

**TITLE 89: SOCIAL SERVICES**  
**CHAPTER I: DEPARTMENT OF PUBLIC AID**  
**SUBCHAPTER d: MEDICAL PROGRAMS**  
**PART 143 MANAGED CARE COMMUNITY NETWORKS**  
**SECTION 143.400 FINANCIAL REQUIREMENTS**

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**Section 143.400 Financial Requirements**

- a) Minimum Net Worth
- ~~Except during the first contract year, each~~ Each MCCN must have and maintain at all times a net worth of at least five percent of the total annual capitated payments as calculated and based upon the MCCN's experience in its immediate prior fiscal year as evidenced by the most recent annual financial statement. However, the net worth of an MCCN need not be greater than \$1,500,000 during any contract year. During the term of the contract, that meets the minimum net worth requirements are as follows:
- 1) Prior to entering into the contract ~~and for the first six months of the first contract year~~, net worth shall be at least:
    - 
    - A) ~~\$500,000 for MCCNs contracting in a county with a population of over three million, or~~
    - 
    - B) ~~\$125,000 for all other MCCNs.~~
  - 2) For the last six months of the first contract year, net worth shall be at least:
    - 
    - A) ~~\$750,000 for MCCNs contracting in a county with a population of over three million, or~~
    - 
    - B) ~~\$187,500 for all other MCCNs.~~
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  - 3) ~~For the second and all subsequent contract years~~, net worth shall not be less than the greater of:
    - A) ~~\$1,050,000 for MCCNs contracting in a county with a population of over three million, or~~
    - B) ~~\$250,000 for all other MCCNs~~ two percent (2%) of the first \$120,000,000 in annual capitated payments plus one

percent (1%) of the annual capitated payments in excess of \$120,000,000, or

C) An amount equal to the sum of three months of uncovered health care expenditures as reported on the most recent quarterly report filed pursuant to subsection (d) of this Part, or

D) The sum of eight percent (8%) of the annual health care expenditures paid on a non-capitated basis to non-affiliated providers, and four percent (4%) of the annual health care expenditures paid on a capitated basis to non-affiliated providers plus the annual health care expenditures paid on a non-capitated basis to affiliated providers. Annual health care expenditures that are paid on a capitated basis to affiliated providers are not included in this calculation of the net worth requirement (regardless of downstream arrangements from the affiliated provider). "Affiliated provider" as used in this section has the same meaning as found at 42 CFR 422.354.

b) **Determination of Net Worth**

Net worth must be determined in accordance with generally accepted accounting principles (GAAP), subject to the limitations applicable to provider-sponsored organizations in the Medicare+Choice program (42 CFR 422.382), and may take into account certain provisions of the statutory accounting practices as defined by the Health Maintenance Organization Act. ~~Any solvency and financial standards set forth in the contract shall be no more restrictive than the standards applicable to provider-sponsored organizations in the Medicare+Choice program (42 CFR 422).~~ Each MCCN shall make available to the Department, upon the request of the Department at any time prior to entering into a contract or during the term of any such contract, documentation sufficient to enable the Department to verify or otherwise calculate the net worth of the MCCN. Such documentation may include, but is not limited to, audited financial statements, tax returns, and books and records establishing such net worth.

c) **Solvency Standards**

Solvency must be comprised of the following:

1) ~~Prior to entering into the contract and for the first six months of the first contract year:~~

~~A) At least \$250,000 of the minimum net worth amount must be maintained in cash or cash equivalents for MCCNs~~

~~contracting in a county with a population of over three million, or~~

~~B) At least \$62,500 in cash and cash equivalents for all other MCCNs.~~

2) For ~~the last six months of the~~ first contract year and all subsequent contract years, the greater of:

A) At least ~~\$375~~250,000 of the minimum net worth amount must be maintained in cash or cash equivalents ~~for MCCNs contracting in a county with a population of over three million, or~~

B) ~~At least \$93,750 in cash and cash equivalents for all other MCCNs.~~

~~3) For the second and all subsequent contract years:~~

~~A) The greater of \$750,000 or 40 percent of the minimum net worth amount must be maintained in cash or cash equivalents for MCCNs contracting in a county with a population of over three million, or~~

~~B) The greater of \$187,500 or 40 percent of the minimum net worth amount in cash and cash equivalents for all other MCCNs.~~

4) Each MCCN shall make adequate provisions against the risks of insolvency. Solvency of the MCCN must be guaranteed by guarantees or letters of credit from recognized financial institutions or by the establishment of escrow or trust accounts. Each MCCN must meet the deposit requirements established by 42 CFR 422.388. Each MCCN shall assure that enrollees are in no case held liable for debts of the MCCN in the event of an MCCN's insolvency.

d) Solvency Reporting Requirements

1) Each MCCN shall make a written quarterly report to the Department establishing the state of the MCCN's solvency and whether such MCCN fails to meet, meets or exceeds the solvency requirements set forth in this Part. Upon request of the Department, each MCCN shall provide the Department with access to documentation sufficient to enable the Department to verify or otherwise calculate the solvency of the MCCN. Such

documentation may include, but is not limited to, audited financial statements, tax returns, and books and records establishing such solvency.

- 2) An MCCN that falls below the requirements set forth in this Section, as determined by the Department, shall be provided with written notice by the Department of such failure. The MCCN shall have 30 days from the date of the notice to meet its net worth and/or solvency requirements. The MCCN must provide the Department, within that 30 day period, adequate documentation of its rehabilitation of the net worth and/or solvency. If the MCCN fails to rehabilitate its net worth and/or solvency within that 30 day period, the Department shall impose one or more sanctions, as described in Section 143.300~~(a)(1)(d)~~, unless the Department extends the 30 day time period. Such extension is at the discretion of the Department and the Department shall request the MCCN to show good cause why such extension should be granted. Nothing in this Part shall prohibit the Department from imposing any other sanctions available under this Part, the contract or at law after the expiration of the 30 day period.

- e) Incorporation of federal requirements by reference  
Any solvency and financial standards set forth in this Part and the contract shall be no more restrictive than the standards applicable to provider-sponsored organizations in the Medicare+Choice program (42 CFR 422.382 through 422.390). Those federal standards, except those less restrictive standards as set forth in this Part at subsections (a)(1), (a)(2)(A), (a)(2)(B) and (c)(2)(A), are hereby incorporated by reference as of the date specified, and do not include any later amendments or editions.