

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 Expansion 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.

Elizabeth Pianca, Secretary to the Board