

COVERED CALIFORNIA BOARD MINUTES
Tuesday, June 3, 2025
Covered California
1601 Exposition Blvd.
Sacramento, CA 95815

Agenda Item I: Call to Order, Roll Call, and Welcome

The meeting was called to order at 10:31 a.m.

Board Members Present During Roll Call:

Craig Cornett
Jerry Fleming
Sumi Sousa
Kim Johnson

Board Members Absent During Roll Call:

Mayra Alvarez

Agenda Item II: Closed Session

A conflict disclosure was performed and there were no conflicts from the Board members that needed to be disclosed. The Board adjourned for closed session to discuss contracting matters pursuant to Government Code Sections 100500(j).

The open session was called to order at 12:00 p.m.

Agenda Item III: Board Meeting Action Items

May 15, 2025 Meeting Minutes

Board Discussion: None.

Public Comment: None.

Motion/Action: Chairwoman Johnson called for a motion to approve the May 15, 2025, meeting minutes. Mr. Cornett moved to approve the meeting minutes. The motion was seconded by Ms. Sousa.

Vote: The motion was approved by a unanimous vote of those present.

Agenda Item IV: Executive Director's Report

Discussion – Announcement of Closed Session Actions

Jessica Altman, Executive Director, stated that the Board met in closed session to undertake issues related to contracting. There were no items to report.

Discussion – Executive Director's Update

Ms. Altman shared that there are not currently any plans to have the July 17th Board meeting, and the next Board meeting would be planned for August 21st.

Discussion – State and Federal Policy/Legislative Update

Ms. Altman shared that the United States House of Representatives passed the reconciliation package on May 22nd, which contains significant provisions affecting marketplaces, Medicaid programs, food assistance, and tax policies nationwide. While focusing on the implications for Covered California, Ms. Altman highlighted a late amendment regarding funding for the Affordable Care Act's (ACA) cost-sharing reduction (CSR) program, which also includes restrictions on funds for health plans covering abortion services. Ms. Altman noted the uncertainty brought by the reconciliation package during California's rate-filing period, emphasizing the added complexity it introduces. She also mentioned the Senate's ongoing review of provisions, particularly those related to abortion funding restrictions, and their alignment with Senate rules. Additionally, she discussed the proposed rule tied to the reconciliation package, which remains under review by the Office of Management and Budget.

Ms. Altman explained that Covered California has been actively engaging with Congress and state-based marketplaces across the country. On May 20th, Covered California issued a statement regarding the reconciliation package, followed by a joint letter with 17 marketplaces to the House on May 21st. Covered California also sent a letter to the Senate emphasizing the implications of the provisions and advocating for improvements. Covered California further engaged California's senators, offering technical assistance and providing state-specific data to inform their decision-making.

Discussion – Data and Research

Katie Ravel, Director of the Policy, Eligibility & Research Division, provided a detailed overview of several provisions in the House-passed reconciliation bill and their implications for Covered California and marketplace enrollees. She explained that the potential expiration of enhanced premium tax credits in 2025, combined with the provisions in the reconciliation bill, could lead to as many as 8.3 million Americans, including nearly 700,000 Covered California enrollees, losing coverage and becoming uninsured. She highlighted significant changes to verification processes, which would require applicants to finalize eligibility paperwork before enrolling, barring approximately 300,000 Californians from accessing advanced premium tax credits (APTC) or CSRs during the verification period. Moreover, the bill would require all enrollees to reapply annually for renewal, potentially disrupting coverage for over 1.2 million Californians who currently benefit from automatic renewals.

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Ms. Ravel also discussed the bill's impact on lawful immigration categories eligible for financial assistance. If passed, over 90 percent of immigration categories traditionally qualifying for marketplace subsidies would no longer be eligible, restricting affordability assistance to green card holders, certain Cuban immigrants, and individuals under the Compact of Free Association. This change would affect over 100,000 Covered California enrollees, including sensitive populations such as asylum seekers, refugees, victims of trafficking, and Deferred Action for Childhood Arrivals (DACA) recipients. Without subsidies, affected individuals would face an average premium cost of \$650 per month, presenting a significant financial burden. She further emphasized that individuals losing subsidy eligibility are generally younger and healthier, raising concerns about equity and marketplace stability. Removing a healthier demographic from the risk pool could negatively impact the overall health of the remaining marketplace population.

Ms. Altman emphasized the significant challenges posed by the proposed federal provisions that would fundamentally alter Covered California's streamlined processes, potentially creating substantial barriers for consumers, particularly those reporting mid-year changes. She highlighted the risk of destabilizing the marketplace if only individuals with urgent healthcare needs navigate the burdensome requirements, while younger, healthier populations opt out, leading to higher premiums overall. These changes, some effective as early as the upcoming open enrollment period, will require thoughtful planning and innovation to mitigate impacts, while Covered California continues working to inform federal policymakers about the consequences of these proposals.

