

**HBX EXECUTIVE BOARD FINANCE COMMITTEE
FINANCIAL RESERVE RECOMMENDATION
January 8, 2018**

Background:

The HBX Executive Board approved an HBX Reserve Fund Policy on April 6, 2016 (attached). It calls for 6-9 months of the previous year's Council-approved budget for funding operating reserves and up to \$20 M for funding capital reserves. Pursuant to that policy, the HBX Executive Board first approved funding the operational reserve at a level of \$14.5 M on October 19, 2016. The HBX Reserve Fund Policy requires full funding of the operating reserve prior to funding the capital reserve. As the \$14.5 M did not meet that standard, the capital reserve is currently unfunded.

Recommendation:

The HBX Executive Board Finance Committee recommends increasing the operating reserve amount to the full 9 month's reserve (\$25,890,949.50) as recommended in the HBX Reserve Fund Policy. This means adding \$11,390,949.50 into the operating reserve. The HBX Executive Board Finance Committee also recommends putting \$5 million into the Capital Reserve Fund.

RESERVE FUND	CURRENT RESERVE FUNDING	ADDITIONAL FUNDING RECOMMENDATION	TOTAL RESERVE FUND BALANCES IF ACTION TAKEN
Operating Reserve	\$14,500,000.00	\$11,390,949.50	\$25,890,949.50
Capital Reserve	\$0	\$5,000,000.00	\$5,000,000.00

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RESERVE FUNDS

000000.10 Background

The DC Health Benefit Exchange Authority (HBX) was established in March 2012 as an independent authority of the District of Columbia, pursuant to the Health Benefit Exchange Authority Establishment Act of 2011. HBX is authorized by the Centers for Medicare and Medicaid Services (CMS) as the District of Columbia's State-Based Marketplace (SBM) under the Patient Protection and Affordable Care Act.ⁱ

SBMs are required to be financially sustainable. Federal regulations dictate “[a] State must ensure that its Exchange has sufficient funding in order to support its ongoing operations beginning January 1, 2015”ⁱⁱ and prohibit the issuance of new federal establishment grant funding, beyond January 1, 2015. CMS lists building reserves among strategies for financial sustainability. Establishment of reserves is supported by Generally Accepted Accounting Practices.

HBX reported to CMS on November 5, 2012 in its BluePrint for operational certification under 45 C.F.R. §155.105, that it would start building reserves in 2014, based on assessment revenue.ⁱⁱⁱ HBX reported that it expected these reserves to reach the equivalent of six months of operating costs by the end of 2014, but would continue to grow over the 2015 through 2018 calendar year projection window, reaching approximately 10 months of operating costs by the end of 2018. HBX stated that its goal was to sustain a 12-month reserve.^{iv} This plan was developed with input from researchers at Compass Solutions and Mercer Consulting in preparation for the exchange marketplace establishment.

In March of 2015, HBX updated the BluePrint.^v The Plan Year 2015 operating budget was updated to be approximately \$77.56 million and the HBX projected reserve, at the end of 2015, was estimated at \$25.11 million.

In addition to reserve planning, through a stakeholder lead process, HBX adopted a proposal for long term financial sustainability through a broad-based assessment of health carriers in the District. HBX submitted this proposal to the DC Council in December 2013. In 2014, the District Council passed the Health Benefit Exchange Authority Financial Sustainability Temporary Amendment Act. In 2015, the DC Council passed the permanent Health Benefit Exchange Authority Financial Sustainability Amendment Act. These laws require HBX to “annually assess, through a Notice of Assessment, each health carrier doing business in the District with direct gross receipts of \$50,000 or greater in the preceding calendar year an amount based on a percentage of its direct gross receipts for the preceding calendar year. The amount assessed shall not exceed reasonable projections regarding the amount necessary to support the operations of the Authority.”^{vi}

HBX has a statutorily created non-lapsing fund called the DC Health Benefit Exchange Authority Fund (HBX Fund) pursuant to section 4 of the Health Benefit Exchange Authority Establishment Act of 2011. The HBX Fund consists of “(1) Any user fees,

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licensing fees, or other assessments collected by the Authority; (2) Income from investments made on behalf of the Fund; (3) Interest on money in the Fund; (4) Money collected by the executive board as a result of a legal or other action; (5) Donations; (6) Grants; (7) All general revenue funds appropriated by a line item in the budget submitted pursuant to § 1-204.46, and authorized by Congress for the purposes of the Authority; and (8) Any other money from any other source accepted for the benefit of the Fund.”^{vii} The monies in the Fund “shall not revert to the unrestricted fund balance of the General Fund of the District of Columbia at the end of a fiscal year, or at any other time.”^{viii} HBX maintains its Operating Reserve in the HBX Fund.

0000000.20 Description

This policy is to formalize HBX reserve practice in accordance with District of Columbia’s financial policies and procedures. The District of Columbia follows Governmental Accounting Standards Board (GASB) Statement No. 54 on fund balance reporting and governmental fund type definitions.

