



Regular Meeting of the Santa Clara County Health Authority Executive/Finance Committee

Thursday, May 25, 2017
8:30 AM - 10:00 AM
210 E. Hacienda Avenue
Campbell CA 95008

VIA TELECONFERENCE AT:

Residence
1985 Cowper Street
Palo Alto, CA 94301

AGENDA

- | | | | |
|--|---------|------|-------|
| 1. Roll Call | Ms. Lew | 8:30 | 5 min |
| 2. Meeting Minutes
Review meeting minutes of the April 27, 2017 Executive/Finance Committee.
Possible Action: Approve April 27, 2017 Executive/Finance Committee Minutes | Ms. Lew | 8:35 | 5 min |
| 3. Public Comment
Members of the public may speak to any item not on the agenda; two minutes per speaker. The Executive/Finance Committee reserves the right to limit the duration of the public comment period to 30 minutes. | Ms. Lew | 8:40 | 5 min |
| <u>Announcement Prior to Recessing into Closed Session</u>
Announcement that the Executive/Finance Committee will recess into closed session to discuss Items 4(a) and (b) below. | | | |
| 4. Adjourn to Closed Session | | 8:45 | |
| a. <u>Anticipated Litigation</u> (Government Code Section 54956.9(d)(2)):
It is the intention of the Executive/Finance Committee to meet in Closed Session to confer with Legal Counsel regarding one item of significant exposure to litigation involving a CalPERS administrative claim for damages. | | | |
| b. <u>Real Property Negotiations</u> (Government Code Section 54956.8):
It is the intention of the Executive/Finance Committee to meet in Closed Session to confer with its Real Property Negotiators concerning the price and terms of payment related to the possible acquisition of real | | | |

property located at 50 Great Oaks Boulevard, San Jose, California. The negotiators for the Health Authority are Dave Cameron, CFO, and Christine Tomcala, CEO. The other negotiating party is LBA Realty Fund IV – Company VII, LLC.

5. Report from Closed Session	Ms. Lew	9:05	5 min
6. March 2017 Financial Statements Review March 2017 Financial Statements. Possible Action: Approve March 2017 Financial Statements	Mr. Cameron	9:10	10 min
7. FY 2017 Capital Budget Allocation Change Reallocate line items in 2017 capital budget at no additional cost. Possible Action: Approve reallocation of \$75k from Conference Room improvements to the Disaster Recovery project	Mr. Cameron	9:20	10 min
8. FY 2018 Budget Planning Discuss process for developing FY'18 budget.	Mr. Cameron	9:30	10 min
9. External Audit Management Letter Discuss status of management letter comments.	Mr. Cameron	9:40	10 min
10. CEO Update Discuss status of current topics and initiatives. Possible Action: Accept CEO Update	Ms. Tomcala	9:50	10 min
11. Adjournment	Ms. Lew	10:00	

Notice to the Public—Meeting Procedures

- Persons wishing to address the Committee on any item on the agenda are requested to advise the Recorder so that the Chairperson can call on them when the item comes up for discussion.
- The Executive/Finance Committee may take other actions relating to the issues as may be determined following consideration of the matter and discussion of the possible action.
- In compliance with the Americans with Disabilities Act, those requiring accommodations in this meeting should notify Rita Zambrano 48 hours prior to the meeting at 408-874-1842.
- To obtain a copy of any supporting document that is available, contact Rita Zambrano at 408-874-1842. Agenda materials distributed less than 72 hours before a meeting can be inspected at the Santa Clara Family Health Plan offices at 210 E. Hacienda Avenue, Campbell.
- This agenda and meeting documents are available at www.scfhp.com



Santa Clara
Family Health Plan
The Spirit of Care

**Regular Meeting of the
Santa Clara County Health Authority
Executive/Finance Committee**

Thursday, April 27, 2017
8:30 AM - 10:00 AM
210 E. Hacienda Avenue
Campbell, CA 95008

VIA TELECONFERENCE AT:

Residence
2060 Bryant Street
Palo Alto, CA 94301

Minutes – DRAFT

Members Present

Michele Lew, Chair
Bob Brownstein
Wally Wenner, M.D.
Linda Williams (*via phone*)

Staff Present

Christine Tomcala, Chief Executive Officer
Dave Cameron, Chief Financial Officer
Neal Jarecki, Controller
Rita Zambrano, Executive Assistant

Members Absent

Liz Kniss

Others Present

Janet Sommers, Burke, Williams, & Sorenson LLP (*via phone*)

1. Roll Call

Michele Lew, Chair, called the meeting to order at 8:33 am. Roll call was taken and a quorum was established.

2. Meeting Minutes

The minutes of the February 23, 2017 Executive/Finance Committee Meeting were reviewed.

It was moved, seconded, and the February 23, 2017 Executive/Finance Committee minutes were **unanimously approved** as presented.

3. Public Comment

There were no public comments.

4. Adjourn to Closed Session

a. Anticipated Litigation

The Executive/Finance Committee met in Closed Session to confer with Legal Counsel regarding one item of significant exposure to litigation involving a CalPERS administrative claim for damages.

b. Real Property Negotiations

The Committee conferred with its Real Property Negotiators concerning the price and terms of payment related to the possible acquisition of real property located at 50 Great Oaks Boulevard, San Jose, California.

Linda Williams left the meeting.

5. Report from Closed Session

Ms. Lew reported the Committee met in Closed Session and authorized the CEO to take action to complete the transaction to purchase 50 Great Oaks Boulevard at a price not to exceed \$10.151mm.

6. February 2017 Financial Statements

Dave Cameron presented the February 2017 financial statements. For the month, the Plan reported a net surplus of \$2.3 million, which is \$1.2 million favorable to budget. For the first eight months of the fiscal year, the Plan reported a net surplus of \$15.1 million or \$6.7 million favorable to budget. The surplus results from a combination of factors, including higher enrollment (versus both budget and prior year actual) and decreases in prior medical expense (IBNR) estimates which are favorable to the financial statements. The overall medical loss ratio has improved to 94.5% on a year-to-date basis. Administrative expenses were 3% above budget for the month and within 1% over budget on a year-to-date basis due to the continued use of consultants and temps in support of unfilled staff positions.

Mr. Cameron noted that enrollment, which exceeds budget by 1.9% on a year-to-date basis, has flattened lately. Enrollment at February 28, 2017 was 279,000 members. Ms. Tomcala noted that outreach efforts to increase enrollment in the Cal Medi-Connect program has recently commenced.

Mr. Cameron observed that the balance sheet continues to include large receivables from, and payables to, DHCS. A significant portion of the CCI program receivables was recently paid and the Plan expects recoupment of the MCE overpayment to commence in July 2017.

Mr. Cameron noted that the Plan's net assets of \$115.4 million represented 325% of the DMHC minimum required tangible net equity (TNE) of \$35.5 million.

