scores, particularly focusing on well-child visits. The aim is to identify non-utilizers and engage with them effectively. Overall, we have already initiated some outreach plans and have more in progress.

Medical Expense:

Actual Medical Expenses for the month were $163.3 million, vs. budgeted amount of $156.2 million. For the year-to-date, actual and budgeted Medical Expenses were $1.2 billion. Drivers leading to the favorable variance can be seen on the tables on page 49, with further explanation on pages 49 and 50.

Medical Loss Ratio:

Our MLR ratio for this month was reported at 96.2%. Year-to-date MLR was at 93.9%.

Administrative Expense:

Actual Administrative Expenses for the month ending March 31st, 2024 were $9.8 million vs. our budgeted amount of $8.5 million. Our Administrative Loss Ratio (ALR) is 5.8% of our Revenue for the month, and 5.2% of Net Revenue for year-to-date.

There were a couple of changes implemented this month. There was a modification to the fixed asset methodology, resulting in an increase in the fixed asset limit. Consequently, fewer items were classified as assets, leading to more being categorized as expenses. This adjustment caused an increase in administrative expenses for the current month. However, it is believed that this change better aligns with industry standards and provides a more accurate reflection of the fixed asset number. It's anticipated that these adjustments will normalize in the upcoming months, thus avoiding significant changes in administrative expenses in the future.

Other Income / (Expense):

As of March 31st, 2024, our YTD interest income from investments show a gain of $23.3 million.

YTD claims interest expense is $555,000.

Managed Care Organization (MCO) Provider Tax:

For the month ending March 31st, 2024, we reported $113.6 million unbudgeted MCO Tax Revenue, and $116.3 million unbudgeted MCO Tax Expense.

Tangible Net Equity (TNE):

For March, the DMHC requires that we have $56.3 million in TNE, and we reported $353.4 million, leaving an excess of $297.2 million. As a percentage we are at 628% which remains a very healthy number.

Cash and Cash Equivalents:

We reported $765.4 million in cash; $508.2 million is uncommitted. Our current ratio is above the minimum required at 1.58 compared to regulatory minimum of 1.0.

Capital Investments:

We have spent $1.2 million on Capital Assets year-to-date. Our annual capital budget is $1.6 million.

Motion: A motion was made by Yeon Park, and seconded by Dr. Rollington Ferguson, to accept and approve the February 2024, and March 2024 Financial Statements.

Motion Passed

No opposed or abstained.

c.) INVESTMENT PORTFOLIO UPDATE

Gil provided a PowerPoint presentation on the Investment Portfolio. In summary:

- As of the end of March, the total investment portfolio stood at $784 million. The majority, 92%, was invested in short-term investments with maturities ranging from 0 to 90 days, while the remaining 8% was in investments maturing over 90 days.
- The average yield of the investments was 5.36%, benefiting from the increase in interest rates over the past 12 to 18 months.
- The estimated return for the fiscal year is projected to be approximately $24 million, a significant increase from the previous fiscal year's return of $8 million.
- Investments are focused on high-quality and highly liquid assets, ensuring quick cash-out if necessary, in compliance with California Government Code 53600.
- Regarding Environmental, Social, and Governance (ESG) investments, the organization has divested from companies conflicting with ESG principles, such as Lockheed Martin.
- Currently, $17.5 million is invested in green investments aimed at financing renewable energy, energy efficiency, clean air, clean water, and pollution control projects.

- The yield from ESG investments in the longer-term portfolio is slightly higher than the regular portfolio, at 5.51% versus 5.43%. Plans are underway to increase the ESG investment portfolio from $17.5 million to $20 million by the end of the calendar year.
- Market update: There is growing confidence in a soft landing, with expectations of slow growth without entering a recession. The initial anticipation of multiple interest rate cuts has been tempered to one or two cuts for the year, which could benefit investments. The focus remains on shorter-term investments but there is consideration to venture into longer-term investments given potential rate changes.

Informational update to the Finance Committee. Voting is not required.

ADJOURNMENT

Dr. Ferguson adjourned the meeting at 9:02 a.m.