MINUTES
Santa Clara County Health Authority
Governing Board Meeting

Thursday, May 15th, 2014
2:30 PM-5:00 PM
210 E. Hacienda Avenue
Campbell CA 95008

Board members present:
Ms. Michele Lew
Dr. Dale Rai
Dr. Wally Wenner
Ms. Laura Jones
Ms. Pattie DeMellopine
Ms. Liz Kniss
Ms. Dolores Alvarado
Ms. Kathleen King

Board members not present:
Ms. Jolene Smith
Ms. Melinda Landau

Others present:
Ms. Elizabeth Darrow, Chief Executive Officer
Mr. Dave Cameron, Chief Financial Officer
Mr. Rayne Johnson, Chief Information Officer
Ms. Pat McClelland, VP of Member Operations
Ms. Beth Paige, Compliance Officer
Ms. Shannon McNally, Secretary
Ms. Robin Bilinski, Manager, Government Relations
Ms. Sharon Valdez, VP of Human Resources
Ms. Cathy Eddy, President, Health Plan Alliance
Ms. Elizabeth Pianca, Deputy County Counsel, County of Santa Clara

1. Roll Call

   Chairman Lew called the meeting to order at 2:36pm. Roll call was taken, and a quorum was established.

2. Action item: Review and approval of February 13, 2014 meeting minutes.

   It was moved, seconded, and approved to accept the February 13, 2014 meeting minutes. **Ms. Harrison and Ms. Williams abstained.**

3. Public comment

   There was no public comment.

4. Action item: Third Amendment to the Employment Contract of the Chief Executive Officer. Consider recommendation relating to Third Amendment to Employment Contract of the Chief Executive Officer:

   Ms. Lew stated that several months ago Ms. Darrow expressed her desire to leave the organization. For the best interest of the plan and the growth in membership with the Dual Eligibles coming and also with the departure of key staff members such as the COO, Ms. Lew and Ms. Harrison felt it was very important that Ms. Darrow stay with the organization for as long as possible. The Executive Committee delegated Ms. Lew, the Board Chair, to work with Ms. Darrow on a contract amendment. Ms. Lew commented that the amendment is similar to the already existing contract, asking Ms. Darrow to stay on as the CEO through March 2015. In recognition of Ms. Darrow remaining, the organization would pay one year severance and continue benefits coverage, which is consistent with what the original contract already had in place.

   Ms. Jones, Board member, noted that although she'd like to approve the contract she felt that the severance was not a good precedence to set. Ms. DeMellopine, Board member, asked if there was value in making the payment a retention fee rather than a severance. Ms. DeMellopine also commented that a 12-month severance pay out was common practice. Ms. Kniss, Board member, agreed with Ms. DeMellopine and added that there was nothing unusual about the 12-month severance for this type of position.

Ms. King, Board member, questioned why the contract had a confidentiality clause in section six since the information is public. Ms. Pianca, County Counsel, recommended that section six be deleted in its entirety.

It was moved, seconded, and approved to accept the Third Amendment to the Employee Contract of the Chief Executive Officer with the recommendation that section six be deleted in its entirety. **Ms. King abstained. Ms. DeMellopine and Ms. Jones opposed**

5. Adjourn to Closed Session

Closed session was removed from the agenda.

6. There was no closed session to report

7. Presentation to Discuss Succession Planning – Cathy Eddy

Cathy Eddy, President of Health Plan Alliance gave a presentation on CEO Succession Planning and the role of the Board of Directors. The role of the Board is to have a Succession Plan for short-term and long term, to have a CEO selection process, hiring process and onboarding of the new CEO. The short term plan is to ensure stability and continuity for staff and providers. If there were an emergency and the CEO were unable to serve, identify a person to serve as interim and consider a contingency plan if the Board does not find a replacement before the CEO's departure. The long term succession plan includes identifying potential internal candidates, having a development plan, and an update when there are changes in strategic direction.

The CEO selection criteria includes utilizing a search firm who has expertise in managed care search, understanding of the marketplace, compensation and works with the search committee to profile positions and determine criteria. Some of the CEO candidates key considerations include past experience that tie to the Plan's future direction, knowledge of the current product lines and state dynamics, and having leadership expertise.

Next steps include identifying a search firm and selecting a Search Committee during the August Governing Board meeting.

8. Amend Bylaws. Consider recommendations from the Bylaws Committee relating to the Governing Board's Bylaws:

   Ms. Darrow referenced the revised Bylaws, which were provided to Board members at the meeting, commenting that the changes in the Bylaws were a result of an ordinance change by the Board of Supervisors. While specific associations nominated and the Board of Supervisors previously appointed members to the Governing Board, the Board of Supervisors will now have full control to appoint and reappoint any seat on the Board. The other change is that the Health Plan has been asked to be more specific about posting various sources of information on the company website. These changes are incorporated into the revised Bylaws and there are no other significant changes.

   Mr. Peddycord, Board member, raised concern about no longer having other entities able to nominate or potentially able to put forth names to the Board of Supervisors and his desire for the Board of Supervisors to reconsider the value of entities such as the Consumer Affairs Committee.

   Ms. DeMellopine, Board member, felt that sections 4.6 and 4.10 were convoluted and unclear. The Bylaws state that the majority of the Board members must be present, in person, and have a quorum to vote. This leaves out participation via teleconference. There was also confusion around what constitutes a quorum, and what would happen if members leave the meeting after having made quorum. Ms. Alvarado, Board member, also felt that the Bylaws were unclear.

   Ms. King, Board member, asked for clarification on the number of members appointed to the Executive Committee. It was unclear whether there were 5 seats or six seats. Ms. Lew stated that there are currently six members. Ms. Kniss and Ms. Williams share a seat as they cannot always participate due to conflicting schedules. Ms. Lew agreed that the Bylaws should reflect that there is an alternate seat.

   Ms. Pianca, County Counsel, recommended taking action on the Bylaws today and that there would be some additional clean up, going forward, looking at clarification.

   Motion to approve the Bylaws amendment as amended by taking out "in person", adding the alternate Executive Committee seat and clarifying the quorum process.

It was moved, seconded, and approved to accept the amendment to the Bylaws, as amended.

9. PTO Cash Out Policy. Consider recommendations relating to Paid Time Off (PTO) Cash Out Policy.

   Mr. Cameron stated that the Plan's PTO cash out program raised issues under the income tax doctrine of constructive receipt and under the rules that govern deferred compensation plans. As a result of this finding, the PTO Cash-Out Program was put "on hold" awaiting options from Counsel and recommendations from the CEO.

   After consultation with Counsel, the CFO and VP of HR, the Plan recommends the employee makes a choice between accruing the PTO or receiving cash in lieu of the PTO in the year before the year when the PTO will be earned, which is consistent with the IRS's longstanding position on deferred compensation (e.g., PLR 200450010). Under such an arrangement, employees are given an election form, before the end of each calendar year that allows them to determine how much, if any, PTO they will earn in the following calendar year will be received in cash. In order for the election to be valid, the election form must be returned to the employer by the deadline (no later than December 31 of the year before the year when the PTO will be earned). If an employee fails to turn in an election form or turns it in late, no amount of the PTO earned in the following calendar year will be paid in cash (unless employment is terminated); PTO will simply accrue. Once made, any such election is irrevocable.

   It was moved, seconded, and approved to accept the PTO Cash Out Policy amendments.

10. Publicly Available Salary Schedule. Consider recommendations relating to publicly available salary schedule:

    Ms. Valdez presented an updated publicly available salary schedule.

    It was moved, seconded, and approved to accept the updated Publicly Available salary schedule.

11. Allocation of Funding to Community Health Centers. Consider recommendation to allocate $1 million to four Community Health Centers (Gardner Family Health

Network, Indian Health Center in Santa Clara Valley, Planned Parenthood Mar Monte, Asian Americans for Community Involvement) to be distributed equally.

Ms. Darrow commented that it was rare that the Health Plan had surplus and at this time the Plan would like to allocate $1 million to four Community Health Center. The Plan has been monitoring the needs of the clinics very carefully. The way that the clinics were identified is by enrollment. Most clinics have increased their enrollment and of all the clinics the ones chosen have the majority of the enrollment. Ms. Darrow also noted that the Plan did an even split because all of the clinics have significant needs.

It was moved, seconded, and approved to accept the motion to allocate $250,000 to Gardner Family Health Network. **Ms. Alvarado abstained** and departed the room.

It was moved, seconded, and approved to accept the motion to allocate $250,000 to Indian Health Center in Santa Clara Valley. **Ms. Alvarado and Dr. Rai abstained** and departed the room.

It was moved, seconded, and approved to accept the motion to allocate $250,000 to Planned Parenthood Mar Monte. **Ms. Alvarado and Ms. Williams abstained** and departed the room.

It was moved, seconded, and approved to accept the motion to allocate $250,000 to Asian Americans for Community Involvement. **Ms. Alvarado and Ms. Lew abstained** and departed the room.

12. Allocation of Funding to County of Santa Clara. Consider recommendation to allocate $1 million to County of Santa Clara, under the authority of the County Executive, for funding a homeless shelter to replace Sunnyvale Armory:

    Ms. Darrow noted that it was recommended by County Counsel that the Board not move that forward because of uncertainties about retirees of the County and their ability to vote. No action was taken on this item and is pending further clarification.

13. Appointment of Governing Board Secretary. Consider recommendation to appoint Elizabeth G. Pianca as Secretary of the Governing Board.

    It was moved, seconded, and approved to accept the nomination as presented.

14. February 2014, and March 2014 Financial Statements. Consider recommendations relating to February 2014, and March 201, Financial statements.

For the month of March 2014, SCFHP recorded an operating surplus of $690 thousand compared to a budgeted operating surplus of $9 thousand. For year to date March 2014, SCFHP recorded an operating surplus of $1.8 million compared to a budgeted operating loss of $477 thousand resulting in a favorable variance from budget of $2.3 million.

Revenue
The Health Plan recorded net revenue of $36.9 million for the month of March 2014, compared to budgeted revenue of $31.7 million, resulting in a favorable variance from budget of $5.2 million, or 16.5%. For year to date March 2014, the Plan recorded net revenue of $259.9 million compared to budgeted revenue of $248.7 million, resulting in a favorable variance from budget of $11.2 million, or 4.5%.

Member Months
For the month of March 2014, overall member months were higher than budget by 8,266 members (+4.9%). For March 2014, year to date, overall member months were higher than budget by 10,890 members (+0.8).

Medical Expense
For the month of March 2014, medical expense was $34.5 million compared to budget of $29.7 million, resulting in an unfavorable budget variance of $4.8 million, or -16.2%. For year to date March 2014, medical expense was $242.6 million compared to budget of $232.7 million, resulting in an unfavorable variance to budget of $10 million, or -4.3%.

Administrative Expenses
Overall administrative costs were under budget by $274 thousand (-14.1%) and $1.0 million (-6.4%) for the month and year to date March 2014, respectively. Two expense classifications account for a majority of the positive difference, Salaries/Benefits and Professional fees are under budget because of the slower than anticipated ramp up costs for Cal MediConnect. Overall administrative expenses were 5.9% of revenues for year to date March 2014.

Tangible Net Equity
Tangible Net Equity (TNE) was $34.3 million at March 31, 2014, compared to the minimum TNE required by the Department of Managed Health Care (DMHC) of $8.3 million (as per quarterly filing at 12-31-13). At the December 2011 Governing

Board meeting, a policy was adopted for targeting the organization's capital reserves to equal two months of Medi-Cal capitation revenue. As of March 31, 2014, the Plan's reserves are about $36.5 million below this reserves target.

Mr. Cameron stated that the primary reason for the positive variance in revenue is the rapid growth of the Medi-Cal Expanion membership and the higher than budgeted capitation rates for this population. In the nine months since the end of the prior Fiscal Year, membership in Medi-Cal increased by 14.2%. The increase in Medi-Cal includes 17, 432 new Medi-Cal expansion members added between January and March 2014. Membership in the Healthy Kids program declined by 4.4%, since 6/30/13. The planned transition of the Medi-Cal Healthy Families product occurred in three phases and was fully completed by January 2014. The increased medical expenses are attributed to the Medi-Cal expansion population that commenced in January 2014. Over 90% of these members are delegated to the safety net and therefore they receive a substantial amount of the state capitation to care for these members.

15. Ms. Darrow stated that the Demonstration project has begun and the Plan will start managed long term care and support and mandatory enrollment of Dual Eligibles in July and August, then in January the Plan will start the Medicare portion of the project. The Board has already approved the budget but Ms. Darrow wanted to make sure that the Board was aware that the Plan changed the business model which was originally going to be a BPO. Ms. Darrow stated that the Plan had determined that it was not the best way to go. After completing the RPF process and having consultations with some technology experts and also the other local initiatives and local health plans, SCFHP determined that Trizetto is the solution. Trizetto is a software hosting company. The Plan's employees will be processing the claims and doing work on that system but the organization needs to have a system that can do Medicare business and the current system cannot. Ms. Darrow noted that the budget doesn't change and is seeking approval for the final signature on the contract.

It was moved, seconded, and approved to authorize the CEO to sign the IT contract.

16. Committee Reports

a. Consumer Affairs Committee

A recap of recent Committee proceedings were presented. Dr. Wenner commented that he was not present at the December 2013 meeting. Dr. Wenner also noted that he remains concerned about the participation of the Committee members.

Ms. Alvarado, Board member, stated that although she cannot attend the Committee meetings herself that she would like to offer her assistance as needed.

17. **It was moved, seconded, and approved** to adjourn the meetings at 4:49pm.

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Elizabeth Pianca, Secretary to the Board

Santa Clara
Family Health Plan

The Spirit of Care

Financial Statements
For Eleven Months Ended May 2014
(Unaudited)

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Santa Clara Family Health Plan
CFO Finance Report
For the Month and Year to Date Ended May 31, 2014

Summary of Financial Results

For the month of May 2014, SCFHP recorded an operating surplus of $2.3 million compared to a budgeted operating loss of $51 thousand, resulting in a favorable variance from budget of $2.4 million. For year to date May 2014, SCFHP recorded an operating surplus of $5.3 million compared to a budgeted operating loss of $566 thousand, resulting in a favorable variance from budget of $5.8 million. The table below summarizes the components of the overall variance from budget.

Note: For purposes of this report all budget amounts for fiscal year 2014 are per Revised Budget as presented at the Board Meeting on December 12, 2013.

