AGENDA
FINANCE COMMITTEE
SANTA CRUZ – MONTEREY – MERCED
MANAGED MEDICAL CARE COMMISSION

DATE: Wednesday, February 27, 2019
TIME: 2:00 – 2:45 p.m.
PLACE: In Santa Cruz County:
Central California Alliance for Health Board Room
1600 Green Hills Road, Suite 101, Scotts Valley, CA
In Monterey County:
Central California Alliance for Health Board Room
950 East Blanco Road, Suite 101, Salinas, CA
In Merced County:
Central California Alliance for Health Board Room
530 West 16th Street, Suite B, Merced, CA

1. Call to Order. 2:00 p.m.
   A. Roll call

2. Approve minutes of October 24, 2018 meeting of the Finance Committee.
   (2:00 – 2:05 p.m.)
   - Reference materials: Minutes as above.

3. Year-to-Date December Financials. (2:05 – 2:20 p.m.)

4. Investments and Liquid Holdings. (2:20 – 2:30 p.m.)

5. Capitola Manor Update. (2:30 – 2:45 p.m.)

Members of the public interested in attending should call the Alliance at (831) 430-5523 to verify meeting dates and locations prior to the meetings.

The complete agenda packet is available for review on the Alliance website at http://www.ccah-alliance.org/boardmeeting.html and at the Alliance’s offices. The Commission complies with the Americans with Disabilities Act (ADA). Individuals who need special assistance or a disability-related accommodation to participate in this meeting should contact the Clerk of the Board at least 72 hours prior to the meeting at (831) 430-5523. Meeting locations in Salinas and Merced are directly accessible by bus. As a courtesy to persons affected, please attend the meeting smoke and scent free.
Meeting Minutes
Wednesday, October 24, 2018
2:00 – 2:45 p.m.

**In Santa Cruz County:**
Central California Alliance for Health
1600 Green Hills Road, Suite 101, Scotts Valley, California

**In Monterey County:**
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950 East Blanco Road, Suite 101, Salinas, California

**In Merced County:**
Central California Alliance for Health
530 West 16th Street, Suite B, Merced, California

**Commissioners Present:**
Ms. Leslie Conner Provider Representative
Ms. Elsa Jimenez County Health Services Agency Director
Mr. Michael Molesky Public Representative
Mr. Tony Weber Provider Representative

**Commissioners Absent:**
None

**Staff Present:**
Ms. Lisa Ba Chief Financial Officer
Ms. Stephanie Sonnenshine Chief Executive Officer
Oksana Chabanenko Finance Administrative Specialist
1. **Call to Order by Chairperson Michael Molesky.** (2:00-2:01 p.m.)

Chairperson Michael Molesky called the meeting to order at 2:00 p.m. Roll call was taken. A quorum was present.

2. **Approve Minutes of June 27, 2018 meeting of the Finance Committee.** (2:01 – 2:02 p.m.)

FINANCE COMMITTEE ACTION: Commissioner Molesky moved to approve the minutes of the June 27, 2018 meeting of the Finance Committee, seconded by Commissioner Jimenez. Motion carried with 3 votes affirmative and was so ordered.

3. **August Year-to-Date Financials.** (2:02 – 2:19 p.m.)

Ms. Lisa Ba, Chief Financial Officer, updated the commissioners on the Alliance’s most recent financials. As of the end of August 2018, our net operating loss stands at $63M. One of the major influencing factors is the drop in revenue compared to budget due to 1.5% lower enrollment numbers. There is also a $58M negative variance in medical costs, which were 8.7% over budget. The admin budget, however, is on track with the Year-To-Date (YTD) Administrative Loss Ratio (ALR) at 7.9% versus the original 8.0% estimate.

