**AGENDA ITEM NO. 9**

TO: Ventura County Medi-Cal Managed Care Commission

FROM: Kashina Bishop, Chief Financial Officer

DATE: October 28, 2019

SUBJECT: August and September 2019 Fiscal Year to Date Financials

**SUMMARY:**

Staff is presenting the attached August and September 2019 fiscal year-to-date (FYTD) financial statements of Gold Coast Health Plan (“Plan”) for the Commission to accept and file. The Executive / Finance Committee reviewed the August 2019 FYTD financial statements and recommended approval.

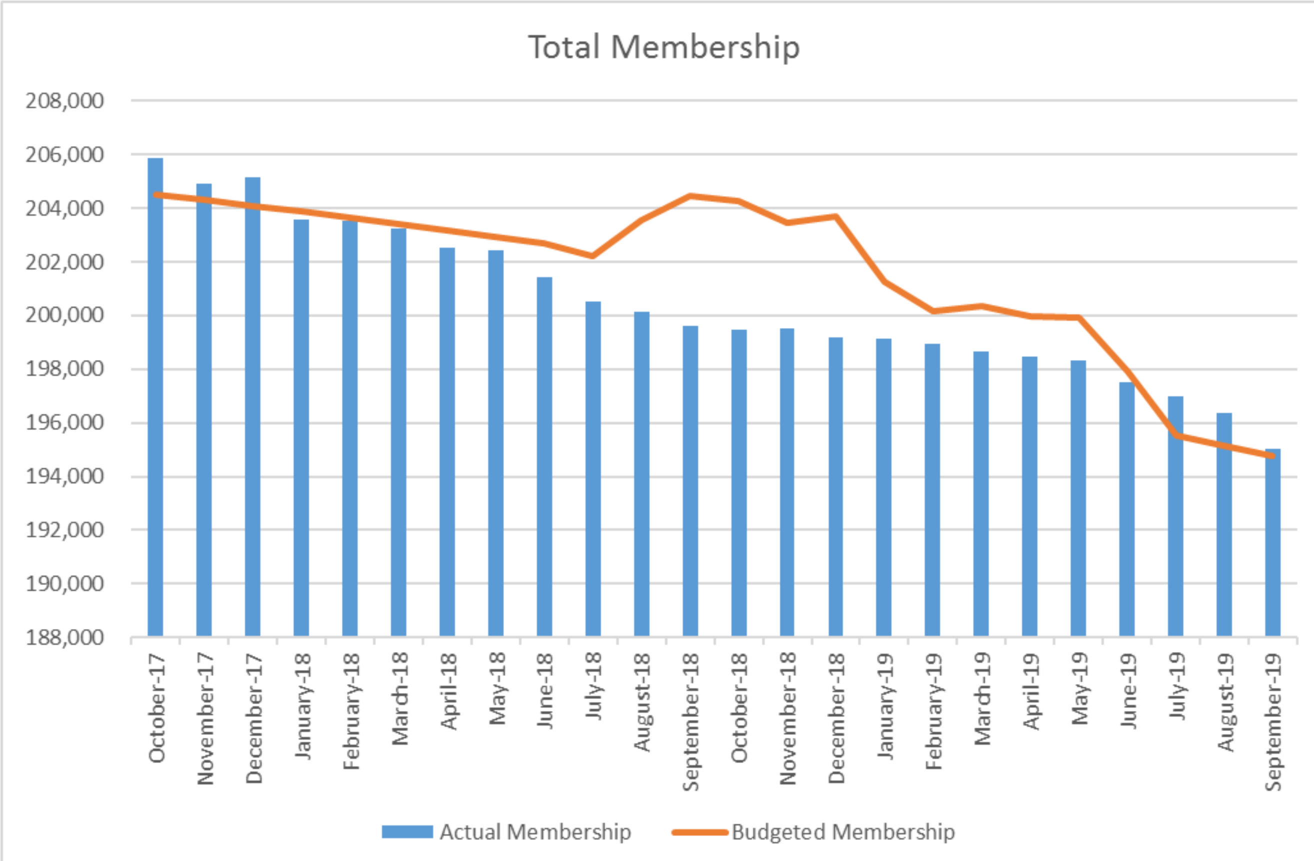
**BACKGROUND/DISCUSSION:**

The staff has prepared the unaudited August and September 2019 FYTD financial package, including statements of financial position, statement of revenues, expenses and changes in net assets, and statement of cash flows.

