



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

Thursday, July 28, 2016
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. Introduce Neal Jarecki, Controller | Mr. Cameron | 8:35 | 5 min |
| 3. Meeting Minutes
Review meeting minutes of the May 26, 2016 Executive/Finance Committee.
Possible Action: Approve May 26, 2016 Executive/Finance Committee Minutes | Ms. Lew | 8:40 | 5 min |
| 4. Public Comment
Members of the public may speak to any item not on the agenda; 2 minutes per speaker. The Executive/Finance Committee reserves the right to limit the duration of the public comment period to 30 minutes. | Ms. Lew | 8:45 | 5 min |
| 5. May 2016 Financial Statements
Consider recommendations relating to the May 2016 Financial Statements.
Possible Action: Approve May 2016 Financial Statements | Mr. Cameron | 8:50 | 20 min |
| 6. Fiscal 2015-16 Year-End Update
Discuss status of FY'16 year-end financial reporting and external audit. | Mr. Cameron | 9:10 | 20 min |
| 7. Reserve Methodology
Discuss reserve strategy, TNE, and cash flow.
Possible Action: Approve Reserve Methodology | Mr. Cameron | 9:30 | 20 min |

- | | |
|--|-------------------------|
| 8. CEO Update
Discuss status of current topics and initiatives.
Possible Action: Accept CEO Update | Ms. Tomcala 9:50 10 min |
| 9. 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

Financial Statements
For Eleven Months Ended May 2016
(Unaudited)

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**Santa Clara Family Health Plan
CFO Finance Report
For the Month and Year to Date Ended May 31, 2016**

Summary of Financial Results (Revised Budget)

For the month of May 2016, SCFHP recorded a net surplus of \$0.1 million compared to a budgeted net surplus of \$1.0 million resulting in an unfavorable variance from budget of \$0.9 million. For year to date May 2016, SCFHP recorded a net surplus of \$12.3 million compared to a budgeted net surplus of \$14.8 million resulting in a unfavorable variance from budget of \$2.5 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 – May 2016
Favorable/ (Unfavorable)**

Current Month					Year to Date			
Actual	Budget	Variance \$	Variance %		Actual	Budget	Variance \$	Variance %
\$ 92,351,188	\$ 89,184,168	\$ 3,167,020	3.6%	Revenue	\$991,188,058	\$980,417,562	\$ 10,770,495	1.1%
89,092,379	83,960,833	(5,131,546)	-6.1%	Medical Expense	946,093,883	928,567,643	(17,526,241)	-1.9%
3,258,809	5,223,335	(1,964,525)	-37.6%	Gross Margin	45,094,174	51,849,919	(6,755,745)	-13.0%
3,015,708	4,033,604	1,017,896	25.2%	Administrative Expense	31,822,472	35,678,534	3,856,062	10.8%
243,101	1,189,731	(946,630)	-79.6%	Net Operating Income	13,271,702	16,171,385	(2,899,683)	-17.9%
(93,675)	(139,752)	46,077	33.0%	Non-Operating Income/Exp	(952,099)	(1,332,500)	380,401	28.5%
\$ 149,426	\$ 1,049,979	\$ (900,553)	-85.8%	Net Surplus/ (Loss)	\$ 12,319,603	\$ 14,838,885	\$ (2,519,282)	-17.0%

Revenue

The Health Plan recorded net revenue of \$92.4 million for the month of May 2016, compared to budgeted revenue of \$89.2 million, resulting in a favorable variance from budget of \$3.2 million, or 3.6%. For year to date May 2016, the Plan recorded net revenue of \$991.2 million, compared to budgeted revenue of \$980.4 million, resulting in a favorable variance from budget of \$10.8 million, or 1.1%, which was primarily driven by higher Medi-Cal membership, higher In Home Support Services (IHSS) revenue, increased Abortion capitation rate, and higher number of Hep C eligible users. The Plan received Long Term Care (LTC) prior year revenue and also recorded partial LTC rate adjustment revenue reflecting the more expensive MLTSS mix than originally projected by the state during the rate setting. The positive variance was partially offset by unfavorable variance in Medicare and Maternity Kick revenue.

A statistical and financial summary for all lines of business is included on page 9 of this report.

Member months

For the month of May 2016, overall member months were higher than budget by 13,935 (+5.4%). For year to date May 2016, overall member months were higher than budget by 35,943 (+1.2%).

In the eleven months since the end of the prior fiscal year, 6/30/2015, membership in Medi-Cal increased by 10.5%, membership in the Healthy Kids program decreased by 3.7%, and membership in the Agnews program decreased by 1.8%.

In January 2015, we started enrolling members in Cal MediConnect (CMC). For the month of May 2016, membership in the CMC program was lower than the budget by 792 member months (- 8.6%). For year to date May 2016, membership in the CMC program was lower than the budget by 2,167 member months (- 2.3%). In the eleven months since the end of the prior fiscal year, 6/30/2015, membership in CMC program increased by 16.4%.

Member months, and changes from prior year, are summarized on Page 11.

Medical Expenses

For the month of May 2016, medical expense was \$89.1 million compared to budget of \$84.0 million, resulting in an unfavorable budget variance of \$5.1 million, or -6.1%. For year to date May 2016, medical expense was \$946.1 million compared to budget of \$928.6 million, resulting in an unfavorable budget variance of \$17.5 million, or -1.9%. The increased medical expenses year to date are primarily attributable to Long term care (\$13.6 million or 17.2%), Pharmacy (\$4.5 million or 3.6%), and IHSS expense (\$4.6 million or 3.2%) over budget.

Administrative Expenses

Overall administrative costs were under budget by \$1.0 million (25.2%) for the month of May 2016, and under budget by \$3.9 million (10.8%) for year to date May 2016. Both Salaries/Benefits and Consulting expenses were under budget due to the longer than expected ramp up time to hire/engage additional resources approved at the mid-year budget review. Printing and Reproduction and Contracted Services expenses were lower due to the printing/mailing of the materials being deferred to a later date. Some of this favorability is offset by higher than budgeted Information systems and Temporary help expenses.

Overall administrative expenses were 3.2% of revenues for year to date May 2016.

Balance Sheet (Page 6)

Current assets at May 31, 2016 totaled \$469.7 million compared to current liabilities of \$378.2 million, yielding a current ratio (the ratio of current assets to current liabilities) of 1.2 as of May 31, 2016. Working capital increased by \$13.0 million for the eleven months year to date ended May 31, 2016.

Cash as of May 31, 2016, increased by \$115.8 million compared to the cash balance as of year-end June 30, 2015. Net receivables increased by \$63.4 million during the same eleven month period ended May 31, 2016. The cash position increased largely due to the continued overpayment of Medi-Cal expansion premium revenues by the DHCS. It also increased due to the receipt of both April and May capitation in the month of May. Commencing in January, DHCS started to recoup the over payments and completion of the payback is anticipated by February 2017. However, DHCS has still not implemented the substantially reduced FY16 rate, so this liability amount is likely to continue growing despite partial recoupment.

Liabilities increased by a net amount of \$167.5 million during the eleven months ended May 2016. This was primarily due to the continued overpayment of Medi-Cal expansion premium revenues by the State, an increase in medical cost reserves largely as a result of the rapid growth of long term care claims, and an increase in the IHSS liability. The plan also recorded a Premium Deficiency Reserve (\$18.0 million) for the Cal MediConnect contract period ending December 31, 2016. Additionally, the Health Plan recorded the unfunded Pension Liability of \$5.7 million as required by GASB 68, as of May 31, 2016.

Capital Expenses increased by \$1.4 million for the eleven months ended May 31, 2016.

Tangible Net Equity

Tangible Net Equity (TNE) was \$85.0 million at May 31, 2016 compared to the minimum TNE required by the Department of Managed Health Care (DMHC) of \$30.0 million. A chart showing TNE trends is shown on page 14 of this report.

At the December 2011 Board of Director's meeting, a policy was adopted for targeting the organization's capital reserves to equal two months of Medi-Cal capitation revenue.

As of May 31, 2016, the Plan's reserves are below this reserves target by about \$66.9 million (see calculation below).

