

2012-13 Status Report & 2013-14 Budget Proposal



COVERED
CALIFORNIA

May 23, 2013

Covered California Budget Cycle

Transitioning from calendar year budget, based on spending plan linked to approved federal grants, to an annual budget cycle based on fiscal year budgets and supporting self sufficiency

FY 2012-13

FY 2013-14

FY 2014-15

Entirely Federal Grant oriented and based on Board approval of spending plans reflected in the 1.1, 1.2 & 2.0 Federal Grants

Funded primarily by the 2.0 Federal Grant, but informed by specific business needs that reflect changes from the original Grant allocation to this period/Seeking Board approval in June

Partially funded by the 2.0 Federal Grant, combined with the first complete year of assessment revenue. Will fund activities that support long term self sufficiency/Present to Board in April 2014

Financial Guiding Principles

- **Controlling Costs:** In keeping with our value of affordability, Covered California aims to limit its cost of operations in order to deliver products and services that offer high value to our consumers. This includes consideration of the amount of participation fees on the cost of coverage, balanced with the need to establish modest reserves.
- **Stability:** Provide a reliable and predictable level of resources to support ongoing cost effective operations and provide consumers and health plans with stable rates. This requires planning that takes into account establishing Covered California as a new business operation, and recognition that there is uncertainty in the nature of the work and the scale of operations needed to provide high quality services to enrolled subscribers.
- **Flexibility:** Given the uncertainties in planning for operations, financial plans need to be flexible to allow both adaptation of operational approaches and cost adjustments to match service demands.
- **Accountability:** Covered California is responsible for careful stewardship of public resources. Financial activities are monitored and controlled by Financial Management staff, and will be audited independently to ensure funds are being used consistent with federal and state requirements.
- **Transparency:** Covered California has a responsibility to provide transparency into the management of its finances. Future Board meetings will include the annual budget presentations, quarterly expenditure reports, and audits – and these documents will be posted to our website.

Fiscal Responsibility & Rigor

- **Financial Oversight and Controls**
 - Monthly Budget meetings with each organizational unit
 - Monthly reconciliation of expenditures to Budget and Grants
 - Internal process for new funding requests
 - Quarterly Federal Reporting
 - Two audits scheduled in 2013
 - FISMA
 - External Audit
 - Planning for a business intelligence tool

- **Ongoing Review of Revenue & Expense Drivers to maintain Self-Sufficiency**
 - Manage through dedicated financial planning and budgetary units
 - Level of participation fee
 - Core expenditure monitoring:
 - Marketing, Outreach, and Assisters
 - CalHEERS
 - Other Professional Fees
 - Service Center
 - Covered California Staffing

Financial Reporting Calendar

State Reporting

Covered California Board, Legislature, and Governor

| | January | February | March | April | May | June | July | August | September | October | November | December |
|------|--|----------------------------------|-------|-----------------------------|---|------|------|--------|--|---|--|----------|
| 2014 | Annual Implementation and Performance Report (to Legislature & Governor) | FY 2013-14 Q2 Expenditure Report | | Review of FY 2014-15 Budget | Approval of FY 2014-15 Budget FY 2013-14 Q3 Expenditure Report | | | | FY 2013-14 Year End Expenditure Report | Review of Mid Year adjustments for FY 2014-15 Complete FISMA Audit | Approval of Mid Year adjustments for FY 2014-15 FY 2014-15 Q1 Expenditure Report Complete External Audit | |

Note: The 2013-14 budget will be presented in May 2013, and submitted for approval in June 2013

Federal Reporting

CMS/Center for Consumer Information & Insurance Oversight

| | January | February | March | April | May | June | July | August | September | October | November | December |
|------|--------------------------------|----------|-------|--------------------------------|-----|------|--------------------------------|--------|-----------|--------------------------------|----------|----------|
| 2014 | Quarterly Federal Grant Report | | | Quarterly Federal Grant Report | | | Quarterly Federal Grant Report | | | Quarterly Federal Grant Report | | |