Summary Operating Results – Actual vs. Revised Budget

For the Current Month & Fiscal Year to Date – May 2014
Favorable/ (Unfavorable)

Current Month					Year to Date			
Actual	Revised Budget	Variance $	Variance %		Actual	Revised Budget	Variance $	Variance %
$ 41,652,430	$ 32,231,466	$ 9,420,964	29.2%	Revenue	$ 340,599,247	$ 312,940,722	$ 27,658,526	8.8%
37,502,335	30,233,815	(7,268,520)	-24.0%	Medical Expense	315,757,336	292,876,051	(22,881,286)	-7.8%
4,150,095	1,997,651	2,152,444	108%	Gross Margin	24,841,911	20,064,671	4,777,240	24%
1,498,565	2,025,337	526,771	26.0%	Administrative Expense	18,494,253	20,392,753	1,898,500	9.3%
2,651,530	(27,686)	2,679,215	9677%	Net Operating Income	6,347,658	(328,082)	6,675,740	2035%
(325,350)	(23,334)	(302,017)	-1294%	Non-Operating Income/Exp	(1,085,485)	(238,395)	(847,090)	-355%
$ 2,326,180	$ (51,019)	$ 2,377,199	4659%	Operating Surplus/ (Loss)	$ 5,262,173	$ (566,477)	5,828,650	1029%

Revenue

The Health Plan recorded net revenue of $41.7 million for the month of May 2014, compared to budgeted revenue of $32.2 million, resulting in a favorable variance from budget of $9.4 million, or 29.2%. For year to date May 2014, the Plan recorded net revenue of $340.6 million compared to budgeted revenue of $312.9 million, resulting in a favorable variance from budget of $27.7 million, or 8.8%. The primary reason for the positive variance in revenue is the rapid growth of the Medi-Cal Expansion membership and the higher than budgeted capitation rates for this population.

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 2014, overall member months were higher than budget by 16,558 members (+9.8%). For May 2014 year to date, overall member months were higher than budget by 38,875 members (+2.2%).

In the eleven months since the end of the prior fiscal year, 6/30/2013, membership in Medi-Cal increased by 20.8%. The increase in Medi-Cal includes 23,319 new Medi-Cal Expansion members added between January and May 2014. Membership in the Healthy Kids program declined by 6.6%, since 6/30/2013. Member months, and changes from prior year, are summarized on Page 11.

The planned transition of the Medi-Cal Healthy Families Product occurred in three phases and was fully completed by January 2014.

Medical Expenses

For the month of May 2014, medical expenses were $37.5 million compared to budget of $30.2 million, resulting in an unfavorable budget variance of $7.3 million, or -24.0%. For year to date May 2014, medical expenses were $315.8 million compared to budget of $292.9 million, resulting in an unfavorable budget variance of $22.9 million, or -7.8%. The increased medical expenses for the month, and year to date, is attributable to the Medi-Cal Expansion population that commenced in January of 2014. Over 80% of these members are delegated to the safety net and therefore they receive a substantial amount of the state capitation to care for these members.

Administrative Expenses

Overall administrative costs were under budget by $527 thousand (-26.0%) and $1.9 million (-9.3%), for the month and year to date May 2014, respectively. Two expense classifications account for a majority of the positive difference; Salaries/Benefits and Professional Fees are under budget because of the slower than anticipated ramp up costs for Cal MediConnect.

Overall administrative expenses were 5.4% of revenues for year to date May 2014.

Balance Sheet (Page 6)

Current assets at May 31, 2014 totaled $106.7 million compared to current liabilities of $69.4 million, yielding a current ratio (the ratio of current assets to current liabilities) of 1.5:1 as of May 31, 2014. Working capital increased by $5.2 million for eleven months year-to-date ended May 31, 2014.

Cash as of May 31, 2014, decreased by $56.5 million compared to the cash balance as of year-end June 30, 2013. Net receivables increased by $68.4 million during the same eleven month period ended May 31, 2014. The Department of Health Care Services (DHCS) informed the Health Plan on 4-30-14, via e- mail, that the Plan's April capitation payment would be delayed to late May due to system changes they are making.

Liabilities increased by a net amount of $6.6 million during the eleven months ended May 2014.

As of fiscal year ending June 30, 2013, the "Board Designated Reserve – Healthy Kids" totaled $1,489,090. During April and May 2014, the Plan made contributions totaling $894,837, thus reducing the reserve balance to $394,253 as of May 31, 2014. (See line items on the Balance Sheet on page 6, and the Income Statement on page 7.)

Capital Expenses increased by $266 thousand for the eleven months ended May 31, 2014.

Tangible Net Equity

Tangible Net Equity (TNE) was $37.8 million at May 31, 2014, compared to the minimum TNE required by the Department of Managed Health Care (DMHC) of $9.0 million (as per quarterly filing at 3-31-14). A chart showing TNE trends is shown on page 12 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, 2014, the Plan's reserves are about $41.5 million below this reserves target (see calculation below).

(Note: The monthly capitation amount for Medi-Cal increased by $12.9+ million per month from Dec 2013 to May 2014 due to an additional 23,300+ members in the Medi-Cal Expansion program.)

Calculation of targeted reserves as of May 31, 2014

Estimate of two months' capitation (May-2014 Medi-Cal capitation of $39,245,700 X 2 = $78,491,400)	$78,491,400
Less: Unrestricted Net Equity per balance sheet (rounded)	$37,023,100
Approximate reserves below target	$41,468,300

Santa Clara County Health Authority

Balance Sheet

	5/31/2014	4/30/2014	3/31/2014	6/30/2013
Assets				
Current Assets				
Cash and Marketable Securities	$ 5,342,034	$ 38,516,831	$ 109,944,992	$ 61,888,777
Premiums Receivable	100,538,983	60,085,610	18,478,603	32,121,807
Due from Santa Clara Family Health Foundation - net	2,752	2,752	5,504	319,279
Prepaid Expenses and Other Current Assets	831,686	894,780	924,192	527,488
Total Current Assets	106,715,455	99,499,973	129,353,291	94,857,352
Long Term Assets				
Equipment	7,011,274	7,005,559	7,005,559	6,745,116
Less: Accumulated Depreciation	(6,526,356)	(6,499,689)	(6,472,668)	(6,237,519)
Total Long Term Assets	484,917	505,870	532,891	507,596
Total Assets	$ 107,200,372	$ 100,005,843	$ 129,886,182	$ 95,364,948
Liabilities and Net Assets				
Liabilities				
Trade Payables	$ 2,179,067	$ 2,312,646	$ 20,806,006	$ 1,641,280
Employee Benefits	935,927	920,266	940,493	784,300
Retirement Obligation per GASB 45	413,919	376,290	338,661	-
Due to (from) Santa Clara County Valley Health Plan	4,054,757	3,895,241	924,484	1,108,409
Advance Premium - Healthy Kids	66,753	70,082	67,587	62,652
Deferred Rent	165,493	163,539	161,585	-
Liability for ACA 1202	31,823,135	29,771,166	27,751,935	-
Payable to Hospitals (SB 208)	-	-	-	27,272,387
Payable to Hospitals (AB 85)	960,710	454,521	1,147,708	-
Due to DHCS	6,412,063	4,787,615	21,610,479	8,848,121
Medical Cost Reserves	22,375,213	21,767,323	21,787,697	23,096,637
Total Liabilities	69,387,038	64,518,689	95,536,635	62,813,787
Net Assets / Reserves				
Invested in Capital Assets	484,917	505,870	532,891	507,596
Restricted under Knox-Keene agreement	305,350	305,350	305,350	305,350
Board Designated Reserve - Healthy Kids	594,253	894,253	1,489,090	1,489,090
Unrestricted Net Equity	31,166,641	30,845,688	30,223,830	21,906,540
Current YTD Income (Loss)	5,262,173	2,935,993	1,798,386	8,342,585
Net Assets / Reserves	37,813,334	35,487,154	34,349,547	32,551,161
Total Liabilities and Net Assets	$ 107,200,372	$ 100,005,843	$ 129,886,182	$ 95,364,948
Solvency Ratios:				
Working Capital	37,328,416	34,981,284	33,816,656	32,043,565
Working Capital ratio	1.5	1.5	1.4	1.5
Average Days Cash on Hand	5	40	117	84

Santa Clara County Health Authority

Income Statement for the Month Ending May 31, 2014

	For the Month of May 2014					For Eleven Months Ending of May 2014				
	Actual	% of Revenue	Revised Budget	% of Revenue	Variance	Actual	% of Revenue	Revised Budget	% of Revenue	Variance
REVENUES										
MEDI-CAL	41,077,983	98.6%	31,536,238	97.8%	$ 9,541,745	332,909,167	97.7%	304,813,211	97.4%	$ 28,095,956
HEALTHY FAMILIES	0	0.0%	0	0.0%	-	14,061	0.0%	13,993	0.0%	68
HEALTHY KIDS	423,713	1.0%	505,000	1.6%	(81,287)	5,252,407	1.5%	5,391,813	1.7%	(139,406)
AGNEWS	150,734	0.4%	190,228	0.6%	(39,494)	1,699,117	0.5%	1,942,984	0.6%	(243,867)
HEALTHY WORKERS	0	0.0%	0	0.0%	-	724,495	0.2%	778,720	0.2%	(54,226)
TOTAL REVENUE	41,652,430	100.0%	32,231,466	100.0%	9,420,964	340,599,247	100.0%	312,940,722	100.0%	27,658,526
MEDICAL EXPENSES										
MEDI-CAL	37,048,588	88.9%	29,692,884	92.1%	(7,355,705)	309,325,011	90.8%	286,076,178	91.4%	(23,248,832)
HEALTHY FAMILIES	(5)	0.0%	0	0.0%	5	(10,505)	0.0%	11,680	0.0%	22,185
HEALTHY KIDS	398,055	1.0%	454,500	1.4%	56,445	4,641,309	1.4%	4,877,709	1.6%	236,400
AGNEWS	55,696	0.1%	86,431	0.3%	30,735	1,009,232	0.3%	1,107,095	0.4%	97,862
HEALTHY WORKERS	0	0.0%	0	0.0%	0	792,290	0.2%	803,389	0.3%	11,100
TOTAL MEDICAL EXPENSES	37,502,335	90.0%	30,233,815	93.8%	(7,268,520)	315,757,336	92.7%	292,876,051	93.6%	(22,881,286)
MEDICAL OPERATING MARGIN	4,150,095	10.0%	1,997,651	6.2%	2,152,444	24,841,911	7.3%	20,064,671	6.4%	4,777,240
ADMINISTRATIVE EXPENSES										
SALARIES AND BENEFITS	1,121,395	2.7%	1,259,038	3.9%	137,643	12,285,795	3.6%	12,736,034	4.1%	450,239
RENTS AND UTILITIES	103,596	0.2%	103,875	0.3%	279	1,146,571	0.3%	1,136,472	0.4%	(10,099)
PRINTING AND ADVERTISING	5,272	0.0%	13,754	0.0%	8,482	123,362	0.0%	165,483	0.1%	42,121
INFORMATION SYSTEMS	51,606	0.1%	71,593	0.2%	19,988	862,185	0.3%	852,781	0.3%	(9,404)
PROF FEES / CONSULTING / TEMP STAFFING	19,014	0.0%	378,792	1.2%	359,778	2,254,243	0.7%	3,486,696	1.1%	1,232,453
DEPRECIATION / INSURANCE / EQUIPMENT	47,422	0.1%	80,012	0.2%	32,590	671,403	0.2%	807,720	0.3%	136,317
OFFICE SUPPLIES / POSTAGE / TELEPHONE	94,998	0.2%	42,900	0.1%	(52,098)	534,844	0.2%	458,608	0.1%	(76,235)
MEETINGS / TRAVEL / DUES	51,833	0.1%	60,939	0.2%	9,107	555,359	0.2%	629,962	0.2%	74,604
OTHER	3,431	0.0%	14,433	0.0%	11,003	60,492	0.0%	118,997	0.0%	58,505
TOTAL ADMINISTRATIVE EXPENSES	1,498,565	3.6%	2,025,337	6.3%	526,771	18,494,253	5.4%	20,392,753	6.5%	1,898,500
OPERATING SURPLUS (LOSS)	2,651,530	6.4%	(27,686)	-0.1%	2,679,215	6,347,658	1.9%	(328,082)	-0.1%	6,675,740
CONTRIBUTION EXPENSE	(300,000)	0.0%	0	0.0%	(300,000)	(894,837)	0.0%	0	0.0%	(894,837)
GASB 45-POST EMPLOYMENT BENEFITS EXPENSE	(37,629)	-0.1%	(33,334)	-0.1%	(4,296)	(413,919)	-0.1%	(383,851)	-0.1%	(30,069)
INTEREST & OTHER INCOME	12,279	0.0%	10,000	0.0%	2,279	223,271	0.1%	145,455	0.0%	77,815
NET INCOME (LOSS) FINAL	2,326,180	5.6%	(51,019)	-0.2%	$ 2,377,199	5,262,173	1.5%	(566,477)	-0.2%	$ 5,828,650

Administrative Expense
Actual vs. Budget
For the Current Month & Fiscal Year to Date - May 2014
Favorable/(Unfavorable)

Current Month					Year to Date			
Actual	Revised Budget	Variance $	Variance %		Actual	Revised Budget	Variance $	Variance %
$ 1,121,395	$1,259,038	$ 137,643	10.9%	Personnel	$ 12,285,795	$12,736,034	$ 450,239	3.5%
377,170	766,298	389,128	50.8%	Non-Personnel	6,208,457	7,656,719	$ 1,448,261	18.9%
1,498,565	2,025,337	526,771	26.0%	Total Administrative Expense	18,494,253	20,392,753	1,898,500	9.3%

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

ELEVEN MONTHS ENDED May 31, 2014

		Medi-Cal	Healthy Families	Healthy Kids	Agnews	Healthy Workers	Grand Total
P&L (ALLOCATED BASIS)							
REVENUE		$332,909,167	$14,061	$5,252,407	$1,699,117	724,495	$340,599,247
MEDICAL EXPENSES		309,325,011	(10,505)	4,641,309	1,009,232	792,290	$315,757,336
	MLR	92.9%	-74.7%	88.4%	59.4%	109.4%	92.7%
GROSS MARGIN		23,584,156	24,566	611,098	689,885	(67,795)	$24,841,911
ADMINISTRATIVE EXPENSES (indirect costs subject to % MM allocation)		17,843,349	2,174	600,481	13,441	34,808	$18,494,253
OPERATING INCOME/(LOSS)		5,740,807	22,393	10,617	676,444	(102,603)	6,347,658
OTHER INCOME/EXPENSE (% of mm Allocation)		(1,047,282)	(128)	(35,244)	(789)	(2,043)	(1,085,485)
NET INCOME/ (LOSS)		$4,693,526	$22,265	($24,627)	$675,655	($104,646)	$5,262,173
PMPM ALLOCATED P&L:							
REVENUE		$191.29	$66.33	$89.68	$1,296.05	$213.40	$188.82
MEDICAL EXPENSES		177.74	(49.55)	79.25	769.82	233.37	175.05
GROSS MARGIN		13.55	115.88	10.43	526.23	(19.97)	13.77
ADMINISTRATIVE EXPENSS		10.25	10.25	10.25	10.25	10.25	10.25
OPERATING INCOME/(LOSS)		3.30	105.63	0.18	515.98	(30.22)	3.52
OTHER INCOME / (EXPENSE)		(0.60)	(0.60)	(0.60)	(0.60)	(0.60)	(0.60)
NET INCOME / (LOSS)		$2.70	$105.02	($0.42)	$515.37	($30.82)	$2.92
ALLOCATION BASIS:							
MEMBER MONTHS - Month and YTD		1,740,354	212	58,568	1,311	3,395	1,803,840
% of Member Months		96.48%	0.01%	3.25%	0.07%	0.19%	100.00%

