Meeting Minutes

Board Finance Committee
Calendar Year 2020

PALOMAR HEALTH
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ATTENDANCE ROSTER											
	Meeting Dates:										
Members	1/22/20	2/26/20	3/25/20	4/22/20	5/27/20	6/24/20	7/22/20	8/26/20	9/23/20	10/28/20	11/25/20
Director John Clark – Chair	P	P	COVID-19 CANCELLATION	COVID-19 CANCELLATION	REPURPOSED W/SPECIAL BOD	REPURPOSED W/SPECIAL BOD	COVID-19 CANCELLATION	V	V		
Director Richard Engel, MD	P	P						V	V		
Director Doug Moir, MD	P	P						V	V		
Diane Hansen, President & CEO	P	P						V	V		
Sabiha Pasha, MD, CoS PMC Escondido	P	P						V	E		
Edward Gurrola, MD , CoS, PMC Poway	P	P						V	E		
Director Jeff Griffith, EMT-P - Alternate											
Kanchan Koirala, MD – Alternate CoS PMC Escondido											
Sam Filiciotto, MD – Alternate CoS PMC Poway								V			
Staff Attendees											
Hugh King, Interim Chief Financial Officer								V	V		
Sheila Brown, RN, Chief Operations Officer	P	P						V	V		
Omar Khawaja, MD, Chief Medical Officer	P	P						V	V		
Mel Russell, RN, CNO, PMC Escondido	E	E						V	V		
Joyce Volsch, PhD, CNO PMC Poway								V	V		
Jim Smith, Controller	E	P						V	V		
Tanya Howell – Committee Assistant	P	P						V	V		
Carlos Bohorquez, Chief Financial Officer	P	P									
Joy Gorzeman, RN, Interim CNO, PMC Poway	E	E									
Invited Guests	See text of minutes for names of invited guests										

BOARD FINANCE COMMITTEE – MEETING MINUTES – WEDNESDAY, SEPTEMBER 23, 2020			
• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
• DISCUSSION			
NOTICE OF MEETING			
• The full agenda packet (as Notice of Meeting) was posted on Thursday, September 17, 2020, at Palomar Health's Administrative Offices, which is consistent with legal requirements. The full agenda packet was also posted on the Palomar Health website; and notice of that posting was made via email to the Board and staff.			
CALL TO ORDER			
• The meeting – held virtually – was called to order at 12:04 p.m. by Chair John Clark			
ESTABLISHMENT OF QUORUM			
• Quorum was established – see roster for details			
PUBLIC COMMENTS			
• None filed			
INFORMATION ITEMS			
• There were no information items			
1. BOARD FINANCE COMMITTEE FOLLOW-UPS			**Y**
• Hugh King, Interim CFO, stated that he had reviewed both requests, and he had forgotten during last month's meeting that this discussion occurred two years ago, with a decision made that the District would not be publicly publishing proprietary information o The information—both regarding the surgeries by category at each hospital and the breakdown between professional fees and purchased services—had been shared with Chair Clark and any other Board members who had requested it, but Management would be reluctant to publish the information as it was not good business practice to have the information freely available to a competitor o Mr. King further stated that the information could go to the Board, but it would need to be discussed in a closed session o There was some discussion between Director Engel and Chair Clark regarding whether the topic would be more appropriately discussed in closed session of the Finance Committee—either of which Mr. King stated would be appropriate—but Director Engel commented that there was already a process in place to present information about contracts that funnel through the Finance Committee and were then referred to the full Board in a closed session just prior to the full Board meeting each month, and today's information could become a standing part of that closed session of the Board, and it was his opinion that was the better way to approach it, noting that Management could still hold individual discussions with the Committee Chair, but the full disclosure to the Board should be done in closed session • Jim Smith, Controller, commented that the other follow-up item regarding having had 107 trauma cases two months in a row had been a coincidence, but there had also been 107 trauma cases in the month of August, an even more rare occurrence			
2. MINUTES – BOARD FINANCE COMMITTEE – WEDNESDAY, AUGUST 26, 2020	**MOTION:** By Director Moir, seconded by Director Engel, and carried to recommend approval of the Minutes from the Wednesday, August 26, 2020, Finance Committee as presented.	Reported to the October 12, 2020, Board of Directors meeting as information	**Y**

