



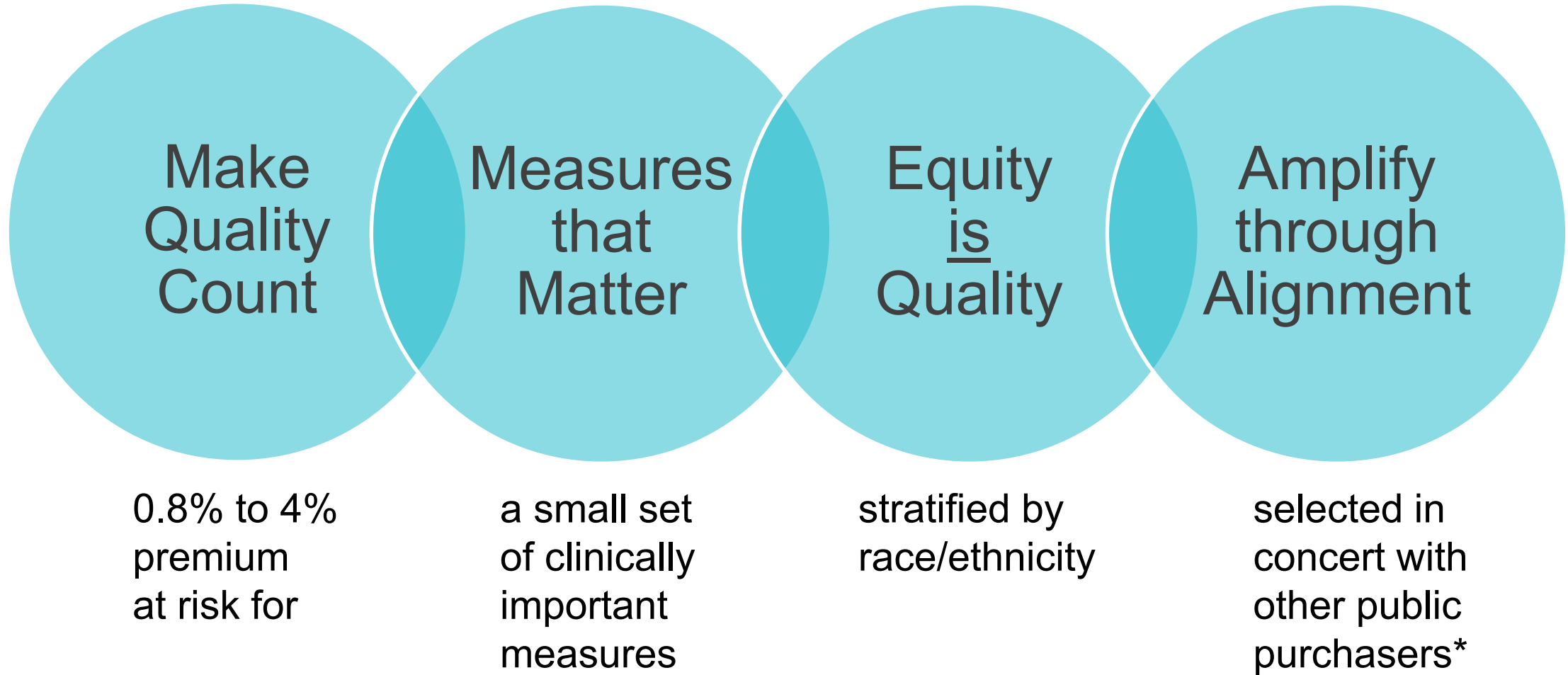
# **COVERED CALIFORNIA POLICY AND ACTION ITEMS**

June 20, 2024 Board Meeting

# 2025 PLAN YEAR AMENDMENT: ATTACHMENT 4 QUALITY TRANSFORMATION INITIATIVE

S. Monica Soni, MD  
Chief Medical Officer  
Chief Deputy Executive Director,  
Health Equity & Quality Transformation Division

# QUALITY TRANSFORMATION INITIATIVE



\*Public purchasers includes CalPERS and DHCS/Medi-Cal

# UPDATES TO ATTACHMENT 4: 2025 AMENDMENT

| Attachment 4   | Current  | Key Updates  |
|--|--|--|
| <p><b>1.04 Administration of QTI Payments</b></p>                      | <p>Covered Ca will manage collection and administration of funds, including specifying how funds are allocated and will select from the following methods:</p> <ol style="list-style-type: none"> <li>1. Funds transmitted to and retained by Covered Ca</li> <li>2. Funds transmitted to and retained by a Covered Ca contracted entity</li> <li>3. Funds retained by Contractor as used as expressly approved by Covered Ca</li> </ol> | <p>Covered Ca will direct Contractor’s use and transmission of QTI payments to Population Health Investments (PopHIs) using one of the following methods:</p> <ol style="list-style-type: none"> <li>1. Funds transmitted and retained by an entity as directed by Covered Ca</li> <li>2. Funds retained by contractor and used as expressly directed by Covered Ca</li> </ol> |
| <p><b>1.05.2 Population Health Investments Implementation Plan</b></p> | <p>Contractor must receive written approval of any proposed PopHIs established pursuant to contract. Implementation plan must include:</p> <ol style="list-style-type: none"> <li>1. How contractor will implement PopHI</li> <li>2. Estimated funds necessary to implement PopHI</li> </ol>   | <ul style="list-style-type: none"> <li>• Contractor will submit a written implementation plan based on PopHI Directive</li> <li>• Covered Ca reserves the right to request additional information and documentation regarding approved implementation plan</li> </ul>  |

# PUBLIC COMMENT SUMMARY

No further comments were received after being presented at May Board.