The total YTD fund balance is $549M compared to $600M available at the beginning of 2018. There are two major factors that played a role in the decrease. First, the Rate Development Template (RDT) revenue gap: the State’s retrospective cost-based reimbursement lags two years behind, which frequently results in lower payments compared to the actual costs incurred by the Alliance; the loss from the revenue gap in 2018 is estimated at about $50M. The second factor is utilization with inpatient cost increases of over 20% and other medical – 23% compared to original estimates. Per the Alliance’s Chief Medical Officer (CMO), just for the period of January through July, the inpatient authorizations were up 13% and outpatient costs increased by 7%. The State planned for a utilization growth of 2-3%, when in reality we have seen significantly higher increases. Additionally, transplant activity has doubled.

Ms. Ba noted that the Cost Containment Committee (CCC) – a forum within the Alliance designated specifically for utilization and costs management – is continuously monitoring the costs and authorizations trends. The staff is working diligently to ensure we are taking all measures to prevent unnecessary costs. She also mentioned that a request will be put in for the Board to approve a budget exception on new business intelligence software that will provide us with key performance dashboards, physician performance data, member profiling and improved targeted intervention. This software will allow us to more effectively and proactively manage our utilization and best use of our resources.

Year to date, non-operating revenue shows an $8.3M gain comprised of interest income, unrealized losses from investments and other revenues. Unrealized gains and losses will not be realized unless the bonds are sold prior to maturity, which is not the intention, therefore they are expected to be fully reversed. As the bonds mature, the funds will be transferred to an operating account.
The Alliance’s total fund balance of $549M is eleven times the minimum TNE requirement established by the State. Meanwhile, the Board-required health care expense reserve has been increased to $307M (equal to three months’ worth of capitation revenue). Our fund balance minus grant is $366M – 19% above that. The Alliance is currently ranked first in terms of fund balance compared to other local health plans. This puts us in a secure position, but simultaneously, can invite increased scrutiny from the State. Therefore, grants have been selected as the best strategic use of reserves. As an added benefit, they allow us to fund innovative health programs in the local community; and the recruitment grant has been a great success bringing 122 much-needed new providers to the Alliance service area, improving system capacity and member access. The staff therefore recommends continuing to strategically use grants in order to lower the reserve.

4. **MCE MLR Determination. (2:20 – 2:24 p.m.)**

Ms. Ba reminded the commissioners that for the Medi-Cal expansion (MCE) population, the Centers for Medicare and Medicaid Services (CMS) has an 85% Medical Loss Ratio (MLR) rule, which implies that the health plan’s medical costs must be at least 85% of the revenue for the expansion population. On September 21, 2018, the California Department of Health Care Services (DHCS) determined the Alliance’s final payable amount as $286M. We have been accruing funds in accordance with this rule and, to date, $307M has been accumulated, which is $21M above the liability.

The MLR due is calculated based on a DHCS template and we were within 1% of the template amount. The variance is due to two adjustments made by the State. The first factor is the newly qualified immigrants (defined as “State-only Medi-Cal beneficiaries”), who were excluded from the MCE category resulting in a reduction to our payable amount by $29M. The second adjustment is the Managed Care Organization (MCO) tax, which was the result of the recovery of the MCE revenue and hence the associated MCO tax – this added $11M to our liability calculation. Since the Alliance had already paid the tax on cash receipts, DHCS plans to reconcile the MCO tax in State Fiscal Year (SFY) 2019-20.

The payment is due to the State by October 26, 2018. The Alliance is scheduled to wire the amount on October 24, 2018.

5. **Capitola Manor Conversion. (2:25 – 2:40 p.m.)**

Back in June of 2017, the Board approved $2.2M for Capitola Manor renovations based on a concept plan for construction costs. In May of 2018, at the preliminary plan review with the Office of Statewide Health Planning and Development (OSHPD), it was revealed that the Centers for Medicare and Medicaid Services (CMS) had reduced the limit on the maximum number of residents per room from three to two. This caused the number of rooms to go from the prior agreed 93 to 69. The architect and the construction firm had to update the floor plans in an effort to maximize the number of rooms per the new requirement, which they were able to bring up to 82. The most recent plan is in compliance with both CMS and OSHPD requirements.
In addition to the cost increase associated with the new bedroom layout and construction work related to the OSHPD requirements, other necessary modifications have been identified. Among them: drainage improvements, asbestos abatement, revised kitchen layout, new exterior doors and windows and egress controls for doors within the Memory Care Unit. All the above changes and updates account for an additional cost of $2.5M for a total all-inclusive project budget of $4.7M. The revisions will be presented at the Board meeting to request a budget exception.