**FISCAL IMPACT:**

**FYTD Financial Highlights**

- Net loss of $1.6 million; a $1.3 million budget variance.
- September FYTD net revenue is $203.2 million, $7.5 million higher than budget.
- FYTD Cost of health care is $193.8 million, $12.7 million higher than budget.
- The medical loss ratio is 95.4% of revenue, which is 2.9% higher than the budget.
- The administrative cost ratio is 5.8%, 1.9% lower than budget.
- Current membership for September is 195,454. Member months for the year are at 588,368 which is 1% greater than budget.
- Tangible Net Equity is $74.0 million which represents approximately 33 days of operating expenses in reserve and 226% of the required amount by the State.




**Financial Report:**

In the month of August 2019, Gold Coast Health Plan is reporting a net loss of $1.7 million. From the prior month, the following contributed to the overall net loss:

- Capitation increased by approximately $600,000. In May, there was a provider contract amendment to temporarily stop a quality withhold from the capitation payment. The accounting staff stopped accruing the withholding in the financial statements, however, IKA was not updated with the change in net rate until the August capitation run. The monthly capitation expense will reduce September.

- Pharmacy expense is approximately $1 million higher than July. In July, there was a rebate received which reduced Pharmacy expense by approximately $600,000. There was an increase of about $200,000 for dates of service in July and August which is higher due to an increase in utilizers and an increase in the number of brand drugs (i.e. unfavorable drug mix).

- An assumed 3% increase to LTC costs was included in the Incurred But Not Paid model, increasing expense by approximately $300,000 from July. The LTC rates are set by the State and updated each August. The facility rates which are effective in August, are typically publically available in January of the following year. Prior to the adjustment, staff makes an estimate based on historical increases to rates.

In the month of September 2019, Gold Coast Health Plan is reporting a net gain of $47,011. The overall medical expenses were slightly lower than in previous months. The most notable change to the estimate for mental and behavioral health services is due to volatility in the claims payments, which impacts the monthly estimate of expenses.

Revenue

Premium revenue is over budget by $7.5 million and 4%. The budget variance is being driven by the following:

- Membership is over budget by 1%.
- Due to increasing risk of the population, GCHP received revised draft capitation rates from the State which were 1.7% higher than budgeted.
- Due to increased utilization, supplemental payments for Behavioral Health services is $2.3 million higher than budgeted.