# ACTION ITEM: 2025 PLAN YEAR AMENDMENT TO ATTACHMENT 4

- ❑ **Action Requested:** Covered California staff is requesting Board approval for the proposed 2025 Plan Year Amendment to Attachment 4, Quality Transformation Initiative

# PUBLIC COMMENT

**CALL: (877) 336-4440**

**PARTICIPANT CODE: 6981308**

- ❑ To request to make a comment, press 10; you will hear a tone indicating you are in the queue for comment. Please wait until the operator has introduced you before you make your comments.
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*NOTE: Written comments may be submitted to [BoardComments@covered.ca.gov](mailto:BoardComments@covered.ca.gov).*

# COVERED CALIFORNIA FOR SMALL BUSINESS PERMANENT REGULATIONS

Robert Kingston, Sales Operations Branch Chief  
Outreach & Sales Division



# BACKGROUND

- ❑ Staff seeks approval on proposed regulations related to Covered California's small business health options program (SHOP), also known as Covered California for Small Business (CCSB).
- ❑ As discussed at the February 15, 2024 Board meeting, these emergency regulations will remain in effect until the expiration of the emergency period in December 2024. Covered California must make these regulations permanent through the regular rulemaking process prior to the expiration of the emergency, to ensure the regulations stay in effect.
- ❑ The rulemaking package maintains the emergency regulations adopted by the board and introduces new changes.
- ❑ Staff initiated a 45-day public comment period from March 29 to May 14, 2024, during which no public comments were received.

# PROPOSED CHANGES

- ❑ Revised the application requirements to clarify submission deadlines, establish a process for late submissions, and require qualified employers attest to understanding premium obligations and providing their employees initial enrollment periods.
- ❑ Clarified the dates of the initial employee open enrollment period under section and streamline the open enrollment notice requirements.
- ❑ Revised the special enrollment period regulations to cross-reference the triggering events included in the individual eligibility and enrollment regulations and align with federal regulations.
- ❑ Revised the premium payment requirements to clarify the monthly threshold and specify how payments will be allocated, including partial and excess payments.

# ADDITIONAL PROPOSED CHANGES

- ❑ Changed “he or she,” “his or her,” and “him or her” to “they,” “their,” and “them” respectively throughout the regulations.
- ❑ Replaced references to “the Exchange” with references to “CCSB.”
- ❑ Corrected a typographical error in a cross-reference citation.
- ❑ Added a citation to Insurance Code section 10384.17 to reference state law on rescissions.

## NEXT STEPS

- ❑ Government Code section 100504(a)(6) requires the Board to discuss proposed regulations at a properly noticed meeting before adopting them.
  - The Board discussed the proposed regulations at the February 15, 2024 Board meeting.
- ❑ Staff now requests the Board to formally adopt the regulation package so it can be filed with the Office of Administrative Law.

# PUBLIC COMMENT

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**PARTICIPANT CODE: 6981308**