Currently, the Alliance is awaiting OSHPD approval for the revised plan. Construction is expected to begin in the first quarter of 2019 and will take six to nine months. This puts the opening estimate around the fourth quarter of 2019.

[Commissioner Leslie Conner arrived at this time: 2:28 p.m.].

Commissioner Molesky inquired is there is any room for expansion of the facility. Ms. Stephanie Sonnenshine, Chief Executive Officer, stated that while the staff hasn’t contemplated expansion, should a proposal be made by the Board, it will certainly be evaluated and considered. Meanwhile, she added, the main priority is to complete the currently sanctioned project, especially considering the significantly increased project cost and diminishing reserve fund balance.

Commissioner Molesky also asked about the methodology for selecting patients for the new Skilled Nursing Facility (SNF). Ms. Sonnenshine explained that such determination will be based on medical necessity and provider care coordination. Clinicians and discharge planner will regulate the process of selection. Ms. Ba also noted that 60% of the Capitola Manor capacity will be reserved for Alliance members.

Commissioner Jimenez added that due to shortage of local SNF facilities, patients often experience extended hospital stays while on SNF waitlist, and some have to be transferred out of county to Central Valley. The Commissioner also emphasized that private skilled nursing facilities frequently do not accept Medi-Cal and the 60% Capitola Manor capacity reserved for the plan’s members will be a wonderful asset to the community. She also expressed particular enthusiasm over the much-needed 24-bed memory care unit, but conveyed her anticipation of the Board members’ questions about the substantial underestimation of construction costs.

Ms. Sonnenshine agreed the cost concern is indisputably valid. She explained that as we entered the project three years ago, the original assumption was that only a light remodel was going to be required – the regulatory changes from the State or the Board’s decision to add the memory care unit were at that time impossible to foresee and are the main drivers of the additional expenses. She added that there had been a discussion among staff on whether proceeding with the project at the new and much increased cost is still recommended. After a thorough deliberation, it was agreed that given that the SNF capacity in the county is dangerously close to zero (currently at 97%), there is a dire need for more beds, especially considering the aging population.
The CFO also mentioned that another consideration in favor of continuing the project is the asset payoff over time. Based on the Return on Investment (ROI) and Present Value calculation, it will take the Alliance 14-21 years to recover all construction and buildout costs. In terms of financial impact, the land and building depreciation is fully offset by the lease income, rendering ongoing impact immaterial.

The option of selling the building as is without any further investment was also evaluated among staff as an option, however, the building in the current state of redevelopment would not recoup the to-date investment and would sell at a loss. Therefore, staff will still recommend to the Board that the project gets completed.

Commissioner Conner also opined that in the grand scheme, $2M is not an unreasonable amount to invest in the project considering the overall ROI and momentous long-term benefits for the community.

6. Investments and Holdings. (2:41 – 2:45 p.m.)

As of August 31, 2018, the Alliance has $155M in cash and $682M in investments. Wells Fargo accounts for the majority of the holdings - 32% or $270M, followed by Comerica with 31% or $257M.

We are currently paying back the Medi-Cal MLR expansion funds to the State. The total liability is $286M, therefore, going forward, our investment portfolio value, as well as interest income, will see a significant decline.

All bonds held are set to mature by the end of year and will be transferred to cash accounts. After the MLR payment, most of which will come out of the Wells Fargo account, and bond transfers, the account is projected to have around $100M remaining.

Meanwhile, Comerica has increased our daily earning rate from 0.25% to 2% and our overall yield on interest-bearing accounts is around 3%.

The meeting adjourned at 2:46 p.m.

Respectfully submitted,

Ms. Oksana Chabanenko
Finance Administrative Specialist