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	Vote taken by Roll Call: Director Engel – aye; Director Moir – aye; Ms. Hansen – aye; Chair Clark – aye; Absent: Drs. Pasha and Gurrola		
• No discussion			
3. EXECUTED, BUDGETED, ROUTINE PHYSICIAN AGREEMENT	**MOTION:** By Director Moir, seconded by Ms. Hansen, and carried to recommend approval of the Executed, Budgeted, Routine Physician Agreement as presented. Vote taken by Roll Call: Director Engel – aye; Director Moir – aye; Ms. Hansen – aye; Chair Clark – aye; Absent: Drs. Pasha and Gurrola	Forwarded to the October 12, 2020, Board of Directors meeting with a recommendation for approval	**Y**
• No discussion			
4. RESOLUTION NO. 10.12.20(01)-13 – BANK OF AMERICA DEPOSIT ACCOUNT & TREASURY MANAGEMENT SERVICES BANKING RESOLUTION & CERTIFICATE OF INCUMBENCY	**MOTION:** By Director Moir, seconded by Ms. Hansen, and carried to recommend approval of Resolution No. 10.12.20(01)-13 – Bank of America Deposit Account & Treasury Management Services Banking Resolution & Certificate of Incumbency as presented. Vote taken by Roll Call: Director Engel – aye; Director Moir – aye; Ms. Hansen – aye; Chair Clark – aye; Absent: Drs. Pasha and Gurrola	Forwarded to the October 12, 2020, Board of Directors meeting with a recommendation for approval	**Y**
• Hugh King, Chief Financial Officer, commented that this was an annual update, as well as a reaffirmation of the existing resolution, updated regarding authorized signers			
5. AUGUST 2020 & YTD FY2021 FINANCIAL REPORT	**MOTION:** By Director Moir, seconded by Ms. Hansen, and carried to recommend approval of the August 2020 and YTD FY2021 Financial Report as presented. Vote taken by Roll Call: Director Engel – aye; Director Moir – aye; Ms. Hansen – aye; Chair Clark – aye; Absent: Drs. Pasha and Gurrola	Forwarded to the October 12, 2020, Board of Directors meeting with a recommendation for approval	**N**
• Utilizing the presentation included in the agenda packet, Mr. King presented the August 2020 and YTD FY2021 financial report • MONTHLY MANAGEMENT DISCUSSION & ANALYSIS *(SLIDES 38-40)* o Net Days in A/R were down to 57.3 days, a large improvement compared to 58.8 in July o DNFB is a measure of how quickly the bills are sent out after discharge, and the lower the number, the better			

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- It was 2.1 in July and is down to 2.0 for August, much better than the original baseline of 4.6

- Insurance Verifications have continued to improve, with the exception of the Urgent Insurance Verifications (those patients who walk in and need immediate care), which have not improved
  - Mr. King commented that there is a new system in place, so he anticipates that number to be back up in the high nineties by next month or October at the latest
  - In response to an inquiry by Director Engel regarding what Urgent Insurance Verifications entailed, Mr. King stated that there are three insurance verifications and provided examples of each
    - If a patient is scheduled to come in for a hip replacement as an inpatient, a variety of people are aware of the scheduled visit (e.g., the anesthesiologist, the orthopedic surgeon, etc.), so there is time for verification of insurance to make sure they are insured prior to the surgery
    - The same scenario would apply if the patient was scheduled for outpatient surgery
    - If a patient presents at the ER and the ER physician determines they need to be admitted (or maybe they're one of the 107 trauma cases), then it is important to obtain verification of their coverage and, if necessary, obtain the appropriate authorizations as soon as possible
      - These cases are the unexpected admissions that create lower percentages under Urgent Insurance Verifications
  - For elective cases the percentages are higher; and although the 98% target (which is best practice in the industry) hasn't yet been met, the percentages that are being met are in the top 20%
- Gross Claims Denial Rate provides the impact of claims submitted and denied, and it dropped to 8.5% this month, a significant improvement over 11.3% in July
  - This is an exceptional rate that meets best practice, and Mr. King believes that with some of the tools being put into place it will go even lower
  - In response to an inquiry from Director Engel regarding whether the Gross Claims Denial Rate was related to new processes or a new philosophical approach centered around perfecting information before the bill was sent out, Mr. King stated that there was a combination of things that could occur
    - Data needs to be complete and active before the claim is submitted
    - Some claims are denied pending receipt of specific notes
    - An authorization for care needs to be received before claim submission, and that authorization must be in the appropriate place for each insurer to ensure they see it
      - The government mandates that insurance companies use the same claim form, but the insurers have modified those forms to suit their own needs
      - An example of a denial would be verification of insurance for a patient covered by Anthem Blue Cross was received, so the patient was treated; however, it was the first of the month and that patient's employment ended the last day of the prior month so was actually no longer covered, but their employer had not yet notified Blue Cross of the employee's loss of insurance, but it is in our contract that the claim can be denied
- Director Engel stated that he thought that revenue cycle management had continued to show important and noticeable changes/improvements in the right direction over time, and Mr. King responded that the improvement had been very good over the past several years, beginning with Huron coming in to get the team started, and the team has implemented some new processes since that time, which should enable continued improvement