Calculation of targeted reserves as of May 31, 2016

Estimate of two months' capitation based on May 2016 (rounded) \$146,949,000
(May 2016 Medi-Cal capitation of \$73,474,130 x 2 = \$146,948,260)

Less: Unrestricted Net Equity per balance sheet (rounded) \$ 80,028,000

Approximate reserves below target \$ 66,921,000

**Santa Clara County Health Authority
Balance Sheet**

	MAY 16	APR 16	MAR 16	JUN 15
Assets				
Current Assets				
Cash and Marketable Securities	\$ 226,333,649	\$ 143,160,175	\$ 126,021,360	\$ 110,520,927
Premiums Receivable	240,947,195	317,887,525	303,384,171	177,531,031
Due from Santa Clara Family Health Foundation - net				3,612
Prepaid Expenses and Other Current Assets	<u>2,445,165</u>	<u>2,796,167</u>	<u>3,019,935</u>	<u>1,917,101</u>
Total Current Assets	469,726,008	463,843,868	432,425,467	289,972,670
Long Term Assets				
Equipment	13,249,656	13,165,506	12,493,431	11,879,173
Less: Accumulated Depreciation	<u>(8,632,945)</u>	<u>(8,491,534)</u>	<u>(8,352,033)</u>	<u>(7,363,871)</u>
Total Long Term Assets	<u>4,616,711</u>	<u>4,673,972</u>	<u>4,141,398</u>	<u>4,515,302</u>
Total Assets	<u>\$ 474,342,719</u>	<u>\$ 468,517,839</u>	<u>\$ 436,566,865</u>	<u>\$ 294,487,972</u>
Deferred Outflow of Resources				
	<u>\$ 1,367,331</u>	<u>\$ 1,367,331</u>	<u>1,367,331</u>	<u>1,367,331</u>
Total Deferred Outflows and Assets	<u>475,710,050</u>	<u>469,885,170</u>	<u>437,934,196</u>	<u>295,855,303</u>
Liabilities and Net Position				
Current Liabilities				
Trade Payables	\$ 4,583,300	\$ 3,658,195	\$ 7,214,335	\$ 4,924,038
Deferred Rent	144,469	146,529	148,590	167,134
Employee Benefits	1,046,300	1,026,662	1,079,171	973,066
Retirement Obligation per GASB 45	556,515	505,923	455,330	
Advance Premium - Healthy Kids	64,791	66,999	63,041	64,127
Deferred Revenue - Medicare		8,006,172		0
Liability for ACA 1202	503,985	516,561	516,500	5,069,225
Payable to Hospitals (SB208)	(35,535)	(35,535)	(35,535)	(35,535)
Payable to Hospitals (AB 85)	1,691,053	1,733,119	1,647,982	4,615,251
Due to Santa Clara County Valley Health Plan	2,829,030	2,568,192	2,375,009	11,230,305
MCO Tax Payable - State Board of Equalization	11,304,960	11,082,866	10,212,271	8,909,559
Due to DHCS	89,161,901	80,751,901	73,135,234	22,173,221
Liability for In Home Support Services (IHSS)	181,522,714	170,791,594	160,352,374	69,537,810
Premium Deficiency Reserve (PDR)	13,088,054	13,088,054	13,088,054	13,088,054
Medical Cost Reserves	<u>71,784,407</u>	<u>78,738,257</u>	<u>71,681,738</u>	<u>70,819,543</u>
Total Current Liabilities	378,245,943	372,645,488	341,934,094	211,535,798
Non-Current Liabilities				
Noncurrent Premium Deficiency Reserve	4,911,946	4,911,946	4,911,946	4,911,946
Net Pension Liability GASB 68	5,708,971	5,633,971	5,558,971	4,883,971
Total Liabilities	<u>388,866,860</u>	<u>383,191,405</u>	<u>352,405,011</u>	<u>221,331,715</u>
Deferred Inflow of Resources	<u>1,892,634</u>	<u>1,892,634</u>	<u>1,892,634</u>	<u>1,892,634</u>
Net Position / Reserves				
Invested in Capital Assets	4,616,711	4,673,972	4,141,398	4,515,302
Restricted under Knox-Keene agreement	305,350	305,350	305,350	305,350
Unrestricted Net Equity	67,708,893	67,651,632	68,184,206	30,416,972
Current YTD Income (Loss)	<u>12,319,603</u>	<u>12,170,177</u>	<u>11,005,597</u>	<u>37,393,330</u>
Net Position / Reserves	<u>84,950,557</u>	<u>84,801,131</u>	<u>83,636,551</u>	<u>72,630,954</u>
Total Liabilities, Deferred Inflows, and Net Assets	<u>\$ 475,710,050</u>	<u>\$ 469,885,170</u>	<u>\$ 437,934,196</u>	<u>\$ 295,855,303</u>
Solvency Ratios:				
Working Capital	\$ 91,480,066	\$ 91,198,379	\$ 90,491,373	\$ 78,436,872
Working Capital Ratio	1.2	1.2	1.3	1.4
Average Days Cash on Hand	78	49	44	55

Santa Clara County Health Authority
Income Statement for the Eleven Months Ending May 31, 2016

	For the Month of May 2016					For Eleven Months Ending May 31, 2016				
	Actual	% of Revenue	Budget	% of Revenue	Variance	Actual	% of Revenue	Budget	% of Revenue	Variance
REVENUES										
MEDI-CAL	\$ 83,924,167	90.9%	\$ 79,084,299	88.7%	\$ 4,839,868	\$ 890,339,454	89.8%	\$ 874,246,100	89.2%	\$ 16,093,353
HEALTHY KIDS	\$ 386,021	0.4%	\$ 350,162	0.4%	\$ 35,859	\$ 4,144,902	0.4%	\$ 4,078,977	0.4%	\$ 65,925
MEDICARE	\$ 8,040,999	8.7%	\$ 9,749,706	10.9%	\$ (1,708,707)	\$ 96,703,702	9.8%	\$ 102,092,485	10.4%	\$ (5,388,783)
TOTAL REVENUE	\$ 92,351,188	100.0%	\$ 89,184,168	100.0%	\$ 3,167,020	\$ 991,188,058	100.0%	\$ 980,417,562	100.0%	\$ 10,770,495
MEDICAL EXPENSES										
MEDI-CAL	\$ 80,843,809	87.5%	\$ 75,303,195	84.4%	\$ (5,540,614)	\$ 853,913,822	86.2%	\$ 833,278,833	85.0%	\$ (20,634,989)
HEALTHY KIDS	\$ 355,784	0.4%	\$ 362,515	0.4%	\$ 6,731	\$ 4,029,879	0.4%	\$ 4,102,006	0.4%	\$ 72,126
MEDICARE	\$ 7,857,008	8.5%	\$ 8,257,348	9.3%	\$ 400,341	\$ 87,741,056	8.9%	\$ 90,771,159	9.3%	\$ 3,030,103
AGNEWS	\$ 35,777	0.0%	\$ 37,775	0.0%	\$ 1,997	\$ 409,126	0.0%	\$ 415,645	0.0%	\$ 6,519
TOTAL MEDICAL EXPENSES	\$ 89,092,379	96.5%	\$ 83,960,833	94.1%	\$ (5,131,546)	\$ 946,093,883	95.5%	\$ 928,567,643	94.7%	\$ (17,526,241)
MEDICAL OPERATING MARGIN	\$ 3,258,809	3.5%	\$ 5,223,335	5.9%	\$ (1,964,525)	\$ 45,094,174	4.5%	\$ 51,849,919	5.3%	\$ (6,755,745)
ADMINISTRATIVE EXPENSES										
SALARIES AND BENEFITS	\$ 1,617,139	1.8%	\$ 2,128,796	2.4%	\$ 511,656	\$ 16,770,525	1.7%	\$ 18,901,538	1.9%	\$ 2,131,013
RENTS AND UTILITIES	\$ 107,166	0.1%	\$ 109,064	0.1%	\$ 1,898	\$ 1,176,062	0.1%	\$ 1,203,487	0.1%	\$ 27,425
PRINTING AND ADVERTISING	\$ 899	0.0%	\$ 445,473	0.5%	\$ 444,574	\$ 401,052	0.0%	\$ 1,309,864	0.1%	\$ 908,812
INFORMATION SYSTEMS	\$ 181,557	0.2%	\$ 87,999	0.1%	\$ (93,558)	\$ 1,883,766	0.2%	\$ 1,465,680	0.1%	\$ (418,086)
PROF FEES / CONSULTING / TEMP STAFFING	\$ 793,669	0.9%	\$ 968,286	1.1%	\$ 174,618	\$ 8,500,012	0.9%	\$ 9,770,219	1.0%	\$ 1,270,207
DEPRECIATION / INSURANCE / EQUIPMENT	\$ 171,468	0.2%	\$ 164,089	0.2%	\$ (7,378)	\$ 1,630,983	0.2%	\$ 1,559,896	0.2%	\$ (71,086)
OFFICE SUPPLIES / POSTAGE / TELEPHONE	\$ 56,000	0.1%	\$ 66,684	0.1%	\$ 10,684	\$ 671,465	0.1%	\$ 711,959	0.1%	\$ 40,495
MEETINGS / TRAVEL / DUES	\$ 73,270	0.1%	\$ 56,136	0.1%	\$ (17,134)	\$ 719,581	0.1%	\$ 689,929	0.1%	\$ (29,652)
OTHER	\$ 14,542	0.0%	\$ 7,077	0.0%	\$ (7,464)	\$ 69,027	0.0%	\$ 65,961	0.0%	\$ (3,065)
TOTAL ADMINISTRATIVE EXPENSES	\$ 3,015,708	3.3%	\$ 4,033,604	4.5%	\$ 1,017,896	\$ 31,822,472	3.2%	\$ 35,678,534	3.6%	\$ 3,856,062
OPERATING SURPLUS (LOSS)	\$ 243,101	0.3%	\$ 1,189,731	1.3%	\$ (946,630)	\$ 13,271,702	1.3%	\$ 16,171,385	1.6%	\$ (2,899,683)
GASB 45-POST EMPLOYMENT BENEFITS EXPENSE	\$ (50,592)	-0.1%	\$ (80,007)	-0.1%	\$ 29,415	\$ (556,515)	-0.1%	\$ (703,590)	-0.1%	\$ 147,075
GASB 68 - UNFUNDED PENSION LIABILITY	\$ (75,000)	-0.1%	\$ (75,000)	-0.1%	\$ -	\$ (825,000)	-0.1%	\$ (825,000)	-0.1%	\$ -
INTEREST & OTHER INCOME	\$ 31,917	0.0%	\$ 15,255	0.0%	\$ 16,662	\$ 429,416	0.0%	\$ 196,090	0.0%	\$ 233,326
NET SURPLUS (LOSS) FINAL	\$ 149,426	0%	\$ 1,049,979	1.2%	\$ (900,553)	\$ 12,319,603	1.2%	\$ 14,838,885	1.5%	\$ (2,519,282)