Board Comments: Chairwoman Johnson expressed gratitude to the team for their ability to quickly analyze the impacts of complex federal proposals and effectively engage with decision-makers during the policymaking process.

Mr. Cornett asked whether the Congressional Budget Office (CBO) fully accounted for the detailed impacts of the proposed provisions in their analysis, noting the significant and concerning nature of the changes.

Ms. Altman highlighted the concerning projections from the CBO regarding the proposed provisions, noting that over four million marketplace enrollees could go uninsured if enhanced tax credits expire and another four million due to reconciliation provisions. She expressed concerns that the CBO may have understated the impacts of pre-enrollment verification barriers and immigration provisions, particularly the loss of eligibility for immigrants covered in Medicaid in California and marketplaces in other states.

Public Comment: Diana Douglas, representing Health Access, expressed appreciation for Covered California's efforts in compiling and sharing data on the reconciliation impacts, particularly given the late addition of many provisions.

Alicia Emanuel, representing the National Health Law Program and the Health Consumer Alliance, thanked Covered California for its extensive dialogue and technical assistance in providing data on the severe impacts of the reconciliation bill, and the expiration of enhanced APTCs.

Agenda Item V: Covered California Policy and Action Items

Action – Covered California’s Proposed Fiscal Year 2025-2026 Budget

Ms. Altman emphasized the challenges of building Covered California’s budget amid uncertainty about federal and state policies, including the reconciliation bill and enhanced tax credits, which may require significant adjustments to consumer support and systems. She outlined priorities of meeting consumer needs, ensuring financial sustainability through careful modeling of the participation fee, and maintaining prudent stewardship as the organization prepares to adapt to potential enrollment changes.

Jim Watkins, Chief Financial Officer and Director of the Financial Management Division, provided a comprehensive overview of Covered California’s proposed budget for fiscal year 2025-2026, emphasizing the challenges posed by the current climate of uncertainty, including federal and economic factors. He highlighted the reliance on the participation fee to fund operations, which is influenced by enrollment, premium levels, and the fee rate, noting that enrollment could drop significantly, if federal enhanced subsidies expire or reconciliation provisions are implemented.

The proposed budget totals approximately \$496.1 million and includes 1,506 staff, with allocations across categories such as technology, administration, consumer experience, marketing, and plan management. Mr. Watkins outlined the incremental budgeting process used to build the budget, including baseline adjustments for inflation and contractual provisions, as well as new staff positions and budget augmentations. He also introduced the concept of a restricted \$20 million fund balance to address federal uncertainties, noting that this reserve would be tapped only if specific legislation requires Covered California to make operational changes.

Mr. Watkins discussed future projections and fiscal sustainability, modeling various enrollment, premium growth, and participation fee scenarios to ensure solvency while delivering services. He explained how the organization lowered the participation fee last year to manage working capital, with plans to raise it incrementally based on enrollment and premium trends. Under different scenarios, including enhanced subsidy expiration, fee rates could range from 2.5 percent to over 4 percent, depending on enrollment losses and risk pool shifts. He emphasized the need to maintain sufficient working capital and achieve inter-period equity, ensuring revenue covers expenditures by the end of the forecast period.

Finally, Mr. Watkins outlined four key action items for Board approval: authorizing the \$496.1 million budget, granting flexibility to adjust line items while staying within expenditure limits, restricting \$20 million for federal uncertainties, and setting the participation fee rates for plan year 2026.

Ms. Altman emphasized the importance of fiscal sustainability, framing the proposed one-year budget as part of a larger multi-year planning effort. She highlighted Covered California’s ability to balance immediate investments needed to support consumers with long-term adjustments, as uncertainties around enrollment, subsidies, and federal policies become clearer.

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Ms. Altman underscored the need for flexibility in decision-making, such as whether to fill vacancies or adjust participation fees, to ensure prudent stewardship of resources and maintain a sustainable trajectory.

Mr. Watkins noted that Covered California conducts a rolling forecast each month, updating enrollment and revenue projections as new information becomes available. This dynamic approach allows the organization to adjust its budget based on evolving circumstances through discussions with executives.

Board Discussion: Mr. Fleming praised Mr. Watkins and the Covered California staff for their sophisticated financial planning during this challenging period, noting significant progress compared to years past. He emphasized the importance of contingency planning to navigate the many challenges ahead and expressed confidence in the organization's strong financial position, which equips it to address these issues prudently. While acknowledging the need for careful spending, he affirmed that Covered California is well-prepared to manage its balance sheet effectively and anticipated continued discussions on these matters.

