ALAMEDA ALLIANCE FOR HEALTH
FINANCE COMMITTEE
REGULAR MEETING

June 6th, 2023
8:00 am – 9:00 am

SUMMARY OF PROCEEDINGS

Meeting Conducted in-person and by Teleconference.

Committee Members in-person: Dr. Rollington Ferguson, Dr. Michael Marchiano, Gil Riojas

Board of Governor members in-person: Rebecca Gebhart
Board of Governor members on Conference Call: James Jackson

Alliance Staff in-person and on Conference Call: Matt Woodruff, Tiffany Cheang, Sasi Karaiyan, Dr. Steve O'Brien, Anastacia Swift, Lao Paul Vang, Ruth Watson, Matt Woodruff, Shulin Lin, Carol van Oosterwijk, Linda Ly, Maryam Maleki, Jeanette Murray, 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.

The May 9th, 2023, Finance Committee Minutes were approved at the Board of Governors meeting on May 12th, 2023, and not presented today.

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

a.) CEO UPDATE

Matthew Woodruff provided updates to the committee on the following:

<u>**Financials**</u> –

April 2023: Net Operating Performance by Line of Business for the month of April 2023 and Year-To-Date (YTD):

	April	YTD
Medi-Cal	($13.4M)	$76.5M
Group Care	($148K)	$2.3M
Totals	($13.5M)	$78.8M

Revenue was $138 million in April 2023, and $1.2 billion Year-to-Date (YTD)

- Medical expenses were $121 million in April and $1.0 billion year-to-date; medical loss ratio is 87% for the month and averages 89% for the fiscal year.
- Administrative expenses were $6.2 million in April and $58.4 million year-to-date; 4.5% of revenue for the month and averages 5.0% for the fiscal year.

Tangible Net Equity (TNE): Financial reserves are 724%, or 6.6 times the minimum regulatory requirement, representing $266.7 million in excess TNE.

Total enrollment in April 2023 went over 358,000, increasing by more than 3,267 Medi-Cal members compared to March.

Final Budget – Fiscal Year (FY) 2024:

- In 2024 the Alliance is projecting a net income of $21.9 million.
- TNE will change (drop) in our FY2024 budget due to network and enrollment changes.
- 108 New employees (138 If you count current open positions in active recruitment).
- Community Supports – projected to lose $15 million, $4 million in revenue, and $19 million in expenses.
- Fiscal Year 2024 final budget will be approved by the Board of Governors in December 2023 (could be draft rates depending on timing).
- If the final Medi-Cal base rates are sent late to the Alliance, we will include the final rates in the second-quarter forecast that is scheduled for presentation to the Finance Committee and Board of Governors in March 2024.

Community Reinvestment

- FY24 DHCS contract requirement. Considered during the preliminary budget process.

Recruiting Incentives for our Network

- Will bring to the Board and ask for help to recruit providers to the network (July or September Board meeting).

Informational update to the Finance Committee. Vote not required.

b.) REVIEW AND APPROVE APRIL 2023 MONTHLY FINANCIAL STATEMENTS

APRIL 2023 Financial Statement Summary

Enrollment:

Enrollment has increased by 3,267 members since March 2023, and 45,170 members since June 2022, bringing our Total Enrollment to 358,226. We expect to see that continued growth until the end of June, and then in July, we do expect the disenrollment process to begin. The big question mark will be the rate at which Members are disenrolled.

We see consistent increases in the Child, Adult, and Optional Expansion categories of aid; we've also seen increases in our SPDs and our Duals. Our Group Care line of business continues to show a slight decline. We also have our two new categories of aid pertaining to Long-Term Care: Medi-Cal LTC, and Medi-Cal LTC Duals, and we saw increases in both of those in February but have been relatively flat since that time.

Net Income:

For the month ending April 30th, 2023, the Alliance reported a Net Income of $13.5 million (versus budgeted Net Loss of $1.2 million). The favorable variance is attributed to lower than anticipated Administrative Expenses, lower than anticipated Medical Expenses, and higher than anticipated Total Other Income, and higher than anticipated Revenue. For the year-to-date, the Alliance recorded a Net Income of $78.8 million versus a budgeted Net Income of $18.6 million.