Administrative Expense
Actual vs. Budget
For the Current Month & Fiscal Year to Date - May 2016
Favorable/(Unfavorable)

Current Month					Year to Date			
Actual	Budget	Variance \$	Variance %		Actual	Budget	Variance \$	Variance %
\$ 1,617,139	\$ 2,128,796	\$ 511,656	24.0%	Personnel	\$ 16,770,525	\$ 18,901,538	\$ 2,131,013	11.3%
1,398,569	1,904,808	506,239	26.6%	Non-Personnel	15,051,947	16,776,996	\$ 1,725,049	10.3%
3,015,708	4,033,604	1,017,896	25.2%	Total Administrative Expense	31,822,472	35,678,534	3,856,062	10.8%

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

Eleven Months Ended May 31, 2016

	Medi-Cal (incl. Agnews)	CMC	Healthy Kids	Grand Total
P&L (ALLOCATED BASIS)				
REVENUE	865,705,410	121,337,745	\$4,144,902	\$991,188,058
MEDICAL EXPENSES (MLR)	823,298,269 95.1%	118,765,735 97.9%	4,029,879 97.2%	\$946,093,883 95.5%
GROSS MARGIN	42,407,141	2,572,011	115,023	45,094,174
ADMINISTRATIVE EXPENSES (% MM allocation except CMC)	27,456,723	3,895,595	470,154	31,822,472
OPERATING INCOME/(LOSS)	14,950,417	(1,323,584)	(355,131)	13,271,702
OTHER INCOME/(EXPENSE) (% of Revenue Allocation)	(831,565)	(116,553)	(3,981)	(952,099)
NET INCOME/ (LOSS)	\$14,118,852	(\$1,440,137)	(\$359,112)	\$12,319,603
PMPM (ALLOCATED BASIS)				
REVENUE	\$311.49	\$1,294.41	\$87.10	\$339.38
MEDICAL EXPENSES	296.23	1,266.97	84.68	323.94
GROSS MARGIN	15.26	27.44	2.42	15.44
ADMINISTRATIVE EXPENSES	9.88	41.56	9.88	10.90
OPERATING INCOME/(LOSS)	5.38	(14.12)	(7.46)	4.54
OTHER INCOME / (EXPENSE)	(0.30)	(1.24)	(0.08)	(0.33)
NET INCOME / (LOSS)	\$5.08	(\$15.36)	(\$7.55)	\$4.22
ALLOCATION BASIS:				
MEMBER MONTHS - YTD	2,779,229	93,740	47,590	2,920,559
Member MONTHS by LOB	95.2%	3.2%	1.7%	100%
Revenue by LOB	87.3%	12.2%	0.4%	100%

**Santa Clara Family Health Plan
Statement of Cash Flows
For Eleven Months Ended May 31, 2016**

Cash flows from operating activities	
Premiums received	\$ 997,159,586
Medical expenses paid	\$ (841,545,392)
Administrative expenses paid	<u>\$ (38,860,405)</u>
Net cash from operating activities	\$ 116,753,790
 Cash flows from capital and related financing activities	
Purchases of capital assets	\$ (1,370,483)
 Cash flows from investing activities	
Interest income and other income, net	<u>\$ 429,416</u>
 Net (Decrease) increase in cash and cash equivalents	<u>\$ 115,812,722</u>
 Cash and cash equivalents, beginning of year	<u>\$ 110,520,927</u>
 Cash and cash equivalents at May 31, 2016	<u><u>\$ 226,333,649</u></u>
 Reconciliation of operating income to net cash from operating activities	
Operating income (loss)	\$ 11,890,187
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation	\$ 1,269,074
Changes in operating assets and liabilities	
Premiums receivable	\$ (63,416,165)
Due from Santa Clara Family Health Foundation	\$ 3,612
Prepays and other assets	\$ (528,063)
Deferred outflow of resources	\$ -
Accounts payable and accrued liabilities	\$ (7,222,428)
State payable	\$ 69,384,081
Santa Clara Valley Health Plan payable	\$ (8,401,276)
Net Pension Liability	\$ 825,000
Medical cost reserves and PDR	\$ 964,864
Deferred inflow of resources	<u>\$ -</u>
Total adjustments	<u>\$ 104,863,602</u>
Net cash from operating activities	<u><u>\$ 116,753,790</u></u>

Santa Clara Family Health Plan Enrollment Summary

For the Month of May 2016

Eleven Months Ending May 2016

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Prior Year Actual</u>	<u>Change FY16 vs. FY15</u>
Medi-Cal	259,076	244,682	5.9%	2,778,019	2,740,442	1.4%	2,349,726	18.2%
Healthy Kids	4,375	4,038	8.4%	47,590	47,035	1.2%	52,797	(9.9%)
Medicare	8,367	9,159	(8.6%)	93,740	95,907	(2.3%)	32,329	190.0%
Agnews	110	114	(3.5%)	1,210	1,232	(1.8%)	1,246	(2.9%)
Total	271,928	257,993	5.4%	2,920,559	2,884,616	1.2%	2,436,098	19.9%

**Santa Clara County Health Authority
May 2016**

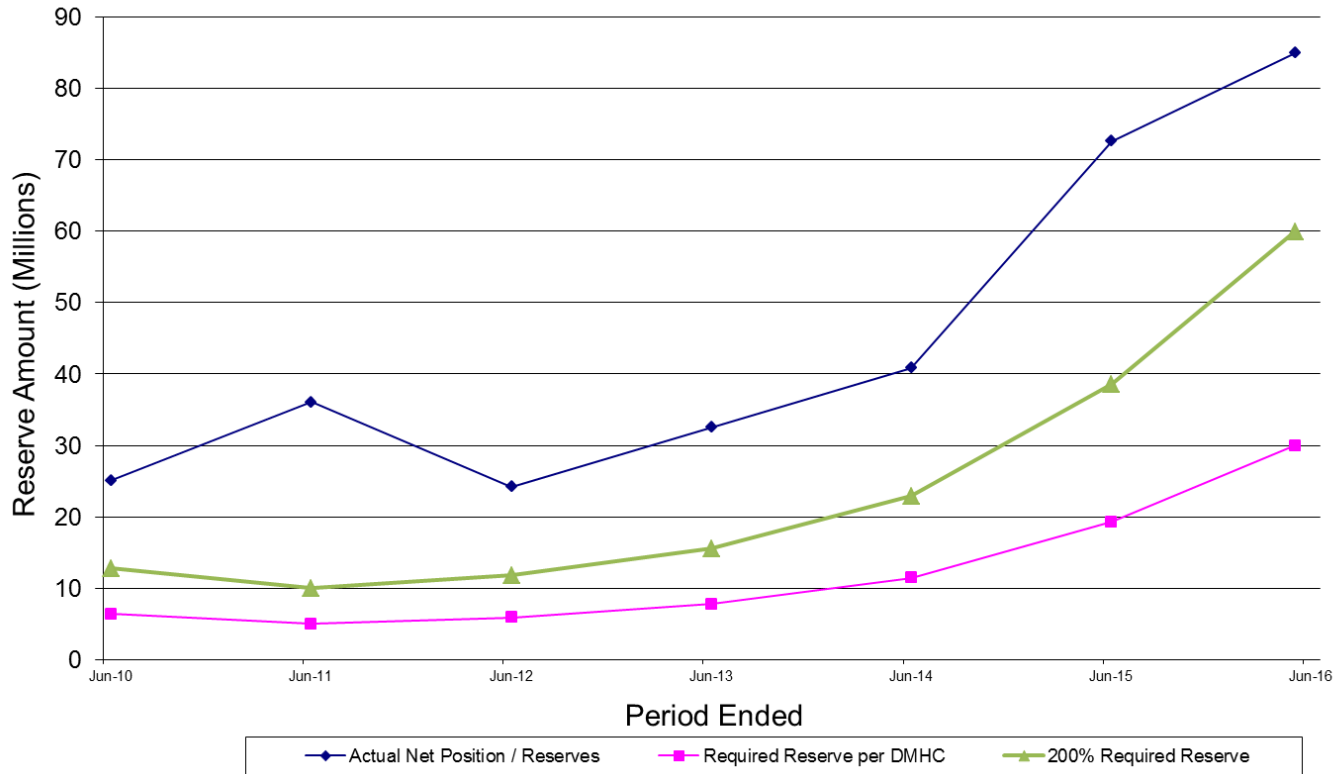
	Medi-Cal		Healthy Kids		CMC		AG		Total	
	<u>Enrollment</u>	<u>% of Total</u>	<u>Enrollment</u>	<u>% of Total</u>	<u>Enrollment</u>	<u>% of Total</u>	<u>Enrollment</u>	<u>% of Total</u>	<u>Enrollment</u>	<u>% of Total</u>
Direct Contract Physicians	22,848	9%	227	5%	8,367	100%	110	100%	31,552	12%
SCVHHS, Safety Net Clinics, FQHC Clinics	139,012	54%	2,920	67%	0	0%	0	0%	141,932	52%
Palo Alto Medical Foundation	7,428	3%	34	1%	0	0%	0	0%	7,462	3%
Physicians Medical Group	46,658	18%	1,041	24%	0	0%	0	0%	47,699	18%
Premier Care	15,890	6%	153	3%	0	0%	0	0%	16,043	6%
Kaiser	<u>27,240</u>	<u>11%</u>	<u>0</u>	<u>0%</u>	<u>0</u>	<u>0%</u>	<u>0</u>	<u>0%</u>	<u>27,240</u>	<u>10%</u>
Total	<u>259,076</u>	<u>100%</u>	<u>4,375</u>	<u>100%</u>	<u>8,367</u>	<u>100%</u>	<u>110</u>	<u>100%</u>	<u>271,928</u>	<u>100%</u>
Enrollment @ 6-30-15	<u>234,497</u>		<u>4,541</u>		<u>7,187</u>		<u>112</u>		<u>246,337</u>	
Net % Change from Beginning of FY	<u>10.5%</u>		<u>-3.7%</u>		<u>16.4%</u>		<u>-1.8%</u>		<u>10.4%</u>	