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# COVERED CALIFORNIA'S PROPOSED FISCAL YEAR 2024-2025 BUDGET

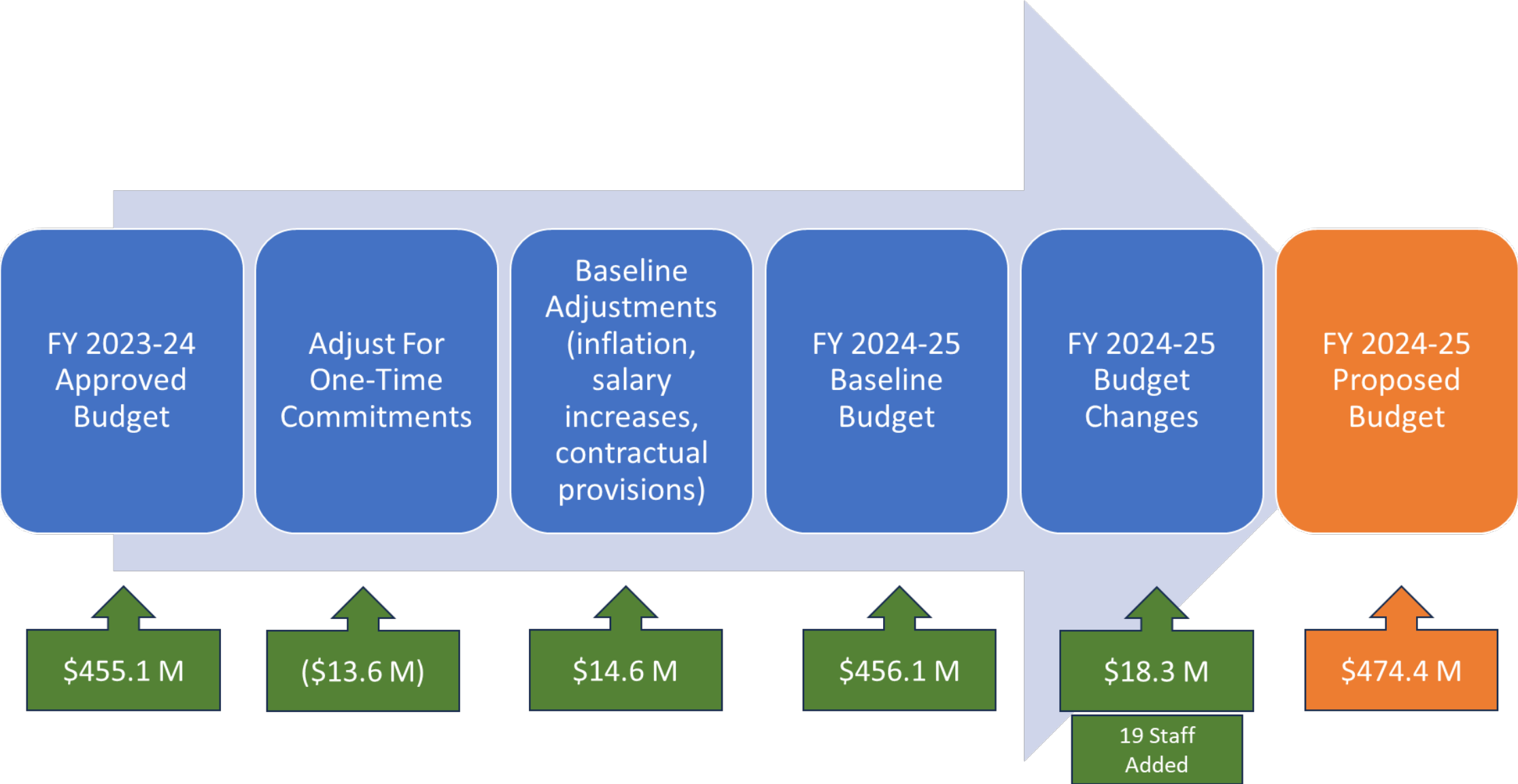
Jim Watkins, CPA, Chief Financial Officer  
Financial Management Division