Mr. Cornett expressed admiration for the work Covered California's team has done to develop the budget and echoed Mr. Fleming's remarks about the organization's preparedness and planning. He noted ongoing challenges from Washington, predicting continued political turmoil and assaults on healthcare programs beyond this year, underscoring the importance of staying ahead of potential disruptions. He also inquired about the terms of the \$109 million loan from Covered California's reserve to the state's General Fund, seeking clarification on its duration and specifics.

Mr. Watkins clarified that Covered California manages three separate funds, including the Healthcare Affordability Reserve (HCAR) fund, from which the \$109 million loan was drawn, and the main operating fund, which is the focus of the current budget vote. He explained that the loan from the HCAR fund does not have a definite return date yet, but emphasized that it is unrelated to the current budget being discussed.

Mr. Cornett sought clarification, asking whether the \$109 million loan affects the base budget architecture.

Mr. Watkins confirmed that the loan does not impact the base budget architecture, as it is entirely separate and unrelated to main operating fund.

Ms. Altman explained that the \$109 million loan is structured around the ongoing state budget process, which includes \$165 million in annual funding for affordability programs overseen by Covered California. She noted that the HCAR Fund had previously accumulated a balance during periods when Covered California did not receive appropriations and emphasized that decisions regarding the fund are managed through the state's general budget process rather than the Covered California Board.

Mr. Cornett pointed out that the state budget projections indicate a difficult financial position for the next three years, raising concerns about potential impacts on funding.

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Ms. Altman clarified that while state budget challenges could affect how much funding Covered California receives for affordability programs, the operational fund overseen by the Board remains independent and is not generally impacted by the state's budget process.

Chairwoman Johnson requested clarification on the historical context of the \$20 million balance set aside to grant the Executive Director authority to incur expenditures, asking how similar allocations have been handled in prior budgets. She also sought clarification on the circumstances under which the budget or expenditures exceeding this amount would return to the Board for review and approval.

Mr. Watkins explained that the \$20 million restriction is the first time Covered California has officially set aside a contingency fund under Government Accounting Standards Board 54, which allows restricting fund balances for uncertainties. He clarified that the restriction designates funds on the balance sheet but does not authorize spending beyond that amount, and if expenditures were to exceed the \$20 million, the matter would need to return to the Board for approval.

Ms. Altman agreed with Mr. Watkins, noting that while Covered California has never previously included a contingency fund in the budget upfront, there have been multiple instances in the past where the Board approved mid-year budget augmentations to address similar needs. She explained that while the current contingency fund is structured differently in timing, it effectively serves the same purpose by allowing flexibility for outreach, notices, and system changes in response to unforeseen circumstances.

Ms. Sousa thanked the team for their work on the budget and expressed appreciation for Covered California staff's commitment and efforts. She clarified that her vote should not be seen as a lack of support for the mission or staff but as a reflection of her philosophical approach to prioritize internal cost management to address the upcoming challenges facing low and moderate-income Californians. Ms. Sousa emphasized Covered California's flexibility to adapt but encouraged a closer internal focus on cost centers to ensure readiness for future challenges.

Public Comment: Anete Millers, representing the California Association of Health Plans, thanked Covered California for reducing the participation fee last year. She acknowledged the budgetary challenges Covered California faces but urged caution regarding future participation fee increases, emphasizing their potential negative impact on health plans' ability to maintain service levels and affordability.

Cary Sanders, representing the California Pan-Ethnic Health Network, expressed her support for Covered California's budget recommendations, noting the unprecedented challenges posed by potential federal cuts and the expiration of enhanced subsidies, which could jeopardize healthcare coverage for hundreds of thousands of Californians.

Ms. Douglas expressed general support for Covered California's proposed budget, acknowledging the significant uncertainty posed by federal policies that threaten coverage and affordability assistance for many Californians.

Motion/Action: Chairwoman Johnson called for a motion to approve the action item. Mr. Fleming moved to approve the action item. The motion was seconded by Mr. Cornett.

Vote: Ms. Sousa voted no. Chairwoman Johnson, Mr. Fleming, and Mr. Cornett voted yes. The motion was approved by the majority vote.

Discussion – 2026 State Premium Subsidy Program Design

Ms. Ravel discussed the Governor’s revised budget, which includes \$165 million from the HCAR fund to support affordability programs for Covered California members. She noted that the design of the program depends on whether the federal enhanced premium tax credit is extended. If extended, the funds would continue to support the state’s CSR program. However, if the federal tax credit expires, the funds could be redirected toward premium assistance at the state level. Ms. Ravel outlined two main options for utilizing the funds. The first option focuses on maintaining subsidies for low-income enrollees, while the second option targets middle-income enrollees who would lose subsidies entirely if the enhanced federal tax credit expires.