Santa Clara Family Health Plan Enrollment by Aid-Category

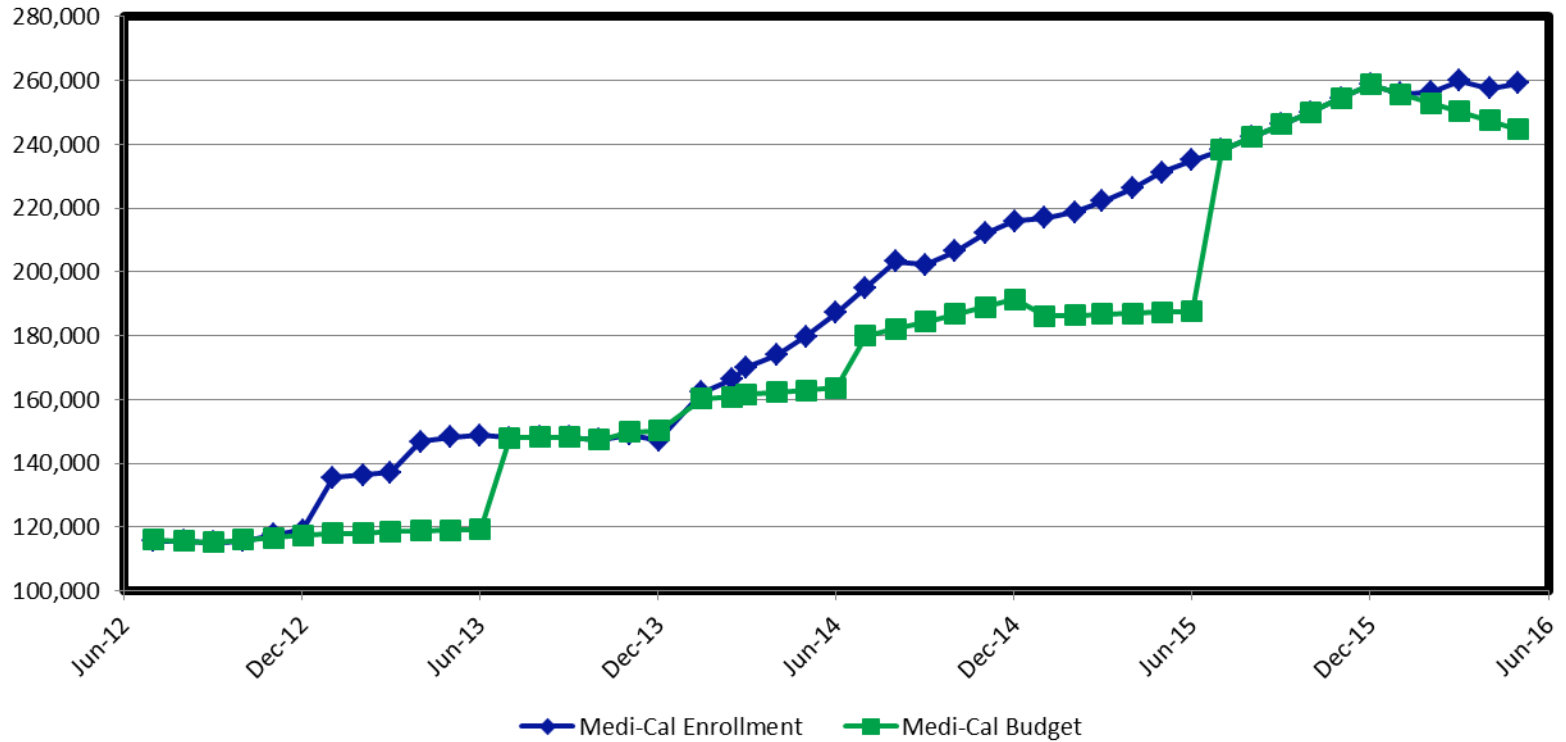
	2015-01	2015-02	2015-03	2015-04	2015-05	2015-06	2015-07	2015-08	2015-09	2015-10	2015-11	2015-12	2016-01	2016-02	2016-03	2016-04	2016-05
Adult (over 19)	31,337	30,489	30,078	29,351	28,694	28,174	27,844	27,331	27,080	27,148	27,229	27,493	27,509	27,485	27,857	27,436	27,431
Adult (under 19)	80,858	82,029	83,777	85,840	88,550	90,811	92,782	95,564	97,888	99,822	101,801	103,082	102,500	103,017	104,739	104,442	105,204
Aged - Medi-Cal Only	8,208	8,425	8,366	8,522	8,664	8,731	8,642	8,730	8,858	8,909	9,103	9,235	9,241	9,158	9,150	9,145	9,144
Disabled - Medi-Cal Only	11,687	11,648	11,613	11,516	11,533	11,455	11,426	11,348	11,297	11,250	11,263	11,130	11,105	11,065	10,996	10,952	10,892
Child (HF conversion)	17,664	16,784	15,827	14,420	12,762	11,153	9,541	7,791	6,032	4,575	3,837	3,461	3,211	2,863	2,556	2,301	2,045
Adult Expansion	58,718	59,291	61,035	63,336	66,475	68,720	71,183	73,695	75,814	77,756	79,406	81,235	79,284	79,392	81,324	79,933	80,940
Other	44	50	49	53	52	51	48	47	55	47	45	45	40	40	42	42	40
Long Term Care	68	90	101	131	152	171	189	191	202	211	228	242	249	260	260	259	267
Total Non-Duals	208,584	208,806	210,846	213,169	216,882	219,266	221,655	224,697	227,226	229,718	232,912	235,923	233,139	233,280	236,924	234,510	235,963
Aged	4,295	5,381	6,274	7,339	8,340	9,299	9,998	10,673	11,579	12,436	13,389	14,048	14,078	14,249	14,332	14,306	14,419
Disabled	2,461	2,913	3,251	3,659	4,030	4,444	4,727	4,932	5,235	5,544	5,852	6,042	6,049	6,070	6,058	6,050	6,018
Other	841	883	951	1,009	1,066	1,151	1,238	1,303	1,370	1,458	1,483	1,638	1,638	1,654	1,701	1,711	1,787
Long Term Care	39	68	106	247	369	496	649	727	818	894	974	1,051	1,054	1,035	1,015	1,001	999
Total Duals	7,636	9,245	10,582	12,254	13,805	15,390	16,612	17,635	19,002	20,332	21,698	22,779	22,819	23,008	23,106	23,068	23,223
Total Medi-Cal	216,220	218,051	221,428	225,423	230,687	234,659	238,267	242,332	246,228	250,050	254,610	258,702	255,958	256,288	260,030	257,578	259,186
Healthy Kids	4,793	4,665	4,623	4,584	4,595	4,541	4,496	4,598	4,375	4,362	4,325	4,273	4,186	4,114	4,158	4,328	4,375
CMC Non-Long Term Care	5,477	6,049	6,397	7,033	6,607	6,941	7,261	7,399	7,599	8,014	8,537	9,317	8,786	8,533	8,378	8,152	8,035
CMC - Long Term Care	80	113	151	193	229	246	282	299	313	340	369	382	373	353	350	336	332
Total CMC	5,557	6,162	6,548	7,226	6,836	7,187	7,543	7,698	7,912	8,354	8,906	9,699	9,159	8,886	8,728	8,488	8,367
Total Enrollment	226,570	228,878	232,599	237,233	242,118	246,387	250,306	254,628	258,515	262,766	267,841	272,674	269,303	269,288	272,916	270,394	271,928