It was moved, seconded and the February 2017 Financial Statements were **unanimously approved** as presented.

7. Annual Healthy Kids Report to the County Health and Hospital Committee

Christine Tomcala presented the Committee with the Annual Healthy Kids Report that was provided to the County Health and Hospital Committee this year. Membership decreased from 4,328 in April 2016 to 2,752 in March 2017, largely due to Healthy Kids members becoming eligible for full scope Medi-Cal. Ms. Tomcala noted the termination reasons for children leaving the program, as well as funding provided by the City of San Jose which supplements the County of Santa Clara County funding.

8. CEO Update

Ms. Tomcala invited Mr. Cameron to update the Committee on misdirected claims. Mr. Cameron reported that delegated claims were forwarded on a timely basis 96% and 98% of the time in the months of March and April, meeting the compliance requirement of 95%.

Mr. Cameron further reported on the Provider Dispute Resolution (PDR) backlog. The original goal was to eliminate the backlog by April 1st. The Plan requested a 30-day extension and the team is working diligently to be current by April 30th.

Mr. Cameron noted that a general assessment of the financial operations was completed in August 2016 with recommendations for a more detailed review of several key areas. The areas of vendor procurement/payment and segregation of duties are being reviewed by Moss-Adams, the Plan's independent accountant. A report of their recommendations will be reviewed by the Executive Committee at its next meeting.

Ms. Tomcala reported on implementation of the QNXT system for Medi-Cal claims, noting the status is yellow, but it is still on track for a July 1st go-live.

Ms. Tomcala updated the Committee on the Employee Satisfaction Survey, noting the results were positive and they will be shared with the Board at the next meeting.

The Plan continues to move forward with its Duals-Special Needs Plan (D-SNP) application. Although staff are optimistic the CMC program will continue, there would be a significant impact on the Health Plan and its CMC members if it did not.

Ms. Tomcala noted that the Civil Grand Jury will be releasing its report on the Health Plan within a couple weeks. There are three findings, one of which is a commentary on how low reimbursement rates in the broader Medi-Cal program negatively affect the number of providers in the community who accept Medi-Cal.

The Committee was also informed that the Whole Person Care expansion application has been favorably received by the State.

9. Adjournment

The meeting was adjourned at 9:50 am.

Michele Lew, Chair



Santa Clara
Family Health Plan

The Spirit of Care

Financial Statements
For Nine Months Ended March 2017
(Unaudited)

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Fiscal Year 2016-17 Year-To-Date Highlights

- **Net Surplus** – March \$2.8m surplus and YTD \$17.9m surplus (\$8.7m favorable to budget)
- **Enrollment** – March 2017 membership: 277,914 (0.5% favorable to budget) and March YTD: 2,515,716 member months (1.7% favorable to budget and 5.8% higher than March YTD last year)
 - Medi-Cal membership dropped slightly continuing the downward trend that started in November 2016. CMC membership grew slightly. HK membership transition to Medi-Cal is slower than planned.
- **Revenue** – over YTD budget by \$50.1m (+5.8%)
 - Increase was largely due to higher than budgeted members year to date, which was partially offset by unfavorable variance in Medi-Cal Expansion, Hep C, and Medi-Cal CMC revenue. Medicare revenue was higher due to higher risk scores of the plan members. Part D Medicare revenue was lower than the budget.
- **Medical Expenses** – over YTD budget by \$41.3m (-5.1%)
 - Increase in expense was due to higher than budgeted member months resulting in higher capitation costs as well as higher hospital, LTC, and provider risk sharing/CCI and CMC recast reserve expenses. Prior year medical expense estimate reduction offset some of this unfavorable variance.
- **Administrative Expenses** – over YTD budget by \$0.3 million (-0.9%)
 - Increase in expense was due to positions being filled by consulting/temporary resources and Pharmacy Administration Fees due to higher utilization; partially offset by lower Advertising and Postage expenses (possibly timing).
- **Other Income/Expenses** – net expense under budget by \$0.2m due to higher than budgeted interest earnings.
- **Balance Sheet**
 - DHCS paid a significant portion of the prior period receivables (rate differentials, MCO, etc.). As a result, SCFHP is in a position to continue making MCO quarterly installment payments. Overall cash position increased due to the receipt of these funds, Medicare RAF funds, partially offset by increase in payables.
 - Receivables for CCI rate recast continued to increase (partially offset by Medi-Cal Expansion rate overpayments).
 - TNE of \$118.2m or 324% of most recent Required TNE of \$36.5m per DMHC (\$9.5m below the SCFHP low-end Equity Target and \$163.8m above the low-end Liquidity Target).
 - YTD Capital Expenses increased by \$5.5 million largely due to capitalization of Trizetto/QNXT claims system expenses.

Consolidated Performance
March 2017 and Year to Date

	Month	YTD
Revenue	\$104 million	\$906 million
Medical Costs	\$98 million	\$855 million
Medical Loss Ratio	93.6%	94.4%
Administrative Costs	\$4 million (3.7%)	\$32 million (3.5%)
Other Income/ Expense	(\$50,584)	(\$578,571)
Net Surplus (Loss)	\$2,788,539	\$17,925,235
Cash on Hand		\$289 million
Net Cash Available to SCFHP		\$286 million
Receivables		\$583 million
Current Liabilities		\$766 million
Tangible Net Equity		\$118 million
Pct. Of Min. Requirement		324%

**Santa Clara Family Health Plan
CFO Finance Report
For the Month and Year to Date Ended March 31, 2017**

Summary of Financial Results

For the month of March 2017, SCFHP recorded a net surplus of \$2.8 million compared to a budgeted net surplus of \$0.8 million resulting in a favorable variance from budget of \$2.0 million. For year to date March 2017, SCFHP recorded a net surplus of \$17.9 million compared to a budgeted net surplus of \$9.2 million resulting in a favorable variance from budget of \$8.7 million. The table below summarizes the components of the overall variance from budget.

**Summary Operating Results - Actual vs. Budget
For the Current Month & Fiscal Year to Date - Mar 2017**
Favorable/(Unfavorable)

Current Month					Year to Date			
Actual	Budget	Variance \$	Variance %		Actual	Budget	Variance \$	Variance %
\$104,292,910	\$ 95,730,190	\$ 8,562,720	8.9%	Revenue	\$ 905,955,131	\$ 855,900,501	\$ 50,054,631	5.8%
97,585,230	91,028,744	(6,556,486)	-7.2%	Medical Expense	855,381,915	814,119,412	(41,262,503)	-5.1%
6,707,680	4,701,446	2,006,233	42.7%	Gross Margin	50,573,216	41,781,088	8,792,128	21.0%
3,868,557	3,821,776	(46,781)	-1.2%	Administrative Expense	32,069,410	31,794,846	(274,563)	-0.9%
2,839,123	879,671	1,959,452	222.7%	Net Operating Income	18,503,806	9,986,242	8,517,564	85.3%
(50,584)	(85,842)	35,259	41.1%	Non-Operating Income/Exp	(578,571)	(772,582)	194,010	25.1%
\$ 2,788,539	\$ 793,828	\$ 1,994,711	251.3%	Net Surplus/ (Loss)	\$ 17,925,235	\$ 9,213,661	\$ 8,711,574	94.6%

Member Months

For the month of March 2017, overall member months were higher than budget by 1,283 (+0.5%). For year to date March 2017, overall member months were higher than budget by 42,887 (+1.7%).

