



AGENDA ITEM NO. 2

TO: Executive Finance Committee
FROM: Kashina Bishop, Chief Financial Officer
DATE: October 3, 2019
SUBJECT: August 2019 Fiscal Year to Date Financials

SUMMARY:

Staff is presenting the attached August 2019 fiscal year-to-date (FYTD) financial statements of Gold Coast Health Plan ("Plan") for review and recommendation of approval to the Commission.

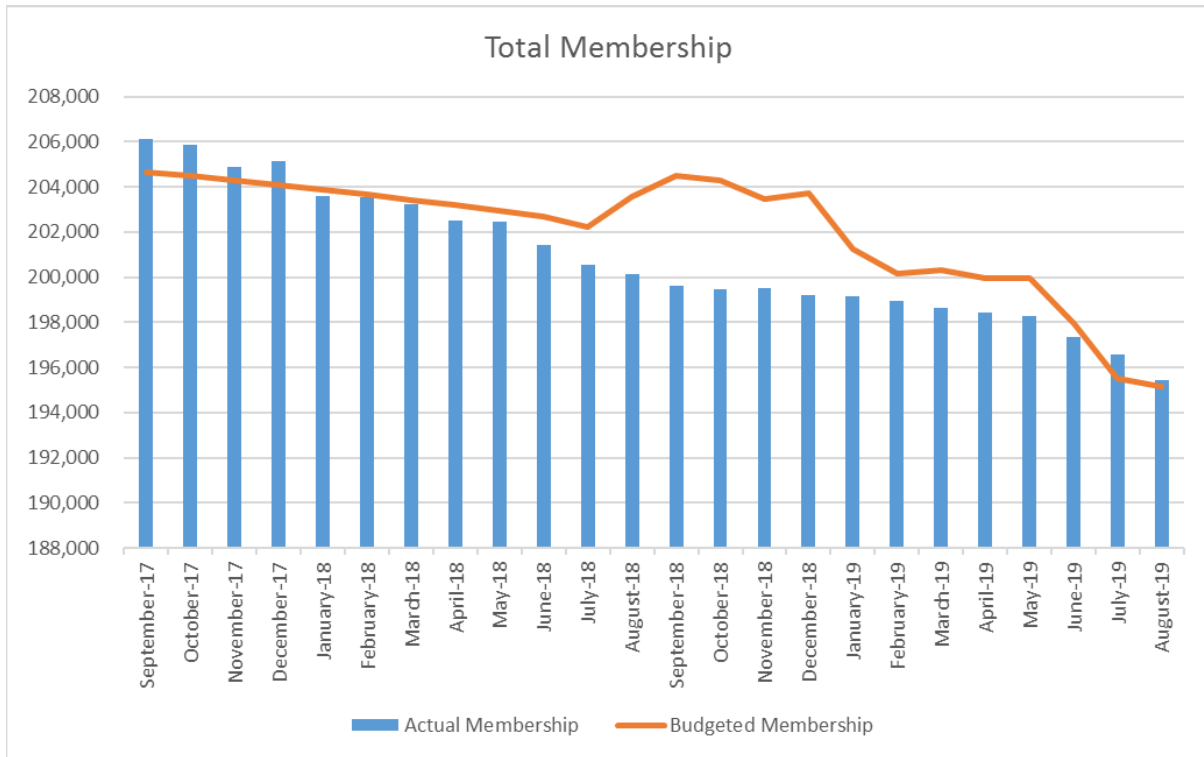
BACKGROUND/DISCUSSION:

The staff has prepared the unaudited August 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 \$1.7 million; a \$1.2 million budget variance.
- August FYTD net revenue is \$135.5 million, \$5 million higher than budget.
- FYTD Cost of health care is \$130.1 million, \$8.4 million higher than budget.
- The medical loss ratio is 96.0% of revenue, which is 3.5% higher than the budget.
- The administrative cost ratio is 5.5%, 2.4% lower than budget.
- Current membership for August is 195,454.
- Tangible Net Equity was \$78.6 million which represents approximately 37 days of operating expenses in reserve and 239% 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 rebates 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 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.