Health Care Costs

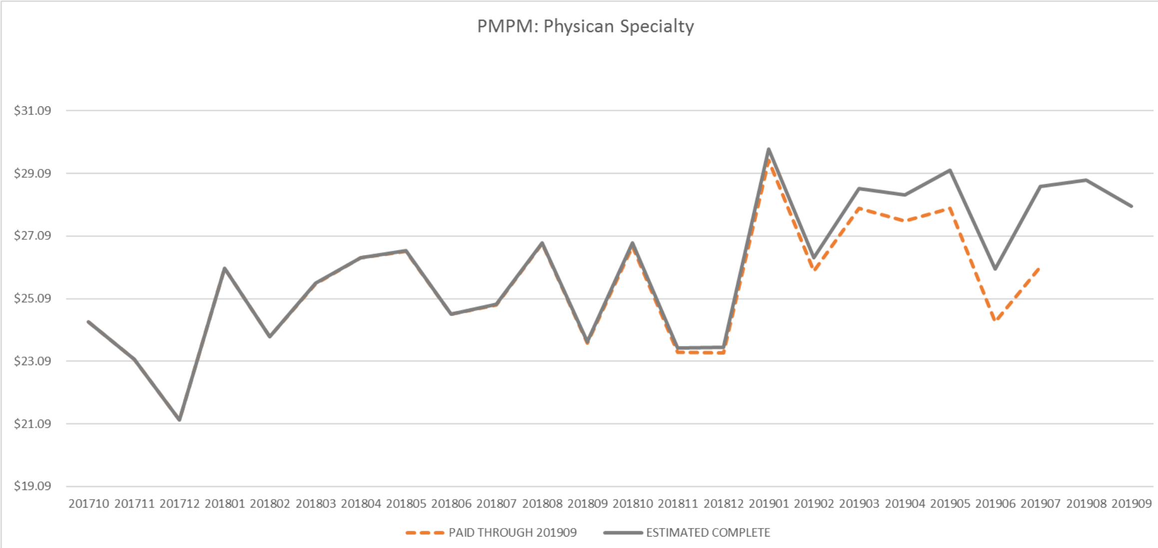
FYTD Health care costs are $193.8; over budget by $12.7 million and 7%.

Notable variances from the budget are as follows:

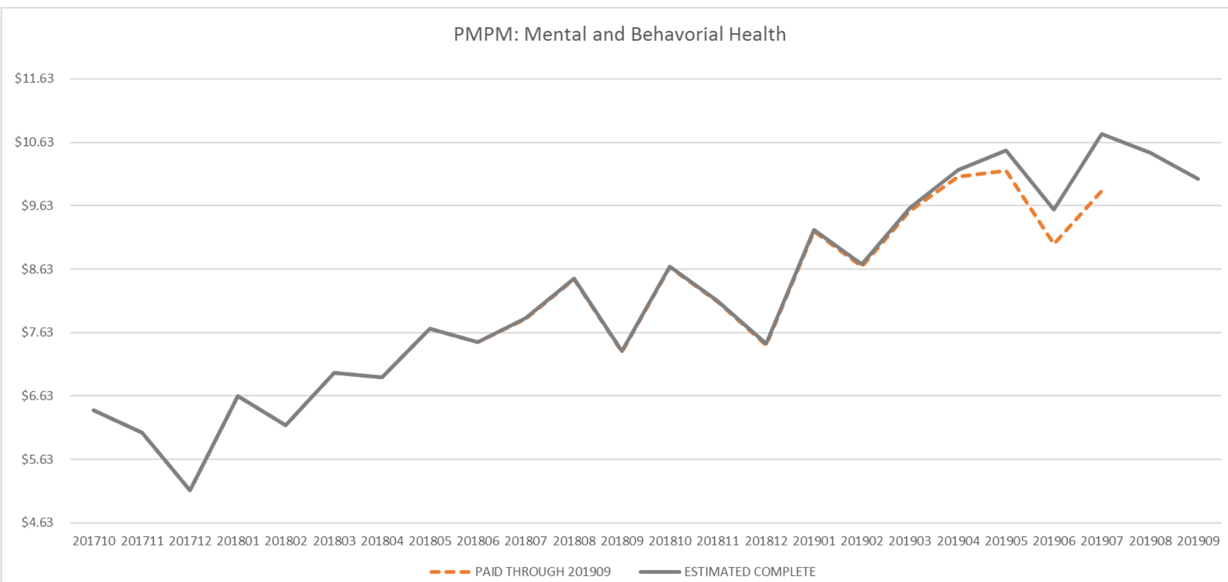
- Membership is over budget by 1% which will impact the anticipated medical expenses, this is offset by revenue.

