

# SACRAMENTO BUSINESS JOURNAL

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Health care exchange small-biz program is fit for survival in California.

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# COVERED CALIFORNIA'S SMALL-BIZ PROGRAM IS GAINING TRACTION

“

*Everybody watched to see if we'd make it. Covered California for Small Business is self-sustaining. ... We are a public agency trying to do things right.”*

**KIRK WHELAN,**  
Director of outreach, sales and small business at Covered California



KATHY ROBERTSON  
Correspondent

Republican plans to repeal and replace Obamacare hit the skids two weeks ago, but what happens next is still unclear. The Affordable Care Act is law – for now. And small business owners have skin in the game even though national debate over health reform has focused on coverage for individuals and the poor.

More than 2 million small employers in California provide health insurance to their workers – and a modest but growing number do so through Covered California for Small Business.

Off to a rocky start in 2014, the small business marketplace at the state health insurance exchange grew 26 percent last year. It now covers more than 33,000 employees and depen-

dents at 4,300 small businesses.

And thousands more may have benefited from lower pricing and more health care options because of the program's existence.

“It's small, but mighty,” said Micah Weinberg, president of the Economic Institute at the Bay Area Council, a group that represents business interests in the region. “One of the things that gets missed sometimes is that even with minimal enrollment, the policies at Covered California for Small Business still move the market.”

The ACA requires health plans that participate in the exchange to offer the same benefits at the same prices outside the program as well. This has increased competition and helped keep rates down, industry sources say.

Historically, small businesses have been charged more than large employers for the same benefits and offered less choice.

But now, “we are actually seeing lower (rate) increases in the small-group market,” said Mark Herbert, California director for Small Business Majority, a national small-business advocacy organization.

Rate hikes for this sector averaged 10.4 percent a year from 2008 through 2010, the year Obamacare was signed into law, according to a report by the federal Centers for Medicare and Medicaid Services. From 2011 through 2015, annual rate hikes fell on average by half, to 5.2 percent.

That's not to say everybody's rates fell. Small employers have a smaller base of workers and dependents upon which to spread the risk. One or two really sick workers or dependents can blow costs sky-high. When costs are high one year, rates go up the next.

But health plans haven't walked out of the small-business program in California.

Representatives of the three top plans in the program – Kaiser Permanente, Health Net and Blue Shield of California – all told the Business Journal the program is a valuable addition to the state health insurance market.

Despite initial administrative challenges, Covered California for Small Business also has gained confidence and loyalty from insurance brokers – and that's translated into sales momentum, said John Newman, Kaiser's executive director for California exchange operations.

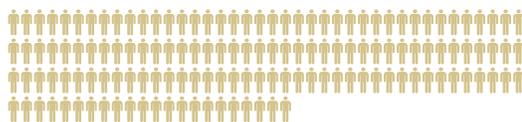
Changes in the works at CCSB could speed its transition from paper applications to online sales and management.

The small-business program launched enhanced online sales and renewal portals this week. The new portals allow insurance brokers to enroll, manage and renew coverage online – and enable employers with existing coverage to manage their accounts and renew online.

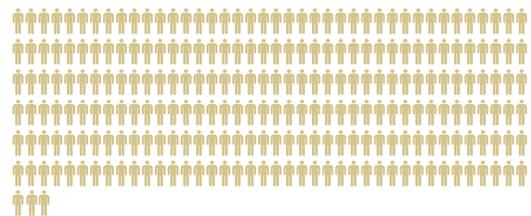
Another advancement – a website that will

## STATEWIDE ENROLLMENT IN COVERED CALIFORNIA'S SMALL-BUSINESS PROGRAM

1 person icon = 100 people



2014 14,183 employees and dependents



2015 24,344 employees and dependents

SOURCE: COVERED CALIFORNIA



“  
Basically,  
it’s  
important  
to me to  
provide  
health  
insurance  
to my staff,  
and we get  
better plans  
at a group  
rate.”

**DR. SEAN KHODAI**, owner of Enhanced Dental, which switched to Covered California this year.

PHOTOS BY DENNIS McCOY | SACRAMENTO BUSINESS JOURNAL

allow small-business employers to sign up directly with health plans for coverage through Covered California – is expected to roll out next fall.

Slow coming out of the chute, CCSB still did better than other states. It’s now the second-largest ACA small-business program in the nation behind Washington, D.C., which is consolidating its small-business market so there will be no business off of the exchange. This is being done in phases. By June, D.C. will have about 3,800 small employers and 80,000 members – employees and dependents – in its small-business exchange, including 13,000 congressional staffers.