Santa Clara Family Health Plan
Statement of Cash Flows
For Eleven Months Ended May 31, 2014

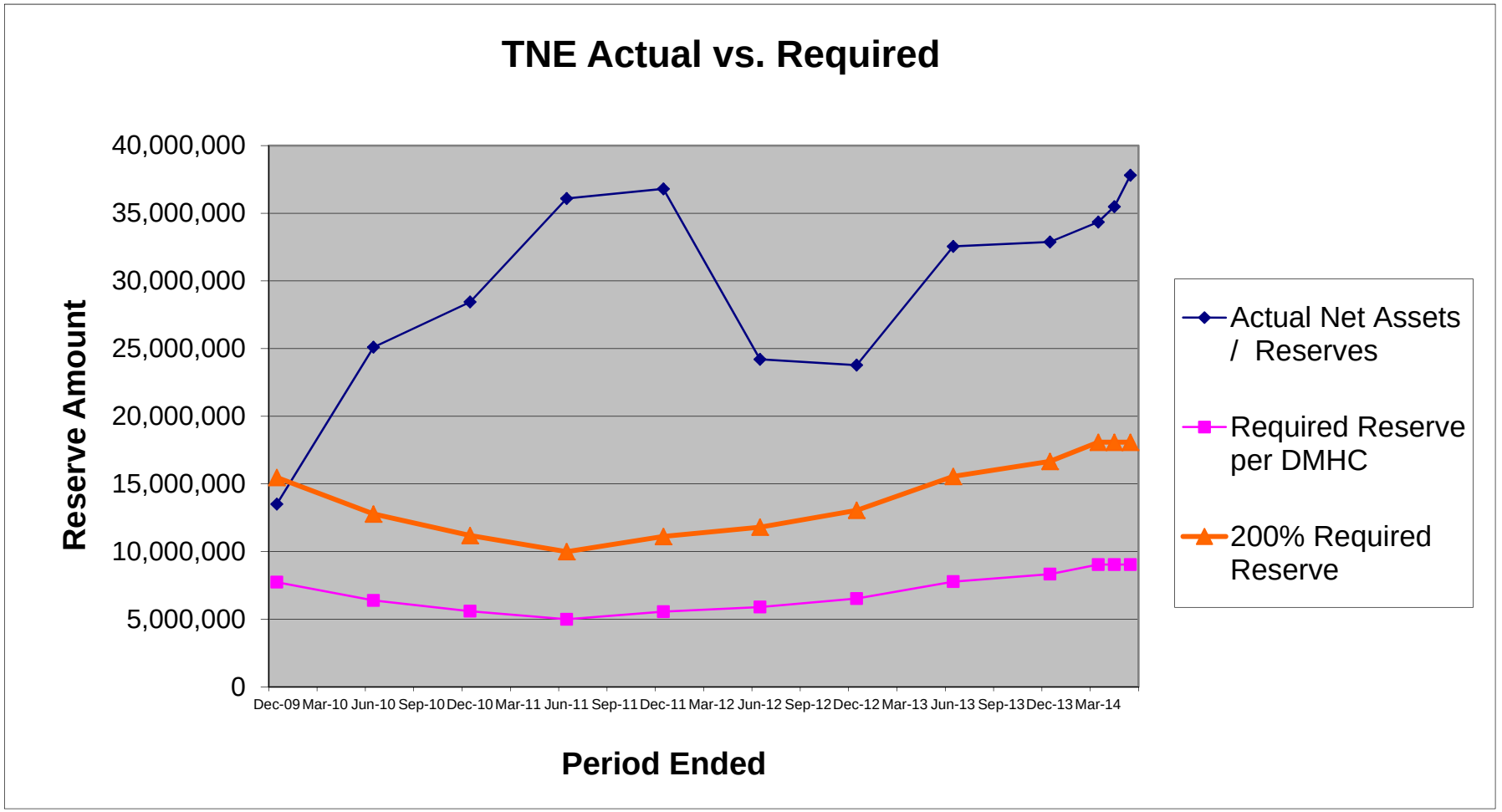
Cash flows from operating activities		
Premiums received	$	270,539,149
Medical expenses paid	$	(313,532,413)
Administrative expenses paid	$	(13,510,593)
Net cash from operating activities	$	(56,503,856)
Cash flows from capital and related financing activities		
Purchases of capital assets	$	(266,158)
Cash flows from investing activities		
Interest income and other income, net	$	223,271
Net (Decrease) increase in cash and cash equivalents	$	(56,546,744)
Cash and cash equivalents, beginning of year	$	61,888,777
Cash and cash equivalents at May 31, 2014	$	5,342,034
Reconciliation of operating income to net cash from operating activities		
Operating income (loss)	$	5,038,902
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	$	288,837
Changes in operating assets and liabilities		
Premiums receivable	$	(68,417,176)
Due from Santa Clara Family Health Foundation	$	316,527
Prepaids and other assets	$	(304,198)
Accounts payable and accrued liabilities	$	5,261,312
Capitation payable	$	2,946,348
Employee benefit liabilities	$	151,628
Advance premium - Healthy Kids	$	4,101
Reserve for Rate Reductions	$	(1,068,713)
Incurred but not reported claims payable and risk share payments payable	$	(721,424)
Total adjustments	$	(61,542,758)
Net cash from operating activities	$	(56,503,856)

Santa Clara Family Health Plan Enrollment Summary

	For the Month of May 2014			YTD Eleven Months Ending May 2014				
	Actual	**Revised Budget**	**% Variance**	**Actual**	**Revised Budget**	**% Variance**	**Prior Year Actual**	**% Change FY14 vs FY13**
Medi-Cal	179,807	162,935	10.36%	1,740,354	1,699,751	2.39%	1,402,831	24.06%
Healthy Families	-	-	0.00%	212	199	6.53%	103,305	(99.79%)
Healthy Kids	5,196	5,500	(5.53%)	58,568	60,136	(2.61%)	63,544	(7.83%)
Agnews	116	126	(7.94%)	1,311	1,369	(4.24%)	1,398	(6.22%)
Healthy Workers	-	-	0.00%	3,395	3,510	(3.28%)	6,126	(44.58%)
Total	185,119	168,561	9.82%	1,803,840	1,764,965	2.20%	1,577,204	14.37%

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

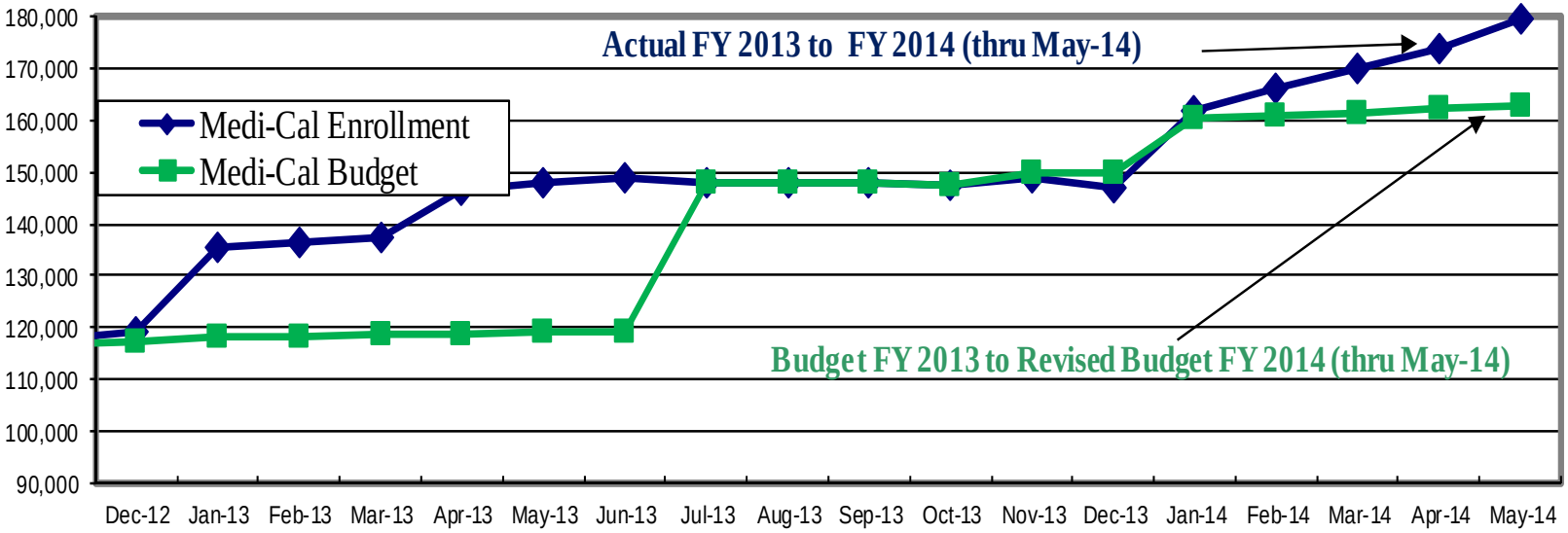
	12/31/2009	6/30/2010	12/31/2010	6/30/2011	12/31/2011	6/30/2012	12/31/2012	6/30/2013	12/31/2013	3/31/2014	4/30/2014	5/31/2014
Actual Net Assets / Reserves	13,501,652	25,103,011	28,445,504	36,093,769	36,803,460	24,208,576	23,776,902	32,551,161	32,878,950	34,349,547	35,487,154	37,813,334
Required Reserve per DMHC	7,737,000	6,388,000	5,591,000	4,996,000	5,558,000	5,901,000	6,525,000	7,778,000	8,330,000	9,039,000	9,039,000	9,039,000
200% of Required Reserve	15,474,000	12,776,000	11,182,000	9,992,000	11,116,000	11,802,000	13,050,000	15,556,000	16,660,000	18,078,000	18,078,000	18,078,000



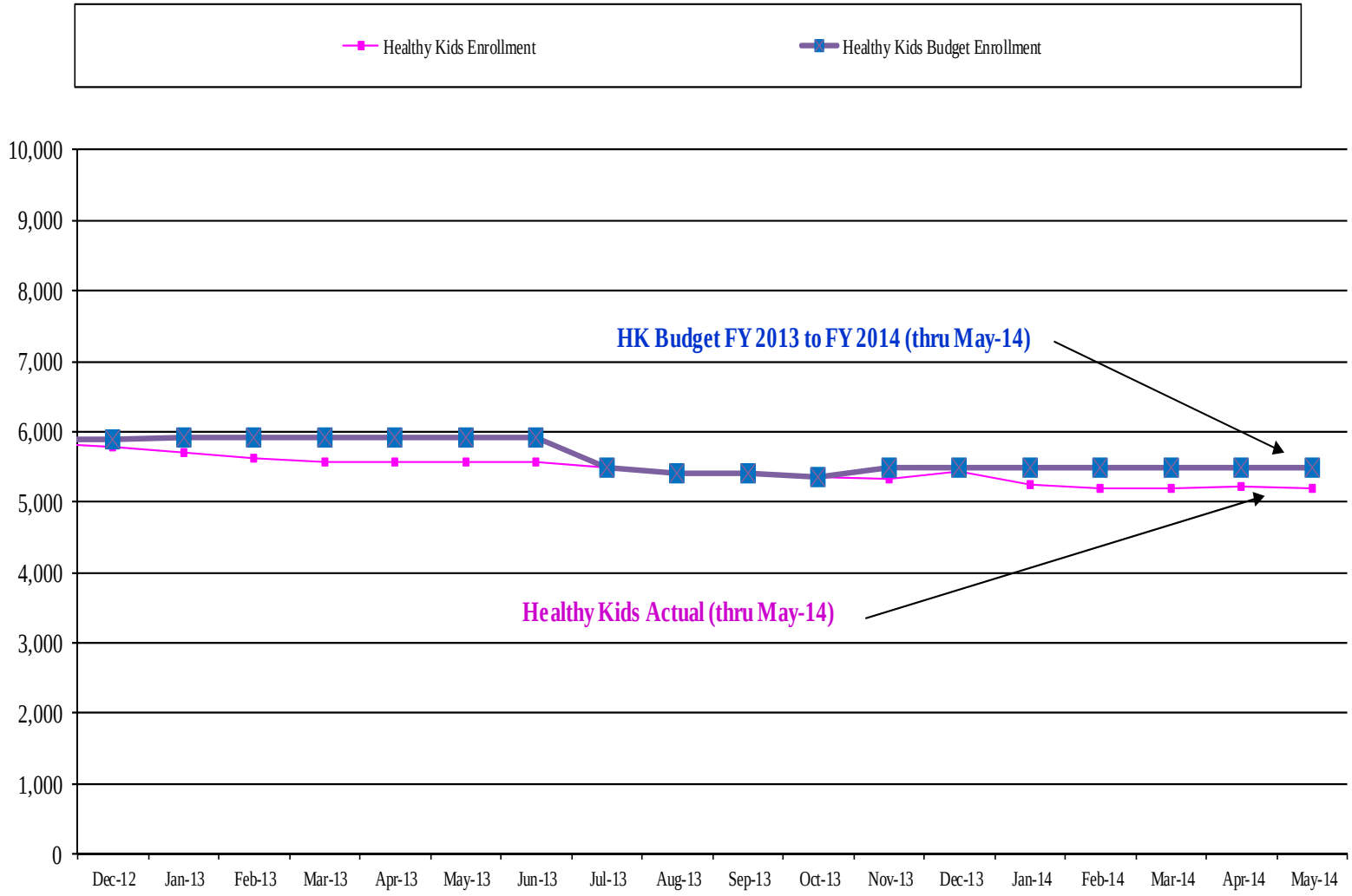
Santa Clara County Health Authority
Enrollment Summary by Network
May 2014

	Medi-Cal		Healthy Families		Healthy Kids		AG		Healthy Workers		Total	
	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total
Direct Contract Physicians	10,873	6%	0	0%	159	3%	116	100%	0	0%	11,148	6%
SCVHHS, Safety Net Clinics, FQHC Clinics,	94,518	53%	0	0%	3,598	69%	0	0%	0	0%	98,116	53%
Palo Alto Medical Foundation	4,130	2%	0	0%	50	1%	0	0%	0	0%	4,180	2%
Physicians Medical Group	38,160	21%	0	0%	1,207	23%	0	0%	0	0%	39,367	21%
Premier Care	12,347	7%	0	0%	182	4%	0	0%	0	0%	12,529	7%
Kaiser	19,779	11%	0	0%	0	0%	0	0%	0	0%	19,779	11%
Total	179,807	100%	0	0%	5,196	100%	116	100%	0	0%	185,119	100%
Enrollment @ 6-30-13	148,874		146		5,565		126		604		155,315	
Net % Change from Beginning of FY	20.78%		-100.00%		-6.63%		-7.94%		-100.00%		19.19%	

SCFHP Medi-Cal Enrollment as of May 2014



SCFHP Healthy Kids Enrollment as of May 2014



Santa Clara
Family Health Plan

The Spirit of Care

Financial Statements
For Twelve Months Ended June 2014
(Unaudited)

Table of Contents

Santa Clara Family Health Plan
CFO Finance Report
For the Month and Year to Date Ended June 30, 2014

Summary of Financial Results

For the month of June 2014, SCFHP recorded a net surplus of $3.5 million compared to a budgeted loss of $92 thousand, resulting in a favorable variance from budget of $3.6 million. For year to date June 2014, SCFHP recorded a net surplus of $8.8 million compared to a budgeted net loss of $658 thousand resulting in a favorable variance from budget of $9.4 million. In May 2014, the Plan received notice of a final settlement from a long standing court dispute with DHCS regarding revenue rates for rate years 2002-2003 and 2003-2004. The Plan was awarded a settlement amount of $5,500,000 plus related attorney fees. Settlement amount of $5,996,968 was recorded as a Non-Recurring Gain on the Income Statement in June 2014. The table below summarizes the components of the overall variance from budget.