Revenue

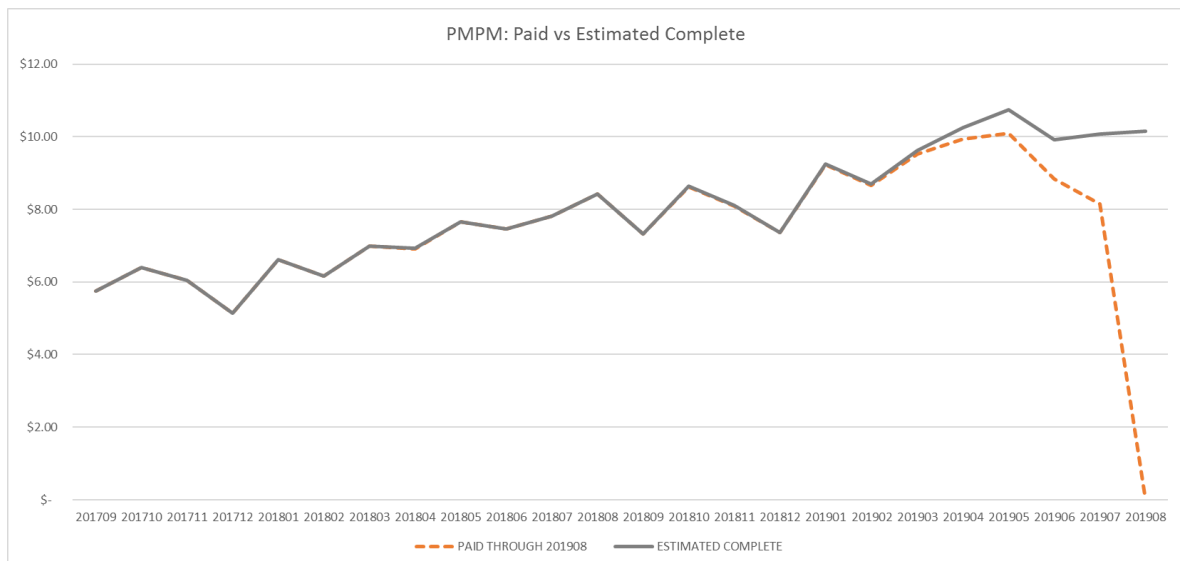
Base revenue is over budget by \$5.0 million. The budget variance is being driven by revised draft capitation rates from the State, and higher than budgeted supplemental payments for Behavioral Health services.