# Proposed Budget for Fiscal Year 2024-25

June 20, 2024



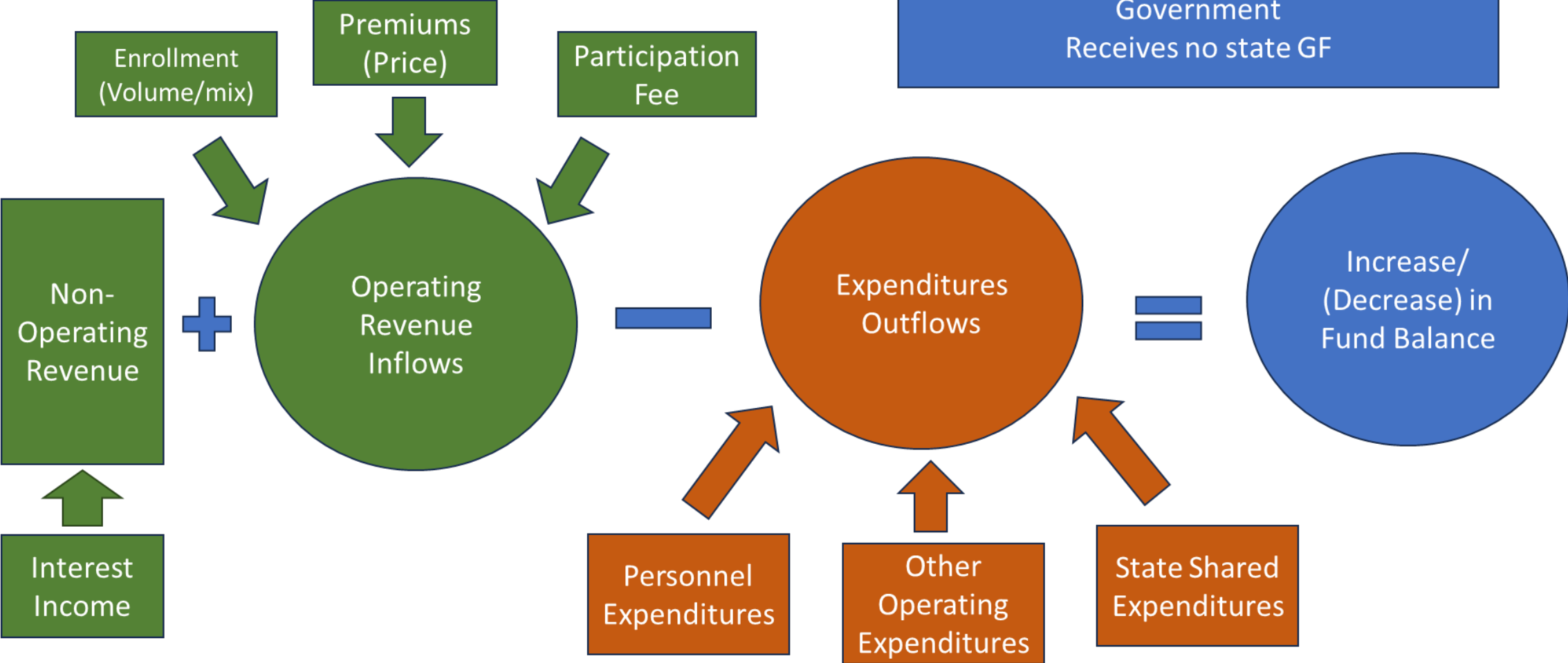
# COVERED CALIFORNIA'S INCREMENTAL BUDGET PROCESS





# COVERED CALIFORNIA'S REVENUE INFLOW AND EXPENDITURE OUTFLOWS

Independent Entity within State Government  
Receives no state GF

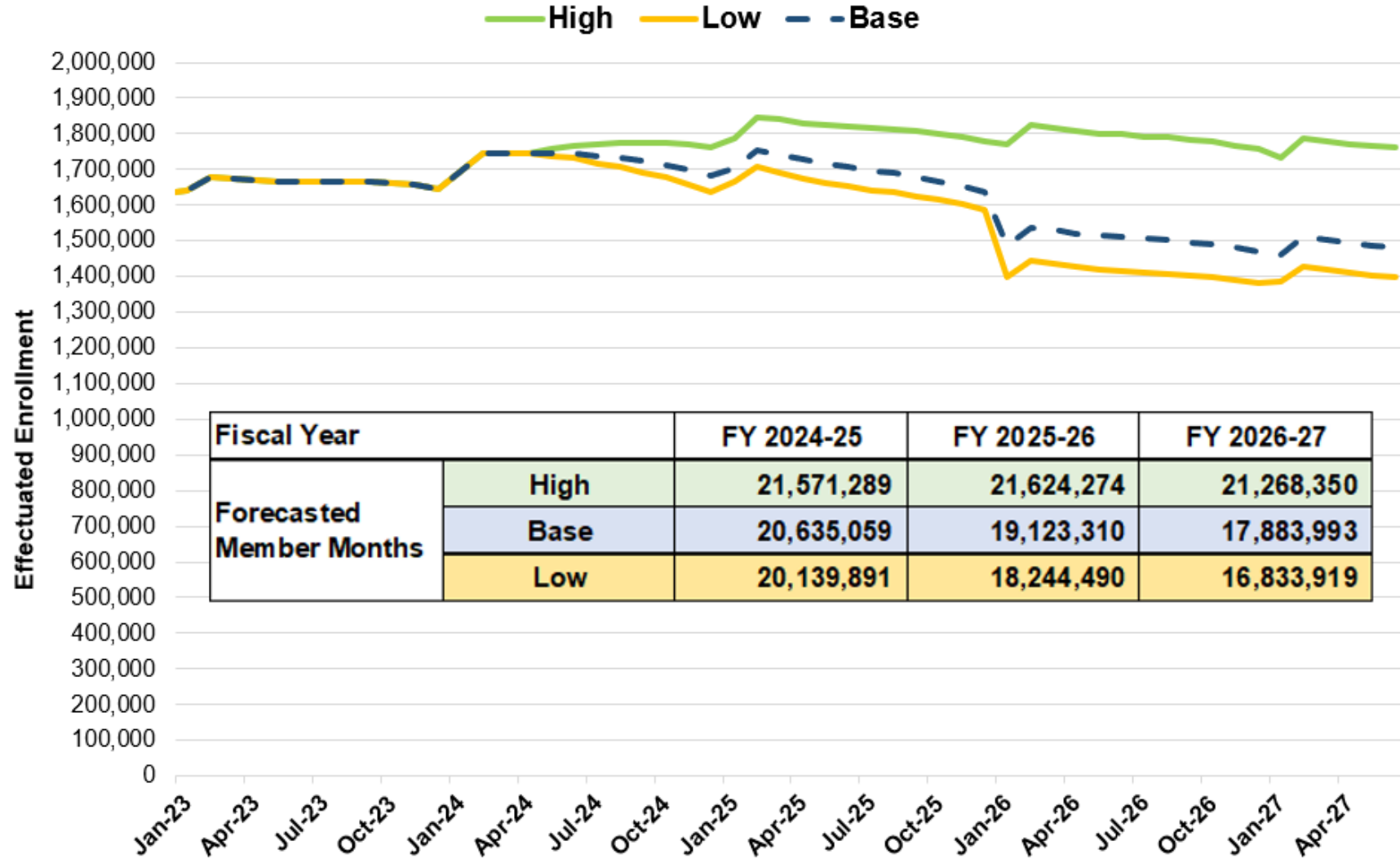


# COVERED CALIFORNIA'S ACCOUNTING FUNDS

|   | Fund 3175   | Fund 0001  | Fund 3381   |
|---|---|--|---|
| Legal Title                               | California Health Trust Fund  | Local Assistance General Fund<br>California Premium Credit   | Health Care Affordability Reserve Fund  |
| Purpose                                   | To fund operations and capital investments for the California Health Benefit Exchange.  | To make payments to qualified health plan issuers that equal the cost of providing abortion services for which federal funding is prohibited to individuals enrolled in a qualified health plan through the Exchange in the individual market. | To fund health care affordability programs operated by the Exchange.  |
| Appropriation Authority                   | Chapter 655, Statutes of 2010 (AB 1602)<br>Government Code section 100520   | Chapter 143, Statutes of 2021 (AB 133)   | Chapter 143, Statutes of 2021 (AB 133)<br>Government Code section 100520.5 (a)  |
| Major Revenue Source                      | Participation fee assessed on qualified health plans  | Monies appropriated by the Legislature   | Monies appropriated by the Legislature  |
| Covered California's Role                 | Maintains fund financial condition to ensure financial viability. Establishes appropriate participation fee rate to fund operating and capital expenditures required to achieve Covered California's mission. | Administers payments on behalf of the State of California.   | Designs affordability programs with input from stakeholders and administers payments on behalf of the State of California. Administers payments on behalf of the State of California. Maintains accounting records and prepares the Fund Condition statements displayed in the Governor's budget. |
| Limits on Expenditure                     | Covered California must manage expenditures and revenues to achieve interperiod equity. Expenditures limited to the revenues collected and any reserves maintained.   | Expenditures limited to the California legislature appropriation.  | Expenditures limited to the California legislature appropriation.   |
| May the Controllers Borrow from the Fund? | <b>No</b> , the state may not borrow from this fund.  | N/A  | <b>Yes</b> , the state may borrow funds for cash flow loans to the general fund.  |

# ENROLLMENT & REVENUE FORECAST

# FORECASTED ENROLLMENT – INDIVIDUAL MEDICAL



As in previous years, Covered California developed a High, Base, and Low enrollment and revenue projection spanning the next three fiscal years as part of the budget forecast.