In the nine months since the end of the prior fiscal year, 6/30/2016, membership in Medi-Cal increased by 2.9%, membership in Healthy Kids program decreased by 37.9%, and membership in CMC program decreased by 7.1%.

Member months, and changes from prior year, are summarized on Page 10.

Revenue

The Plan recorded net revenue of \$104.3 million for the month of March 2017, compared to budgeted revenue of \$95.7 million, resulting in a favorable variance from budget of \$8.6 million, or 8.9%. For year to date March 2017, the Plan recorded net revenue of \$906.0 million, compared to budgeted revenue of \$855.9 million, resulting in a favorable variance from budget of \$50.1 million, or 5.8%. The favorable variance was largely due to higher than budgeted members year to date. The Plan also received prior year revenue and higher than budgeted Behavioral Health, Maternity, and Abortion revenue. This positive variance was partially offset by unfavorable variance in Medi-Cal Expansion, Hep C, and Medi-Cal CMC revenue. Medi-Cal Expansion revenue is unfavorable due to both lower than budgeted member months and PMPM. Hep C revenue is unfavorable due to lower than budgeted actual rate and Medi-Cal CMC revenue is lower due to lower than budgeted member months. Medicare revenue was favorable due to higher PMPM reflecting the higher risk scores of the plan members. Part D Medicare revenue was lower than the budget.

A statistical and financial summary for all lines of business is included on page 15 of this report.

Medical Expenses

For the month of March 2017, medical expense was \$97.6 million compared to budget of \$91.0 million, resulting in an unfavorable budget variance of \$6.6 million, or 7.2%. For year to date March 2017, medical expense was \$855.4 million compared to budget of \$814.1 million, resulting in an unfavorable budget variance of \$41.3 million, or -5.1%. The unfavorable variance was largely due to higher than budgeted member months, which led to higher capitation costs. Increased hospital and LTC expenses also contributed to the unfavorable variance. Some of this unfavorability was offset by a lowering of the prior year medical cost reserves as well as lower than budgeted Pharmacy expenses. Additionally, the Plan has set aside \$21.5 million for IHSS/recast reserves and provider risk sharing.

Administrative Expenses

Overall administrative costs were over budget by \$47 thousand (-1.2%) for the month of March 2017 and over budget by \$0.3 million (-0.9%) for year to date March 2017. Personnel costs were over budget due to open positions being filled by temporary staffing and consulting resources. Pharmacy administration fees were also higher than budget. Some of this unfavorability was offset by lower advertising and postage expenses.

Overall administrative expenses were 3.5% of revenue for year to date March 2017.

Balance Sheet

Current assets totaled \$881.8 million compared to current liabilities of \$766.1 million, yielding a current ratio (the ratio of current assets to current liabilities) of 1.2 vs. the DMHC minimum requirement of 1.0 as of March 31, 2017. Working capital increased by \$8.7 million for the nine months year to date ended March 31, 2017.

Cash as of March 31, 2017, increased by \$143.0 million compared to the cash balance as of year-end June 30, 2016. Net receivables increased by \$165.6 million during the same nine months period ended March 31, 2017. The cash position increased largely due to the receipt of prior period receivables, capitation revenue paid at the prospective rates, and an overall increase in the payables.

Liabilities increased by a net amount of \$297.9 million during the nine months ended March 2017. Liabilities increased primarily due to the overpayment of Medi-Cal expansion premium revenues by the State and an increase in IHSS/MCO payables year to date.

Capital Expenses increased by \$5.5 million for the nine months ended March 31, 2017. The capital expenses include:

Expense	YTD Actual	Annual Budget
Trizetto Upgrade	\$ 4,449,113	\$ 6,800,000
Computers	\$ 835,977	\$ 3,131,000
Leasehold Improvement & Furniture	\$ 192,624	\$ 996,200
TOTAL	\$ 5,477,714	\$ 10,927,200

Reserves Analysis

Tangible Net Equity (TNE) was \$118.2 million at March 31, 2017 or 324% of the most recent quarterly Department of Managed Health Care (DMHC) minimum requirement of \$36.5 million. A chart showing TNE trends is shown on page 16 of this report.

At the September 2016 Governing Board meeting, a policy was adopted for targeting the organization's capital reserves to include a) an Equity Target of 350-500% of DMHC required TNE percentage and b) a Liquidity Target of 45-60 days of total operating expenses in available cash.

As of March 31, 2017, the Plan's TNE was \$9.6 million below the low-end Equity Target and \$163.8 million above the low-end Liquidity Target (see calculations below).

Financial Reserve Target #1: Tangible Net Equity	
Actual TNE	\$118,218,691
Current Required TNE	\$36,507,000
Excess TNE	\$81,711,691
Required TNE Percentage	324%
SCFHP Target TNE Range:	
350% of Required TNE (low end)	\$127,774,500
500% of Required TNE (high end)	\$182,535,000
TNE Above/(Below) SCFHP Low End Target	(\$9,555,809)
Financial Reserve Target #2: Liquidity	
Cash & Cash Equivalents	\$289,101,317
Less: Pass-Through Liabilities (Non State of CA *)	(\$3,412,423)
Net Cash Available to SCFHP	\$285,688,895
SCFHP Target Liquidity: **	
45 days of Total Operating Expenses	(\$121,909,416)
60 days of Total Operating Expenses	(\$162,545,888)
Liquidity Above/(Below) SCFHP Low End Target	\$163,779,479
* Supplemental Information: Pass-Throughs from State of CA	
Receivables Due to SCFHP	582,189,374
Payables Due from SCFHP	(657,053,227)
Net Receivable/(Payable)	<u>(\$74,863,853)</u>

** Excludes IHSS

Santa Clara Family Health Plan Enrollment Summary

	For the Month of Mar 2017			Nine Months Ending Mar 2017				
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	Prior Year <u>Actual</u>	FY17 <u>vs. FY16</u>
Medi-Cal	267,540	267,578	(0.0%)	2,418,613	2,381,246	1.6%	2,262,465	6.9%
Healthy Kids	2,752	1,426	93.0%	27,384	22,431	22.1%	38,887	(29.6%)
Medicare	7,622	7,628	(0.1%)	69,719	69,152	0.8%	76,885	(9.3%)
Total	277,914	276,631	0.5%	2,515,716	2,472,829	1.7%	2,378,237	5.8%