Note: For purposes of this report all budget amounts for fiscal year 2014 are per Revised Budget as presented at the Board Meeting on December 12, 2013.

Summary Operating Results – Actual vs. Revised Budget

For the Current Month & Fiscal Year to Date – June 2014

Favorable/ (Unfavorable)

Current Month					Year to Date			
Actual	Revised Budget	Variance $	Variance %		Actual	Revised Budget	Variance $	Variance %
$ 44,174,365	$ 32,492,759	$ 11,681,606	36.0%	Revenue	$ 384,773,612	$ 345,433,480	$ 39,340,132	11.4%
43,714,052	30,486,208	(13,227,843)	-43.4%	Medical Expense	359,471,388	323,362,259	(36,109,129)	-11.2%
460,314	2,006,551	(1,546,237)	-77%	Gross Margin	25,302,224	22,071,221	3,231,003	15%
2,676,668	2,075,170	(601,498)	-29.0%	Administrative Expense	21,170,921	22,467,923	1,297,002	5.8%
(2,216,355)	(68,619)	(2,147,735)	-3130%	Net Operating Income	4,131,303	(396,701)	4,528,005	1141%
(276,194)	(23,334)	(252,860)	-1084%	Non-Operating Income/Exp	(1,361,679)	(261,729)	(1,099,951)	-420%
$ (2,492,549)	$ (91,953)	$ (2,400,596)	-2611%	Operating Surplus/ (Loss) before Non-Recurring Items	$ 2,769,624	$ (658,430)	$ 3,428,054	521%
5,996,968	-	5,996,968	0%	Gain as Result of Lawsuit Settlement	5,996,968	-	5,996,968	0%
$ 3,504,420	$ (91,953)	3,596,372	-3911.1%	Final Net Surplus/ (Loss)	$ 8,766,592	$ (658,430)	9,425,022	-1431.4%

Revenue

The Health Plan recorded net revenue of $44.2 million for the month of June 2014, compared to budgeted revenue of $32.5 million, resulting in a favorable variance from budget of $11.7 million, or 36.0%. For year to date June 2014, the Plan recorded net revenue of $384.8 million compared to budgeted revenue of $345.4 million, resulting in a favorable variance from budget of $39.3 million, or 11.4%. The primary reason for the positive variance in revenue is the rapid growth of the Medi-Cal Expansion membership and the higher than budgeted capitation rates for this population.

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

Member months

For the month of June 2014, overall member months were higher than budget by 23,292 members (+13.8%). For June 2014, year to date, overall member months were higher than budget by 62,170 members (+3.2%).

In the twelve months since the end of the prior fiscal year, 6/30/2013, membership in Medi-Cal increased by 25.7%. The increase in Medi-Cal includes 27,933 new Medi-Cal Expansion members added between January and June 2014. Membership in the Healthy Kids program declined by 4.4%, since 6/30/2013. Member months, and changes from prior year, are summarized on Page 11.

The planned transition of the Medi-Cal Healthy Families product occurred in three phases and was fully completed by January 2014.

Medical Expenses

For the month of June 2014, medical expenses were $43.7 million compared to budget of $30.5 million, resulting in an unfavorable budget variance of $13.2 million, or -43.4%. For year to date June 2014, medical expense was $359.5 million compared to budget of $323.4 million, resulting in an unfavorable budget variance of $36.1 million, or -11.2%. The increased medical expenses for the month, and year to date, is attributable to the Medi-Cal Expansion population that commenced in January of 2014. Over 80% of these members are delegated to the safety net and other global providers and therefore they receive a substantial amount of the state capitation to care for these members.

Administrative Expenses

Overall administrative costs were over budget by $601 thousand +29.0% for the month of June, and under budget by $1.3 million (-5.8%) for year to date June 2014. Two expense classifications account for a majority of the positive year to date difference; Salaries/Benefits and Professional Fees are under budget because of the slower than anticipated ramp up costs for Cal MediConnect. The Plan made donations to safety net providers in the month of June 2014 totaling $1 million as per board resolutions which are included in operating expenses.

Overall administrative expenses were 5.5% of revenues for year to date June 2014.

Balance Sheet (Page 6)

Current assets at June 30, 2014 totaled $112.7 million compared to current liabilities of $71.9 million, yielding a current ratio (the ratio of current assets to current liabilities) of 1.6:1 as of June 30, 2014. Working capital increased by $8.8 million for the twelve months year-to-date ended June 30, 2014.

Cash as of June 30, 2014, decreased by $23.1 million compared to the cash balance as of year-end June 30, 2013. Net receivables increased by $34.9 million during the same twelve month period ended June 30, 2014. The Department of Health Care Services (DHCS) delayed the release of our June capitation payment until July 31st. This was the second delay in the last three months.

Liabilities increased by a net amount of $9.0 million during the twelve months ended June 2014.

As of the prior fiscal year ending June 30, 2013, the "Board Designated Reserve – Healthy Kids" totaled $1,489,090. During fiscal year 2014, the Plan made contributions totaling $1,194,837, thus reducing the reserve balance to $294,253 as of June 30, 2014. (See line items under net position/reserves on the Balance Sheet on page 6, and contribution expense on the Income Statement on page 7.)

Capital Expenses increased by $291 thousand for the twelve months ended June 30, 2014.

Tangible Net Equity

Tangible Net Equity (TNE) was $41.3 million at June 30, 2014, compared to the minimum TNE required by the Department of Managed Health Care (DMHC) of $11.4 million (as per quarterly filing at 6-30-14). A chart showing TNE trends is shown on page 12 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 June 30, 2014, the Plan's reserves are below this reserves target by about $44.9 million (see calculation below).

(Note: Due to an additional 27,900+ members in the Medi-Cal Expansion program from Jan 2014 through June 2014, the monthly capitation amount for Medi-Cal has increased to approximately $15.5+ million more than the level at Dec 2013.)

Calculation of targeted reserves as of June 30, 2014

Estimate of two months' capitation (based on June-2014) (June-2014 Medi-Cal capitation of $42,690,000 X 2 = $85,380,000)	$85,380,000
Less: Unrestricted Net Equity per balance sheet (rounded)	$40,530,000
Approximate reserves below target	$44,850,000

Santa Clara County Health Authority
Balance Sheet

	6/30/2014	5/31/2014	4/30/2014	6/30/2013
Assets				
Current Assets				
Cash and Marketable Securities	$ 38,802,506	$ 5,342,034	$ 38,516,831	$ 61,888,777
Premiums Receivable	66,987,732	100,538,983	60,085,610	32,121,807
Due from Santa Clara Family Health Foundation - net	70,697	2,752	2,752	319,279
Prepaid Expenses and Other Current Assets	6,833,379	831,686	894,780	527,488
Total Current Assets	112,694,314	106,715,455	99,499,973	94,857,352
Long Term Assets				
Equipment	7,036,504	7,011,274	7,005,559	6,745,116
Less: Accumulated Depreciation	(6,553,597)	(6,526,356)	(6,499,689)	(6,237,519)
Total Long Term Assets	482,907	484,917	505,870	507,596
Total Assets	$ 113,177,221	$ 107,200,372	$ 100,005,843	$ 95,364,948
Liabilities and Net Position				
Liabilities				
Trade Payables	$ 2,835,364	$ 2,179,067	$ 2,312,646	$ 1,641,280
Employee Benefits	949,180	935,927	920,266	784,300
Retirement Obligation per GASB 45	-	413,919	376,290	-
Due to (from) Santa Clara County Valley Health Plan	3,737,741	4,054,757	3,895,241	1,108,409
Advance Premium - Healthy Kids	63,872	66,753	70,082	62,652
Deferred Rent	167,447	165,493	163,539	-
Liability for ACA 1202	31,179,036	31,823,135	29,771,166	-
Payable to Hospitals (SB 208)	-	-	-	27,272,387
Payable to Hospitals (AB 85)	1,555,000	960,710	454,521	-
Due to DHCS	4,495,275	6,412,063	4,787,615	8,848,121
Medical Cost Reserves	26,876,555	22,375,213	21,767,323	23,096,637
Total Liabilities	71,859,468	69,387,038	64,518,689	62,813,787
Net Position / Reserves				
Invested in Capital Assets	482,907	484,917	505,870	507,596
Restricted under Knox-Keene agreement	305,350	305,350	305,350	305,350
Board Designated Reserve - Healthy Kids	294,253	594,253	894,253	1,489,090
Unrestricted Net Equity	31,468,651	31,166,641	30,845,688	21,906,540
Current YTD Income (Loss)	8,766,592	5,262,173	2,935,993	8,342,585
Net Position / Reserves	41,317,753	37,813,334	35,487,154	32,551,161
Total Liabilities and Net Position	$ 113,177,221	$ 107,200,372	$ 100,005,843	$ 95,364,948
Solvency Ratios:				
Working Capital	40,834,846	37,328,416	34,981,284	32,043,565
Working Capital ratio	1.6	1.5	1.5	1.5
Average Days Cash on Hand	37	5	40	84

Santa Clara County Health Authority
Income Statement for the Month Ending June 30, 2014

	For the Month of June 2014					For Twelve Months Ending of June 2014				
	Actual	% of Revenue	Revised Budget	% of Revenue	Variance	Actual	% of Revenue	Revised Budget	% of Revenue	Variance
REVENUES										
MEDI-CAL	$ 43,585,281	98.7%	$ 31,797,531	97.9%	$ 11,787,750	$ 376,494,448	97.8%	$ 336,610,742	97.4%	$ 39,883,706
HEALTHY FAMILIES	-	0.0%	-	0.0%	-	14,061	0.0%	13,993	0.0%	68
HEALTHY KIDS	489,000	1.1%	505,000	1.6%	(16,000)	5,741,407	1.5%	5,896,813	1.7%	(155,406)
AGNEWS	100,084	0.2%	190,228	0.6%	(90,144)	1,799,201	0.5%	2,133,213	0.6%	(334,011)
HEALTHY WORKERS	-	0.0%	-	0.0%	-	724,495	0.2%	778,720	0.2%	(54,226)
TOTAL REVENUE	44,174,365	100.0%	32,492,759	100.0%	11,681,606	384,773,612	100.0%	345,433,480	100.0%	39,340,132
MEDICAL EXPENSES										
MEDI-CAL	43,250,623	97.9%	29,945,279	92.2%	(13,305,345)	352,575,634	91.6%	316,021,457	91.5%	(36,554,177)
HEALTHY FAMILIES	(6)	0.0%	-	0.0%	6	(10,511)	0.0%	11,680	0.0%	22,191
HEALTHY KIDS	417,049	0.9%	454,500	1.4%	37,451	5,058,358	1.3%	5,332,209	1.5%	273,851
AGNEWS	46,203	0.1%	86,430	0.3%	40,227	1,055,435	0.3%	1,193,524	0.3%	138,089
HEALTHY WORKERS	182	0.0%	-	0.0%	(182)	792,472	0.2%	803,389	0.2%	10,917
TOTAL MEDICAL EXPENSES	43,714,052	99.0%	30,486,208	93.8%	(13,227,843)	359,471,388	93.4%	323,362,259	93.6%	(36,109,129)
MEDICAL OPERATING MARGIN	460,314	1.0%	2,006,551	6.2%	(1,546,237)	25,302,224	6.6%	22,071,221	6.4%	3,231,003
ADMINISTRATIVE EXPENSES										
SALARIES AND BENEFITS	1,092,118	2.5%	1,308,871	4.0%	216,753	13,377,913	3.5%	14,044,905	4.1%	666,992
RENTS AND UTILITIES	107,623	0.2%	103,875	0.3%	(3,748)	1,254,193	0.3%	1,240,347	0.4%	(13,846)
PRINTING AND ADVERTISING	59,240	0.1%	13,754	0.0%	(45,486)	182,601	0.0%	179,237	0.1%	(3,364)
INFORMATION SYSTEMS	66,807	0.2%	71,593	0.2%	4,786	928,992	0.2%	924,374	0.3%	(4,618)
PROF FEES / CONSULTING / TEMP STAFFING	255,316	0.6%	378,792	1.2%	123,475	2,509,559	0.7%	3,865,487	1.1%	1,355,928
DEPRECIATION / INSURANCE / EQUIPMENT	44,769	0.1%	80,012	0.2%	35,242	716,173	0.2%	887,732	0.3%	171,559
OFFICE SUPPLIES / POSTAGE / TELEPHONE	(1,123)	0.0%	42,900	0.1%	44,023	533,720	0.1%	501,508	0.1%	(32,212)
MEETINGS / TRAVEL / DUES	47,816	0.1%	60,939	0.2%	13,124	603,174	0.2%	690,902	0.2%	87,727
DONATIONS COUNTY SAFETY NET	1,000,000	2.3%	-	0.0%	(1,000,000)	1,000,000	0.3%	-	0.0%	(1,000,000)
OTHER	4,102	0.0%	14,433	0.0%	10,331	64,594	0.0%	133,430	0.0%	68,836
TOTAL ADMINISTRATIVE EXPENSES	2,676,668	6.1%	2,075,170	6.4%	(601,498)	21,170,921	5.5%	22,467,923	6.5%	1,297,002
OPERATING SURPLUS (LOSS)	(2,216,355)	-5.0%	(68,619)	-0.2%	(2,147,735)	4,131,303	1.1%	(396,701)	-0.1%	4,528,005
CONTRIBUTION EXPENSE	(300,000)	0.0%	-	0.0%	(300,000)	(1,194,837)	0.0%	-	0.0%	(1,194,837)
GASB 45-POST EMPLOYMENT BENEFITS EXPENSE	11,634	0.0%	(33,334)	-0.1%	44,967	(402,285)	-0.1%	(417,184)	-0.1%	14,899
INTEREST & OTHER INCOME	12,172	0.0%	10,000	0.0%	2,172	235,443	0.1%	155,455	0.0%	79,988
NET SURPLUS (LOSS) BEFORE NON-RECURRING ITEMS	(2,492,549)	-5.6%	(91,953)	-0.3%	(2,400,596)	2,769,624	0.7%	(658,430)	-0.2%	3,428,054
NON-RECURRING ITEM:										
GAIN AS RESULT OF LAWSUIT SETTLEMENT	5,996,968	13.6%	$ -	0.0%	5,996,968	5,996,968	1.6%	$ -	0.0%	5,996,968
NET SURPLUS (LOSS) FINAL	$ 3,504,420	7.9%	$ (91,953)	-0.3%	$ 3,596,372	$ 8,766,592	2.3%	$ (658,430)	-0.2%	$ 9,425,022