Federal Grant Support to Establish Covered California

| | Period Covered | Funds Committed | Funds Spent | Available Balance |
|--------------------|-----------------------|-----------------------|----------------------|-----------------------|
| Planning Grant | Sept 2010 - Sept 2011 | \$ 1,000,000 | \$ 530,000 | \$ - |
| Level 1.1 | Aug 2011 - Nov 2012 | \$ 39,421,383 | \$ 39,421,383 | \$ - |
| Level 1.2 | Aug 2012 - Aug 2013 | \$ 196,479,629 | \$ 58,364,662 | \$ 138,114,967 |
| Level 2.0 * | Jan 2013 - Dec 2014 | \$ 673,705,358 | \$ 26,894 | \$ 673,678,464 |
| Grand Total | | \$ 910,606,370 | \$ 98,342,939 | \$ 811,793,431 |

Source: Funds Committed – Notice of Award; Expenditures - Monthly CALSTARS Reports (Reflecting expenditures through March 2013)

FY 2012-13 Budget vs. Projected Year End

| | Budget | Projected Year End | Percent Difference |
|-----------------------|-----------------------|-----------------------|--------------------|
| Positions | 677 | 398 | -41% |
| Salaries & Benefits | \$ 28,407,155 | \$ 10,123,471 | -64% |
| Contractual Costs | \$ 362,901,317 | \$ 286,475,552 | -21% |
| Travel | \$ 1,116,530 | \$ 505,143 | -55% |
| Supplies | \$ 1,715,638 | \$ 663,634 | -61% |
| Equipment | \$ 1,057,680 | \$ 645,046 | -39% |
| Facilities | \$ 2,738,860 | \$ 1,367,225 | -50% |
| Other | \$ 3,018,106 | \$ 3,368,261 | 12% |
| Expenses | <u>\$ 400,955,286</u> | <u>\$ 303,148,332</u> | -24% |
| CalHEERS Cost Sharing | \$ (34,568,734) | \$ (30,452,392) | -12% |
| Total Operating Costs | <u>\$ 366,386,552</u> | <u>\$ 272,695,940</u> | -26% |

Source: CALSTARS Reports actual expenditures through March 2013; and estimated expenditures through June 2013

CalHEERS Cost Sharing: Title XIX Medicaid - 17%; Title XXI CHIP- 1%

Key Points

- Hiring is occurring at a slower pace than originally budgeted
- Several anticipated contracts are in the process of being completed
- Balance available from federal grants 2012-13 (\$93.7 million) will be redirected to the proposed 2013-14 budget (\$28.5 million) and the remainder (\$65.2 million) to 2014-15

Proposed FY 2013-14 Budget

| Summary | |
|-----------------------------------|-----------------------|
| Federal Grants | \$ 376,459,124 |
| Assessment Revenue | \$ 64,401,103 |
| Total Grants & Revenue | \$ 440,860,227 |
| Expenses | \$ 397,301,745 |
| CalHEERS Cost Sharing | \$ (15,742,621) |
| Total Operating Costs | \$ 381,559,124 |
| Net Income | \$ 59,301,103 |
| Reserves | \$ 59,301,103 |

CalHEERS Cost Sharing: Title XIX Medicaid - 17%; Title XXI CHIP- 1%
Expenses include \$5.1MM for Navigator Grants, funded by assessment revenue

| Budgeted Expense Summary | |
|------------------------------|-----------------------|
| Positions | 1,161 |
| Salaries & Benefits | \$ 79,036,055 |
| Contractual Costs | \$ 288,507,305 |
| Travel | \$ 891,784 |
| Supplies | \$ 3,264,249 |
| Equipment | \$ 1,845,303 |
| Facilities | \$ 16,667,997 |
| Other | \$ 7,089,052 |
| Expenses | \$ 397,301,745 |
| CalHEERS Cost Sharing | \$ (15,742,621) |
| Total Operating Costs | \$ 381,559,124 |

Key Activities FY 2013-14

- CalHEERS implementation
- Marketing, Outreach & Communication activities
- Assistors and Call Centers
- Open enrollment and coverage begins
- Collection of assessment revenue starts

Changes in Spending Plan from the FY 2013-14 Federal 2.0 Grant Allocation to the Proposed FY 2013-14 Budget