**Santa Clara Health Authority
Mar 2017**

Network	Medi-Cal		Healthy Kids		CMC		Total	
	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total
Direct Contact Physicians	27,200	10%	342	12%	7,622	100%	35,164	13%
SCVVHS, Safety Net Clinics, FQHC Clinics	140,606	53%	1,477	54%	-	0%	142,083	51%
Palo Alto Medical Foundation	7,455	3%	75	3%	-	0%	7,530	3%
Physicians Medical Group	48,472	18%	715	26%	-	0%	49,187	18%
Premier Care	16,605	6%	143	5%	-	0%	16,748	6%
Kaiser	27,202	10%	-	0%	-	0%	27,202	10%
Total	267,540	100%	2,752	100%	7,622	100%	277,914	100%
Enrollment at June 30, 2016	260,031		4,435		8,203		272,669	
Net Change from Beginning of FY17	2.9%		-37.9%		-7.1%		1.9%	

**Santa Clara County Health Authority
Balance Sheet**

	<u>MAR 17</u>	<u>FEB 17</u>	<u>JAN 17</u>	<u>JUN 16</u>
Assets				
Current Assets				
Cash and Marketable Securities	\$ 289,101,317	\$ 303,617,915	\$ 272,773,734	\$ 146,082,070
Premiums Receivable	582,790,351	558,497,011	607,918,209	417,166,973
Prepaid Expenses and Other Current Assets	<u>9,917,891</u>	<u>7,764,853</u>	<u>6,271,355</u>	<u>6,766,163</u>
Total Current Assets	881,809,559	869,879,780	886,963,298	570,015,205
Long Term Assets				
Equipment	19,196,267	19,124,839	18,979,046	13,717,799
Less: Accumulated Depreciation	<u>(10,218,119)</u>	<u>(10,040,964)</u>	<u>(9,876,718)</u>	<u>(8,775,886)</u>
Total Long Term Assets	<u>8,978,148</u>	<u>9,083,875</u>	<u>9,102,328</u>	<u>4,941,913</u>
Total Assets	<u>\$ 890,787,708</u>	<u>\$ 878,963,655</u>	<u>\$ 896,065,626</u>	<u>\$ 574,957,118</u>
Deferred Outflow of Resources	<u>\$ 1,570,339</u>	<u>\$ 1,570,339</u>	<u>1,570,339</u>	<u>1,570,339</u>
Total Deferred Outflows and Assets	<u>892,358,047</u>	<u>880,533,994</u>	<u>897,635,965</u>	<u>576,527,457</u>
Liabilities and Net Position				
Current Liabilities				
Trade Payables	\$ 5,073,718	\$ 5,351,195	\$ 9,171,162	\$ 4,824,017
Deferred Rent	105,050	109,201	113,352	142,408
Employee Benefits	1,198,230	1,150,530	1,164,820	1,013,759
Retirement Obligation per GASB 45	538,017	478,237	418,458	
Advance Premium - Healthy Kids	47,050	40,104	35,254	65,758
Liability for ACA 1202	2,065,180	2,065,180	2,065,180	5,503,985
Payable to Hospitals (SB90)				55,140
Payable to Hospitals (SB208)	(35,535)	(35,535)	(35,535)	(35,535)
Payable to Hospitals (AB 85)	1,382,777	1,381,822	1,612,403	1,717,483
Due to Santa Clara County Valley Health Plan and Kaiser	8,642,584	20,901,222	26,672,461	6,604,472
MCO Tax Payable - State Board of Equalization	53,486,885	46,338,820	62,651,340	10,779,014
Due to DHCS	220,020,766	225,345,089	206,278,883	107,213,315
Liability for In Home Support Services (IHSS)	383,545,576	363,801,996	347,265,141	238,387,141
Premium Deficiency Reserve (PDR)	2,374,525	2,374,525	2,374,525	2,374,525
Medical Cost Reserves	<u>79,216,042</u>	<u>81,933,950</u>	<u>79,037,425</u>	<u>84,321,012</u>
Total Current Liabilities	766,097,708	751,236,336	770,683,205	462,966,494
Non-Current Liabilities				
Noncurrent Premium Deficiency Reserve	5,919,500	5,919,500	5,919,500	5,919,500
Net Pension Liability GASB 68	(207,473)	5,618,386	5,543,386	5,018,386
Total Liabilities	<u>771,809,735</u>	<u>762,774,222</u>	<u>782,146,091</u>	<u>473,904,380</u>
Deferred Inflow of Resources	<u>2,329,621</u>	<u>2,329,621</u>	<u>2,329,621</u>	<u>2,329,621</u>
Net Position / Reserves				
Invested in Capital Assets	8,978,148	9,083,875	9,102,328	4,941,913
Restricted under Knox-Keene agreement	305,350	305,350	305,350	305,350
Unrestricted Net Equity	91,009,958	90,904,231	90,885,778	67,383,691
Current YTD Income (Loss)	<u>17,925,235</u>	<u>15,136,696</u>	<u>12,866,797</u>	<u>27,662,502</u>
Net Position / Reserves	<u>118,218,691</u>	<u>115,430,152</u>	<u>113,160,253</u>	<u>100,293,456</u>
Total Liabilities, Deferred Inflows, and Net Assets	<u>\$ 892,358,047</u>	<u>\$ 880,533,994</u>	<u>\$ 897,635,965</u>	<u>\$ 576,527,457</u>

Santa Clara County Health Authority
Income Statement for Nine Months Ending Mar 31, 2017