**‘Quoting it a lot more’**

Covered California for Small Business moseyed out the starting gate when it launched in 2014.

Plagued by inadequate marketing, distrust among brokers and technology glitches, the

program enrolled 2,070 small businesses with 14,183 employees and dependents in 2014. Initial projections for the first year were 90,000 – a figure still off the horizon.

“I have only a few groups with it, but I’m quoting it a lot more,” Ned Schaut, president of the Sacramento Association of Health Underwriters, said of Covered California for Small Business.

The program is developing a niche, although it faces a battle over market share with California Choice, a private-sector competitor based in Southern California. CalChoice has a 20-year history and 327,000 members.

“Competition is good,” said Ron Goldstein, CEO at Choice Administrators, the group that runs CalChoice. “We probably help them get better, and they help us get better.”

An exchange allows small-business owners to control their budget and still offer employees a choice between multiple health plans, said

Kirk Whelan, director of sales, outreach and small business at Covered California.

“This removes the employer from the uncomfortable position of choosing a health plan or doctor for their employees. It also simplifies administration by offering consolidated billing,” he said.

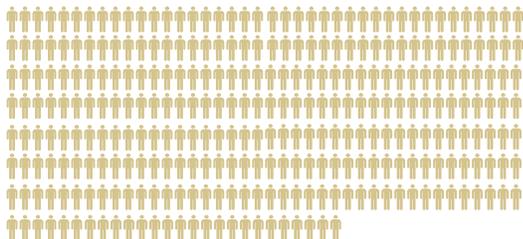
CCSB is the only place small employers can pick up a tax credit of up to 50 percent of premium expenses.

**The Kaiser dilemma**

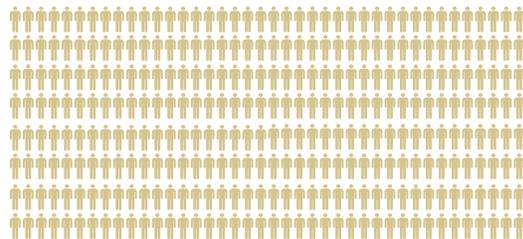
Although some health plans participate in both exchanges, each has its own mix of products.

Blue Shield of California offers a full-network preferred provider organization plan in CCSB but does not participate in CalChoice. Anthem Blue Cross is in CalChoice but not CCSB. Health Net is active in both but offers its

CONTINUED ON PAGE 14



**2016** 30,623 employees and dependents



**2017** 33,029 employees and dependents

**COVER STORY**

CONTINUED FROM PAGE 13

full PPO only in CCSB.

Kaiser plays in both programs and the so-called “Kaiser dilemma” is one of the reasons the exchange model is so successful.

Kaiser is popular and affordable but not necessarily the answer for workers who need extensive care and want a particular doctor outside the Kaiser system.

When other insurers are paired with Kaiser on the open market, competing plans generally set participation quotas so they don’t get a few really sick people while Kaiser gets everybody else.

“PPOs are 30 percent to 50 percent more expensive, but one or two employees may need access and may really benefit from that,” Schaut said. “People really like flexibility and options.”

Price and the local line-up of choices convinced Enhanced Dental Concepts in Roseville to buy coverage through Covered California. The spa-like dental boutique used to offer only one plan: Kaiser.

It was a struggle to accommodate everybody with one plan, office manager Melissa Schreiber said. Some employees don’t go to the doctor often and don’t want to pay more for a PPO.

Yelena Obutkova, the company’s broker, suggested Covered California last fall. Now Enhanced Dental offers Blue Shield’s full-network PPO plan alongside Kaiser. The company gives workers a set amount to spend and

workers make up the difference if the plan they pick is more expensive.

“Basically, it’s important to me to provide health insurance to my staff, and we get better plans at a group rate,” said Dr. Sean Khodai, the dentist who owns the company. “Covered California offers different options, and the copays are less than we had before.”

Western Gas Technologies in Loomis was able to bundle group coverage at Kaiser and Health Net through CCSB this year for “just a little more” than the CEO used to pay for his family alone.

“I’m very pleased,” said founder and CEO Vincent O’Connor. “I was able to keep Kaiser for my own family, and our person in Southern California could get the plan of his choice.”

**‘Full steam ahead’**

Heated debate over the ACA – and what to do with it next – is likely to continue. But for now, it’s business as usual at CCSB.