- Directed payments (for Proposition 56) are over budget by $2.0 million. The majority of the variance is driven by prior year changes in estimate. Staff is in the process of validating the dates of service for Prop 56 payments made. This impacts the FY 18/19 amount owed to the State due to the 95% MLR requirement on Prop 56 funding, and how we record the current year expense.

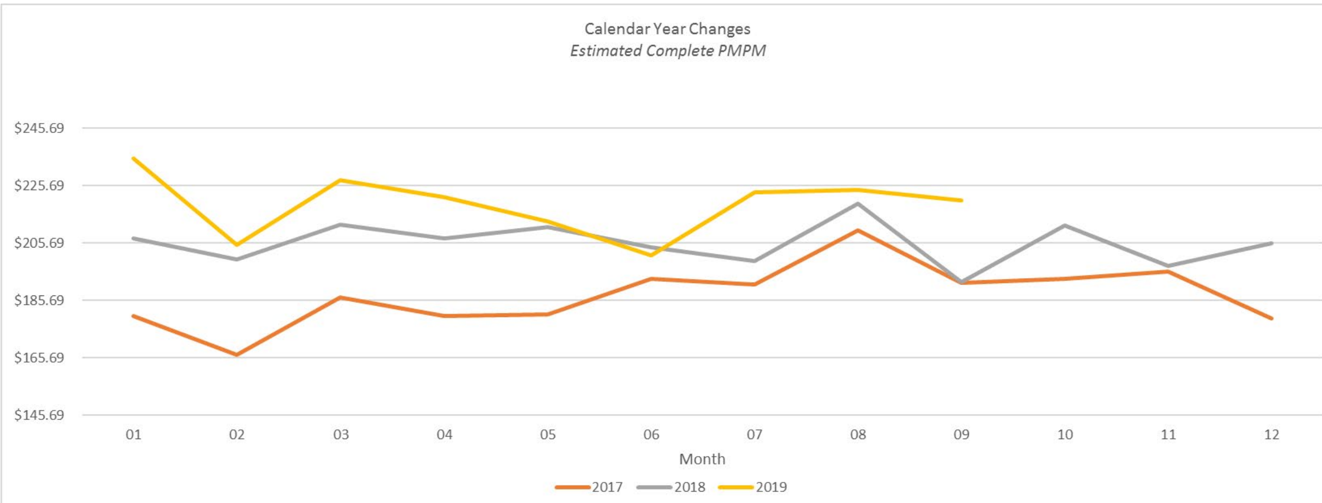
- Physician Specialty is over budget by $2.6 million. As discussed in prior meetings, the service types with the most significant increases in the prior year are Physical Therapy and Dermatology. The most recent months are still considered an estimate and are based on historical costs, which also had a seasonal increase in the first quarter of 2019. GCHP has taken steps that should reduce these costs but it will take some time to reflect in the financial statements.