Looking ahead, the primary sources of uncertainty are the fate of the enhanced federal premium tax credits, set to expire at the end of 2025, and the remaining number of individuals who may lose Medi-Cal eligibility following the end of the federal continuous coverage requirement and obtain health care coverage from Covered California.

The High estimate assumes that the enhanced premium subsidies are extended beyond 2025. The Base and Low estimates assume that they expire, as required under current law, with some enrollees experiencing sticker shock and dropping coverage. The High estimate assumes a greater number of individuals transitioning to Covered California from Medi-Cal, while the Base and Low estimates assume progressively lower numbers.

# FY 2024-25 FORECASTED REVENUE – HIGH, BASE, LOW

|   | Forecast             |                       |                       |
|---|----------------------|-----------------------|-----------------------|
|   | High<br>FY 2024-25   | Base<br>FY 2024-25    | Low<br>FY 2024-25     |
| <b>Total Member Months</b>              | <b>21,571,289</b>    | <b>20,635,059</b>     | <b>20,139,891</b>     |
| 1st Half of FY                          | 10,620,262           | 10,285,525            | 10,086,117            |
| 2nd Half of FY                          | 10,951,027           | 10,349,534            | 10,053,774            |
| <b>Operating Revenue</b>                |                      |                       |                       |
| Individual Med Fee Revenue 1st half     | \$ 220,790,750       | \$ 213,839,881        | \$ 209,698,515        |
| Individual Med Fee Revenue 2nd half     | \$171,381,889        | \$ 160,458,362        | \$ 154,403,942        |
| <b>Total Individual Medical Revenue</b> | <b>\$392,172,639</b> | <b>\$ 374,298,243</b> | <b>\$ 364,102,457</b> |
| Individual Dental/Vision Fee Revenue    | \$3,273,440          | \$ 3,191,866          | \$ 3,110,083          |
| CCSB / COBRA Revenue/dental/excess fees | \$33,936,484         | \$ 33,377,567         | \$ 32,189,468         |
| <b>Total CCSB and COBRA Revenue</b>     | <b>\$37,209,924</b>  | <b>\$ 36,569,433</b>  | <b>\$ 35,299,551</b>  |
| <b>Total Operating Revenue</b>          | <b>\$429,382,563</b> | <b>\$ 410,867,676</b> | <b>\$ 399,402,008</b> |
| <b>Non-Operating Revenue</b>            |                      |                       |                       |
| Interest Revenue                        | \$18,677,870         | \$ 18,416,624         | \$ 18,254,844         |
| Other                                   | \$395,602            | \$ 395,602            | \$ 395,602            |
| <b>Total Non-Operating Revenue</b>      | <b>\$19,073,472</b>  | <b>\$ 18,812,227</b>  | <b>\$ 18,650,446</b>  |
| <b>Total Revenue</b>                    | <b>\$448,456,035</b> | <b>\$ 429,679,903</b> | <b>\$ 418,052,454</b> |

Under the High FY 2024-25 enrollment forecast, individual market revenue totals \$392.2 million. The second half of the FY shows a decline, as the participation fee is lowered from 3.25% to 2.25%.