Revenue:

For the month ending April 30th, 2023, actual Revenue was $138.8 million vs. our budgeted amount of $138.1 million. Our actual and budgeted year-to-date Revenue is currently at $1.2 billion.

Medical Expense:

Actual Medical Expenses for the month were $121.2 million, vs. our budgeted amount of $130.4 million. For the year-to-date, actual Medical Expenses were $1.0 billion versus the budgeted $1.1 billion. Drivers leading to the favorable variance can be seen on the tables on pages 10 and 11, with further explanation on pages 11 and 12.

Medical Loss Ratio:

Our MLR ratio for this month was reported at 87.3%. Year-to-date MLR was at 89.1%.

Administrative Expense:

Actual Administrative Expenses for the month ending April 30th, 2023 were $6.2 million vs. our budgeted amount of $9.0 million. Our Administrative Loss Ratio (ALR) is 4.5% of our Revenue for the month, and 5.0% of Net Revenue for the year-to-date. Gil called out the variance in Employee Expenses for the month of April. The year-to-date favorable variances include 1) Delayed timing of new project start dates for Consultants, Computer Support Services, and Purchased Services, and 2) Overall delayed hiring of new employees.

Other Income / (Expense):

As of April 30th, 2023, our YTD interest income from investments shows a gain of $11.3 million.

YTD claims interest expense is $293,000.

TangibleNet Equity (TNE):

Our required TNE is at $43 million, and our actual TNE is at $309.5 million, which leads us to our reported TNE of 724%. This is a slight decline over last month. We anticipate getting to a point where we are probably going to peak, and by June, we should start to see a bit of decline over the next fiscal year.

Cash and Cash Equivalents:

We reported $448.3 million in cash; $328.0 million is uncommitted. Our current ratio is above the minimum required at 1.80 compared to the regulatory minimum of 1.0.

Capital Investments:

We have spent $339,000 in Capital Assets year-to-date. Our annual capital budget is $1.1 million. We do not anticipate spending the entirety of our capital investment budget this year, but we do anticipate spending more before the end of June.

Question: Dr. Marchiano noted that there are many new members to the Board, and asked if there could be additional training at each meeting to keep the Board and Committee appropriately informed. Gil answered that he met with his team and discussed wishing to present this financial data in a way that is the most favorable, and easiest to understand by both the Finance Committee, and the Board, and added that he would like suggestions from the Committee.

Dr. Ferguson stated that he would not recommend any changes to the format of the presentation itself, as it is very comprehensive, and he appreciates the level of detail provided. He recommended that perhaps the Financial presentation given at the Board could be an abridged version of what is presented at the Finance Committee and the remaining time usually allotted could be used as training time.

Motion: A motion was made by Dr. Michael Marchiano and seconded by Mr. James Jackson to accept the April 2023 Financial Statements.

Motion Passed

No opposed or abstained.

c.) REVIEW AND APPROVE FY24 DRAFT BUDGET PRESENTATION

Gil Riojas gave a presentation for the Preliminary FY2024 budget for review and approval by the Finance Committee, to bring to the Board of Governors for final approval. Gil informed the Committee that the presentation also serves as our Third Quarter Forecast.

Highlights of the presentation are as follows:

- 2024 Projected Net Income of $21.9 million.
- Projected TNE excess at 6/30/24 of $282.5 million is 592% of the required TNE.
- Year-end enrollment is 8,000 lower than June 2023, due to redeterminations; member months are 247,000 higher. Enrollment peaks at 382,000 in January 2024.
- Medi-Cal Revenue is $1.7 billion in FY 2024, an increase of 20.3% from FY 2023.
- PMPM Fee-for-Service and Capitated Medical Expenses increased by 16.9%.
- $19.2 million in net savings are included for claims avoidance and recovery activities.
- Administrative expenses represent 6.7% of revenue, $43.0 million higher than FY 2023. Led by Labor ($23.8 million) and Other Services ($11.6 million), and Purch. & Prof. Services ($7.6 million).
- Clinical expenses comprise 3.7% of revenue, $6.7 million higher than FY23. Led by Labor ($8.8 million), Other ($4.8 million), offset by a reduction in member Benefits Administration largely due to the insourcing of Mental Health ($6.9 million).