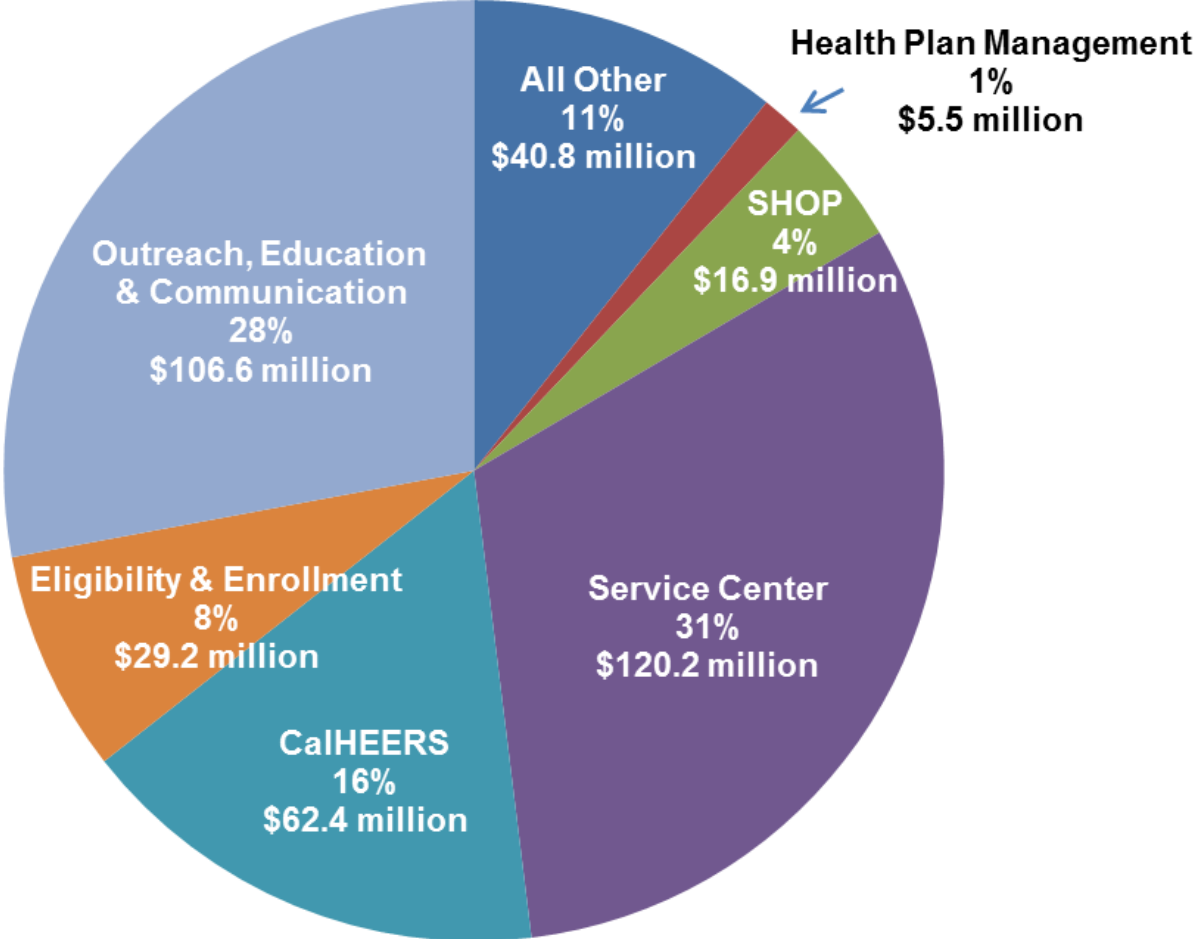
| | Federal Grant | Proposed Budget | Variance | Variance % |
|-----------------------|-----------------------|-----------------------|----------------------|------------|
| Positions | 1,161 | 1,216 | 55 | 5% |
| Salaries & Benefits | \$ 74,230,731 | \$ 79,036,055 | \$ 4,805,324 | 6% |
| Contractual Costs | \$ 262,654,464 | \$ 290,536,815 | \$ 27,882,351 | 11% |
| Travel | \$ 836,784 | \$ 891,784 | \$ 55,000 | 7% |
| Supplies | \$ 3,044,249 | \$ 3,264,249 | \$ 220,000 | 7% |
| Equipment | \$ 1,680,303 | \$ 1,845,303 | \$ 165,000 | 10% |
| Facilities | \$ 14,368,725 | \$ 14,638,487 | \$ 269,762 | 2% |
| Other | \$ 6,841,551 | \$ 7,089,051 | \$ 247,500 | 4% |
| Expenses | \$ 363,656,807 | \$ 397,301,744 | \$ 33,644,937 | 9% |
| CalHEERS Cost Sharing | \$ (15,742,621) | \$ (15,742,621) | \$ - | 0% |
| Total Operating Costs | \$ 347,914,186 | \$ 381,559,124 | \$ 33,644,937 | 10% |