“We’re full steam ahead,” Whelan said. “We continue to be focused on carrying out state and federal law as written.”

Yet stakes are high, and small-business owners remain as split on the issue as the country itself. “It’s fair to say the ACA did not solve all the concerns of small-business owners. What’s needed is a sharp focus on affordability of high-quality health care,” Weinberg said. “Re-litigating the basics of health coverage and tax credits is like rearranging deck chairs on the Titanic.”

**KAISER DOMINATES IN SACRAMENTO\***

Employees and dependents enrolled in each program

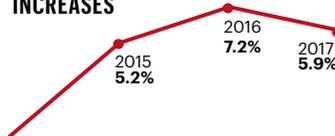
Kaiser	934	63%
Western Health Advantage	327	22%
Health Net	190	13%
Blue Shield	29	2%

\*Sacramento, Placer, Yolo and El Dorado counties

**STATEWIDE ENROLLMENT**

Kaiser Permanente	66.2%
Health Net	15.4%
Blue Shield	10.7%
Sharp	5.3%
Western Health Advantage	1.3%
Chinese Community Health Plan	1.1%

**SINGLE-DIGIT PREMIUM INCREASES**



SOURCE: COVERED CALIFORNIA

employers able to use it.

Continued insurer participation is key to the exchange’s success.

“We do believe it’s a viable program,” said Jenn Moore, commercial officer at Health Net. “It’s a really efficient way to distribute business and it gives small business employees choice.”

Blue Shield considers participation in the individual and small-employer programs at Covered California part of its mission to provide affordable care in the state. Sales aren’t bad either.

“It’s absolutely good for Blue Shield,” said Rob Spector, Blue Shield area vice president for Covered California. “There’s a lot of interest in our PPO statewide ... as well as our combination of other products.”

CCSB is a small program but it’s self-sustaining, Whelan said. Health plan fees generate annual revenue to run the program. The fee used to be \$18.65 per member per month, but this year the fee switched to 5.2 percent of premiums paid.

Much of the enrollment process is still done on paper and later keyed into computers multiple times. Streamlining this process could make the program more attractive to employers and insurance brokers – and save money. Technology upgrades rolled out this week and pending this fall are expected to boost efficiency for brokers and small-business owners.

“Any little edge in a very competitive market makes a difference,” said Richard Figueroa, a director with California Endowment. “Anything you can do on the agent side to differentiate yourself is huge.”

For the first couple of years, “everybody watched to see if we’d make it,” Whelan said. “Covered California for Small Business is self-sustaining. It’s making investments in technology and service. We are a public agency trying to do things right.”

The GOP plan (was) an important first step that would get rid of “the most punishing elements” of Obamacare, including “massive tax increases and mandates that have increased costs, limited choices and smothered job creation,” Tom Scott, California director of the National Federation of Independent Business, said in a statement.

The question now is whether Covered California can survive what comes next.

The first stab at legislation – sidelined March 24 for lack of votes – would have cut federal subsidies for individual consumers and scaled back funding for Medicaid expansion.

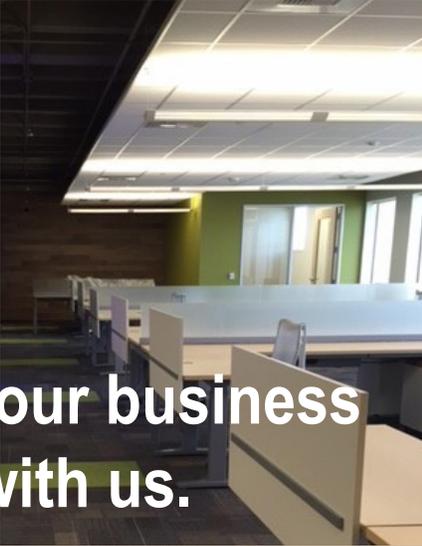
The Trump administration may accomplish this anyway by tightening federal purse strings.

In California, this could jeopardize \$20.5 billion in annual federal funding, as many as 334,000 jobs, and coverage for 5 million residents, economists and state health officials have said.

These figures include small-business owners. There are roughly 600,000 self-employed Californians on Medi-Cal and more than 377,000 have coverage through the individual exchange, according to Small Business Majority.

Ironically, Covered California’s less-heralded small-business program may be in a better position to survive than the larger individual marketplace. It doesn’t rely on federal funding.

The program offers an employer tax credit that would have gone away under the Republican plan, but eligibility requirements restrict the number of



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