0000000.30 Purpose

The purpose of this directive is to document the procedures for HBX associated with reserve funding.

0000000.40 Policies

This policy is determined by the HBX Executive Board.

0000000.50 Responsibility

HBX will administer the HBX Fund held by the Office of the Chief Financial Officer (OCFO). The OCFO will invest any monies collected by HBX in the HBX Fund and review this policy annually with HBX to determine appropriateness of target balances.

The OCFO/Associate Financial Officer (AFO) is responsible for:

1. Ongoing calculation and recommendations regarding the reserve balances,
2. Notifying HBX regarding the amount of reserves needed, if any, to balance the current year as determined through quarterly financial reviews of expected expenditures, and
3. Present the final reserve balance to the HBX Executive Director by the first HBX Executive Board Finance Committee meeting after the completion of the Comprehensive Annual Financial Report (CAFR).

HBX is responsible for:

1. Ensuring that the reserves are maintained and used as described in this Policy, providing regular reports to the Finance Committee and Executive Board of progress to restore the funds to the target balances, and review and

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consideration of recommendations of the OCFO/AFO calculated reserve balances, and

2. After consultation with the OCFO/AFO, submitting a recommended operating and capital reserve amount to the HBX Executive Board Finance Committee for review and discussion, and
3. HBX Executive Board Finance Committee submits to HBX Executive Board for review and approval as appropriate.

0000000.60 Authorization

The HBX Executive Board and OCFO/AFO provide the authorization for this policy.

0000000.70 Procedures – Reserve Funds:

1. The reserve funds will be recorded in the financial records and will be funded and available in cash or cash equivalent funds. Amounts held in reserve will be kept in two categories:
 - a. Operating – The Operating Reserve is intended to provide an internal source of funds for situations such as for nonrecurring or unforeseen needs that arise during a fiscal year and new obligations created by Federal and District law or new health coverage needs or requirements that have been identified after the budget process has occurred. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of HBX, for Operating Reserves, when used, to be replenished within a reasonable period of time. The target balance to be designated will be established in an amount for a set period of time, measured in monthly operating expenses.
 - b. Capital – The Capital Reserve is intended to provide a ready source of funds for repair, acquisition, or development of IT, buildings, furniture, fixtures and equipment necessary for the effective operation of the organization and programs.
 - c. Operating reserves will be maintained in the same interest bearing account that is the general operating bank account. Capital reserves will be maintained in a segregated interest bearing bank account.
2. Calculating Reserves
 - a. Operating reserves will be calculated based on 6 to 9 months of the previous year's Council approved operating budget.
 - b. Capital reserves will be calculated based on availability of funds after a fully funded Operating Reserve.
3. Funding Reserves
 - a. The Operating Reserve will be funded with available unassigned operating funds.
 - b. The Capital Reserve will be funded with available unassigned operating funds and designated after the Operating Reserve is 100% funded.

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4. Use of Reserves

- a. The Executive Director, in consultation with the OCFO/AFO, will recommend use of reserves for consideration by the Executive Board's Finance Committee. The recommendation shall be accompanied by a written request. The Finance Committee will develop a recommendation on the use of reserves. The Finance Committee recommendation will accompany the request for use of reserves for consideration and approval by the Executive Board.
- b. Contents of Written Request
 1. *Operating* – This written request shall contain a statement of the reason for the operating shortfall, a description of which expenses the reserves will be used to cover, and a statement confirming that the use is in furtherance of the purpose of reserves and in furtherance of the operations of HBX.
 2. *Capital* – This written request shall contain a description of the expenses the reserves will cover consistent with the purpose of reserves and in furtherance of the operations of HBX.

5. Replenishment of Reserves

- a. The organization's goal is to replenish the Operating Reserve to the target level of 6 to 9 months within 12 months of the use of the funds.
- b. The organization's goal is to replenish the Capital Reserve up to \$20 million based on availability of funds and a fully funded Operating Reserve.

0000000.80 Order of Expenditure of Funds

When multiple categories of funds are available for an expenditure; such as a capital project being funded by a combination of grant funds, funds set aside by HBX and unassigned reserves, HBX will spend project funds from the most restricted category first (i.e., grant funds). When the most restricted funds have been spent on the project, then funds will be spent from the next most restrictive category (i.e., committed or assigned fund balance), continuing this pattern until all project funds have been expended.

ⁱ Pub. L. No. 114-148, 124 Stat. 119 (2010).

ⁱⁱ 45 C.F.R. § 155.160 (b).

ⁱⁱⁱ District of Columbia BluePrint, Section 8.1 - Long-term operation cost, budget, and management plan, November 2012.

^{iv} *Ibid.*

^v District of Columbia BluePrint, updated in State-based Marketplace Annual Reporting Tool (SMART), April 1, 2015.

^{vi} D.C. Code § 31-3171.03 (f).

^{vii} D.C. Code § 31-3171.03 (b).

^{viii} D.C. Code § 31-3171.03 (c).