	For the Month of Mar 2017					For Nine Months Ending Mar 31, 2017				
	Actual	% of Revenue	Budget	% of Revenue	Variance	Actual	% of Revenue	Budget	% of Revenue	Variance
REVENUES										
MEDI-CAL	\$ 95,542,177	91.6%	\$ 87,432,489	91.3%	\$ 8,109,688	\$ 825,419,142	91.1%	\$ 779,843,652	91.1%	\$ 45,575,490
HEALTHY KIDS	\$ 284,359	0.3%	\$ 126,391	0.1%	\$ 157,968	\$ 2,675,050	0.3%	\$ 1,979,448	0.2%	\$ 695,602
MEDICARE	\$ 8,466,374	8.1%	\$ 8,171,310	8.5%	\$ 295,064	\$ 77,860,939	8.6%	\$ 74,077,401	8.7%	\$ 3,783,538
TOTAL REVENUE	<u>\$ 104,292,910</u>	<u>100.0%</u>	<u>\$ 95,730,190</u>	<u>100.0%</u>	<u>\$ 8,562,720</u>	<u>\$ 905,955,131</u>	<u>100.0%</u>	<u>\$ 855,900,501</u>	<u>100.0%</u>	<u>\$ 50,054,631</u>
MEDICAL EXPENSES										
MEDI-CAL	\$ 89,972,808	86.3%	\$ 83,316,203	87.0%	\$ (6,656,605)	\$ 778,111,318	85.9%	\$ 743,392,963	86.9%	\$ (34,718,355)
HEALTHY KIDS	\$ 218,222	0.2%	\$ 121,206	0.1%	\$ (97,017)	\$ 2,180,418	0.2%	\$ 1,907,032	0.2%	\$ (273,386)
MEDICARE	\$ 7,394,200	7.1%	\$ 7,591,335	7.9%	\$ 197,135	\$ 75,090,179	8.3%	\$ 68,819,418	8.0%	\$ (6,270,762)
TOTAL MEDICAL EXPENSES	<u>\$ 97,585,230</u>	<u>93.6%</u>	<u>\$ 91,028,744</u>	<u>95.1%</u>	<u>\$ (6,556,486)</u>	<u>\$ 855,381,915</u>	<u>94.4%</u>	<u>\$ 814,119,412</u>	<u>95.1%</u>	<u>\$ (41,262,503)</u>
MEDICAL OPERATING MARGIN	\$ 6,707,680	6.4%	\$ 4,701,446	4.9%	\$ 2,006,233	\$ 50,573,216	5.6%	\$ 41,781,088	4.9%	\$ 8,792,128
ADMINISTRATIVE EXPENSES										
SALARIES AND BENEFITS	\$ 1,999,808	1.9%	\$ 2,288,881	2.4%	\$ 289,074	\$ 16,224,092	1.8%	\$ 17,211,641	2.0%	\$ 987,549
RENTS AND UTILITIES	\$ 123,227	0.1%	\$ 133,541	0.1%	\$ 10,313	\$ 953,997	0.1%	\$ 1,079,054	0.1%	\$ 125,057
PRINTING AND ADVERTISING	\$ 20,408	0.0%	\$ 54,108	0.1%	\$ 33,700	\$ 511,644	0.1%	\$ 656,725	0.1%	\$ 145,081
INFORMATION SYSTEMS	\$ 168,822	0.2%	\$ 193,276	0.2%	\$ 24,454	\$ 1,638,712	0.2%	\$ 1,697,192	0.2%	\$ 58,480
PROF FEES / CONSULTING / TEMP STAFFING	\$ 1,176,825	1.1%	\$ 726,780	0.8%	\$ (450,045)	\$ 9,132,222	1.0%	\$ 7,158,529	0.8%	\$ (1,973,693)
DEPRECIATION / INSURANCE / EQUIPMENT	\$ 219,780	0.2%	\$ 239,478	0.3%	\$ 19,698	\$ 1,771,105	0.2%	\$ 1,761,184	0.2%	\$ (9,920)
OFFICE SUPPLIES / POSTAGE / TELEPHONE	\$ 60,713	0.1%	\$ 89,180	0.1%	\$ 28,466	\$ 1,086,002	0.1%	\$ 1,385,617	0.2%	\$ 299,615
MEETINGS / TRAVEL / DUES	\$ 91,729	0.1%	\$ 91,252	0.1%	\$ (476)	\$ 671,668	0.1%	\$ 770,337	0.1%	\$ 98,670
OTHER	\$ 7,245	0.0%	\$ 5,280	0.0%	\$ (1,965)	\$ 79,969	0.0%	\$ 74,567	0.0%	\$ (5,402)
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 3,868,557</u>	<u>3.7%</u>	<u>\$ 3,821,776</u>	<u>4.0%</u>	<u>\$ (46,781)</u>	<u>\$ 32,069,410</u>	<u>3.5%</u>	<u>\$ 31,794,846</u>	<u>3.7%</u>	<u>\$ (274,563)</u>
OPERATING SURPLUS (LOSS)	\$ 2,839,123	2.7%	\$ 879,671	0.9%	\$ 1,959,452	\$ 18,503,806	2.0%	\$ 9,986,242	1.2%	\$ 8,517,564
GASB 45-POST EMPLOYMENT BENEFITS EXPENSE	\$ (59,780)	-0.1%	\$ (50,592)	-0.1%	\$ (9,187)	\$ (538,017)	-0.1%	\$ (455,330)	-0.1%	\$ (82,687)
GASB 68 - UNFUNDED PENSION LIABILITY	\$ (75,000)	-0.1%	\$ (75,000)	-0.1%	\$ -	\$ (675,000)	-0.1%	\$ (675,000)	-0.1%	\$ -
INTEREST, OTHER INCOME, ALLOWANCE FOR UNCOLLECTIBLES	\$ 84,196	0.1%	\$ 39,750	0.0%	\$ 44,446	\$ 634,446	0.1%	\$ 357,749	0.0%	\$ 276,697
NET SURPLUS (LOSS) FINAL	<u>\$ 2,788,539</u>	<u>2.7%</u>	<u>\$ 793,828</u>	<u>0.8%</u>	<u>\$ 1,994,711</u>	<u>\$ 17,925,235</u>	<u>2.0%</u>	<u>\$ 9,213,661</u>	<u>1.1%</u>	<u>\$ 8,711,574</u>

**Santa Clara Family Health Plan
Statement of Cash Flows
For Nine Months Ended Mar 31, 2017**

Cash flows from operating activities	
Premiums received	\$ 895,847,074
Medical expenses paid	\$ (713,290,337)
Administrative expenses paid	<u>\$ (34,693,466)</u>
Net cash from operating activities	\$ 147,863,270
 Cash flows from capital and related financing activities	
Purchases of capital assets	\$ (5,478,468)
 Cash flows from investing activities	
Interest income and other income, net	<u>\$ 634,446</u>
 Net (Decrease) increase in cash and cash equivalents	<u>\$ 143,019,247</u>
 Cash and cash equivalents, beginning of year	<u>\$ 146,082,070</u>
 Cash and cash equivalents at Mar 31, 2017	<u><u>\$ 289,101,317</u></u>
 Reconciliation of operating income to net cash from operating activities	
Operating income (loss)	\$ 17,290,789
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation	\$ 1,442,233
Changes in operating assets and liabilities	
Premiums receivable	\$ (165,623,379)
Due from Santa Clara Family Health Foundation	\$ -
Prepays and other assets	\$ (3,151,728)
Deferred outflow of resources	\$ -
Accounts payable and accrued liabilities	\$ 5,524,314
State payable	\$ 155,515,321
Santa Clara Valley Health Plan and Kaiser payable	\$ 2,038,112
Net Pension Liability	\$ (5,225,859)
Medical cost reserves and PDR	\$ (5,104,970)
Deferred inflow of resources	<u>\$ -</u>
Total adjustments	<u>\$ 130,572,481</u>
Net cash from operating activities	<u><u>\$ 147,863,270</u></u>