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

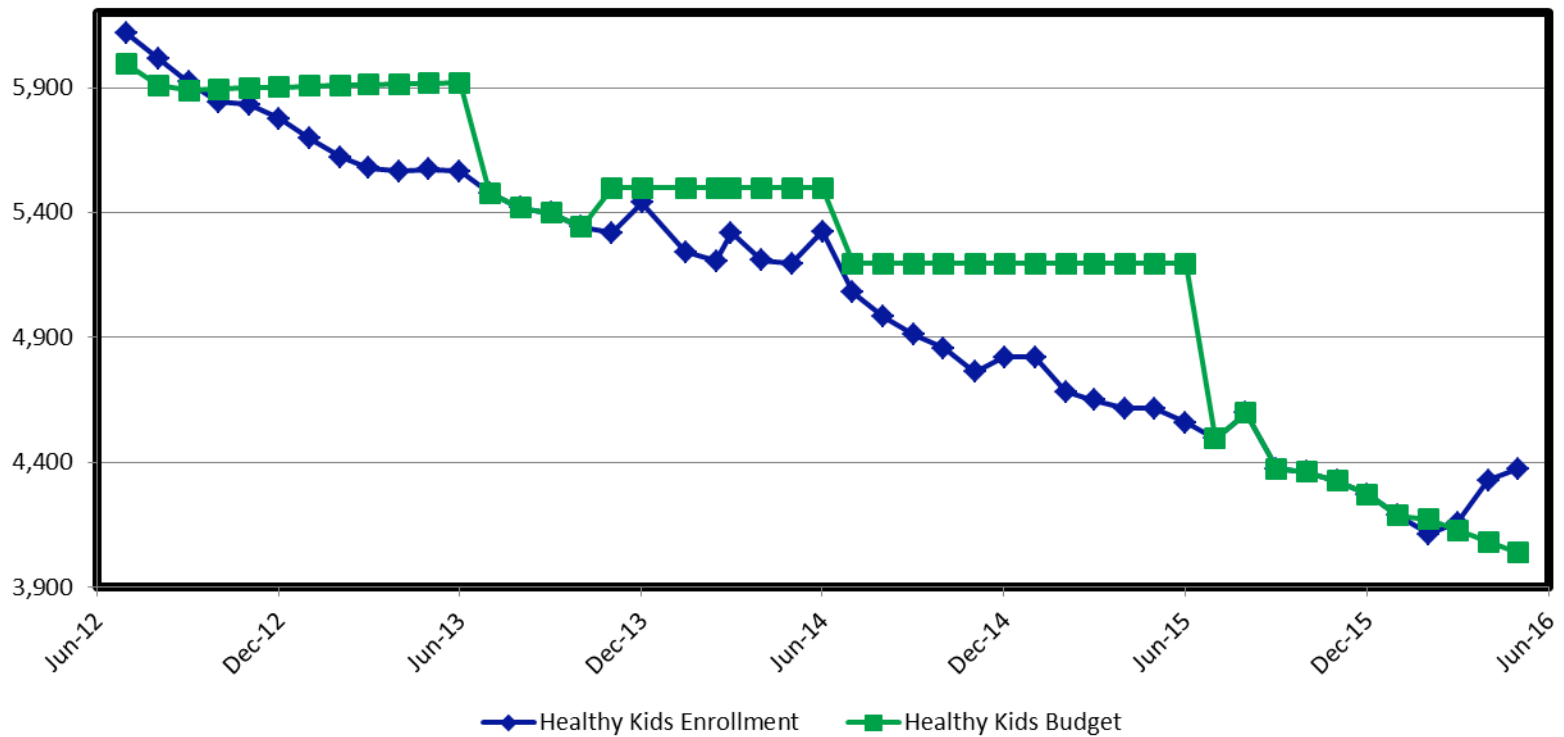
	<u>6/30/2010</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2013</u>	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>5/31/2016</u>
Actual Net Position / Reserves	25,103,011	36,093,769	24,208,576	32,551,161	40,872,580	72,630,954	84,950,557
Required Reserve per DMHC	6,388,000	4,996,000	5,901,000	7,778,000	11,434,000	19,269,000	29,952,000
200% of Required Reserve	12,776,000	9,992,000	11,802,000	15,556,000	22,868,000	38,538,000	59,904,000



SCFHP Medi-Cal Enrollment as of May 2016



SCFHP Healthy Kids Enrollment as of May 2016





May 2016 Financial Summary

SCCHA Executive Committee Meeting
July 28, 2016



Fiscal Year 2015-16 Highlights (*Revised Budget*)

- **Net Surplus (loss)** – May \$0.1m surplus and YTD \$12.3m surplus (\$2.5m) unfavorable to budget
 - The variance is primarily related to long-term care expenses (LTC) that have increased rapidly this fiscal year (note expense growth on page 6 chart).
- **Revenue** – over budget by \$10.8 m (+1.1%)
 - Increase is due to higher Medi-Cal membership, higher In Home Support Services (IHSS) revenue, higher Abortion capitation rate, higher number of Hep C users, and LTC rate adjustment. However, CMC revenue is lower than budget.
- **Medical Expenses** – over budget by \$17.5m (-1.9%)
 - Primarily due to higher than budgeted LTC, Pharmacy, and IHSS expense.
- **Administrative Expenses** – under budget by \$3.9m (10.8%)
 - Slower hiring personnel (FTE and Consultants) ramp up than budgeted. Printing/Reproduction/Contracted costs deferred to a later date.
- **Other Expenses** – under budget by \$0.4m; due to higher interest earned and lower post-employment benefits expense.
- **Enrollment**
 - May 2016 membership: 271,928 (5.4% favorable to budget)
 - May YTD: 2,920,559 member months (1.2% favorable to budget and 20% higher than May YTD last year)
 - Continued growth in Medi-Cal Expansion membership. CMC membership has been trending downward since January.
- **Balance Sheet**
 - May capitation received early improving cash position and reducing capitation receivable.
 - Net receivables due from DHCS have increased \$40m primarily because of CCI and CMC rate recasting delays.
 - Medi-Cal Expansion rate overpayment: State recouped most of the FY15 overpayments; however, FY16 overpayments continue to grow.



Consolidated Performance May 2016 and Year to Date

	Month of May	FYTD through May
Revenue	\$92.4 million	\$991.2 million
Medical Costs	\$89.1 million	\$946.1 million
Medical Loss Ratio	96.5%	95.5%
Administrative Costs	\$3 million (3.3%)	\$31.8 million (3.2%)
Other Income/ Expense	(\$93,675)	(\$952,099)
Net Surplus (Loss)	\$149,426	\$12,319,603
Cash on Hand		(78 Days) \$226.3 million
Net Cash Available to SCFHP		(42 Days) \$120.9 million
Receivables		\$240.9 million
Current Liabilities		\$378.2 million
Tangible Net Equity		\$85 million
Pct. Of Min. Requirement		284%



Consolidated Performance

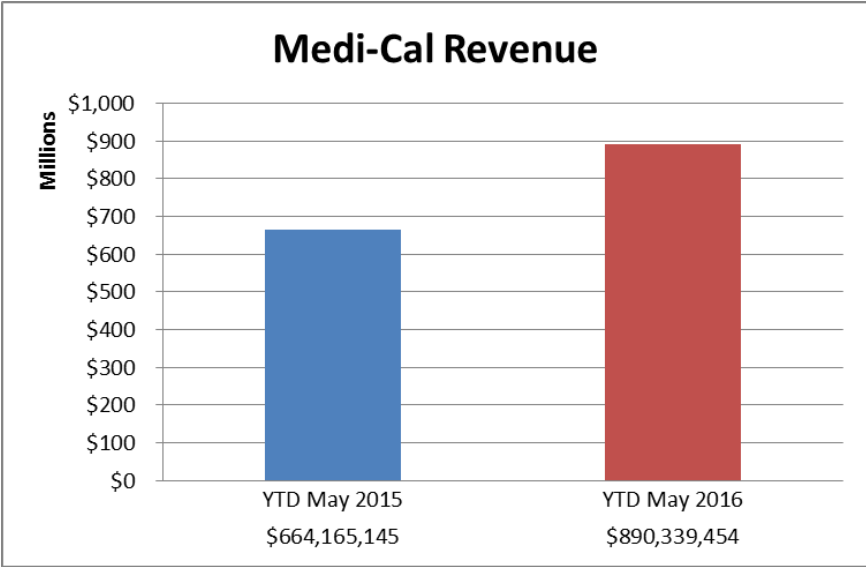
Summary Operating Results - Actual vs. Budget
For the Current Month & Fiscal Year to Date - May 2016
 Favorable/(Unfavorable)

Current Month					Year to Date			
Actual	Budget	Variance \$	Variance %		Actual	Budget	Variance \$	Variance %
\$ 92,351,188	\$ 89,184,168	\$ 3,167,020	3.6%	Revenue	\$991,188,058	\$980,417,562	\$ 10,770,495	1.1%
89,092,379	83,960,833	(5,131,546)	-6.1%	Medical Expense	946,093,883	928,567,643	(17,526,241)	-1.9%
3,258,809	5,223,335	(1,964,525)	-37.6%	Gross Margin	45,094,174	51,849,919	(6,755,745)	-13.0%
3,015,708	4,033,604	1,017,896	25.2%	Administrative Expense	31,822,472	35,678,534	3,856,062	10.8%
243,101	1,189,731	(946,630)	-79.6%	Net Operating Income	13,271,702	16,171,385	(2,899,683)	-17.9%
(93,675)	(139,752)	46,077	33.0%	Non-Operating Income/Exp	(952,099)	(1,332,500)	380,401	28.5%
\$ 149,426	\$ 1,049,979	\$ (900,553)	-85.8%	Net Surplus/ (Loss)	\$ 12,319,603	\$ 14,838,885	\$ (2,519,282)	-17.0%