Health Care Costs

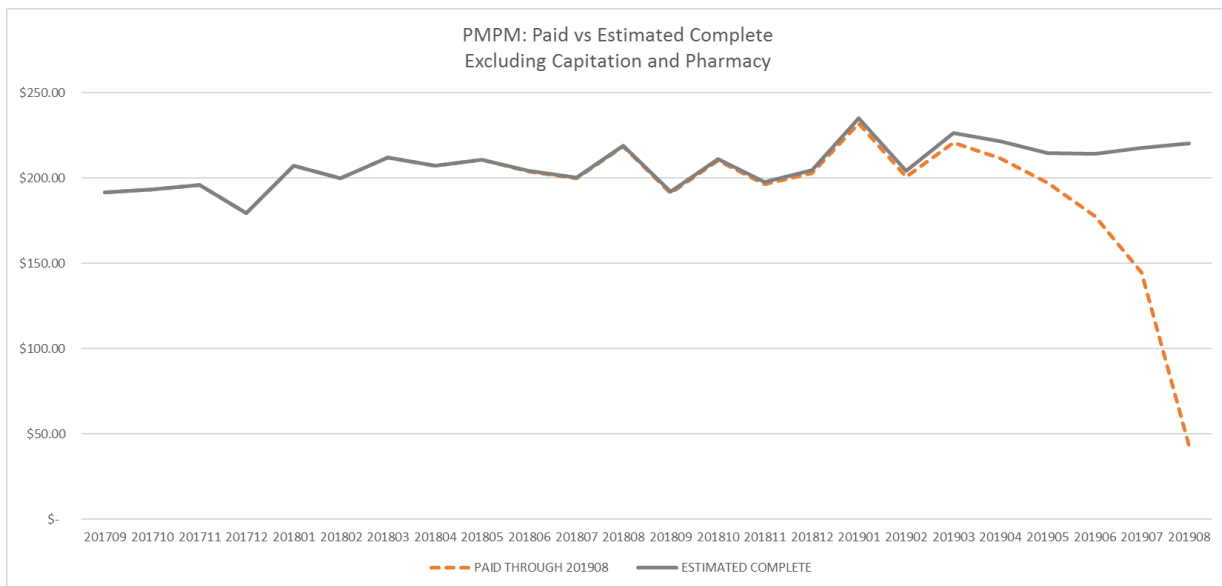
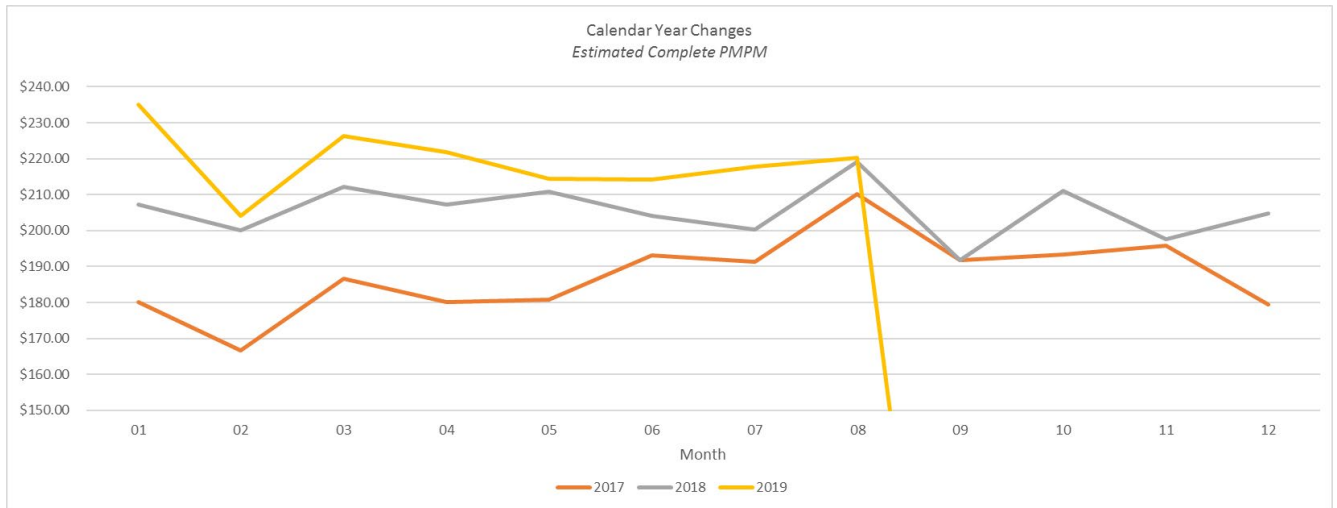
FYTD Health care costs are \$120.8; over budget by \$9.3 million.

Notable variances from the budget are as follows:

- Approximately \$2.4M of the expense is related to change in estimate for FY 18/19 expense. The service types with the most significant changes in estimate are behavioral and mental health services, physician specialty, and inpatient.
- Directed payments are over budget by \$1.8 million but the amount will be offset with increases to revenue.
- 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 for July and August is \$10.11 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 \$8.30 pmpm (3.9%). 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 August, to be conservative. July and August are considered to be a significant estimate, and we would expect seasonal lower months, that will improve the annual per member per month costs.