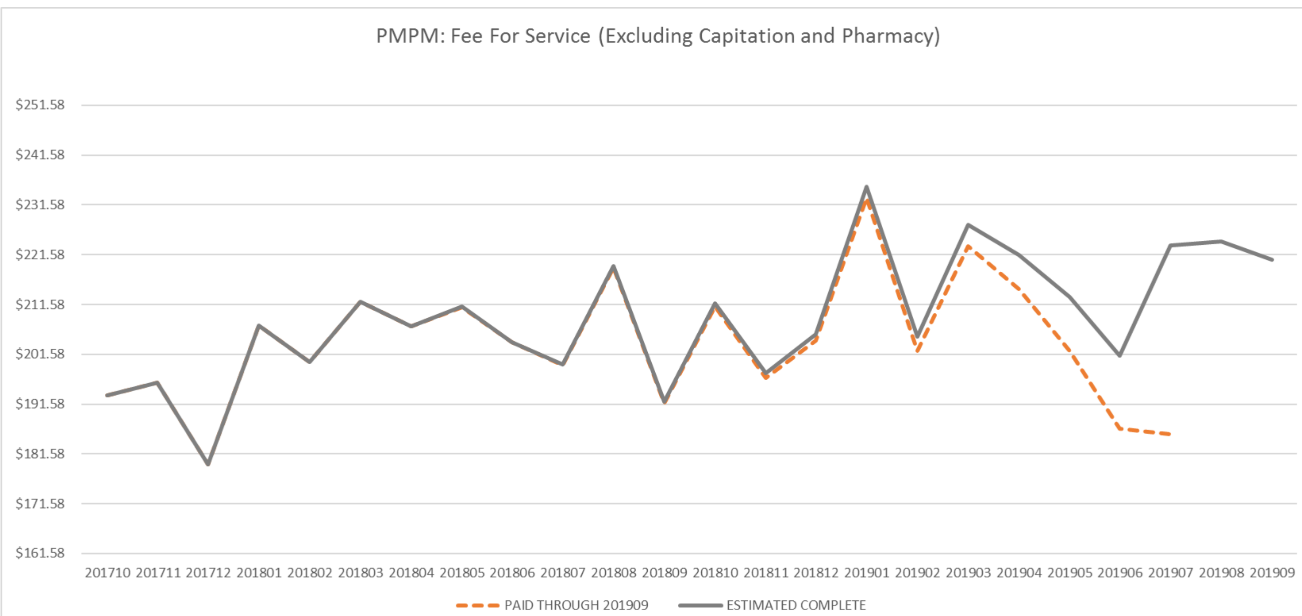



- Behavioral and mental health utilization has increased significantly in the most recent months which could indicate a need to revise per member per month cost expectations for the current fiscal year. The budget is $8.16 per member per month and the average expense in the first quarter of FY 19-20 is $10.42 per member per month. If it continues at this rate, the annual increase in cost would be approximately $4.5 million. The increased cost will be partially offset by supplemental payments from the State for Behavioral Health treatment.




- Total fee for service health care costs, considering date of service, are over budget by $10.90 pmpm (5%). As noted in the next graph, we typically see variances in overall medical expense on a month to month basis. The Incurred But Not Paid model is assuming that medical expenses increase slightly in July and then remain stable, to be conservative. The first quarter of this fiscal year is considered to be a significant estimate, and we would expect seasonal lower months, that will improve the annual per member per month costs.




**Note:** Medical expenses are considered a significant estimate due to the delay between the time the medical service is provided and when the claim is paid. This is calculated through a predictive model which is referred to as "Incurred But Not Paid" (IBNP), and is a liability on the balance sheet. On the balance sheet, this calculation is a combination of the Incurred But Not Reported and Claims Payable. The total liability is the difference between the estimated costs (the orange line above) and the paid amounts (in grey above).

**Looking forward:**

If the current trend in both Fee for Service medical expenses and Pharmacy continued, this would equate to a medical expense budget variance of approximately $30 million. That said, we anticipate the seasonal lower months will improve the impact as well as higher than budgeted premium revenue (this was due to recognition from the State that the acuity level of the members has increased), higher than budgeted supplemental revenue for Behavioral Health, and internal initiatives to reduce medical expenses.

Administrative Expenses – For the fiscal year to date through September, administrative costs were $11.7 million and $3.4 million below budget. As a percentage of revenue, the administrative cost ratio (or ACR) was 5.8% versus 7.7% for budget.

Cash and Short Term Investment Portfolio – At September 30th, the Plan had $139.7 million in cash and short-term investments. The investment portfolio included Ventura County Investment Pool $42.2 million; LAIF CA State 5.1 million; the portfolio yielded a rate of 2.3%.

Medi-Cal Receivable – At September 30th, the Plan had $83.1 million in Medi-Cal Receivables due from the DHCS.

**RECOMMENDATION:**

Staff requests that the Executive Finance Committee recommend that the Commission accept and file the August and September 2019 financial package.

**ATTACHMENT:**

August and September 2019 Financial Package