Santa Clara County Health Authority
STATEMENT OF OPERATIONS
BY LINE OF BUSINESS (INCLUDING ALLOCATED EXPENSES)

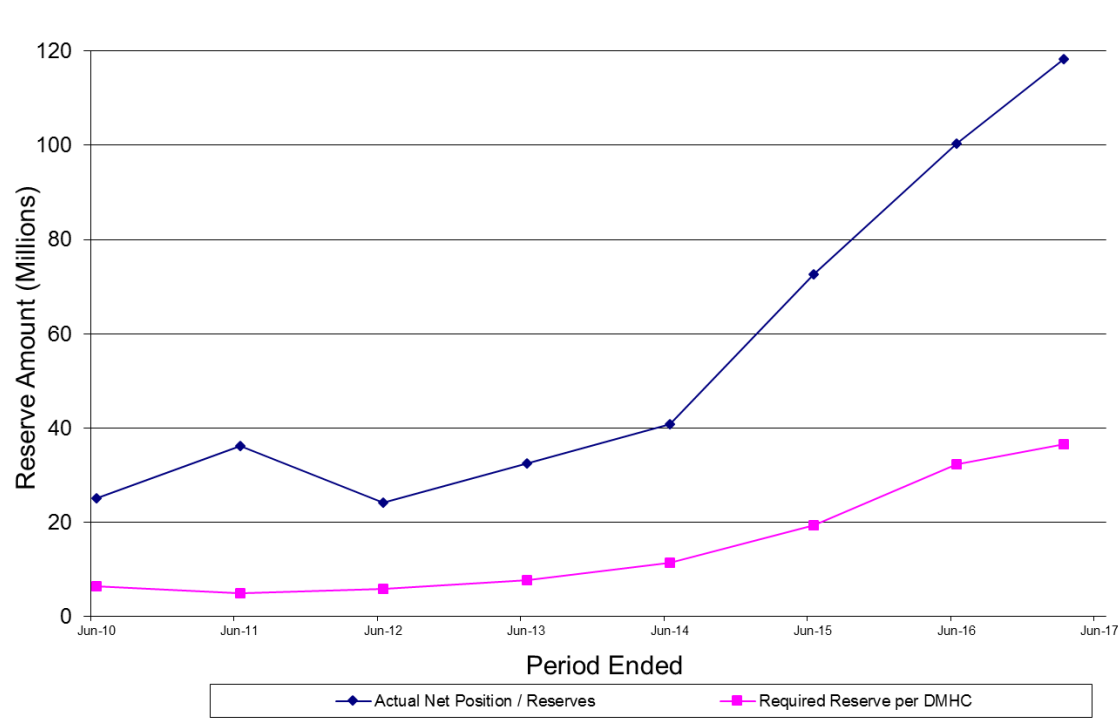
Nine Months Ended Mar 31, 2017

	Medi-Cal	CMC	Healthy Kids	Grand Total
P&L (ALLOCATED BASIS)				
REVENUE	\$805,367,739	\$97,912,342	\$2,675,050	\$905,955,131
MEDICAL EXPENSES	753,463,857	99,737,639	2,180,418	855,381,915
(MLR)	93.6%	101.9%	81.5%	94.4%
GROSS MARGIN	51,903,882	(1,825,297)	494,632	50,573,216
ADMINISTRATIVE EXPENSES	28,283,236	3,465,945	320,228	32,069,410
(% MM allocation except CMC)				
OPERATING INCOME/(LOSS)	23,620,645	(5,291,243)	174,404	18,503,806
OTHER INCOME/(EXPENSE)	(514,333)	(62,530)	(1,708)	(578,571)
(% of Revenue Allocation)				
NET INCOME/ (LOSS)	\$23,106,312	(\$5,353,773)	\$172,695	\$17,925,235
PMPM (ALLOCATED BASIS)				
REVENUE	\$332.99	\$1,404.39	\$97.69	\$360.12
MEDICAL EXPENSES	311.53	1,430.57	79.62	340.02
GROSS MARGIN	21.46	(26.18)	18.06	20.10
ADMINISTRATIVE EXPENSES	11.69	49.71	11.69	12.75
OPERATING INCOME/(LOSS)	9.77	(75.89)	6.37	7.36
OTHER INCOME / (EXPENSE)	(0.21)	(0.90)	(0.06)	(0.23)
NET INCOME / (LOSS)	\$9.55	(\$76.79)	\$6.31	\$7.13
ALLOCATION BASIS:				
MEMBER MONTHS - YTD	2,418,613	69,719	27,384	2,515,716
Member MONTHS by LOB	96.1%	2.8%	1.1%	100%
Revenue by LOB	88.9%	10.8%	0.3%	100%

Note: CMC includes Medi-Cal portion of the CCI data

Santa Clara County Health Authority
Tangible Net Equity - Actual vs. Required
As of Period Ended:

	<u>6/30/2010</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2013</u>	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>3/31/2017</u>
Actual Net Position / Reserves	25,103,011	36,093,769	24,208,576	32,551,161	40,872,580	72,630,954	100,293,456	118,218,691
Required Reserve per DMHC	6,388,000	4,996,000	5,901,000	7,778,000	11,434,000	19,269,000	32,375,000	36,507,000
200% of Required Reserve	12,776,000	9,992,000	11,802,000	15,556,000	22,868,000	38,538,000	64,750,000	73,014,000
	3.93	7.22	4.10	4.19	3.57	3.77	3.10	3.24