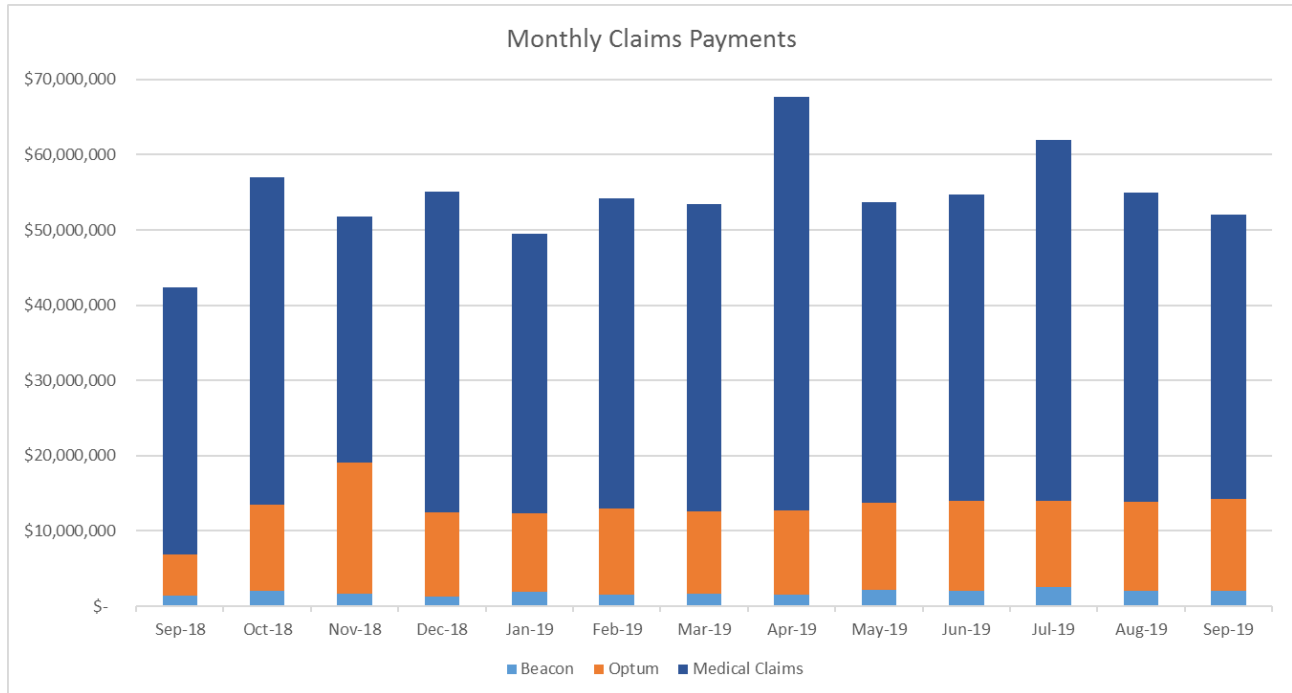


Note: Medical expenses are considered a significant estimate due to the delay between the time the medical service is provided and when the claim is paid. This is calculated through a predictive model which is referred to as “Incurred But Not Paid” (IBNP), and is a liability on the balance sheet. On 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.

In reviewing claims payments over the past several months, and in September, we expect an improvement in medical expenses.



Administrative Expenses – For the fiscal year to date through August, administrative costs were \$7.5 million and \$2.9 million below budget. As a percentage of revenue, the administrative cost ratio (or ACR) was 5.5% versus 7.9% for budget.

Cash and Short Term Investment Portfolio – At August 31st, the Plan had \$125.9 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 August 31st, the Plan had \$76.3 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 2019 financial package.

CONCURRENCE:

N/A

ATTACHMENT:

August 2019 Financial Package