Santa Clara
Family Health Plan
The Spirit of Care

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

Minutes - APPROVED

Members Present
Linda Williams
Wally Wenner, M.D.
Liz Kniss (via phone)

Members Absent
Bob Brownstein
Michele Lew

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

1. Roll Call

Linda Williams, Committee Member, called the meeting to order at 8:30 am. Roll call was taken and a quorum was not established.

2. Introduce Neal Jarecki, Controller

Dave Cameron, Chief Financial Officer, introduced Neal Jarecki as the new Controller for Santa Clara Family Health Plan. Mr. Jarecki noted his recent experience at Alameda Alliance for Health and indicated this is his 13th year in Medi-Cal Managed Care. Mr. Jarecki, a CPA, explained the role of a Controller, who has primary responsibility for accounting, compared to the CFO, who has a more forward-looking, strategic focus.

3. Public Comment

There were no public comments.

4. May 2016 Financial Statements

Mr. Cameron reported on the May and May YTD 2016 Financials.

As of May, the Plan recorded a YTD surplus of $12.3 million, $2.5 million unfavorable to budget. The variance is primarily related to higher than anticipated long-term care (LTC) expenses that have increased rapidly this fiscal year.

Liz Kniss joined the meeting via phone and a quorum was established.

SCFHP has cash on hand of $226 million, of which $121 million is available to the Plan after pass-through liabilities of $105 million are excluded. With Tangible Net Equity (TNE) of $85 million, the Plan has 284% of the minimum TNE required by the Department of Managed Health Care (DMHC).

Dr. Wenner indicated he has been asked by other physicians why so much money is placed in reserves. Mr. Cameron explained it is not excessive for an organization with annual revenues of approximately $1 billion, as evidenced by the fact that SCFHP has the lowest TNE percentage of all local initiative plans in the state. Mr. Jarecki noted the Plan has cash available of less than a month and half of expenses.

It was moved, seconded, and approved to accept the May 2016 Financial Statements as presented.

5. Fiscal 2015-16 Year-End Update

Mr. Cameron provided a Fiscal 2015-16 year-end update. He indicated the Plan has been working with DHCS to confirm anticipated retrospective rate adjustments for multiple programs, both positive and negative, that amount to tens of millions of dollars. Mr. Cameron also noted the Plan received a mid-year CMC risk adjustment of approximately $6 million for January to July 2016. In summary, there are several different year-end adjustments which are anticipated to have a favorable impact on year-end performance.

Moss-Adams is actively underway with the annual year-end audit, and DMHC was on-site for a Knox-Keene audit.

6. Reserve Methodology

Mr. Cameron presented an overview of Reserve & Liquidity Strategies. He noted the Board set an initial reserve target in December 2011. In June 2015, the Board requested a review of the reserve policy, and subsequently requested review of Tangible Net Equity (TNE) options for the reserve target, with incorporation of a liquidity target.

SCFHP needs reserves to meet regulatory requirements for TNE, to provide financial solvency to mitigate volatility, to provide liquidity to sustain SCFHP and its providers during periods of insufficient or delayed revenue, and financial solvency and liquidity for future membership growth and infrastructure investments. Mr. Jarecki indicated the average rate payment lag is between 18-24 months and it is critical that the Plan be able to absorb retroactive rate changes, whether they are positive or negative. Mr. Cameron noted that reserves allow the Plan to pursue pilot programs like CMC, undertake necessary facilities expansion, and invest in new IT systems, such as the QNXT implementation approved last month.

The current reserve policy is two months of Medi-Cal premium revenue. SCFHP has not met this target since it was established in December 2011. The Plan currently has approximately 1.1 months of premium revenue in reserves. Options for a TNE or Reserves Policy include a multiple of capitation revenue, a multiple of medical + administrative expenses, or a multiple of required minimum TNE.

A graph of Public Plan TNE % as of 3/31/16 was provided, which showed SCFHP at 284% TNE, the lowest percentage of the 16 public plans. Mr. Cameron discussed the impact of Medi-Cal Expansion funding and SCFHP passing much of the funding on to the Safety Net. Plans having ≤200% of minimum are placed on a DMHC "Watch List" and require monthly reporting, while plans having ≤130% of the minimum are considered to be in financial jeopardy and DMHC can take control of the health plan.

Mr. Cameron noted it is reasonable for SCFHP to set a Reserve Target at 350-500% of minimum required TNE. That represents a reserve target of $105-$150 million.

Ms. Williams inquired if when all the year-end reconciliations are complete, might the Plan's TNE percentage be higher. Mr. Cameron responded that may be likely.

It was noted there is no liquidity requirement in the Plan's contract with the State. DMHC requires plans to have a "Current Ratio" of at least 1.0, and SCFHP is at 1.2. However, while the Current Ratio is designed to provide a measure of a plan's ability to meet short-term financial obligations, due to inclusion of premiums receivable in assets and pass-through amounts in liabilities, it is not a true measure of liquidity since only cash can pay expenses.

Mr. Cameron suggested SCFHP establish a Liquidity Target of 45-60 days of expenses. He noted that for ease of monitoring, "Liquidity" would be defined as Net Cash Available to SCFHP. Mr. Cameron indicated this currently represents a Liquidity Target of $138-184 million.

Mr. Cameron further recommended that staff provide an annual discussion of the Reserve Policy to the Board concurrent with approval of the Annual Operating Budget.

It was noted SCFHP is $20-65 million below the recommended Reserve Target and $18-64 million below the recommended Liquidity Target. Mr. Cameron indicated the Plan should be able to reach the targets in 2-5 years with sustained profitability at a 1-1 ½ % margin. Staff will add a chart to the monthly financials to monitor progress toward the targets.

> **It was moved, seconded, and approved** to recommend Board approval of the proposed TNE and liquidity targets.

7. Meeting Minutes

The minutes of the May 26, 2016 Executive Committee Meeting were reviewed.

> **It was moved, seconded, and** the May 26, 2016 meeting minutes were **approved** as presented.
>
> *Liz Kniss left the meeting.*

8. CEO Update

Christine Tomcala reported that DMHC auditors were on-site for a routine Knox-Keene audit, which focuses on Finance and Claims. The audit went smoothly and there were nine exceptions to report, and four exceptions to discuss, in the preliminary report presented at the exit conference on Friday.

Ms. Tomcala also noted that WeiserMazars has been conducting a Finance & Accounting Department Risk Assessment & Policy Analysis, which included review of policies and procedures, the last DMHC filing, and procurement and vendor contracting processes. The consultants gauged SCFHP's overall risk level as moderate, with eight risk areas identified in the assessment.

9. Adjournment

The meeting was adjourned at 9:38 am.

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Elizabeth Pianca, Secretary to the Board