



May 29, 2020

TO: Covered California Board of Directors

FR: Peter V. Lee, Executive Director
Jim Watkins, Chief Financial Officer

RE: Draft Proposed Covered California Annual Report and Fiscal Year 2020-21 Budget
Scheduled Public Review for June 2, 2020 from 3:30 p.m. to 5:00 p.m.

Attached please find the complete draft of the Covered California **Annual Report and Fiscal Year 2020-21 Budget** which we are sharing with Covered California's Board and the public as promised at the Board meeting on May 21, 2020. We will take public comment on this document in the coming weeks, make revisions as appropriate, and bring a final proposed Annual Report and Budget to the Board for action at the June 25, 2020 Board meeting. This draft Annual Report and Budget makes no changes to the proposed Fiscal Year 2020-21 \$440 million budget presented at the May Board meeting and still reflects increases in spending in core areas related to marketing and customer service to address Californians' needs in the context of the recession.

We will hold a public forum on June 2, 2020 from 3:30 p.m. to 5:00 p.m. to walk through this Annual Report and Budget and have invited the two members of the Board's Audit and Financial Committee (Sandra Hernandez and Jerry Fleming) to participate and listen to the public's questions or comments. We are soliciting public comments by June 5, 2020, if possible, as to allow Covered California to make any modifications to the Annual Report and Budget prior to making a final recommendation for its adoption in June.

In the public forum we will walk through the elements of the Annual Report and Budget, as detailed below. We will solicit comments both at that forum and through June 5, 2020 on several key issues, including:

1. Should Covered California expand investments in areas of marketing and consumer service in the face of the COVID-19 pandemic?
2. Has Covered California appropriately balanced its focus on meeting the needs of Californians with its responsibilities for being fiscally prudent? Staff have sought to address this balance by proposing to lower the on-exchange assessment on health plan premiums from 3.5 percent to 3.25 percent while maintaining an operating surplus of 9 months or more into the foreseeable future under the base forecast.
3. The budget does not reflect any additional spending for marketing that may be incurred by Covered California on behalf of health plans that do not spend the proposed 0.4 percent of premium on direct response marketing. Recall that this proposal will be brought to the Board for action at the June meeting as a modification to the qualified health plan issuer contract.

As you would expect and have seen from our past budgets, there is a lot of material in the draft Annual Report and Budget. It includes a summary of Covered California's performance in the current fiscal year and how our actual expenditures compare to the budget and the proposed budget for the coming fiscal year, which is informed by detailed forecasts and modeling of different potential futures that anchor our planning.

At the public forum, we will walk through the material in the following "flow" which you may want to consider as you review the material:

1. **Review of Covered California's Performance.** *Section I. Covered California Annual Report for Fiscal Year 2019-20* provides the broad context for what Covered California has achieved in the current year and the years that led up to 2020. The Annual Report and Budget is supplemented by *Appendix I. Covered California's Vision, Strategic Priorities and Detailed Program Accomplishments in Fiscal Year 2019-20*, which provides a detailed description of both Covered California's strategic priorities and how each of Covered California's divisions performed in the current fiscal year.
2. **Covered California's Planning and Budget Process.** We will review the basic planning process that Covered California conducts in the preparation of the budget, which is described in *Appendix V. Covered California's Planning and Budget Process for Fiscal Year 2020-21*.
3. **Overview of the Proposed Budget for Fiscal Year 2020-21.** *Section II. Covered California's Fiscal Year 2020-21 Proposed Budget* and *Section III. Covered California's Fiscal year 2020-21 Proposed Capital Projects Budget* describe at a high level the overall budget priorities for the coming fiscal year, identify areas of new spending, and demonstrate how the planned budget is anchored in our best current estimates of future enrollment while maintaining prudent financial reserves. This overview is consistent with the material presented at the May Board meeting.
4. **Program Detail – Proposed Budget and Current Fiscal Year Changes.** *Section IV. Covered California's Proposed Operating Budget: Program Detail & Comparison to Fiscal Year 2019-20 Budget and Actual/Forecasted* provides a detailed review of the financial performance of each of Covered California's 19 divisions and compares the current fiscal year to the current budget and shows the division's proposed budget for FY 2020-21.

For purposes of the budget presentation, the 19 divisions are organized in five broad areas that largely track to Covered California's strategic priorities. For each division the program detail includes:

- (1) Description of the division;
- (2) Financial summary and review that includes the FY 2019-20 budget for the division, the FY 2019-20 actual/forecasted expenses for the division, and the proposed expenditures for FY 2020-21;
- (3) Budget highlights that calls out major areas of non-personnel expenditures in the division as well as major changes in the division's expenditures relative to budget proposed for the coming year; and
- (4) Major deliverables which describe some of the major items the division will do in the coming fiscal year.

At the forum next week, the Chief Deputies will highlight major areas of focus or changes in those division under their areas of oversight.

5. **Review of Enrollment/Revenue Forecasts and Multi-Year Financial Projections:** In *Appendix III. Covered California's Enrollment and Revenue Forecast* and *IV. Covered California's Multi-Year Financial Projections: 2020-2023*, California details the enrollment forecasts that include Low, Base, and High Enrollment Forecasts and how those forecasts translate into multi-year financial projections that vary based on differences in enrollment and potential revenues. These forecasts provide a framework around which Covered California develops its plan for the coming year.

If you have any questions, comments or suggestions regarding the Annual Report and Budget, please feel free to reach out personally to me or Jim Watkins.

Attachments:

- Summary power points for budget presentation
- ***Covered California Annual Report and Fiscal Year 2020-21 Budget*** Draft Proposed Version, May 29, 2020