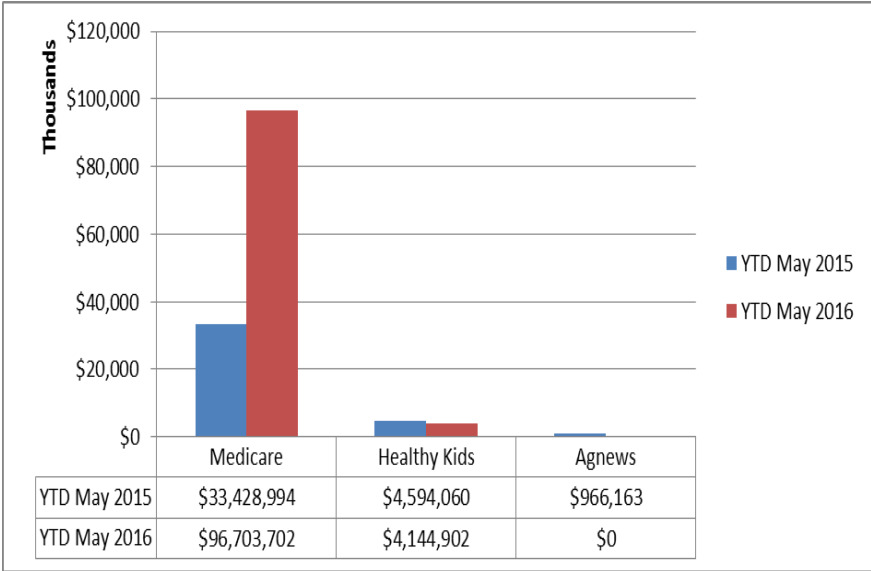


Revenue Trend

Graph 1: Portrays current YTD Medi-Cal revenue vs. previous year. Increase of 34%.

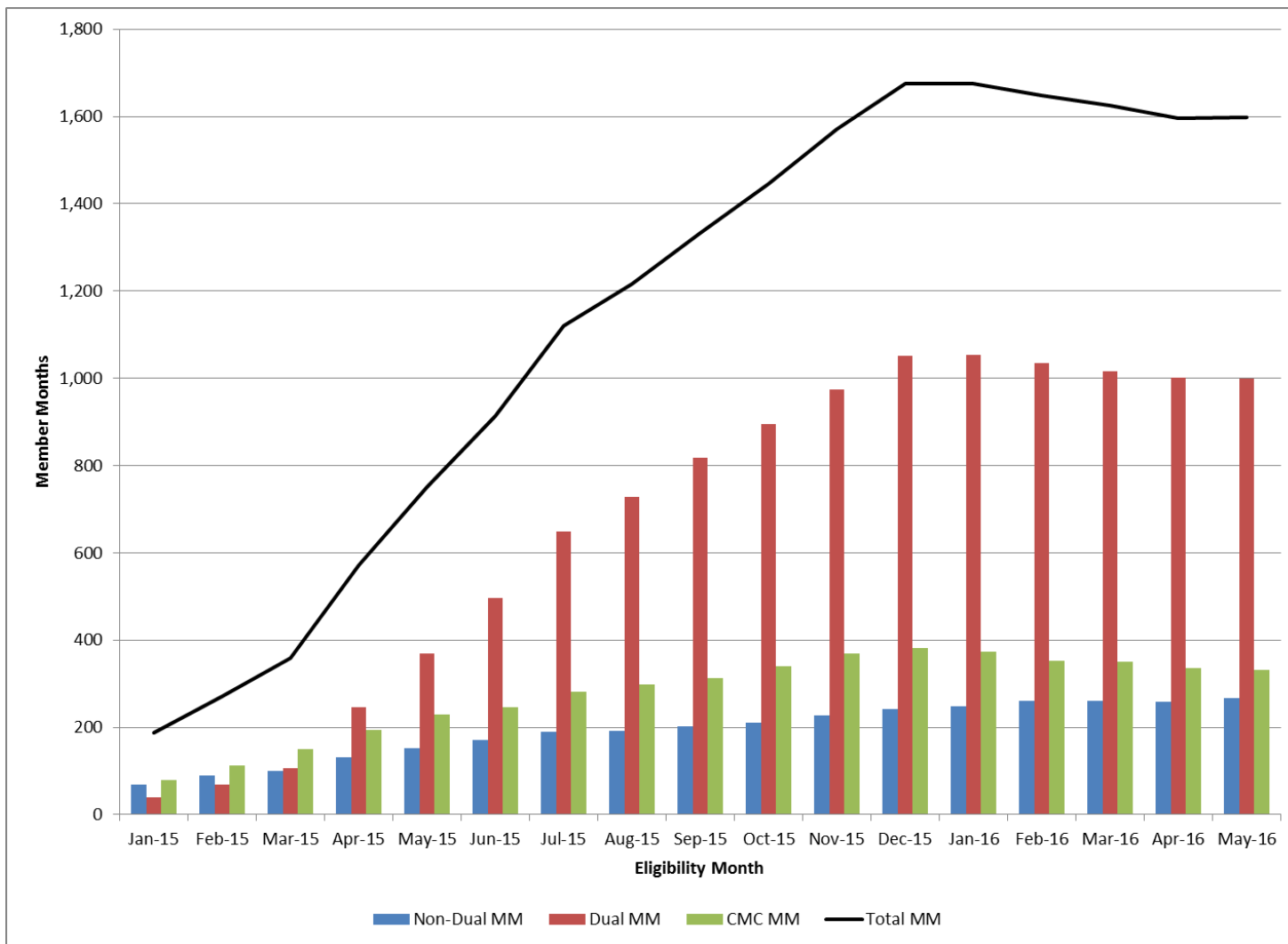


Graph 2: Represents all other operating revenue YTD compared to previous year. Increase of 159%.





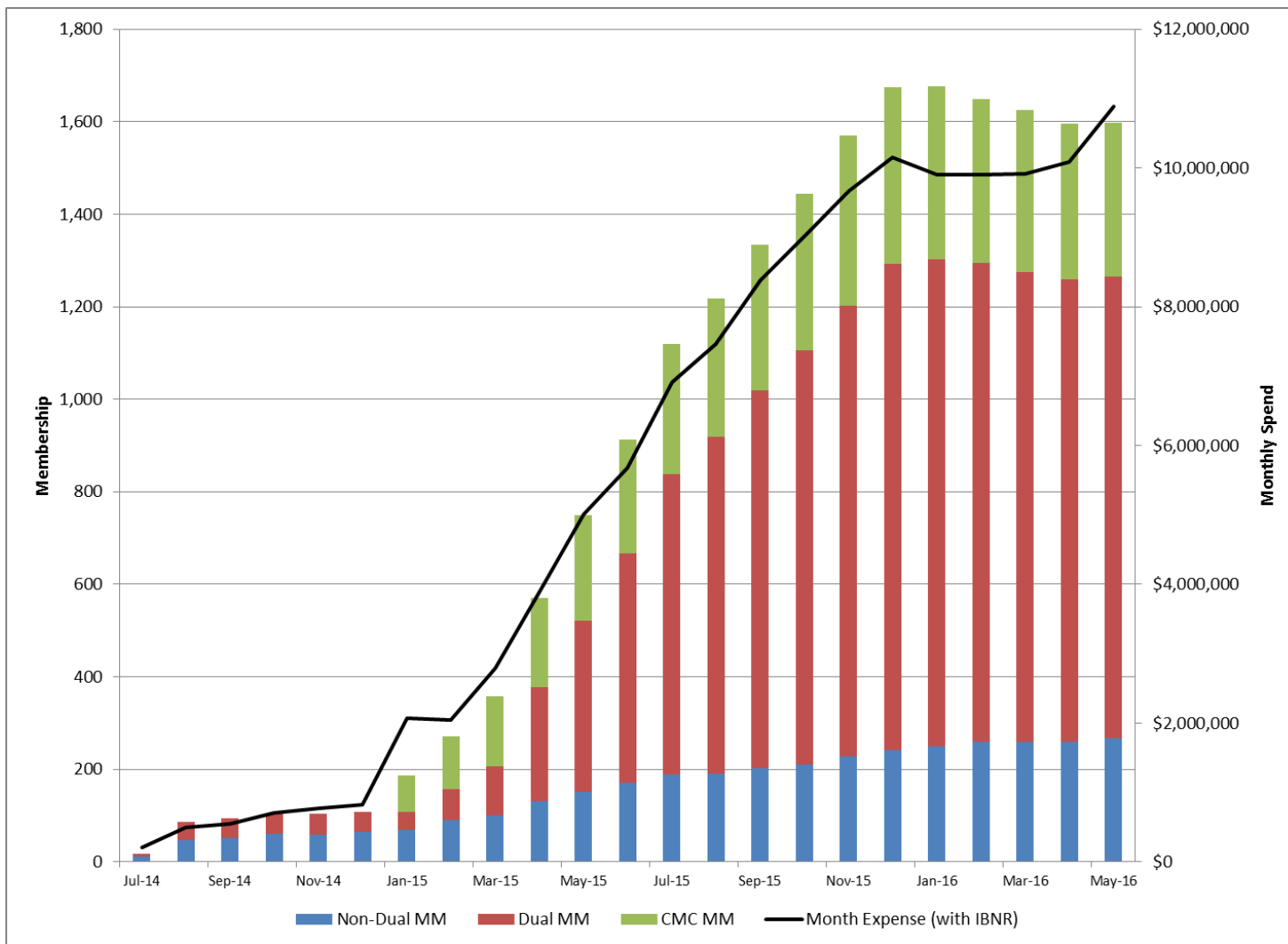
Long Term Care Membership Medi-Cal and CMC