Administrative Expense
Actual vs. Budget
For the Current Month & Fiscal Year to Date - June 2014
Favorable/(Unfavorable)

Current Month					Year to Date			
Actual	Budget	Variance $	Variance %		Actual	Budget	Variance $	Variance %
$ 1,092,118	$ 1,308,871	$ 216,753	16.6%	Personnel	$ 13,377,913	$ 14,044,905	$ 666,992	4.7%
1,584,550	766,298	(818,252)	-106.8%	Non-Personnel	7,793,008	8,423,017	$ 630,010	7.5%
2,676,668	2,075,170	(601,498)	-29.0%	Total Administrative Expense	21,170,921	22,467,923	1,297,002	5.8%

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

		Medi-Cal	Healthy Families	Healthy Kids	Agnews	Healthy Workers	Grand Total
		TWELVE MONTHS ENDED June 30, 2014					
P&L (ALLOCATED BASIS)							
REVENUE		$376,494,448	$14,061	$5,741,407	$1,799,201	724,495	$384,773,612
MEDICAL EXPENSES		352,575,634	(10,511)	5,058,358	1,055,435	792,472	$359,471,388
	MLR	93.6%	-74.8%	88.1%	58.7%	109.4%	93.4%
GROSS MARGIN		23,918,814	24,572	683,049	743,766	(67,977)	$25,302,224
ADMINISTRATIVE EXPENSES (indirect costs subject to % MM allocation)		20,439,979	2,248	677,568	15,122	36,003	$21,170,921
OPERATING INCOME/(LOSS)		3,478,835	22,324	5,482	728,643	(103,980)	4,131,303
OTHER INCOME/EXPENSE (% of mm Allocation)		4,682,302	(145)	(43,580)	(973)	(2,316)	(1,361,679)
NET INCOME/ (LOSS)		$8,161,137	$22,179	($38,099)	$727,671	($106,296)	$8,766,592
PMPM ALLOCATED P&L:							
REVENUE		$195.33	$66.33	$89.86	$1,261.71	$213.40	$192.74
MEDICAL EXPENSES		182.92	(49.58)	79.17	740.14	233.42	180.06
GROSS MARGIN		12.41	115.91	10.69	521.57	(20.02)	12.67
ADMINISTRATIVE EXPENSS		10.60	10.60	10.60	10.60	10.60	10.60
OPERATING INCOME/(LOSS)		1.80	105.30	0.09	510.97	(30.63)	2.07
OTHER INCOME / (EXPENSE)		2.43	(0.68)	(0.68)	(0.68)	(0.68)	(0.68)
NET INCOME / (LOSS)		$4.23	$104.62	($0.60)	$510.29	($31.31)	$1.39
ALLOCATION BASIS:							
MEMBER MONTHS - Month and YTD		1,927,440	212	63,893	1,426	3,395	1,996,366
% of Member Months		96.55%	0.01%	3.20%	0.07%	0.17%	100.00%

Santa Clara Family Health Plan
Statement of Cash Flows
For Twelve Months Ended June 30, 2014

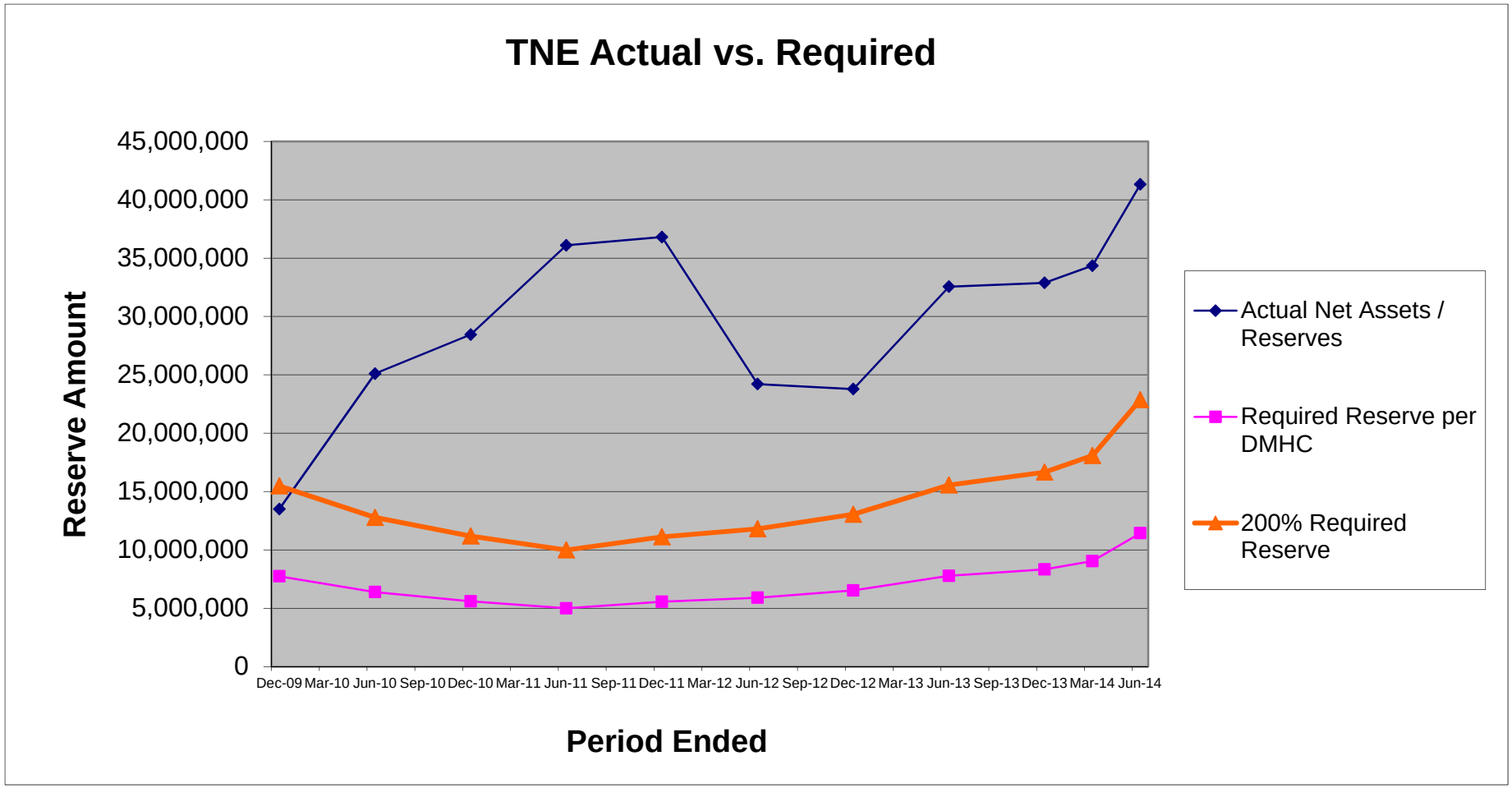
Cash flows from operating activities		
Premiums received	$	373,900,149
Medical expenses paid	$	(378,141,134)
Administrative expenses paid	$	(24,786,309)
Net cash from operating activities	$	(29,027,294)
Cash flows from capital and related financing activities		
Purchases of capital assets	$	(291,388)
Cash flows from investing activities		
Interest income and other income, net	$	6,232,411
Net (Decrease) increase in cash and cash equivalents	$	(23,086,271)
Cash and cash equivalents, beginning of year	$	61,888,777
Cash and cash equivalents at June 30, 2014	$	38,802,506
Reconciliation of operating income to net cash from operating activities		
Operating income (loss)	$	2,534,181
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	$	316,078
Changes in operating assets and liabilities		
Premiums receivable	$	(34,865,925)
Due from Santa Clara Family Health Foundation	$	248,582
Prepaids and other assets	$	(6,305,891)
Accounts payable and accrued liabilities	$	2,611,830
Capitation payable	$	3,556,547
Employee benefit liabilities	$	164,880
Advance premium - Healthy Kids	$	1,219
Reserve for Rate Reductions	$	(1,068,713)
Incurred but not reported claims payable and risk share payments payable	$	3,779,918
Total adjustments	$	(31,561,475)
Net cash from operating activities	$	(29,027,294)

Santa Clara Family Health Plan Enrollment Summary

	For the Month of June 2014			YTD Twelve Months Ending June 2014				
	Actual	**Revised Budget**	**% Variance**	**Actual**	**Revised Budget**	**% Variance**	**Prior Year Actual**	**% Change FY14 vs FY13**
Medi-Cal	187,085	163,605	14.35%	1,927,440	1,863,356	3.44%	1,551,705	24.21%
Healthy Families	-	-	0.00%	212	199	6.53%	103,451	(99.80%)
Healthy Kids	5,323	5,500	(3.22%)	63,893	65,636	(2.66%)	69,109	(7.55%)
Agnews	115	126	(8.73%)	1,426	1,495	(4.62%)	1,524	(6.43%)
Healthy Workers	-	-	0.00%	3,395	3,510	(3.28%)	6,730	(49.55%)
Total	192,523	169,231	13.76%	1,996,366	1,934,196	3.21%	1,732,519	15.23%

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

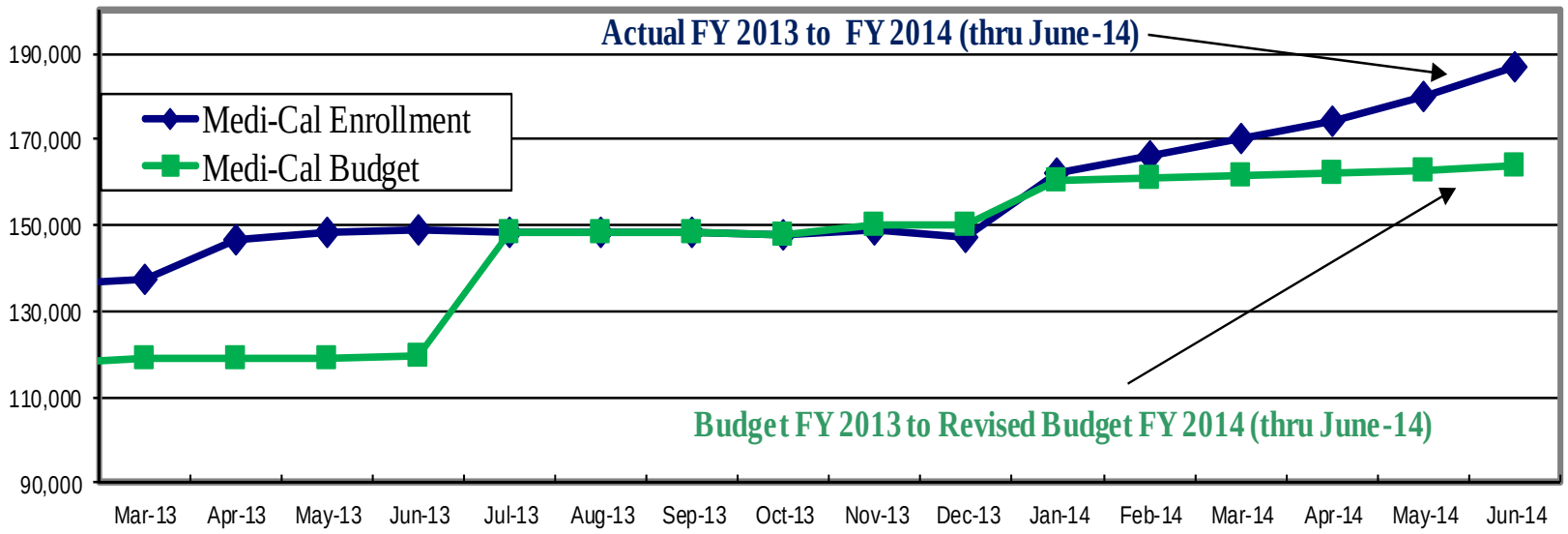
	12/31/2009	6/30/2010	12/31/2010	6/30/2011	12/31/2011	6/30/2012	12/31/2012	6/30/2013	12/31/2013	3/31/2014	6/30/2014
Actual Net Position / Reserves	13,501,652	25,103,011	28,445,504	36,093,769	36,803,460	24,208,576	23,776,902	32,551,161	32,878,950	34,349,547	41,317,753
Required Reserve per DMHC	7,737,000	6,388,000	5,591,000	4,996,000	5,558,000	5,901,000	6,525,000	7,778,000	8,330,000	9,039,000	11,434,000
200% of Required Reserve	15,474,000	12,776,000	11,182,000	9,992,000	11,116,000	11,802,000	13,050,000	15,556,000	16,660,000	18,078,000	22,868,000