CalHEERS Cost Sharing: Title XIX Medicaid - 17%; Title XXI CHIP- 1%

Key Changes

- Salaries & Benefits – 55 additional positions
- Contractual Costs – Service Center Interpretation Services \$8 million, Call Center Staffing \$14 million, Navigator Grants \$5 million
- Balance available from 2012-13 would be redirected to the proposed 2013-14 budget and 2014-15

Organizational Breakdown of Proposed FY2013-14 Budget



Participation Fees and Anticipated Offsets

| Individual Exchange - Enhanced | | 2014 | | "May 2013" | 2014 |
|--------------------------------|----|--------------|---|-------------|--------------|
| Members | | 1,058,791 | | 1,058,791 | |
| Member Months | | 10,230,397 | | 10,230,397 | |
| Plan Assessment Revenue | \$ | 142,714,039 | → | \$ | 142,714,039 |
| Effective Plan Assessment Rate | | 3.0% | | 4.4% | |
| Average Premium | \$ | 465 | | \$ | 320 |
| Effective Assessment PMPM | \$ | 13.95 | | \$ | 13.95 |

Assessment Per Member Per Month (PMPM) Assumptions

- Based upon sustainability using estimated premium at the time PMPM was finalized for model contract
- \$13.95 is reflected in the proposed rates of the Plans

New Rate Information

- Based upon negotiated premiums, average premium of ~\$320 for individual coverage results in effective Assessment Rate of 4.4 percent

Covered California is expected to impact administrative expenses for insurance carriers offering products through the Exchange *(Milliman Report March 28, 2013)*

- Potential Reductions – Underwriting; Marketing & Sales; Broker & Agent Commissions; Streamlined Plan Designs
- Potential Increases – Exchange interface; Reporting requirements
- No assumed reduction to administrative fees due to changes in cost of operations
- However, change in distribution channel from Brokers & Agents to the Exchange may result in lower administrative costs, impacting premiums by ~-4.5 percent

Multi-Year Forecast – Assumptions

- The following page contains a Multi-Year Forecast for the Individual Exchange, including Enhanced, Base, and Low Enrollment scenarios
- Compared to the Sustainability Plan adopted by the Board, the Multi-Year Forecast reflects:
 - Proposed augmentation of \$32.9 million in FY 2013-14 to the Individual Exchange
 - The \$673.7 million awarded via the Level 2.0 Federal Grant
 - Application of the PMPM participation fees in 2014 of \$13.95 for the Individual Exchange
 - Transition from calendar year to fiscal year presentation
- Enrollment estimates align with those reflected in the Sustainability Plan
- PMPM participation fees adjust downward, or upward, with enrollment and the goal of maintaining a 3-6 month reserve of annual operating expenses
- For all scenarios, operational costs are adjusted in the out-years consistent with the Sustainability Plan

