ALAMEDA ALLIANCE FOR HEALTH
FINANCE COMMITTEE
REGULAR MEETING

June 11th, 2024
8:00 am – 9:05 am

SUMMARY OF PROCEEDINGS

Meeting Conducted in-person and by Teleconference.

Committee Members in-person: Dr. Rollington Ferguson, Gil Riojas, James Jackson (arrived late)
Committee Members absent: Yeon Park

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

Alliance Staff in-person and on Conference Call: Matt Woodruff, Dr. Donna Carey, 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, 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.

Representatives from the finance committee and team were acknowledged, including those from both budget and accounting.

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:

- **Annual DHCS Audit**

  Starting next week, the Alliance will be undergoing its annual DHCS audit. At Friday's Compliance Advisory Committee meeting, Mr. Richard Golfin will review the various file pulls, our current concerns leading into the audit, and any updates we have so far. Further details from the audit will be discussed both this Friday and at the July meeting, where we will go into greater depth about the findings.

- **Membership and Single Plan Model Change**

  Regarding the single plan model change, it took the state about three months to provide all our numbers. We are now confident in our overall numbers moving forward with the single plan model. As of April, our membership stands at 405,000 members, and we expect May's preliminary enrollment to be similar. We anticipate finishing the fiscal year with around 405,000 members.

  Of the 81,000 Anthem lives that transferred to us in January, approximately 55,000 were reassigned to AHS and the Community Health Center Network (CHCN), their original medical homes. On the undocumented side, we received nearly 35,000 members, which is more than the 30,000 we initially expected. Of these, 7,000 came from Anthem. Consequently, our undocumented population has more than doubled in the first three months of the calendar year.

Question: Rebecca Gebhart inquired about the transition of Anthem undocumented members to their original medical homes under Health Pack. Matt clarified that unless members actively opted otherwise, they were reassigned to AHS and CHCN

Matt continued stating that the important thing that we are now seeing with the single plan model change is just the overall increase in day-to-day production. Authorizations have risen by 45%, claims by 50%, and there has been a 1% increase in community support. It is important to note that this coincides with the monthly influx of members following the program. Furthermore, ECM experienced an increase of almost 40% in the first three months of the year. This clearly demonstrates the operational impact of the single plan model on our organization. As we continue forward, we are closely evaluating staffing needs and our current state in preparation for upcoming developments.

- **State Recoupment**

  The state will recoup $59 million from the Alliance in May and June. Gil will discuss this in his upcoming report, noting that April showed financial losses primarily attributed to the IBNP of long-term care members. Acknowledging the recoupment, we agree with the state's assessment regarding the higher costs associated with approximately 900 to 1,000 Anthem members in long-term care, who are generally sicker compared to our previous long-term care population. This necessitated significant financial provisioning for their care needs.

  As Gil reviews the April financials, it is important to note that as of June 30, the Alliance projects a shortfall of $5.5 million post-recoupment.

  Question: Rebecca asked if we have a sense of why the Anthem members are sicker than our members. Matt responded proportion-wise, excluding Kaiser, we had 300,000 lives in December and 1,400 long-term care members, Anthem had 81,000, and roughly 900 long-term care members. They had a lot more long-term members based on their overall population, and so it's hard to say why, but it could have been that those members were actively choosing to go to Anthem. Gil added that it has been observed that not only is the long-term care category of aid affected, but also other aid categories show higher acuity levels in long-term care services. This suggests increased acuity across various aid categories for long-term care. This phenomenon may result from enrollees not being correctly categorized for aid, and possibly inadequate care in SPD or Optional Expansion. Consequently, there may be an accumulation of required long-term care services upon their transition to the alliance.

- **Cuts to Budget**

  It was decided based on retroactive rate cuts received, that Gil and the Budget team collaborated to implement necessary reductions in our Fiscal Year '25 budget to achieve breakeven. Items eliminated from the budget include the Board Grant Program, the Community Reinvestment Program, several Provider Grants, and Employee Travel Expenses. Retained in the budget is Virus Protection Grant for the time being, as well as the Provider Recruiting Incentive Program, aimed at assisting community providers in recruiting and retaining doctors, behavioral health clinicians, and other necessary medical personnel,

  The program has been launched, announced by press release, and is currently accessible on our website. Following this report, further outreach to providers will be conducted. There has been initial interest from at least two FQs regarding its implementation timeline.

  Brief discussion on TRI: Dr. Ferguson questioned the possibility of delaying TRI. Matt clarified that TRI has already been postponed. We have received the funds, however, distribution details from the State following the Governor's May revise are still pending as of June. Verbal assurances suggest an extension of the TRI deadline to December 31st. Gil noted ongoing

accrual of funds earmarked for TRI payouts, pending distribution. Discussion on TRI initially set for today will be postponed until July to allow for further updates and action.