**Santa Clara Family Health Plan
Capital Budget
as of 3/31/17**

Description	YTD Actual	FY17 Budget	Variance Fav/(Unfav)
Systems	\$4,912,502	\$9,000,000	\$4,087,498
Claims System Conversion	\$4,449,113	\$6,800,000	\$2,350,887
Optum, EDIFECs, Advanced Health Essette (Case Management System)	\$125,650	\$1,000,000	\$874,350
Web Portal (Health-X)	\$220,000	\$550,000	\$330,000
IVR Upgrade (Inbound and Outbound)	\$92,000	\$500,000	\$408,000
Projects yet to commence	\$25,739	\$75,000	\$49,261
	\$0	\$75,000	\$75,000
Licensing	\$15,642	\$330,000	\$314,358
MS Licensing (Office 365, Server, SQL)	\$15,642	\$175,000	\$159,358
Projects yet to commence	\$0	\$155,000	\$155,000
Software	\$15,300	\$181,000	\$165,700
Symantec AntiVirus	\$15,300	\$15,000	(\$300)
Projects yet to commence	\$0	\$166,000	\$166,000
Hardware	\$341,646	\$420,000	\$78,354
VM Ware & Workstation Upgrades (combined)	\$253,619	\$250,000	(\$3,619)
Pure Storage Expansion	\$88,027	\$125,000	\$36,973
Projects yet to commence	\$0	\$45,000	\$45,000
Building	\$192,624	\$996,200	\$803,576
Second Floor Reconfigurations Net 17 cubicle addition	\$112,671	\$215,000	\$102,329
Second Floor Reconfigurations Net 10 cubicle addition	\$39,350	\$87,000	\$47,650
First Floor Three Cubicle Installation - IT Room	\$13,100	\$8,200	(\$4,900)
First Floor Q2 Card Reader Install	\$4,085	\$4,500	\$415
Digital display screens - 1 large and 1 small	\$7,800	\$3,500	(\$4,300)
Training Room Electrical and Data monuments installation	\$3,200	\$30,000	\$26,800
Disaster Recovery and Business Continuity Site Procurement (Coresite Denver) (M50, BackupArray)	\$12,418	\$225,000	\$212,582
Conference Room Hardware / Revitalization	\$0	\$75,000	\$75,000
Projects yet to commence	\$0	\$348,000	\$348,000
Total Capital Expenditures	\$5,477,714	\$10,927,200	\$5,449,486



Santa Clara
Family Health Plan

The Spirit of Care

Budget Planning

FY 2017-18

Finance/Executive Committee Meeting

May 25, 2017



Overview

- Lines of Business
- Enrollment
 - Market Share
 - Medi-Cal Classic & Expansion
 - Cal MediConnect
 - Healthy Kids
- Operating Budget Assumptions
 - Revenue
 - Medical Expenses
 - Administrative Expenses
- Capital Budget Assumptions
- Next Steps



2017-2018 Lines of Business

- Medi-Cal Classic (including LTSS)
- Medi-Cal Expansion
- Cal MediConnect (CMC)
- Healthy Kids

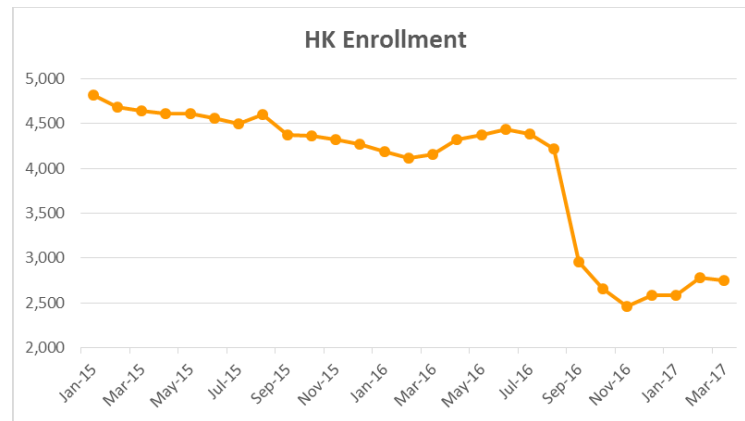
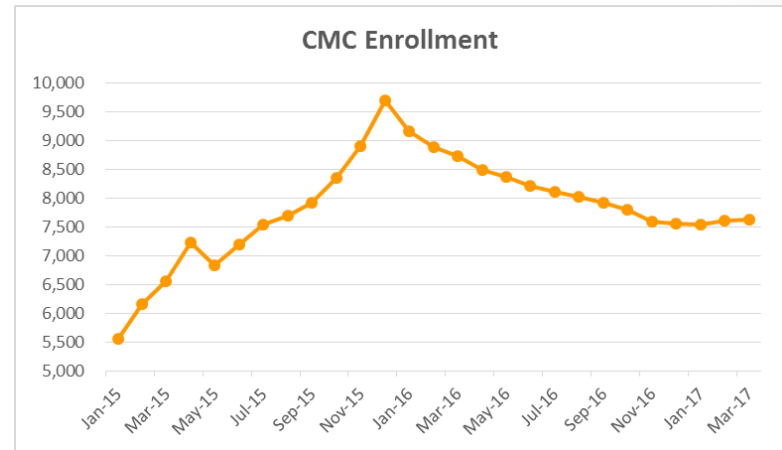
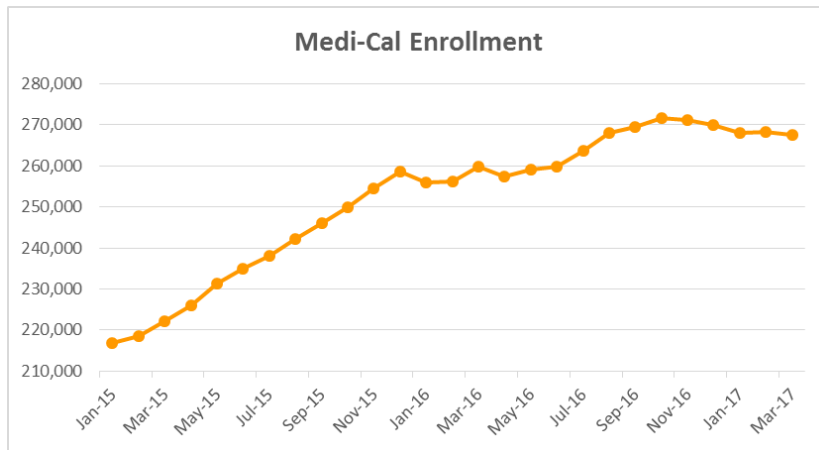


Key Assumptions

- Enrollment:
 - Medi-Cal enrollment expected to decrease 3%
 - Lower redetermination estimates per County Social Services
 - CCI enrollment projected to be static
 - Healthy Kids enrollment projected to be static
- DHCS Revenue Rates:
 - Non-MCE (“Classic”): average increase of 3.8%
 - MCE: decrease of 3.2%
 - CMC: increase of 2%
 - Overall, ~1% increase
- Expenses:
 - Medical expense to reflect recent unit cost and utilization trends
 - In general, CPI adjustment to administrative expenses
 - Depreciation expense to increase due to FY17 capital investments (mostly software applications such as QNXT, Essette, etc.)