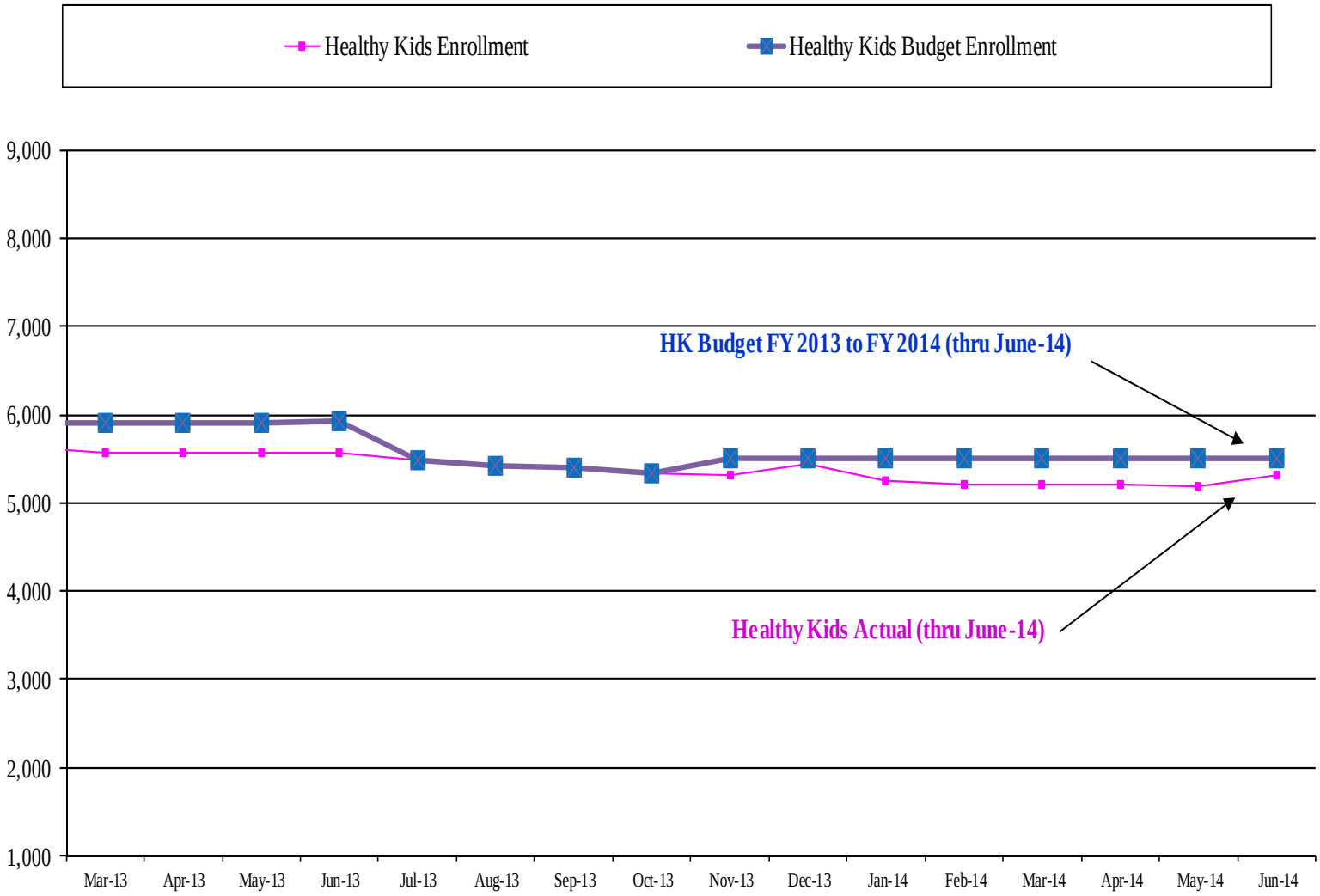
Santa Clara County Health Authority
Enrollment Summary by Network
June 2014

	Medi-Cal		Healthy Families		Healthy Kids		AG		Healthy Workers		Total	
	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total
Direct Contract Physicians	11,390	6%	0	0%	164	3%	115	100%	0	0%	11,669	6%
SCVHHS, Safety Net Clinics, FQHC Clinics,	99,035	53%	0	0%	3,685	69%	0	0%	0	0%	102,720	53%
Palo Alto Medical Foundation	4,272	2%	0	0%	54	1%	0	0%	0	0%	4,326	2%
Physicians Medical Group	39,126	21%	0	0%	1,237	23%	0	0%	0	0%	40,363	21%
Premier Care	12,767	7%	0	0%	183	3%	0	0%	0	0%	12,950	7%
Kaiser	20,495	11%	0	0%	0	0%	0	0%	0	0%	20,495	11%
Total Enrollment @ 6-30-14	187,085	100%	0	0%	5,323	100%	115	100%	0	0%	192,523	100%
	-		-	-	-	-			-	-		-
Total Enrollment @ 6-30-13	148,874		146		5,565		126		604		155,315	
Net % Change from Beginning of FY	25.67%		-100.00%		-4.35%		-8.73%		-100.00%		23.96%	

SCFHP Medi-Cal Enrollment as of June 2014



SCFHP Healthy Kids Enrollment as of June 2014



June 2014
Financial Summary

Governing Board Special Meeting

August 27, 2014

Consolidated Performance
June 2014 and Year to Date

	Month of June	FYTD thru June
Revenue *	$44.2 million	$384.8 million
Medical Costs	$43.7 million	$359.5 million
Medical Loss Ratio	99.0%	93.4%
Administrative Costs	$2.7million (3.8%)	$21.2 million (5.2%)
Other Income/ Expense **	($276,194)	($1,362,679)
Gain on Lawsuit Settlement	$5,996,968	$5,996,968
Net Surplus (Loss)	$3,504,420	$8,766,592
Cash on Hand	(37 days)	$38.8 million
Receivables		$67.0 million
Current Liabilities		$71.9 million
Tangible Net Equity		$41.3 million
Pct. Of Min. Requirement		**361%**

* Revenue reflects a 3% increase based on Capitation rates received from DHCS effective October 1st, 2013. Rate increase does not include ACA 1202 PCP increase. ** Other Expense includes a contribution of $1.2 million FYTD from the Board Designated Reserve Fund for Healthy Kids premiums.

Enrollment Summary
June and YTD

Santa Clara Family Health Plan Enrollment Summary

	For the Month of June 2014			YTD Twelve Months Ending June 2014				
	Actual	Revised Budget	% Variance	Actual	Revised Budget	% Variance	Prior Year Actual	% Change FY14 vs FY13
Medi-Cal	187,085	163,605	14.35%	1,927,440	1,863,356	3.44%	1,551,705	24.21%
Healthy Families	-	-	0.00%	212	199	6.53%	103,451	(99.80%)
Healthy Kids	5,323	5,500	(3.22%)	63,893	65,636	(2.66%)	69,109	(7.55%)
Agnews	115	126	(8.73%)	1,426	1,495	(4.62%)	1,524	(6.43%)
Healthy Workers	-	-	0.00%	3,395	3,510	(3.28%)	6,730	(49.55%)
Total	192,523	169,231	13.76%	1,996,366	1,934,196	3.21%	1,732,519	15.23%

Enrollment by Network - YTD

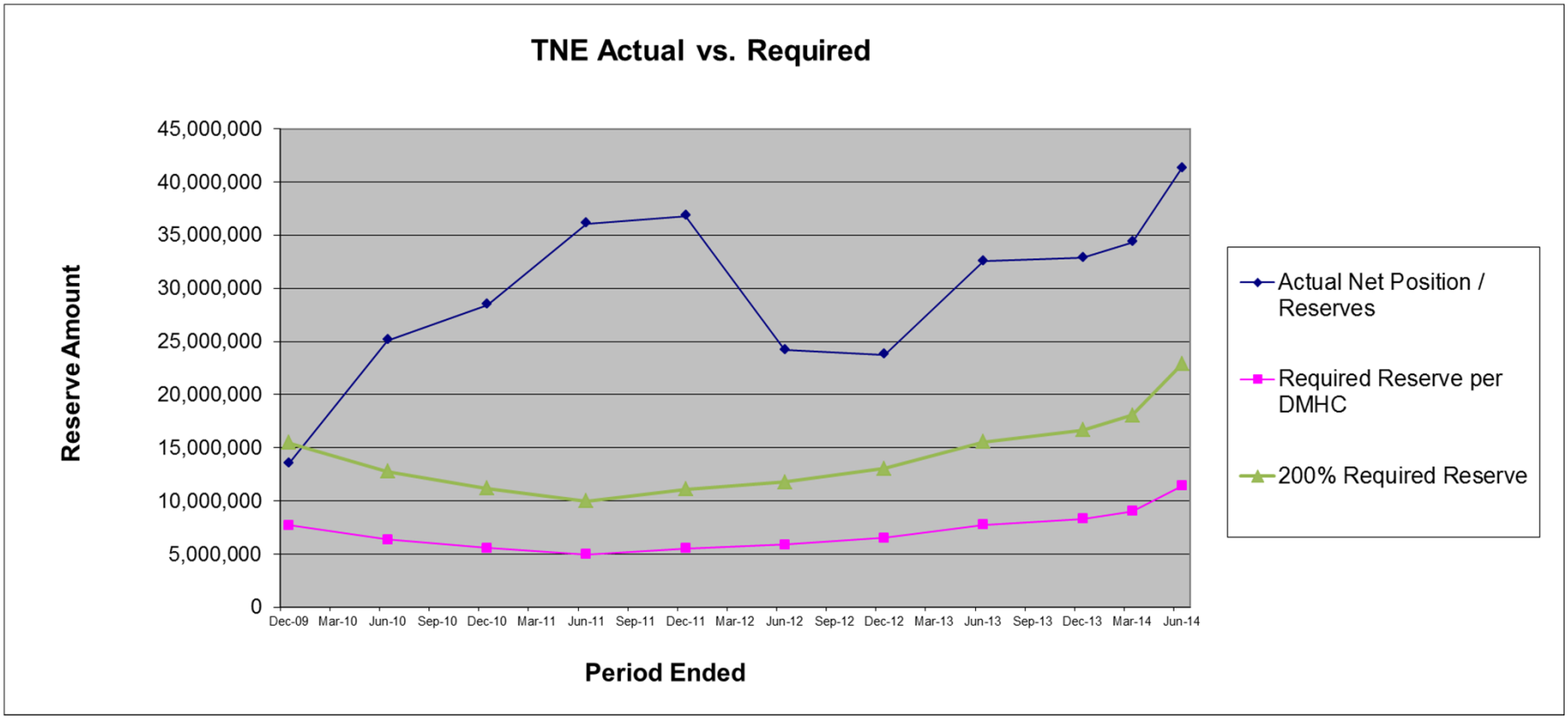
Santa Clara County Health Authority
Enrollment Summary by Network
June 2014

	Medi-Cal		Healthy Families		Healthy Kids		AG		Healthy Workers		Total	
	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total
Direct Contract Physicians	11,390	6%	0	0%	164	3%	115	100%	0	0%	11,669	6%
SCVHHS, Safety Net Clinics, FQHC	99,035	53%	0	0%	3,685	69%	0	0%	0	0%	102,720	53%
Palo Alto Medical Foundation	4,272	2%	0	0%	54	1%	0	0%	0	0%	4,326	2%
Physicians Medical Group	39,126	21%	0	0%	1,237	23%	0	0%	0	0%	40,363	21%
Premier Care	12,767	7%	0	0%	183	3%	0	0%	0	0%	12,950	7%
Kaiser	20,495	11%	0	0%	0	0%	0	0%	0	0%	20,495	11%
Total Enrollment @ 6-30-14	187,085	100%	0	0%	5,323	100%	115	100%	0	0%	192,523	100%
Total Enrollment @ 6-30-13	148,874		146		5,565		126		604		155,315	
Net % Change from Beginning of FY	25.67%		-100.00%		-4.35%		-8.73%		-100.00%		23.96%	

Membership has increased 23.96% since the beginning of the Fiscal Year, primarily as a result of the Medi-Cal Expansion (+25.67%) population which started January 1, 2014.

Tangible Net Equity at June 30, 2014

TNE is $41.3 million or 3.61 times the minimum TNE required by the Department of Managed Health Care (DMHC). The Plans reserves are roughly $44.9 million below the reserves targeted by the Health Authority Board of two months capitation revenue.



Reserve Calculations for California Health Plans

				As of 06/30/2013			RESERVE DIVIDED BY
		MONTHS	DAYS	----------REVENUE----------		RESERVE	PROJ ANNUAL
TYPE	HEALTH PLAN	IN RESERVE	IN RESERVE	QUARTERLY	PROJ ANNUAL	(TNE LINE)	REVENUE
REG	ON LOK SENIOR HEALTH SERVICES	11.73	352	$ 22,817,443	$ 91,269,772	$ 88,017,499	96.44%
COMM	BLUE SHIELD (CALIFORNIA PHYSICIANS SERVICE)	5.31	159	$ 2,186,209,000	$ 8,744,836,000	$ 3,819,830,000	43.68%
LHP	CENTRAL COAST ALLIANCE FOR HEALTH (Santa Cruz)	3.87	116	$ 151,709,902	$ 606,839,608	$ 193,023,984	31.81%
COMM	KAISER PERMANENTE	3.52	105	$13,580,231,000	$ 54,320,924,000	$ 15,695,607,000	28.89%
REG	SCAN HEALTH PLAN	3.13	94	$ 468,213,000	$ 1,872,852,000	$ 481,591,000	25.71%
LHP	PARTNERSHIP HEALTH PLAN OF CALIFORNIA	2.87	86	$ 252,690,855	$ 1,010,763,420	$ 238,121,471	23.56%
LHP	HEALTH PLAN OF SAN MATEO	2.62	79	$ 109,114,354	$ 436,457,416	$ 93,924,850	21.52%
LHP	KERN HEALTH SYSTEMS	2.09	63	$ 116,935,000	$ 467,740,000	$ 80,529,000	17.22%
LHP	SAN FRANCISCO HEALTH PLAN	1.68	51	$ 65,424,975	$ 261,699,900	$ 36,222,857	13.84%
COMM	HEALTH NET	1.61	48	$ 1,791,649,573	$ 7,166,598,292	$ 949,467,648	13.25%
REG	SHARP HEALTH PLAN	1.59	48	$ 81,197,295	$ 324,789,180	$ 42,577,316	13.11%
LHP	HEALTH PLAN OF SAN JOAQUIN	1.51	45	$ 107,609,036	$ 430,436,144	$ 53,384,742	12.40%
LHP	COMMUNITY HEALTH GROUP	1.38	41	$ 82,661,546	$ 330,646,184	$ 37,379,696	11.31%
COMM	ANTHEM BLUE CROSS	1.29	39	$ 2,956,815,000	$ 11,827,260,000	$ 1,250,096,000	10.57%
LHP	SANTA CLARA FAMILY HEALTH PLAN	1.17	35	$ 84,592,000	$ 338,368,000	$ 32,551,000	9.62%
REG	CARE FIRST HEALTH PLAN	1.17	35	$ 272,565,880	$ 1,090,263,520	$ 104,782,214	9.61%
LHP	CENCAL HEALTH (Santa Barbara)	1.12	33	$ 95,564,331	$ 382,257,324	$ 35,042,401	9.17%
LHP	INLAND EMPIRE HEALTH PLAN	1.01	30	$ 355,274,650	$ 1,421,098,600	$ 118,453,540	8.34%
COMM	AETNA HEALTH OF CALIFORNIA	1.00	30	$ 480,079,072	$ 1,920,316,288	$ 158,262,661	8.24%
LHP	CALOPTIMA (Orange County)	0.89	27	$ 702,656,539	$ 2,810,626,156	$ 206,700,289	7.35%
LHP	LA CARE (Local Los Angeles)	0.65	20	$ 694,496,481	$ 2,777,985,924	$ 149,445,396	5.38%
REG	MOLINA HEALTHCARE OF CALIFORNIA	0.60	18	$ 182,450,915	$ 729,803,660	$ 35,734,925	4.90%
REG	WESTERN HEALTH ADVANTAGE	0.51	15	$ 116,236,628	$ 464,946,512	$ 19,395,129	4.17%
COMM	PACIFICARE (UHC of Calif)	0.45	14	$ 1,646,519,000	$ 6,586,076,000	$ 243,913,000	3.70%
LHP	ALAMEDA ALLIANCE FOR HEALTH	0.38	11	$ 120,051,610	$ 480,206,440	$ 15,023,871	3.13%
LHP	CONTRA COSTA HEALTH PLAN	0.26	8	$ 162,719,801	$ 650,879,204	$ 13,928,986	2.14%