The Base FY 2024-25 enrollment forecast generates \$374.3 million. Also, the second half of the FY shows a decline related to the reduction in the participation fee from 3.25% to 2.25%.

The Low FY 2024-25 enrollment forecast generate \$364.1 million in individual market revenue.

Total revenue, which includes CCSB, and interest income is \$448.5 million under the High forecast, \$429.7 million under the Base forecast, and \$418.1 million under the Low forecast.

# FY 2024-25 PROPOSED EXPENDITURE BUDGET

# FY 2024-25 PROPOSED BUDGET SUMMARY

|   | Fiscal Year 2023-24   | Fiscal Year 2023-24                             | Fiscal Year 2023-24                            |                      | Fiscal Year 2024-25   | Fiscal Year 2024-25           | Fiscal Year 2024-25   |
|---|-----------------------|---|--|----------------------|-----------------------|-------------------------------|-----------------------|
| Positions   | Approved Budget       | Adjustments to Prior Year for One-Time Spending | Approved Budget Adjusted for One-Time Spending | Baseline Adjustments | Baseline Budget       | Proposed Budget Augmentations | Proposed Budget       |
|   | 1475                  | 0   | 1475   | 0                    | 1,475                 | 19                            | 1,494                 |
| <b>Operating Expenditures</b>                         |                       |   |  |                      |                       |                               |                       |
| Personnel Expenditures                                | \$ 177,064,746        |   | \$ 177,064,746                                 | \$ 10,658,313        | \$ 187,723,059        | \$ 1,921,376                  | \$ 189,644,435        |
| Other Operating Expenditures (Less one-time expenses) | \$ 253,294,912        | \$ (13,620,000)                                 | \$ 239,674,912                                 | \$ 2,249,477         | \$ 241,924,389        | \$ 16,427,486                 | \$ 258,351,875        |
| <b>Subtotal</b>                                       | <b>\$ 430,359,658</b> | <b>\$ (13,620,000)</b>                          | <b>\$ 416,739,658</b>                          | <b>\$ 12,907,790</b> | <b>\$ 429,647,448</b> | <b>\$ 18,348,862</b>          | <b>\$ 447,996,310</b> |
| <b>Allocated Expenditures</b>                         |                       |   |  |                      |                       |                               |                       |
| Prorata/Supp. Pension/Other                           | \$ 19,111,015.0       | \$ -  | \$ 19,111,015                                  | \$ 2,471,400         | \$ 21,582,415         | \$ -                          | \$ 21,582,415         |
| <b>Total Operating Expenditures</b>                   | <b>\$ 449,470,673</b> | <b>\$ (13,620,000)</b>                          | <b>\$ 435,850,673</b>                          | <b>\$ 15,379,190</b> | <b>\$ 451,229,863</b> | <b>\$ 18,348,862</b>          | <b>\$ 469,578,725</b> |
| <b>Capital Investments</b>                            |                       |   |  |                      |                       |                               |                       |
| Other   | \$ 5,651,000          | \$ -  | \$ 5,651,000                                   | \$ (826,000)         | \$ 4,825,000          | \$ -                          | \$ 4,825,000          |
| <b>Total - Capital Project Expenditures</b>           | <b>\$ 5,651,000</b>   | <b>\$ -</b>                                     | <b>\$ 5,651,000</b>                            | <b>\$ (826,000)</b>  | <b>\$ 4,825,000</b>   | <b>\$ -</b>                   | <b>\$ 4,825,000</b>   |
| <b>Total Budgeted Expenditures</b>                    | <b>\$ 455,121,673</b> | <b>\$ (13,620,000)</b>                          | <b>\$ 441,501,673</b>                          | <b>\$ 14,553,190</b> | <b>\$ 456,054,863</b> | <b>\$ 18,348,862</b>          | <b>\$ 474,403,725</b> |



Covered California utilizes an incremental budgeting process.

This means that we start with the prior year's approved budget and adjust to arrive at the FY 2024-25 baseline budget.

The FY 2024-25 baseline budget totals \$456.1 million. The FY 2023-24 approved budget was reduced for \$13.6 million in one-time expenditures, increased by \$10.7 million for personnel costs, including general salary increases and benefit increases, increased by \$2.2 million in other operating expenditures associated with inflationary contractual provisions, increased by \$2.5 million for state share expenditures, and decreased by \$826 thousand for capital expenditures.