She explained the trade-offs involved in designing the program, such as balancing the number of enrollees supported with the generosity of the subsidies. In the first option, approximately 223,000 enrollees would benefit from state subsidies, with an average monthly subsidy of \$51, costing around \$136 million. The second option would support about 34,000 middle-income enrollees, offering higher subsidies averaging \$400 per month, but fewer individuals would qualify. Ms. Ravel also highlighted operational flexibility in adjusting timelines and processes for renewals and open enrollment, given uncertainties about funding and policies.

Ms. Ravel concluded by outlining the next steps, including revising the program design based on the final budget and soliciting stakeholder feedback if the budget bill doesn’t specify income groups for subsidies. She explained that the final program design will be presented to the Board for approval and submitted to the Joint Legislative Budget Committee by late September if Congress doesn’t extend the enhanced premium tax credit.

Ms. Altman clarified that no decision was being made by the Board at this time but emphasized the importance of continuing the discussion and keeping the Board informed as technical assistance requests arise. She noted that while the two program designs presented illustrate key trade-offs, other designs could also be possible. Ms. Altman stated that Covered California will closely monitor the state budget and its accompanying language to determine if Board action will be required, potentially necessitating a meeting in July or August, depending on the final budget outcome.

Board Comments: Ms. Sousa asked for clarification between the two program designs and sought a reminder of the take-up rates for individuals above 400 percent of the federal poverty level (FPL) under the previous iteration, which combined subsidies for both lower and middle-income groups.

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She noted that while heavily subsidizing lower-income individuals aligns with general priorities, legislative preferences often aim to balance support across income levels due to higher cost-sharing burdens for middle-income individuals. Ms. Sousa highlighted the limited help available for those approaching 400 percent of the FPL and asked how many people in that income range actually utilized the program, as they tend to be highly motivated buyers.

Ms. Ravel explained that she did not have the specific enrollment numbers from 2020 readily available but highlighted that the current dynamic is notably different due to the significant increase in enrollees over 400 percent of the FPL, now exceeding 200,000 individuals. She noted that when the program was launched in 2019, enrollment was much lower, and the take-up rate fell short of expectations, leading to underspending of the budget.

Ms. Altman emphasized that during the launch of the California State Premium Subsidy program, the goal was to offer individuals over 400 percent of the FPL slightly more financial assistance than they would otherwise receive, in hopes of attracting them into the market. She noted that the program had limited time to build awareness and engagement, but the population over 400 percent of the FPL has now grown significantly. Ms. Altman explained that a state subsidy now would focus more on retaining current enrollees rather than attracting new ones, as affordability would still decrease, just less drastically.

Ms. Sousa acknowledged that the cost burden is significantly higher for individuals with higher incomes, as they receive less financial assistance. She noted, however, that these individuals often have more financial resources, which provides them with greater options for coverage and affordability.

Ms. Altman highlighted that when California implemented its state premium tax credit subsidy, it served as a national model for the federal enhanced tax credits. She explained that the program addressed the steep cut-off, or "cliff," between what individuals at 399 percent of the FPL received versus those at 401 percent, a disparity that would return under the original ACA structure. Ms. Altman emphasized that this harsh cliff was where the financial burden was most acutely felt under the original framework.

Mr. Cornett sought clarification on whether the budget bill language could dictate Covered California's actions, asking if there was any insight into the current debate at the Capitol.

Ms. Ravel responded by noting that in prior rounds of funding, the administration had the option to direct income groups for the cost-sharing program but chose not to. She added that while premium subsidy programs previously included specific language, the last two years did not, making it difficult to predict whether direction will be provided this time.

Chairwoman Johnson expressed gratitude for the considerations presented and acknowledged the uncertainty surrounding the timing of a potential decision, which would likely occur in July or August.

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She requested a quick reference sheet outlining key details, such as the financial impact on individuals above 400 percent of the FPL under the new dollar amounts, to aid the Board's discussions. Chairwoman Johnson also emphasized the importance of bookmarking additional considerations, including the health of the overall enrolled population, the implications of Medi-Cal proposals, and behavioral expectations for subsidy take-up rates based on prior research. She requested any relevant insights or context, including focus group data or guiding principles, to help the Board make a well-informed decision.

Public Comment: Ms. Douglas expressed appreciation for Ms. Ravel and her team's work in modeling potential scenarios for the expiration of Inflation Reduction Act subsidies and determining how to invest state funds.

Ms. Douglas expressed disappointment that the current investment of \$165 million falls far short of prior commitments, despite ongoing advocacy to restore full use of the HCAR funds.

Ms. Sanders aligned her remarks with those of Ms. Douglas and expressed appreciation for Covered California staff's efforts to model the trade-offs between focusing subsidies on low-income enrollees versus addressing the eligibility cliff for higher-income individuals.

Ms. Emanuel expressed gratitude to Ms. Ravel and her team for their swift and detailed modeling of the options. She stated that, on initial review, she generally supports the first option, which focuses on providing assistance to Covered California's lowest-income consumers.

The meeting adjourned at 1:42 p.m.