Multi-Year Forecast – Individual Exchange

| Individual Program - Enhanced | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 |
|--|-----------------------|-----------------------|------------------------|------------------------|
| Members (Fiscal Year End) | 893,785 | 1,478,246 | 1,941,906 | 2,308,025 |
| Average Monthly Premium (Calendar Year) | \$ 320 | | | |
| Federal Grants | \$ 351,050,487 | \$ 227,403,492 | | |
| Assessment Revenue | \$ 59,847,823 | \$ 172,424,166 | \$ 211,622,042 | \$ 248,411,839 |
| Total Grants & Revenue | \$ 410,898,309 | \$ 399,827,658 | \$ 211,622,042 | \$ 248,411,839 |
| PMPM Assessment 1st 6 Mos | | \$ 13.95 | \$ 10.46 | \$ 9.94 |
| PMPM Assessment 2nd 6 Mos | \$ 13.95 | \$ 10.46 | \$ 9.94 | \$ 9.44 |
| <i>PMPM as a percentage of Premium</i> | <i>4.4%</i> | | | |
| Total Operating Costs | \$ 356,150,487 | \$ 285,611,621 | \$ 278,101,367 | \$ 276,892,672 |
| Net Income | \$ 54,747,823 | \$ 114,216,037 | \$ (66,479,324) | \$ (28,480,833) |
| Year-End Reserves | \$ 54,747,823 | \$ 168,963,859 | \$ 102,484,535 | \$ 74,003,702 |
| Number of Months of Operating Costs | | 7 | 4 | 3 |

| Individual Program - Base | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 |
|--|-----------------------|-----------------------|------------------------|------------------------|
| Members (Fiscal Year End) | 628,979 | 999,011 | 1,280,980 | 1,578,340 |
| Average Monthly Premium (Calendar Year) | \$ 320 | | | |
| Federal Grants | \$ 351,050,487 | \$ 227,403,492 | | |
| Assessment Revenue | \$ 43,041,288 | \$ 131,947,819 | \$ 177,788,362 | \$ 222,920,535 |
| Total Grants & Revenue | \$ 394,091,775 | \$ 359,351,311 | \$ 177,788,362 | \$ 222,920,535 |
| PMPM Assessment 1st 6 Mos | | \$ 13.95 | \$ 12.83 | \$ 12.83 |
| PMPM Assessment 2nd 6 Mos | \$ 13.95 | \$ 12.83 | \$ 12.83 | \$ 12.83 |
| <i>PMPM as a percentage of Premium</i> | <i>4.4%</i> | | | |
| Total Operating Costs | \$ 356,150,487 | \$ 252,297,569 | \$ 244,344,325 | \$ 242,679,350 |
| Net Income | \$ 37,941,288 | \$ 107,053,742 | \$ (66,555,962) | \$ (19,758,815) |
| Year-End Reserves | \$ 37,941,288 | \$ 144,995,030 | \$ 78,439,067 | \$ 58,680,252 |
| Number of Months of Operating Costs | | 7 | 4 | 3 |

| Individual Program - Low | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 |
|--|-----------------------|-----------------------|------------------------|-----------------------|
| Members (Fiscal Year End) | 274,467 | 587,259 | 939,616 | 1,258,330 |
| Average Monthly Premium (Calendar Year) | \$ 320 | | | |
| Federal Grants | \$ 351,050,487 | \$ 227,766,629 | | |
| Assessment Revenue | \$ 18,781,875 | \$ 77,572,216 | \$ 174,548,401 | \$ 219,345,914 |
| Total Grants & Revenue | \$ 369,832,362 | \$ 305,338,845 | \$ 174,548,401 | \$ 219,345,914 |
| PMPM Assessment 1st 6 Mos | | \$ 13.95 | \$ 16.04 | \$ 20.86 |
| PMPM Assessment 2nd 6 Mos | \$ 13.95 | \$ 16.04 | \$ 20.86 | \$ 12.51 |
| <i>PMPM as a percentage of Premium</i> | <i>4.4%</i> | | | |
| Total Operating Costs | \$ 356,150,487 | \$ 224,437,546 | \$ 215,947,607 | \$ 214,276,244 |
| Net Income | \$ 13,681,875 | \$ 80,901,299 | \$ (41,399,205) | \$ 5,069,670 |
| Year-End Reserves (3 mos ops costs) | \$ 13,681,875 | \$ 94,583,174 | \$ 53,183,969 | \$ 58,253,639 |
| Number of Months of Operating Costs | | 5 | 3 | 3 |

Recommendation for Approval

As required by Government Code Section 100503 (o), this presentation includes the proposed Budget for Fiscal Year 2013-14

Staff Recommendation:

- Approve the proposed Budget for Fiscal Year 2013-14, as presented, at the June 2013 Meeting