The FY 2024-25 baseline budget was increased by \$1.9 million for 19 staffing additions, and \$16.4 million for other operation expenditures associated with various strategic initiatives

# FY 2024-25 PROPOSED BUDGET CHANGE REQUESTS



# FY 2024-25 BUDGET AUGMENTATIONS

Effective and Targeted Marketing and Outreach - \$4,580,039

- Community Engagement and Partnerships Program
- “Back to the Basics” Health Insurance Literacy and Education Resource Development
- Analytic Support for Facilitated Enrollment
- Additional Funding for Navigator Program

Understanding the Consumer Journey Experience and Applying Lessons for Enrollment System Redesign and Enhancement - \$1,171,782

- Consumer Facing Communications Journey Project and the Consumer Experience KPI Dashboard Project
- Strengthening the Eligibility & Enrollment Compliance Unit
- Connecting Consumer Interaction Information Across Siloed systems with Robust Data and Analytics Capabilities

Utilizing Technology to Drive Greater Efficiency and Productivity - \$4,718,860

- Fostering innovation and harnessing the potential of Artificial Intelligence (AI) within Covered California
- Information Technology Strategic Initiative Program Development
- Enhance Change Management Office

Information Security - \$1,683,618

- Information Security Office (ISO) expansion to support the revised information security program

Quality Transformation Initiative - \$896,449

- Consulting Services to Support Quality Transformation Initiative Population Health Investments
- Population Health and Informatics team expansions

Customer Support - \$5,298,114

- Contracted Call Center Customer Support Services (subject to negotiation)

Total - \$18,348,862

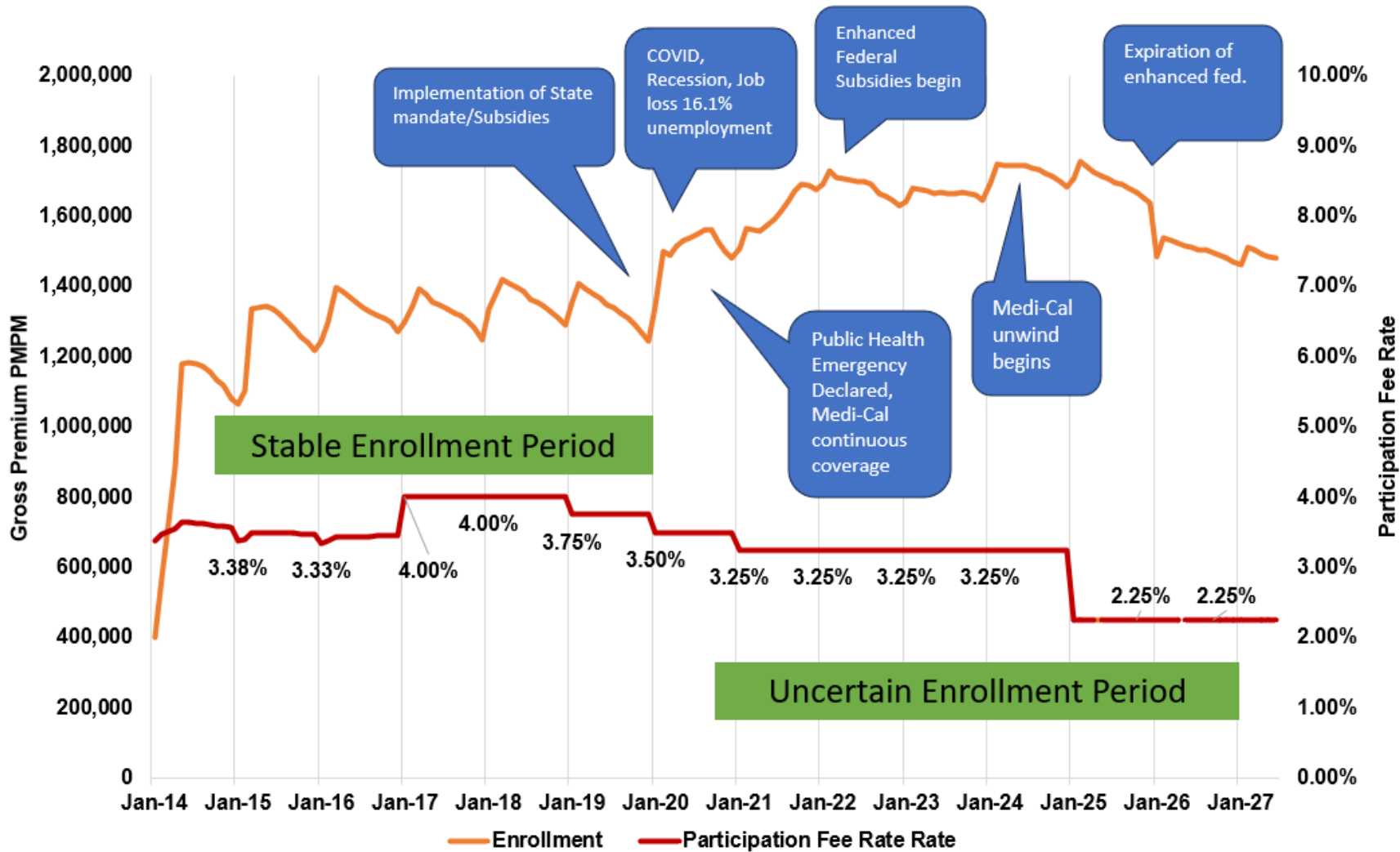
- 19 permanent positions
- Personnel expenditures: \$1,921,376
- Other Operating Expenditures: \$16,427,486