Medi-Cal Long Term Care Experience

July 2014 – May 2016





Enrollment Summary

May and YTD

Santa Clara Family Health Plan Enrollment Summary

For the Month of May 2016

Eleven Months Ending May 2016

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Prior Year Actual</u>	<u>Change FY16 vs. FY15</u>
Medi-Cal	259,076	244,682	5.9%	2,778,019	2,740,442	1.4%	2,349,726	18.2%
Healthy Kids	4,375	4,038	8.4%	47,590	47,035	1.2%	52,797	(9.9%)
Medicare	8,367	9,159	(8.6%)	93,740	95,907	(2.3%)	32,329	190.0%
Agnews	110	114	(3.5%)	1,210	1,232	(1.8%)	1,246	(2.9%)
Total	271,928	257,993	5.4%	2,920,559	2,884,616	1.2%	2,436,098	19.9%



Enrollment by Network - YTD

**Santa Clara County Health Authority
May 2016**

	Medi-Cal		Healthy Kids		CMC		AG		Total	
	<u>Enrollment</u>	<u>% of Total</u>	<u>Enrollment</u>	<u>% of Total</u>	<u>Enrollment</u>	<u>% of Total</u>	<u>Enrollment</u>	<u>% of Total</u>	<u>Enrollment</u>	<u>% of Total</u>
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SCVHHS, Safety Net Clinics, FQHC Clinics	139,012	54%	2,920	67%	0	0%	0	0%	141,932	52%
Palo Alto Medical Foundation	7,428	3%	34	1%	0	0%	0	0%	7,462	3%
Physicians Medical Group	46,658	18%	1,041	24%	0	0%	0	0%	47,699	18%
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Kaiser	<u>27,240</u>	<u>11%</u>	<u>0</u>	<u>0%</u>	<u>0</u>	<u>0%</u>	<u>0</u>	<u>0%</u>	<u>27,240</u>	<u>10%</u>
Total	<u>259,076</u>	<u>100%</u>	<u>4,375</u>	<u>100%</u>	<u>8,367</u>	<u>100%</u>	<u>110</u>	<u>100%</u>	<u>271,928</u>	<u>100%</u>
Enrollment @ 6-30-15	<u>234,497</u>		<u>4,541</u>		<u>7,187</u>		<u>112</u>		<u>246,337</u>	
Net % Change from Beginning of FY	<u>10.5%</u>		<u>-3.7%</u>		<u>16.4%</u>		<u>-1.8%</u>		<u>10.4%</u>	

Membership has increased 10.4% since the beginning of the Fiscal Year, primarily as a result of Medi-Cal Expansion, which started January 1, 2014 and has grown to 82,294 members.



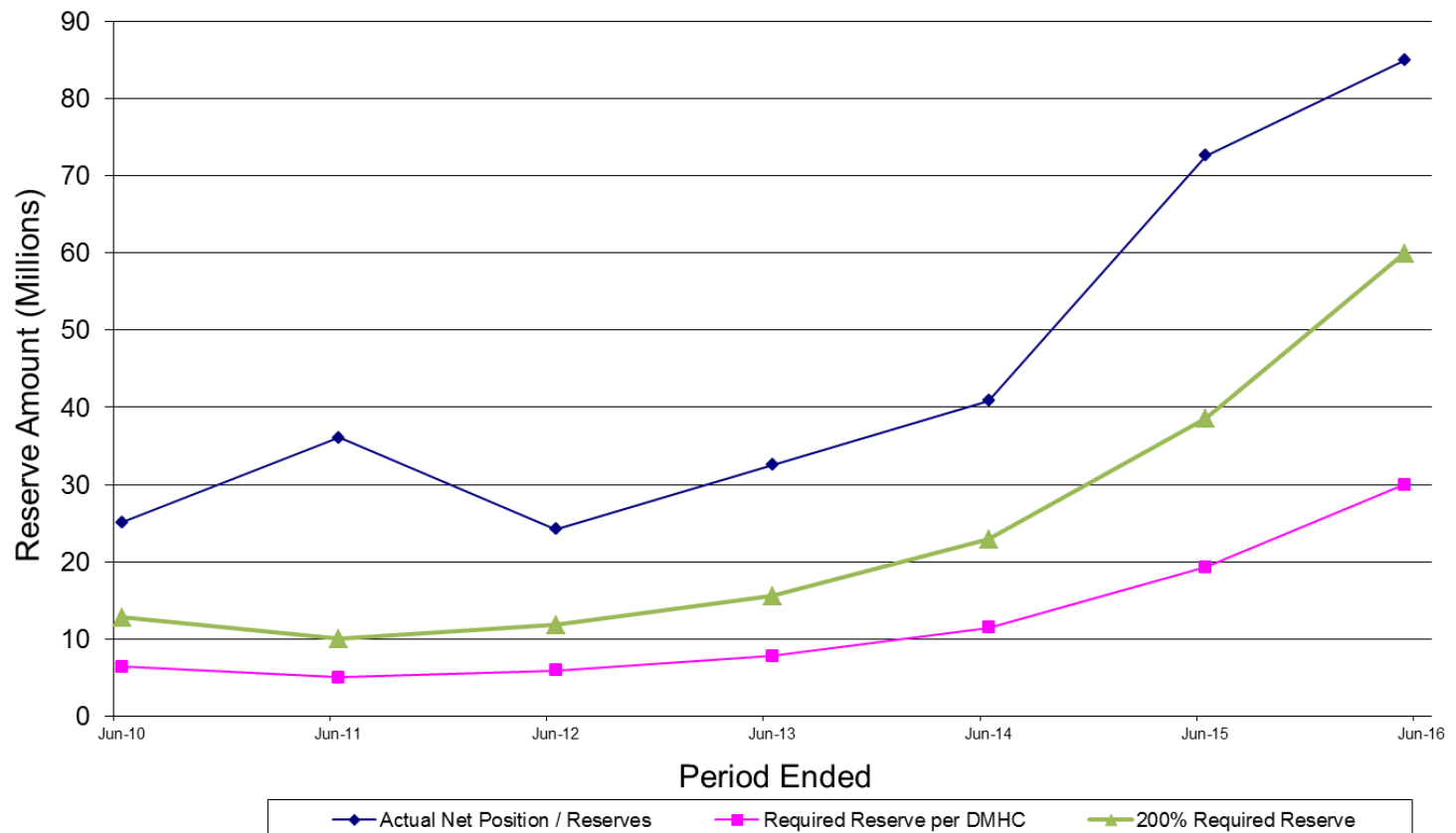
Enrollment by Aid Category

	2015-01	2015-02	2015-03	2015-04	2015-05	2015-06	2015-07	2015-08	2015-09	2015-10	2015-11	2015-12	2016-01	2016-02	2016-03	2016-04	2016-05
Adult (over 19)	31,337	30,489	30,078	29,351	28,694	28,174	27,844	27,331	27,080	27,148	27,229	27,493	27,509	27,485	27,857	27,436	27,431
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Other	44	50	49	53	52	51	48	47	55	47	45	45	40	40	42	42	40
Long Term Care	68	90	101	131	152	171	189	191	202	211	228	242	249	260	260	259	267
Total Non-Duals	208,584	208,806	210,846	213,169	216,882	219,266	221,655	224,697	227,226	229,718	232,912	235,923	233,139	233,280	236,924	234,510	235,963
Aged	4,295	5,381	6,274	7,339	8,340	9,299	9,998	10,673	11,579	12,436	13,389	14,048	14,078	14,249	14,332	14,306	14,419
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Total CMC	5,557	6,162	6,548	7,226	6,836	7,187	7,543	7,698	7,912	8,354	8,906	9,699	9,159	8,886	8,728	8,488	8,367
Total Enrollment	226,570	228,878	232,599	237,233	242,118	246,387	250,306	254,628	258,515	262,766	267,841	272,674	269,303	269,288	272,916	270,394	271,928



Tangible Net Equity at May 31, 2016

TNE is \$85.0 million or 2.84 times the minimum TNE required by the Department of Managed Health Care (DMHC). The Plans reserves are roughly \$66.9 million below the reserves targeted by the Authority Board of two months' Medi-Cal capitation revenue.



Reserve & Liquidity Strategies

**Santa Clara Family Health Plan
Executive Committee Meeting
July 28, 2016**

**Dave Cameron,
Chief Financial Officer**

Introduction

- **Prior Discussions of Reserve Policies:**
 - Board set initial reserve target in December 2011
 - Board requested review of reserve policy in June 2015
 - Board requests from two recent Board presentations on reserves:
 - Review TNE (Tangible Net Equity) options for the reserve target
 - Incorporate a liquidity target
- **Goals for Today's Presentation:**
 - Review need for financial reserves
 - Discuss current reserve policy/target & options
 - Discuss concurrent need for a liquidity target
 - Review recommendations

Why Does SCFHP Need Reserves?