Budget Assumptions include:

Staffing:
- Staffing includes 659 full-time equivalent employees by June 30th, 2024.
- There are 108 new positions requested for FY 2024.

Enrollment:
- DHCS is moving 99% of Fee-for-Service members into Medi-Cal Managed Care by January 2024. Approximately 40,000 remain in the fee-for-service system today.
- Member months in FY 2024 of 4,301,000 are 6.1% higher than in FY 2023.
- Higher enrollment and a higher proportion of fee-for-service vs. capitated expense generates a higher TNE requirement. Group Care enrollment remains steady at approximately 5,700.
- Additional populations of focus will be added over the next 12 months.

Revenue:
- 98% of Revenue for Medi-Cal, 2% for Group Care.
- The continuation of CalAIM initiatives of Enhanced Care Management (ECM), Community Supports, and Major Organ Transplants (MOT) represent $42.9 million in revenue.
- CalAIM Incentives of $30.8 million are anticipated, most of which will be passed on to our community partners. It is too early to know what AAH will earn.
- Per-member-per-month Group Care rates remain unchanged.

Medical Expense:
- 98% of Expense for Medi-Cal, 2% for Group Care.
- Medical loss ratio is 92.5%, an increase of 2.8% over FY23.
- ECM and MOT expense increases correspond to revenue, as a risk-corridor is included for these services.
- Community Supports expenditures will exceed funding by approximately $15 million.

Hospital and Provider Rates:
- FY24 Hospital contract rates increase by $27.2 million over FY 2023.
- Professional capitation rates increase by $5.1 million.

Tangible Net Equity Requirement:

- The TNE requirement is Net Equity compared to a minimum calculated amount of required capital. DMHC requires additional financial reporting if a Plan does not have 150% of the required TNE.
- For AAH, required TNE is calculated based on a percentage of at-risk healthcare expenditures. This is generally equivalent to fee-for-service expenditures.
- The calculation is based on the previous 3 quarters and projected current quarter FFS expenditures.
- For the Alliance, as the oldest quarter drops off, required TNE increases due to increased FFS expenditures, mainly resulting from increased enrollment.
- Also, in January, Anthem members and other new populations join AAH. Healthcare costs for these members are largely paid via FFS claims. This increases the required TNE significantly.
- Although the Plan's TNE dollars are increasing, the required amount of TNE is increasing at a higher rate.

Capital Expenditures:

Full Year budget of $1,491,000 for capitalized purchases for Information Technology and Facilities. This is an increase of $984,000 from last year.

- Information Technology $1,326,000:
- Facilities: $165,000

Material Areas of Uncertainty

- Large changes in enrollment are estimates based on DHCS messaging. These assumptions have a large impact on the financial results.
- AAH has not received Medi-Cal premium rates for CY 2024; they are expected mid-late December.
- DHCS is considering a Hybrid Withhold and Incentive Option for CY 2024 rates. Partial or full payment of the withhold to each Medi-Cal Plan would be based on their performance against set benchmarks.
- The Alliance was notified last week that the age band for the Child Adult Category of Aid will potentially be extended by 2 years, up to 21 years of age. This will cause budget discrepancies between the Child and Adult COAs. Hopefully, this will be budget-neutral in total.
- The State has started dividing members in each Medi-Cal Category of Aid into three categories of immigration status. Statewide initiative in response to CMS requirements. Although DHCS is aiming for budget neutrality, there is some risk that our revenue rates will be impacted.
- AAH has limited Long-Term Care experience, as LTC members largely transitioned from fee-for-service Medi-Cal in February.
- Medical Expense includes assumptions regarding the relative acuity of new populations, existing members, and departing members. The relative costs of these cohorts will have a significant impact on the medical loss ratios.
- Contract changes for hospitals and delegated providers in projections have not been finalized.

Motion: A motion was made by Dr. Michael Marchiano and seconded by Dr. Rollington Ferguson to accept the FY24 Preliminary Budget and move to bring it forward to the full Board of Governors for final approval.

Motion Passed

No opposed or abstained.

ADJOURNMENT

Dr. Ferguson adjourned the meeting at 9:03 a.m.