LHP - Local Health Plan, COMM - Commercial Plan, REG - Regional

NOTE 1 QUARTERLY REVENUE MULTIPLIED BY 4 TO ANNUALIZE REVENUE

NOTE 2 # DAYS IN RESERVE IS CALCULATED USING 365 DAYS

				As of 06/30/2014			RESERVE DIVIDED BY
		MONTHS	DAYS	----------REVENUE----------		RESERVE	PROJ ANNUAL
TYPE	HEALTH PLAN	IN RESERVE	IN RESERVE	QUARTERLY	PROJ ANNUAL	(TNE LINE)	REVENUE
REG	ON LOK SENIOR HEALTH SERVICES	9.58	288	$ 30,163,799	$ 120,655,196	$ 95,051,841	78.78%
LHP	CENTRAL COAST ALLIANCE FOR HEALTH (Santa Cruz)	5.41	162	$ 194,708,231	$ 778,832,924	$ 346,629,630	44.51%
COMM	KAISER PERMANENTE	5.37	161	$14,387,839,000	$ 57,551,356,000	$ 25,388,053,000	44.11%
COMM	BLUE SHIELD (CALIFORNIA PHYSICIANS SERVICE)	4.44	133	$ 2,912,647,000	$ 11,650,588,000	$ 4,249,682,000	36.48%
LHP	HEALTH PLAN OF SAN MATEO	3.36	101	$ 143,841,104	$ 575,364,416	$ 158,666,160	27.58%
LHP	KERN HEALTH SYSTEMS	2.61	78	$ 88,108,000	$ 352,432,000	$ 75,669,000	21.47%
REG	SCAN HEALTH PLAN	2.51	75	$ 515,661,000	$ 2,062,644,000	$ 426,140,000	20.66%
LHP	PARTNERSHIP HEALTH PLAN OF CALIFORNIA	2.31	69	$ 486,830,121	$ 1,947,320,484	$ 369,263,381	18.96%
LHP	CALOPTIMA (Orange County)	2.03	61	$ 600,024,527	$ 2,400,098,108	$ 400,106,461	16.67%
REG	SHARP HEALTH PLAN	1.54	46	$ 105,453,532	$ 421,814,128	$ 53,483,850	12.68%
COMM	HEALTH NET	1.46	44	$ 1,876,898,552	$ 7,507,594,208	$ 898,851,616	11.97%
LHP	SAN FRANCISCO HEALTH PLAN	1.38	41	$ 104,407,695	$ 417,630,780	$ 47,449,830	11.36%
COMM	ANTHEM BLUE CROSS	1.35	40	$ 3,428,111,000	$ 13,712,444,000	$ 1,519,719,000	11.08%
LHP	CENCAL HEALTH (Santa Barbara)	1.04	31	$ 111,206,133	$ 444,824,532	$ 37,843,967	8.51%
REG	CARE FIRST HEALTH PLAN	1.00	30	$ 401,430,870	$ 1,605,723,480	$ 132,029,776	8.22%
COMM	AETNA HEALTH OF CALIFORNIA	0.86	26	$ 501,372,356	$ 2,005,489,424	$ 141,135,715	7.04%
LHP	COMMUNITY HEALTH GROUP	0.82	25	$ 143,386,240	$ 573,544,960	$ 38,857,308	6.77%
LHP	SANTA CLARA FAMILY HEALTH PLAN	0.80	24	$ 156,922,000	$ 627,688,000	$ 41,318,000	6.58%
LHP	HEALTH PLAN OF SAN JOAQUIN	0.79	24	$ 152,475,369	$ 609,901,476	$ 39,364,710	6.45%
LHP	INLAND EMPIRE HEALTH PLAN	0.78	23	$ 629,041,743	$ 2,516,166,972	$ 160,321,163	6.37%
REG	MOLINA HEALTHCARE OF CALIFORNIA	0.55	16	$ 399,193,309	$ 1,596,773,236	$ 71,552,029	4.48%
LHP	LA CARE (Local Los Angeles)	0.52	16	$ 1,164,853,364	$ 4,659,413,456	$ 200,279,511	4.30%
COMM	PACIFICARE (UHC of Calif)	0.48	15	$ 1,569,696,000	$ 6,278,784,000	$ 249,651,000	3.98%
REG	WESTERN HEALTH ADVANTAGE	0.47	14	$ 137,241,952	$ 548,967,808	$ 21,377,187	3.89%
LHP	CONTRA COSTA HEALTH PLAN	0.46	14	$ 139,635,581	$ 558,542,324	$ 21,223,194	3.80%
LHP	ALAMEDA ALLIANCE FOR HEALTH	0.21	6	$ 186,526,374	$ 746,105,496	$ 12,841,959	1.72%

LHP - Local Health Plan, COMM - Commercial Plan, REG - Regional

NOTE 1 QUARTERLY REVENUE MULTIPLIED BY 4 TO ANNUALIZE REVENUE

NOTE 2 # DAYS IN RESERVE IS CALCULATED USING 365 DAYS

TO: Governing Board, Santa Clara County Health Authority

FROM: Michele Lew, Chairperson, Santa Clara County Health Authority

RE: Proposed Process to Select and Appoint Chief Executive Officer

I. Recommended Action

A. Delegate authority to the Chairperson to appoint a Temporary Ad Hoc Chief Executive Officer Search Committee composed solely of three Governing Board members, with one of the three members being the Chairperson, to review potential candidates and recommend up to three finalists to be interviewed by the Governing Board.

AND

B. Accept proposed CEO selection process.

II. Introduction

The Governing Board (Board) selects and appoints the Chief Executive Officer (CEO). The Health Authority is in the process of retaining Witt/Kieffer, an executive search firm, to conduct the search and identify potential CEO candidates based on criteria set by the Board including, but not limited to, qualifications and compensation. Given the critical role the CEO plays in the leadership, management, and operation of the Health Authority, the need to diligently and comprehensively evaluate CEO candidates, and the significant time commitment required in evaluating CEO candidates, I am recommending that a Temporary Ad Hoc CEO Search Committee (Temporary Committee) composed solely of three Board members, with one of the three members being the Chairperson, be created to evaluate candidates and establish a list of up to three CEO finalists to be passed on to the full Board. The full Board will interview the finalists and appoint the CEO. The following memorandum provides further details on the Temporary Committee and CEO selection process.

III. Temporary Ad-Hoc Search Committee

Working with the executive search firm, identifying qualified CEO candidates, and diligently vetting the CEO candidates is a time-consuming job, which among other things requires extensive coordination of schedules. Additionally, the Health Authority is committed to appointing a new CEO before March 31, 2015, which mandates an expedited search process since the executive search firm recommends a minimum of six months. A common and efficient practice employed by other public agency and non-

profit boards is to create a temporary ad-hoc committee to vet candidates and make recommendations to the Board.

Consistent with the practices of other public agency and non-profit boards and the guidance of the Office of the County Counsel, I am recommending that a Temporary Committee of three Board members be appointed to vet potential candidates and establish a list of up to three finalists to be interviewed by the Board, with the Board selecting and appointing the CEO. The Temporary Committee will not be a legislative body under the Brown Act, and information about candidates will remain confidential. The Temporary Committee will not discuss the search process with Board members who are not serving on the Temporary Committee. The small size of the Temporary Committee will allow for nimbleness and flexibility in the search process. I expect the Temporary Committee will meet one-on-one with potential CEO candidates. The Temporary Committee could also invite key stakeholders including, but not limited to, Valley Medical Center, former Board chairs, labor leaders, and Health Plan executives to interview CEO candidates and provide feedback to the Temporary Committee.

Since the work of the Temporary Committee will be time intensive, members of the Temporary Committee must be willing and able to commit the time and attention necessary to recruit a first-rate candidate for the CEO position. Additionally, given the specialized nature of the managed-care services provided by the Health Authority and the organizational structure of the Health Authority, the committee membership should include Governing Board members with substantial knowledge of the Health Authority Board and operations, as well as experience with managed health care and financing. Best practices would suggest including Board members with more than one term of Board service coupled with experience managing confidential executive searches in the health care industry.

A. Alternative Committee Structures

Alternative options to the Temporary Committee include: (1) a full-Board search committee; (2) a full-Board and community-stakeholder search committee; and (3) a search committee comprised of some Board members and community stakeholders. Each option is discussed below.

(1) Full Board Search Committee

The 13-member Board could serve as the search committee and perform all the functions I recommend be undertaken by the Temporary Committee. The challenge with this structure is that it will not provide the flexibility or consistency inherent in a Temporary Committee composed of three members. For example, scheduling interviews so that everyone is present will be extremely difficult. Moreover, if one member attends one interview but is unable to attend another interview, there is a risk of inconsistent approaches to the interviews and a lack of consistency in how the absent member evaluates a candidate he/she was not able to interview. Not all Board members may have

the capacity and time to commit to a diligent and comprehensive search process. The Board Search Committee would be subject to the Brown Act.

(2) Full Board and Community Stakeholder Search Committee

The Board could create a search committee composed of the 13-member Board and up to seven identified community stakeholders. Like the Full Board Search Committee, the challenge with this option is that it likely does not provide flexibility or consistency in the search process since it is very difficult to coordinate schedules of so many individuals. And not all Board members and/or stakeholders have the capacity and time to commit to a diligent and comprehensive search process. The Board and Community Stakeholder Search Committee would be subject to the Brown Act.

(3) Partial Board and Community Stakeholder Search Committee

This committee would be appointed by the Board and composed of approximately three to five members of the Board and three to five community stakeholders. Similar to the prior two options, this option does not provide flexibility and consistency will be challenging given the number of persons who would serve on the committee. This committee would be subject to the Brown Act.

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B. Matrix of Options

The following matrix outlines the various search committee options presented in this memo.

Committee Option	Size	Brown Act Body	Flexibility to Schedule Meetings	Model Used by Other Public Agency and Non-Profit Boards	Recommended for CEO Search Committee
Temporary Committee (Recommended)	3	No	Yes	Yes	Yes
Full Board Search Committee	13	Yes	No	No	No
Full Board and Community Stakeholder Committee	14-20	Yes	No	No	No
Partial Board and Community Stakeholder Meeting	6-10	Yes	No	No	No

IV. CEO Selection Process

At the August 27, 2014 special meeting, the Board will establish the candidate profile and criteria including, but not limited to, qualifications and compensation parameters. This discussion will be facilitated by the executive search firm. The Board will ultimately select and appoint the CEO. The Temporary Committee will assess all candidates and recommend to the Board up to three finalists for the Board to interview. The Board will then interview the finalists, deliberate, and select and appoint the CEO in closed session. The Board can invite key stakeholders to comment on candidates during closed session, but the stakeholders can only attend the portion of the closed session when they are commenting on the candidates.

The Board will announce the appointment and take action to approve the employment contract, including the amount of CEO compensation paid, in open session.

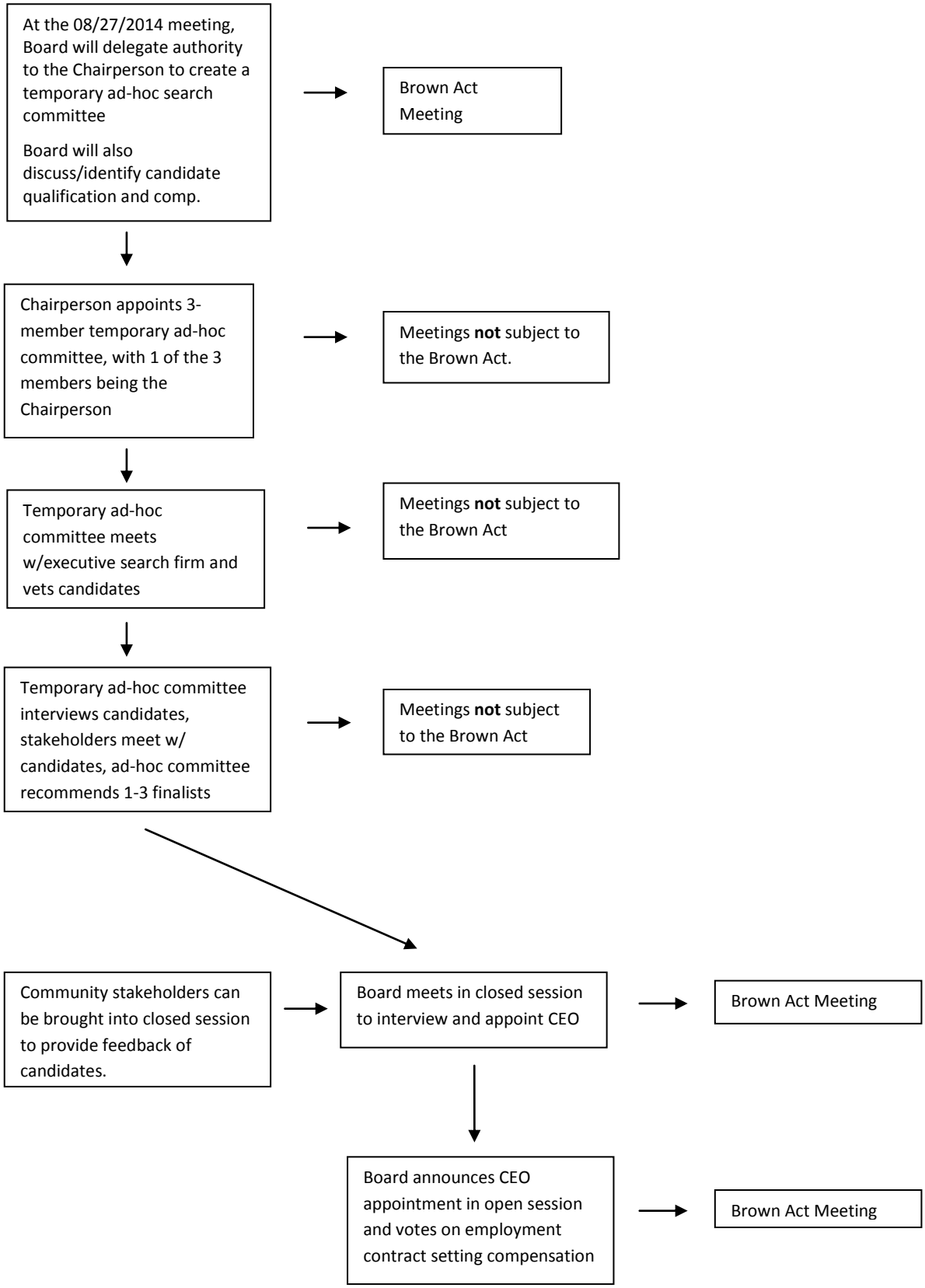
A chart of the CEO selection process is included as Attachment A and outlines the CEO selection process as proposed using a Temporary Committee model.

Attorneys from the Office of the County Counsel will be present at the Board meeting on August 27, 2014, to answer questions about a CEO search process or to explain the applicability of the Brown Act to the CEO search process.