Matt finished his update by adding that the violence prevention grant remains in place for the time being.

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

Before moving on to the next agenda item, Dr. Ferguson acknowledged that Mr. James Jackson had joined the meeting at 8:13 am, and that the Committee now has a quorum to be able to move on to the voting items on the agenda.

b.) REVIEW AND APPROVE APRIL MONTHLY FINANCIAL STATEMENTS

APRIL 2024 Financial Statement Summary

Enrollment:

As previously mentioned, in April, the Alliance continued to experience increases in enrollment. Enrollment increased by 1,233 members since March, to 405,174 members, with primary increases in our Child, Adult, and Optional Expansion Categories of Aid. SPD and Duals remained flat, and for the third month in a row we saw a slight increase in our Group Care line of business.

Net Income:

For the month ending April 30th, 2024, the Alliance reported a Net Loss of $8.3 million (versus budgeted Net Loss of $876,000). The unfavorable variance is attributed primarily to higher than anticipated Medical and Administrative Expenses. For the year-to-date, the Alliance recorded a Net Income of $21.2 million versus a budgeted Net Income of $16.8 million.

Premium Revenue:

For the month ending April 30th, 2024, actual Revenue was $159.6 million vs. our budgeted amount of $158.6 million, which is on target with where we thought we would be by the end of April.

Medical Expense:

Actual Medical Expenses for the month were $165.4 million, vs. budgeted amount of $153.0 million. For the year-to-date, actual, and budgeted Medical Expenses were $1.4 billion. Drivers leading to the favorable variance can be seen on the tables on page 11, with further explanation on pages 11 and 12.

Medical Loss Ratio:

Our MLR ratio for this month was reported at 103.6%. Year-to-date MLR was at 94.9%.

Administrative Expense:

Actual Administrative Expenses for the month ending April 30th, 2024 were $10.2 million vs. our budgeted amount of $8.9 million. Our Administrative Loss Ratio (ALR) is 6.4% of our Revenue for the month, and 5.3% of Net Revenue for year-to-date.

Other Income / (Expense):

As of April 30th, 2024, our YTD interest income from investments show a gain of $25.8 million.

YTD claims interest expense is $691,000.

Managed Care Organization (MCO) Provider Tax:

For the month ending April 30th, 2024, we reported $113.7 million unbudgeted MCO Tax Revenue, and $108.3 million unbudgeted MCO Tax Expense.

Tangible Net Equity (TNE):

For April, the DMHC requires that we have $62.4 million in TNE, and we reported $345.2 million, leaving an excess of $282.8 million. As a percentage we are at 554%, which remains well above the minimum required.

Cash and Cash Equivalents:

We reported $609.8 million in cash; $424.8 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 James Jackson, and seconded by Dr. Rollington Ferguson, to accept and approve the April 2024 Financial Statements.

Motion Passed

No opposed or abstained.

c.) REVIEW AND APPROVE FY25 PRELIMINARY BUDGET

Gil presented the preliminary budget for fiscal year 2025, commencing July 1st, 2024. He acknowledged the Budget team's efforts, particularly Carol vanOosterwijk, Linda Ly, Debora Bertasi, Hermelinda Wirth, and Annie Phetinta, who have worked diligently since February on the budget process. He then provided a PowerPoint presentation on the FY25 Preliminary Budget.

Highlights:

- **2025 Projected Net Income:** $376 thousand.
- **Projected Tangible Net Equity (TNE) Excess at 6/30/25**: $245.1 million, which is 439% of required TNE. The Alliance remains financially strong.
- **Year-end Enrollment**: 5,000 higher than June 2024; Fiscal Year member months are 350,000 higher than the prior year. Enrollment peaks at 410,000 in June 2025.
    - Approximately 78,000 members transitioned from Anthem as AAH became the sole Medi-Cal Plan in January 2024.
    - Approximately 48,000 Kaiser members disenrolled from the Plan in January 2024.
    - Approximately 30,000 undocumented members aged 26-49 joined the Plan in January 2024.
    - Redeterminations assumed complete by June 30, 2024.
    - Medi-Cal enrollment projected to grow slightly over FY 2025.
    - Group Care Enrollment projected to remain unchanged at 5,600 members.
- **Premium Revenue**: $2.0 billion in FY 2025, an increase of $269.8 million (15.3%) from FY 2024.
    - 98% from Medi-Cal, 2% from Group Care.
    - Medi-Cal base rates assumed to increase by 4.6% per member/per month, equating to a $90.0 million increase in premium revenue, driven by a full year of the mandated Medi-Cal Targeted Rate Increase.
    - Higher Medi-Cal enrollment contributes $149.8 million in revenue.
    - Per-member-per-month Group Care premium increases by 19.6% in July 2024.