# PROPOSED PARTICIPATION FEE RATE RECOMMENDATION FOR PLAN YEAR 2025

# LOWER THE INDIVIDUAL MARKET PARTICIPATION FEE RATE TO 2.25% IN PLAN YEAR 2025

- ❑ Covered California must maintain adequate levels of working capital/Fund Balance (Reserves) that:
  - mitigates current and future risks, and
  - ensures stable participation fees.
- ❑ Covered California's current working capital, or reserve totals \$524.8 million.
- ❑ Based on our evaluation of the current and future risks faced, working capital has risen to an amount that exceeds required levels.
- ❑ Covered California recommends that the individual market participation fee rate be lowered from 3.25% to 2.25% for plan year 2025.
- ❑ The adjustment to the individual market participation fee rate will not impact Covered California consumer services, or its strategic initiatives, and does not modify the FY budgeted expenditures.
- ❑ It is expected that the individual market participation fee rate will be modified as the working capital gradually declines to an appropriate level, roughly between 6 to 9 months of the subsequent year's budgeted operating expenditures.

# ENROLLMENT TREND AND PARTICIPATION FEE RATE



Covered California's revenue model initially utilized a flat per-member-per-month (PMPM) charged to carriers of \$13.95. Starting January 2017, the revenue model was based on a percentage of gross premiums.

The initial rate was set at 4.0%. The participation fee rate was lowered by 25 basis points between plan year's 2019 and 2021. During the uncertain pandemic period, the participation rate was held constant at 3.25%.

Throughout the uncertain environment, the financial uncertainties settled favorably for Covered California, which resulted in continued accumulation of working capital/fund balance.

Therefore, after evaluating Covered California's working capital needs and considering some future uncertain events, we recommend lowering the participation fee rate by one percentage point, from 3.25% to 2.25% in plan year 2025.

# FORECASTED FY 2024-25 BUDGETARY FINANCIAL OUTCOMES

**Revenue – Expenditures = Change in Fund Balance**

# FORECASTED REVENUE, ACTUAL EXPENDITURES, CHANGE IN WORKING CAPITAL / FUND BALANCE, AND END OF YEAR WORKING CAPITAL/ FUND BALANCE-BASE

|  | Actual<br>FY 2022-23  | Actual/<br>Forecasted<br>FY 2023-24 | FY 2024-25            |
|--|-----------------------|-------------------------------------|-----------------------|
| <b>Beginning Fund Balance At July 1</b>          | \$ 466,788,219        | \$ 524,811,073                      | \$ 588,966,122        |
| <b>Adjusted Beg. Fund Balance</b>                | \$ 466,788,219        | \$ 524,811,073                      | \$ 588,966,122        |
| Additions  | \$ 428,811,448        | \$ 471,487,588                      | \$ 429,679,903        |
| Deductions (Actual Expenditures)                 | \$ (370,788,594)      | \$ (407,332,538)                    | \$ (425,693,715)      |
| Increase / Decrease in Fund From Operations      | \$ 58,022,854         | \$ 64,155,050                       | \$ 3,986,188          |
|  | \$ -                  | \$ -                                | \$ -                  |
| <b>Unrestricted Working Capital/Fund Balance</b> | <b>\$ 524,811,073</b> | <b>\$ 588,966,122</b>               | <b>\$ 592,952,310</b> |

Covered California's working capital/fund balance is forecasted to increase by \$64.2 million in FY 2023-24. This is driven by lower-than-expected expenditures and higher than expected revenues. Under the BASE forecast, assuming the participation fee rate is lowered from 3.25% to 2.25% in plan year 2025, it is projected that the working capital/fund balance will total \$593 million by the end of FY 2024-25.

Under the BASE forecast, the forecasted FY 2024-25 revenue inflows will total \$430 million while expenditure outflows will total \$426 million. This results in a \$4 million increase in fund balance.

Covered California's budget and actual expenditures generally differ each year due to delays in program initiatives, changing priorities, or because of cost estimates deviating from budget estimates. Historically, Covered California generally recognizes a ten percent favorable budget variance each year, meaning that actual expenditures are less than budgeted expenditures. Therefore, we forecast actual expenditures based on prior year trends to ensure that our forecast of increases or decreases in fund balance and working capital is as accurate as possible.

# RECOMMEND APPROVAL OF COVERED CALIFORNIA'S FY 2024-25 BUDGET AND 2024 ASSESSMENT RATES

Covered California recommends that the Board adopt Board Resolution 2024-27 to:

- ❑ Approve the Operating and Capital Budget for FY 2024-25, providing expenditure authority of \$474,403,725
- ❑ Grant the Executive Director authority to adjust the Operating Budget, provided that FY 2024-25 expenditures remain at or below the level of expenditure authority approved by the Board.
- ❑ Charge a per-member-per-month participation fee of 2.25 percent for plan year 2025 on Qualified Health Plans, including dental plans, sold through the individual exchange, and 5.2 percent of premiums for such plans sold through Covered California for Small Business.

# PUBLIC COMMENT

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