Enrollment: Historical Trends



Revenue Assumptions

Program	Assumption	
Medi-Cal	<p>Use rates from DHCS provided 4/28/17. These are noted as “preliminary rates” with final rates to be received by 6/30/17.</p> <p>CCI revenue is based on re-blended on actual population grouping experience through March 2016.</p>	
Cal MediConnect	<p>Medicare</p> <ul style="list-style-type: none"> – Use most recent 2017 Part C rates – Estimated Part D rates from CMC actuals and projected risk adjustment factor for CMC population 	<p>Medi-Cal</p> <ul style="list-style-type: none"> – Re-blended rates applied to current population grouping experience through March 2016
Healthy Kids	<p>Based on current PMPM experience</p>	



Medical Expenses Assumptions

Program	Key Assumptions	
Medi-Cal	<ul style="list-style-type: none"> – Based on Provider rates as of April 2017 except Networks 20 (VHP) and 30 (KP) – Use historical data to project FFS expenses 	
Cal-MediConnect	<p>Medicare</p> <ul style="list-style-type: none"> – Use historical data and emerging trends to project expenses 	<p>Medi-Cal</p> <ul style="list-style-type: none"> – Use historical data and emerging trends to project expenses
Healthy Kids	<p>Based on current trends for FFS expenses and projected network changes</p>	



Administrative Expense Assumptions

- Zero-based budget: Departments identify resource requirements based on:
 - Enrollment
 - Regulatory changes
 - Organizational needs



Capital Budget Assumptions

- Departments submit requests for capital projects based on strategic and operational needs
 - Capital Budget is primarily comprised of Facility and Information Technology related items



Next Steps

- Objective:
 - Build a budget for expenses that adjusts or flexes with changes in volume of activity, such as those pegged to enrollment, claims, referrals or authorizations.
- Timeline:

Date	Meeting
May 26 – June 12	Review assumptions and finalize budgets
June 22, 2016	Present FY 2017-18 budgets to SCFHP Governing Board
July 1, 2017	Beginning of Fiscal Year 2017-18



**SANTA CLARA FAMILY HEALTH PLAN
 REVIEW OF INDEPENDENT AUDITORS' RECOMMENDATION
 MADE FOLLOWING COMPLETION OF FY 2015-2016 AUDIT
 STATUS AS OF MAY 25, 2017**

Status Indicators:

Completed
In Process

1. Formalized Written Policies & Procedures

Observation:	We observed there are insufficient written policies and procedures surrounding the significant business cycles, such as financial close and reporting, cash management, expenditures, payroll, claims, capitation revenue and capitation expense.
Recommendation:	We recommend that management develop formalized written policies and procedures for these significant business cycles.
Management Response (as of 06/30/16):	Management concurs with this recommendation. The Health Authority's CFO and Controller will conduct a comprehensive review of all Finance functions, develop all needed policy and procedure documentation, ensure that policies and procedures are routinely followed, and ensure that regular completion is documented.
Current Status:	The Finance staff is amidst a comprehensive drafting of written policies and procedures, reflecting current practices, with completion expected by fiscal year-end. Review of all balance sheet accounts and of P&L is conducted monthly and documented. Completion of draft policies and procedures is expected by 06/30/17 with comprehensive reviews to commence annually in December.

2. Super-User Access Rights

Observation:	We observed that the Accounting Manager has "super-user" access rights within the accounting and payroll systems. This could potentially affect proper access rights and segregation of duties of others.
Recommendation:	We recommend that management ensure that no employee as "super-user" access rights within the accounting and payroll systems and that each employee has the appropriate user access rights for the employee's position.
Management Response (as of 06/30/16):	Management concurs with this recommendation.
Current Status:	Super-user access rights within both the Great Plains accounting system and the ADP payroll system have been terminated. Access rights to these systems requires the Controller's written approval for I.T. to make any changes.

3. Reports of Cybersecurity Attacks

Observation:	We observed there is no formalized policy surrounding management receiving and reviewing regular reports that communicate the frequency and number of attempted cybersecurity attacks on the Health Authority's I.T. network.
Recommendation:	One of the key performance indicators for how well and organization's current cybersecurity strategy is working is the number of thwarted breach attempts and attacks on the organization's network. Regular reporting on the number of attached and the number of nullified attacks helps management determine the effectiveness of the defense measures implemented, as well as determine if additional measures are needed given the volume of continuing and varied attacks. We recommend that management develop a formalized policy for I.T. management to provide visibility to the Health Authority's management of the number of attacks it sustains over various timeframes (e.g., daily, weekly) and the success at defeating them. The reporting could be in the form of verbal reports during regularly scheduled management meetings or via a dashboard on the Health Authority's intranet site that is available to all employees to view if interested.
Management Response (as of 06/30/16):	The Health Authority's CIO and Information Technology staff will implement regular reporting to Executive Leadership of cybersecurity threats.
Current Status:	The CIO regularly provides detailed reporting of cybersecurity threats to Executive Management and quarterly updates to the Board.

**SANTA CLARA FAMILY HEALTH PLAN
 REVIEW OF INDEPENDENT AUDITORS' RECOMMENDATION
 MADE FOLLOWING COMPLETION OF FY 2015-2016 AUDIT
 STATUS AS OF MAY 25, 2017**

Status Indicators:

Completed
In Process

4. Documentation of AP Reconciliations

Observation:	We observed that there is no documentation of AP (accounts payable) reconciliations to ensure proper review and approval that monthly AP reconciliations have occurred.
Recommendation:	We recommend management document review of AP reconciliations.
Management Response (as of 06/30/16):	Management concurs with this recommendation. The Health Authority's CFO and Controller will conduct a comprehensive review of all Finance functions, develop all needed policy and procedure documentation, ensure that policies and procedures are routinely followed, and ensure that regular completion is documented.
Current Status:	Review of all balance sheet accounts and of the P&L is conducted monthly and documented.

5. Review and Documentation of Journal Entries

Observation:	We observed that there is a lack of consistency in documentation of review of journal entries to ensure adequate review and approval of journal entries with proper supporting documentation has occurred.
Recommendation:	We recommend that management develop a process to ensure that all journal entries are reviewed to ensure there is consistent documentation of the review.
Management Response (as of 06/30/16):	The Health Authority's CFO and Controller will conduct a comprehensive review of all Finance functions, develop all needed policy and procedure documentation, ensure that policies and procedures are routinely followed, and ensure that regular completion is documented.
Current Status:	The Plan's Controller is reviewing all journal entries until recently-hired staff start.

6. Board Review of Significant Contracts

Observation:	We observed three is no formal review and approval by the Board of significant contracts.
Recommendation:	We recommend that management develop a formal documented policy & procedure with consideration of dollar thresholds for significant contract that would require review and approval by executive management and/or the Board.
Management Response (as of 06/30/16):	The Health Authority's CFO and Controller will conduct a comprehensive review of all Finance functions, develop all needed policy and procedure documentation, ensure that policies and procedures are routinely followed, and ensure that regular completion is documented.
Current Status:	To ensure that the Board is aware of all significant contracts, a policy has been implemented to ensure that all contracts over \$250,000 are submitted to the Board for review and approval. In addition, the Finance staff is amidst a comprehensive drafting of written policies and procedures, reflecting current practices, with completion expected by fiscal year-end. This will include a detailed procurement policy & procedure to ensure to implement approval thresholds and appropriate review and approval. Completion of draft policies and procedures is expected by 06/30/17 with comprehensive reviews to commence annually in December.