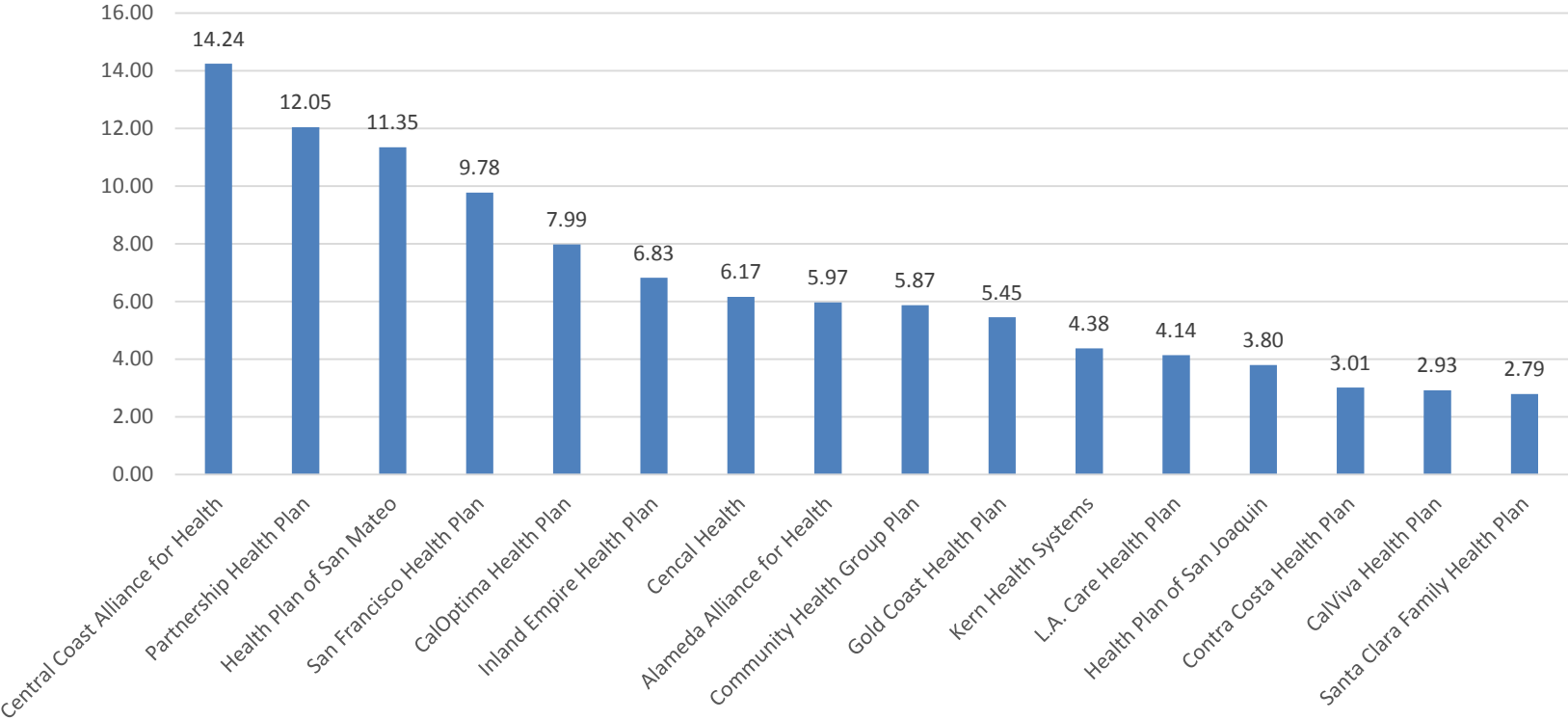
1. To Meet Regulatory Requirements for Tangible Net Equity (TNE)
2. To Provide **Financial Solvency** to Mitigate Volatility
 1. Underfunding of programs (e.g. SPD roll-out in 2011/2012)
 2. Delayed program payments
 3. Benefit & program changes (e.g., hepatitis C, mental health, autism)
 4. Large and/or sustained adverse Events (H1N1, unusual inpatient costs, etc.)
3. To Provide **Liquidity** to Sustain SCFHP and Its Providers During Periods of Insufficient or Delayed Revenue
 1. Delayed rates on new programs or benefits: Cal Medi-Connect (CMC) & Managed Long-Term Services & Supports (MLTSS)
 2. Delayed payments due to State budget stalemates (2008-2010)
 3. DHCS efficiency factors resulting in rate reductions
 4. Future rate actions that do not cover claims trends
4. Financial Solvency and Liquidity Provide for Future Membership Growth and Infrastructure Investments
 1. Pilot programs/expansion (CMC/MLTSS)
 2. Facilities expansion
 3. Investments for new programs (Health Homes or Whole Person Care pilots, etc.)

Current Policy & Future Options

- Established By the Board in December 2011:
 - Represents two months of Medi-Cal premium revenue
 - SCFHP has not met this target since it was established
 - Currently at approximately 1.1 months of premium revenue
- Other Plans are Currently Evaluating Their Reserve & Liquidity Policies
- Options for TNE or Reserves Policy
 - A multiple of capitation revenue (current SCFHP approach, used by other plans)
 - A multiple of medical + administrative expenses (used by other plans)
 - A multiple of required minimum TNE
 - This approach is benchmarked off the DMHC Minimum Required TNE
 - Simple and allows easy understanding of the Plan's solvency risk

Public Plan TNE % as of 03/31/16

Public Plan Unweighted Average = 667%; SCFHP = 279%



SCFHP is at the Lower End of the TNE Range of All Public Plans.

Financial Solvency - Target

Tangible Net Equity (TNE) - Definitions

- Minimum Required TNE is based on % of fee-for-service (FFS) claims
 - SCFHP's Minimum Required TNE is currently \$30 million
- Below 200% of Required Minimum TNE, plan on DMHC's "Watch List" and can require monthly reporting and increased scrutiny
- Below 130% of Required Minimum TNE, plan is considered in financial jeopardy and DMHC can take control of health plan (e.g., Alameda Alliance for Health)

TNE Comparison (Page 5 Graph)

- At 03/31/16, SCFHP was at \$83.6 million or 279% of Required Minimum TNE
 - Currently, SCFHP is at \$85 million or 283% of Required Minimum TNE
 - Local plans range from 279% (SCFHP) to 1424% at 03/31/16
 - Unweighted average of public plans = 667%
 - SCFHP is on the low side of public plan reserve levels
- Actual TNE is not correlated to plan size

It is Reasonable for SCFHP to Set a Reserve Target at 350-500% of Minimum Required TNE

Liquidity - Financial Stability

- There is No “Liquidity” Requirement in the State Contract
- DMHC Requires Plans have a “Current Ratio” of at least 1.0
 - Current Ratio = Current Assets Divided by Current Liabilities
 - Currently, SCFP’s Current Ratio is 1.2
 - Current Ratio provides a measure of the plan’s ability to meet short-term financial obligations
 - However
 - Current Assets include non-cash accounts like “Premiums Receivable” from the State or Federal Governments
 - Current Liabilities include Pass-Through Amounts Owing Back to the State and others
 - Therefore, Current Ratio is not a true measure of liquidity
- Typically, Medi-Cal Rates are Paid 18-24 Months After the Fact and Cal Medi-Connect Even Longer.
 - Lengthy Rate Approval Timeframes Necessitate Higher Liquidity
- “Cash is King” – Need to Establish a Liquidity Target That Will Provide Financial Stability to the Plan and its Provider Partners

Liquidity – Why Important?

It is Important to Establish a Liquidity Target Because TNE and Current Ratio are Accounting-Based Measures; But Only Cash Pays Expenses

- TNE and Current Ratios can be achieved with little-to-no cash in the bank (assets can also be in the form of Premium Receivables or Fixed Assets (e.g., real estate) that may not be readily converted to cash
- Sufficient Liquidity Meets Several Essential Needs:
 - Ensures that Plan can keep operating to serve our members
 - Ensures that Plan can continue to pay our providers
 - Supports staff who care for our members and serve our providers
- There Have Been Times When the State or Federal Government Has Delayed Payments to Plans (e.g., State Budget Impasses)
- The Plan Needs to be Ready to Serve the Community Even When Revenue is Not Received

Liquidity - Target

Many Medi-Cal Managed Care Plans are Establishing Liquidity Targets to Ensure Adequate Funds are Available to Make Payments Should a Short-Term Funding Gap Occur.

SCFHP Should Establish a Liquidity target of 45-60 Days of expenses. This Will Enable Provider Payments and Plan Operations to Continue - (Enrollment, Provider & Member Support, Medical Authorizations, etc.)

For Ease of Monitoring, “Liquidity” Will Be Defined as **Net Cash Available to SCFHP** (currently Cash & Investments of \$226.3 million less Pass-Through Liabilities of \$105.5 million = Net Cash Available to SCFHP of \$120.8 million)

This Definition is Easy to Observe Per Monthly Balance Sheet Reports.

Recommendations

- Establish a Reserve Target Range of 350%-500% of Minimum Required TNE
 - Consistent with other plans
 - Sufficient solvency to withstand cost shocks or rate reductions
 - Currently represents a Reserve Target of \$105-150 million
- Establish a Liquidity Target Range of 45-60 days of Medical and Administrative Expenses (based on budgeted operating expenses)
 - Ensures stability to the Plan
 - Ensures payment stability to providers in periods of interrupted capitation revenue
 - Currently represents a Liquidity Target of \$138-184 million
- Staff To Provide an Annual Discussion of the Reserve Policy to the Board Concurrent with the Approval of the Annual Operating Budget

How to Obtain These Targets

- Currently For SCFHP:
 - With TNE of \$30 million, SCFHP is \$20-65 million below the recommended Reserve Target
 - With Cash Available to SCFHP of \$120.8 million, SCFHP is \$18-64 million below the recommended Liquidity Target
- Both Targets Could Be Achieved With Approximately 2-5 Years of Sustained Profitability