Attachment to this Memorandum—

A—Chart of CEO Selection Process

Chart of CEO Selection Process



Attachment A

Effective CEO Search Committees

By Mark Andrew, Senior Partner

When a CEO transition happens, what goes on the proverbial "To-Do" list? Organizations faced with either a planned or unplanned transition of their CEO are often unsure how to get started identifying a successor. An expected or unexpected leadership transition warrants a thoughtful process which begins with the appointment of a search committee.

A highly effective search committee can be a great asset in enabling an organization to attract top talent (even to a less than ideal organization/ position). Conversely, a poorly planned and constructed search committee can frighten away even the most motivated candidates.

Committee quarterback. The board should give careful consideration to the person appointed as the search committee chairperson. This person will organize the process with the search consultant and communicate with the committee as well as the broader organization. It is important to select a chairperson with the political savviness and interpersonal skills to lead the group. Candidates will judge your organization, in part, on their interaction with the search committee chair.

Committee membership. You are competing for talent. In order to win, you want to put the best team on the field. Not only does this group of people have the responsibility of selecting and conducting the initial interview of the candidates, but they represent the organization.

If committee members cannot devote the time necessary, they become a liability.

An impressive and sophisticated search committee leaves a lasting first impression on candidates, as does an unimpressive search committee. Committee members should have expertise, thorough knowledge of the organization and the ability to evaluate candidates objectively. They should also be able to demonstrate sharp business acumen representative of a high-performing board. Consider a core group of board leaders composed of the immediate past board chairperson, current chairperson and chairperson-elect. Input from physicians is also important. Consider having two to three influential physicians who can be objective and represent the broader interests of the medical staff. You may want to include other stakeholders such as Foundation board members. Some boards consider having senior-level executives on the committee who have very detailed knowledge of the inner workings of the organizational culture. However, some boards decide against having members on the committee that will have a direct reporting accountability to the CEO.

Time commitment. Putting the best team on the field to win means identifying teammates that can commit the necessary time to the process. No matter how bright and impressive committee members may be, if they cannot devote the necessary time to attend every meeting, they can become a liability to the process. When selecting the ideal committee members, make sure they fully understand the time commitment.

Optimal committee size. In considering the number of people to appoint to the search committee, it is important to have a manageable number of people that represents the stakeholders but does not become unwieldy. Most committees consist of seven to nine people. A larger group tends to become slow and unmanageable, but a smaller group may not represent a cross-section of stakeholder views.

Charge of the committee. It is vital that the search committee and board clearly understand the charge of the committee so there is no confusion as to the deliverables. Some committees are given the charge of narrowing the candidate pool to two or three final candidates to advance to the full board. Then the full board will interview and select the candidate of choice. At other times, committees are charged with selecting and advancing one name to the full board for ratification. The process will need to adapt based on the charge of the search committee.

Organize candidate interviews. Develop questions for the committee prior to the interviews that are linked to the position specification document. These questions simply serve as a guide to ensure consistency in the topics covered to allow for effective comparison. It is important not to become overly structured or mechanical in the interview, but rather to achieve an effective dialogue with the candidates.

Confidentiality. It is essential to maintain candidate confidentiality at all times through the process. A breach of confidentiality can jeopardize a candidate's current employment or damage the relationship with their board, supervisor and/or medical staff and may cause the candidate to withdraw from the search. It can be terribly disconcerting to lose that top "draft choice" due to a breach in confidentiality or a leak from the board room. Even when dealing with internal candidates, any feedback shared with the committee by other stakeholders must be held in strict confidence so as not to damage peer relationships or future supervisory relationships.

Closing the deal. Identify a point person or a two-person team to negotiate details of the formal offer with the candidate of choice. The formal offer should be based on parameters established and approved by the board in advance, using information and data provided to the board by the compensation firm. If the give and take in negotiations has to be discussed with the entire committee, negotiations can get bogged down and the candidate may very well lose interest and choose to pursue a competing offer that moves more quickly.

If you follow these basic guidelines and complete this “to-do” list, your search committee will have laid the foundation for an effective process that will enable your organization to recruit top talent for your next CEO.

Selecting the Right CEO

How to prepare for one of the toughest decisions an organization must make

WITT / KIEFFER
Leaders Connecting Leaders

When the CEO's Chair is Vacant

Leadership transitions are inevitable. For one reason or another, the board discovers it needs to recruit a new chief executive officer. Some CEOs accept other positions and some retire. Still others are not doing the kind of job the organization requires and will be replaced. While each organization's situation is unique, the need for strong leadership has never been greater. Competition, financial constraints, physician integration and uncertainty about the future are among many issues that have transformed the lives of healthcare executives throughout the nation. Today's CEOs are expected to be leaders, strategic thinkers, world-class marketers and financial managers—all while ensuring high-quality patient care.

When You Must Recruit a New CEO

How then does the organization prepare for one of the toughest decisions it must make?

Witt/Kieffer is pleased to provide this guide through the complex process of selecting a new CEO. It's based on our experience completing more than 1,300 successful CEO searches for hospitals, health systems and integrated delivery systems. As you prepare for this process, keep in mind:

Opportunity — View the task of recruiting a new CEO as an opportunity to reflect on the organization's past, present and future. This is the perfect time to evaluate strategic goals, programs and services, expectations for leadership and internal senior management talent.

Maintain a positive attitude toward the search experience. It can be an exciting and challenging time for the board and organization.

Caution — Proceed with caution on new ventures, programs and services. Postpone promotions and discussions on new affiliations — mergers, acquisitions, alliances — until the new CEO is selected.

Select Interim Leadership

When choosing an interim leader, consider the following:

Orderly Succession — Act immediately to orchestrate an orderly succession. Doing so will help ensure that the organization maintains its strategic direction and sustains day-to-day operations.

Logical Individual — In some cases the designated number-two executive is the logical individual to serve as *interim CEO*. Or consider appointing an individual from outside the organization.

Avoid False Signals — Avoid giving false signals to a temporary appointment. The title *interim CEO* is more accurate than *acting CEO*. It also may be advisable to leave the CEO's office vacant, especially if the interim CEO is an internal candidate for the position.

Form a Search Committee

These are some issues to consider in forming the committee:

Role of the Board — The board must define the level of authority it will delegate to the search committee, and establish parameters within which the committee conducts the search.

Committee Membership — Consider a core group composed of the immediate past board chairperson, current chairperson and chairperson-elect.

Input from physicians is important. Consider influential physicians who can be objective and represent the broader interests of the medical staff. Include stakeholders and senior-level executives. Committee members should have expertise, thorough knowledge of the organization and the ability to evaluate candidates objectively.

Optimal Committee Size — Most committees consist of seven to nine people. A larger group might become slow and unwieldy, while a smaller group might not represent a cross section of views.

Search Committee's Function — Committee members evaluate the organization's leadership needs, establish criteria for evaluating candidates, interview candidates and, in most cases, select a candidate and extend an offer — subject to the full board's ratification.

Role of the Committee Chair — Select a search committee chairperson with the political savvy and interpersonal skills to lead the group. The reason: candidates will judge your organization based, in part, on their interaction with the search committee chair.

Consider Selecting a Search Firm

Expertise and Objectivity — A search firm can offer an organization the expertise and objectivity it needs to manage a search from beginning to end and match the position, organization and community with the right person.

Full-time Commitment — High-quality search firms dedicate full time to orchestrate a successful search. Their role is to:

- Provide counsel on organization strategy and structure
- Develop a recruitment strategy that fits the specific requirements of the position
- Vet candidates thoroughly with credential verification and deep references.

Time and Cost Management — Consultants not only develop the most qualified candidates but also make the best use of committee members' time, keep costs in line and handle politically sensitive issues with objectivity.

Prepare for the Organizational Assessment

The organizational assessment is the first and the most critical step in the search process. During this time the consultant becomes familiar with the organization's mission, operations, strategic direction, challenges and opportunities. The standard and framework for the entire search are developed at this juncture.

The assessment typically includes personal interviews with members of the search committee, other key members of the board, leaders of the medical staff and key members of the senior management team. The organizational assessment includes the following critical areas:

Focused Questioning in Substantive Areas — What CEO competencies does this organization need to move successfully into the future? For instance:

- **Background** — What kind of experience and education should the CEO have?
- **Skill Mix** — Does the board prefer a CEO with specialized financial skills and/orsomeone with greater expertise in marketing, managed care or new business ventures? Are there other critical skills needed? Does the board want a turnaround expert or one who will fine-tune the organization?
- **Influence** — How much authority will the CEO have? How do the roles of the CEO and board complement each other?
- **Expectations** — What are the organization's top five priorities for the CEO?

General Questions —

1. What is the organization's mission and how well is it fulfilled?
2. What are the organization's values and how effectively are they integrated into business operations and patient care?
3. What is the organization's overall strategic direction and how well is it articulated and implemented? Does the organization's current structure contribute to achieving its strategic direction?
4. What is the organization's current and projected financial condition?
5. How is quality of care measured in the organization?
6. How does the organization's image and reputation compare with those of competitors?
7. How qualified is current management to address the organization's problems and achieve its goals? Are there logical internal candidates?
8. How do internal politics affect the organization's ability to realize its goals?

Candid Feedback — Immediately following the assessment, the search consultant meets with the search committee to provide feedback, validate and gain consensus on the candidate profile and advise the committee of problems that might interfere with the search. Potential barriers include compensation, structure, the board's perception of its role, concerns about quality, unrealistic expectations, etc. The consultant works with the committee to provide solutions to any problem areas to ensure the organization is well-positioned to attract the very best talent.

Internal Candidates — One or more individuals inside the organization may express interest in being considered for the CEO position. Search consultants have extensive experience in bringing objectivity to such situations. That experience can be very helpful to the committee and board in working through delicate and perhaps politically sensitive dynamics.

Select Top Candidates for Face-to-Face Interviews

Following the organizational assessment, the process of searching for candidates begins. Potential candidates are approached and evaluated against the criteria established during the organizational assessment. Once an appropriate number of qualified individuals has been developed, the consultant meets with the search committee to present, on paper, a screened slate of candidates. The consultant explains in detail how each candidate has the required blend of skills, experience and leadership style to meet the organization's needs.

Narrowing the List — The search committee, with the consultant's guidance, narrows the list of candidates for personal interviews, based upon the profile, experience and skill set of each candidate. This gives the committee an opportunity to compare a select number of candidates without the process becoming overly burdensome.

Timing — Timing is critical. Select interview dates and have the consultant coordinate this schedule with selected candidates as quickly as possible.

Conduct Committee Interviews with Candidates

While the search committee will focus on the candidate's executive presence, leadership skills and overall ability, be mindful that the candidate will make similar judgments about the organization.

The following guidelines can make the interview experience meaningful and productive for both the committee and candidates:

Interview Approach — The consultant should recommend an approach to interviewing that is right for your organization. For example, consider inviting candidates for a preliminary meeting with the search committee. If there is mutual interest after the initial "chemistry check" interview, follow up with a second, more comprehensive visit that includes the candidate's partner.

Scheduling — Schedule interviews to allow plenty of time for interaction. Try not to conduct more than three interviews in one day.

Schedule interviews on successive days so that committee members can better compare candidates' responses. Focus on the same areas in interviewing each candidate. Keep in mind the candidate profile developed in the assessment phase as you prepare your questions. Make the candidate feel welcome and valued. Listen to their needs with sensitivity. Ensure that candidates avoid the potential embarrassment of running into each other.

Sell — Maximize any opportunity to "sell" the organization and community. Remember, candidates will be evaluating you as well.

Evaluate Candidates and Provide Prompt Feedback

Following the interviews between the candidates and committee, it is critical to meet quickly to evaluate those sessions and begin the process of further narrowing your choice. Consider the following:

Evaluation Method — The search consultant will offer suggestions about a deliberation and ranking method that is right for your situation. For example, the committee may want to conduct a secret ballot or develop total scores on a weighted system. Or it may prefer an open process where each committee member describes his or her ranking and provides a rationale for the decision.

Choice — It is always helpful for a committee to choose at least two, but probably not more than three, top candidates for the position.

Arrange for Return Interviews

The committee can make the second interview a valuable experience for the organization and the candidate by considering these points:

Partner Sensitivity — Arrange a thorough visit for the candidate's partner that includes a tour of the facility and surrounding community. The consultant will suggest a schedule that fits the family's needs, interests and priorities, as well as provide the committee with information to facilitate consideration of career options for the partner.

Arrange for an introductory dinner that involves the candidate, partner and committee members and their partners. This provides an opportunity to extend a warm welcome and observe the candidate in a public, social situation.

Meetings with Physician Leadership — Arrange a meeting with the system's medical staff. In preparing for this meeting, remind physicians that the meeting is confidential and that its purpose is to become acquainted with the candidate's leadership style, background and ideas — not to vote on the candidate.

Meeting with Board and System Leadership — Schedule one-on-one time between the candidate and the board chairperson and executive leadership within the system as appropriate. This will help ensure that the required chemistry exists.

Wrap-up Session — Conduct a wrap-up session with the full search committee as a final step to the visit. This meeting will give both parties an opportunity to ask probing questions and clarify any difficult issues.

Extend an Offer to the Candidate and Negotiate Contract Terms

If the committee is enthusiastic about the candidate, and the candidate is excited about the opportunity, the chairperson of the search committee and/or the chairperson of the board should contact the candidate and extend congratulations and the board's offer. In some cases, the committee delegates this task to the consultant.

Negotiations — The negotiation process varies from organization to organization. The committee should review the compensation information and recommendations that were made during the initial assessment.

In addition to the base salary and incentive compensation component, candidates may seek a wide range of perquisites, including among others: sign-on bonus, supplemental executive retirement plan, relocation assistance including moving, temporary residence and assistance in the sale of home, automobile, and country club and professional memberships. Given the complexity of executive compensation packages today, some organizations consult with a compensation expert.

The committee can also rely on the search consultant's negotiation expertise. By bridging the gap between the board's expectations and expectations of the candidate, the consultant can ensure that both parties come out winners.

Confidentiality — Emphasize confidentiality until an offer has been accepted. Neither the search process nor professional careers should be compromised.

Severance Agreement — Most candidates seek a contract and a severance agreement. Such arrangements have become increasingly common for senior executives within the healthcare industry. Because of the high level of risk inherent in many CEO positions — frequent board turnover, medical staff dynamics and potential mergers and acquisitions — most CEO candidates will want basic economic security before they accept a new position.

Selection of the right CEO completes the first step in ensuring the continued success of your organization. Maintaining that success is a complex formula and will require continuous attention.

As you plan for the future, your CEO naturally will be expected to provide vision, direction, inspiration, influence and integrity to the organization — in sum, leadership. That leadership is a manifestation of character, and everything the leader does is a reflection of that individual. More than any other one person, the CEO will personify the organization.

Your expectations of new leadership are significant. But remember, no one leads in a vacuum. Successful healthcare organizations rely on "stakeholder symmetry"— in which board, medical staff and CEO function as true colleagues and partners. Stay engaged and involved with the new CEO so the change in leadership strengthens the organization and positions it for continuing success.

Search Process

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Leaders Connecting Leaders

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