- **Fee-for-Service and Capitated Medical Expense**: $1.9 billion in FY 2025, an increase of $252.2 million (15.3%) from FY 2024.
    - Medical Expense:
        - 98% for Medi-Cal, 2% for Group Care.
        - Medical loss ratio of 96.0%, an increase of 0.7% over FY24.
        - Higher Medi-Cal enrollment volume contributes $180.7 million in medical expense.
        - Community Supports expenditures projected at $35.1 million.
    - Hospital and Provider Rates:
        - FY25 hospital contracted rates increase by $46.9 million over FY 2024.
        - Professional capitation rates increase by $22.5 million, driven by the Targeted Rate Increase program.
- **Administrative Department Expenses**: $11.4 million higher than FY 2024, representing 5.5% of revenue.
    - Staffing includes 726 full-time equivalent employees by June 30, 2025.
    - 101 new positions requested for FY 2025:
        - Operations (48), Healthcare Services (20), Information Technology (8), Analytics (7), Compliance (7), Finance/Vendor Management (6), Integrated Planning (3), Executive/Legal (2)
    - 30 FTEs related to D-SNP implementation.
    - Temp hires for anticipated short-term needs total 13 (Admin. 10 and Clinical 3).
- **Clinical Department Expenses**: $3.6 million lower than FY 2024, comprising 2.5% of revenue.
- **2024 Projected Net Loss**: $5.5 million.
- **Unfavorable Revenue Recoupments**: Totaling $87.1 million in FY 2024, the majority for prior years.
    - Unfavorable Revenue Accruals in FY 2024 Include:
        - CY 2023 Retroactive Med-Cal Rate Reduction: $59.0 million.
        - CY 2023 Major Organ Transplants Risk Corridor Payback: $10.0 million.
        - Jul '19 – Dec '20 Bridge Period Risk Corridor Payback: $9.0 million.
        - CY 2022 Major Organ Transplants Risk Corridor Payback: $7.0 million.
        - CY 2022 MCO Tax Expense: $1.2 million.
        - Jul ’21 - Apr '24 Date of Death Audit Recoupment: $0.9 million.
        - Total Unfavorable Revenue Accruals: $87.1 million.
- **Community Support and Expenditures**: Budget allocates $35 million for community supports an increase compared to the $24 million in FY2024.
    - New Community Supports for FY25 include Sobering Centers (Jul-24), Short-Term Post Hospitalization (Jan-25), and Day Habilitation (Jan-25).
    - CS Revenue included FY24 Medi-Cal Base Rates is $7.0 million. FY25 rates are incomplete.
- **Capital Expenditures**:
    - Full Year budget is $1.7M for capitalized purchases. This is an increase of $500K from FY24. Totals include $1.7M for IT hardware and $30K for building improvements.
- **Material Areas of Uncertainty**:
    - AAH has not received Medi-Cal premium rates for CY 2025.
    - The revenue forecast is calculated on the current mix of UIS/SIS members. Material changes in the SIS/UIS member mix will impact results.
    - We are reserving for a CY 2024 rate reduction, based on DHCS messaging. There is a risk that the reduction may be larger than anticipated.
    - Medical Expense includes assumptions regarding the relative acuity of new populations that joined the Plan in January 2024, existing members, and departing

members. The relative costs of these cohorts will have significant impact on medical loss ratios.

- Contract changes for hospitals and delegated providers in projections have not been finalized.
- CY 2024 Major Organ Transplants Risk Corridor Liability will continue to be evaluated.
- MCO Tax Expense may be greater than anticipated MCO Tax Revenue.
- Additional Community Supports expense for previously unsubmitted, or denied for incorrectly coded claims may be paid in FY 2024.

Gil concluded by emphasizing ongoing evaluation and adaptation to potential changes, aiming to refine projections and mitigate financial risks for the upcoming fiscal year. Informational slides included: medical-health ratio by line of business, category of aid, population by category of aid, and expenses and revenue by category of aid.

Motion: A motion was made by James Jackson, and seconded by Gil Riojas, to accept and approve the FY25 Preliminary Budget for presentation to the Board of Governors.

Motion Passed

No opposed or abstained.

ADJOURNMENT

Dr. Ferguson adjourned the meeting at 9:05 a.m.