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- EXECUTIVE DASHBOARD *(SLIDE 35)*
  - Adjusted Discharges – at 3,343 – had an unfavorable variance of 10.6% vs. the budget of 3,738
    - Although that would tend to indicate a 10% drop in revenues, when you look on the income statement, that's not the case, and it's due to a couple of factors: Acute Patient Days were budgeted at 8,393 but actually were 8,563, 2% higher vs. budget
      - That means that, although there were fewer patients, those that were admitted stayed longer and had more serious problems
    - It was also borne out by Average LOS by Days, which had been budgeted at 4 days, but in fact ran to 4.2 days
    - Also, the Case Mix Index excluding deliveries (which skew the number) was budgeted at 1.55 with an actual of 1.61
      - Again, a measure that the patients were sicker when they came to the hospital and stayed longer
      - Some insurance companies pay by the admission, some pay by patient days, and there are provisions in most contracts with adjustment factors if the patient stays longer than the average, so we were probably seeing some of those outliers kicking into the revenues
  - Operating Income – at $573K – had a favorable variance of $1.1M vs. budget
- INCOME STATEMENT MONTH-TO-DATE *(SLIDE 34)*
  - Net Patient Revenue – at $59.2M – had an unfavorable variance of $518K vs. budget
    - Significantly below the 10% variance, explained by sicker patients staying longer, but also due to renegotiated rate increases that were higher than expected in the budget, so there are more dollars per patient
  - Total Net Revenue – at $59.5M – had an unfavorable variance of $655K vs. budget
    - Cafeteria sales and non-healthcare related revenue streams were down due to the Corona Virus
  - Operating Expenses – at $58.9M – had a favorable variance of $1.8M vs. budget
    - Expenses were favorable in all areas except Benefits, which had a $107K unfavorable variance vs. budget
    - In response to an inquiry regarding higher benefits, Mr. King stated that the unemployment insurance had gone up significantly due to staff reductions; however, there was some good news, as there will be a $700K check coming in as a rebate for unemployment insurance, which will help offset expenses once received
  - Income from Operations – at $573K – had a favorable variance of $1.1M vs. the budgeted loss of $553K
  - Net Income – at $275K – had a favorable variance of $1.4M vs. the budgeted loss of $1.1M
    - The financials are still not where Management had hoped to be, but we are doing well compared to budget
  - Director Engel noted that it appeared that expenses were down significantly/favorable to budget in total, so that was the primary driver for the positive net income when we had budgeted a loss, and Mr. King confirmed that was correct
  - Director Engel asked if the loss that had been budgeted came from the budget that was worked on and approved in June of this year, and Mr. King also confirmed that was correct, noting that once the budget has been approved, and he believed that the budgeting process was mandated both by Board bylaws and by regulations of the controller of currency of the State of California, wherein district hospitals are required to submit an annual operating budget and capital budget each year
    - That process was followed and the budget was approved and loaded into the Lawson general ledger system, which reports back as part of the normal financial reporting process
  - Director Engel asked for confirmation that the budget approved in June was in awareness of some of the challenges we were going to experience both in revenues and expenses in response to the pandemic

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- Mr. King stated that he believed that was true, but since he wasn't involved in the budgeting process this year, Ms. Hansen might be in a better position to respond to that question, and Ms. Hansen stated that it was correct

o Chair Clark then asked in what months the budget was developed and how far back did the team go when it was determined that in August there would be an anticipated to loss of half a million dollars?

- Ms. Hansen replied that the process was started in January every year, so in January and February there was a lot of work and discussion with the directors regarding their needs for the budget year; in March and April the overall impact for the next year was reviewed
  - She also noted that the complete shutdown occurred from mid-March into April, and the budget had been finalized in late April or early May in order to have a final budget to present to the Board members at the end of May
  - The finalizing process generally takes 2 to 3 weeks and includes individual meetings with each member of the Board at the end of May, with the final presentation to the Board in June
  - When the budget was finalized, Management didn't know where volumes were going to land, and Ms. Hansen was thrilled to see that expenses had been reduced even with a much lower volume
  - She attributed that in part to the work Sheila Brown, Chief Operations Officer, and Omar Khawaja, MD, Chief Medical Officer had done with their staff at the facilities to keep salaries and wages in line, as that is typically 60% of expenses, leaving the district in a much better position to roll into the fall and winter
- Chair Clark then asked if Management wasn't monthly looking forward – as an example, had December's budget number already been cast?
  - Ms. Hansen replied that the annual budget is established—which is what the Board approved in June—then it is spread throughout the year based on the prior year's seasonality, depending on where expenses fell for summertime or where they fell the previous winter
  - There could be some fairly significant variations based on what was experienced the prior year; but in totality, the budget for the year ended up being the same at the end of the year
- Chair Clark said that when you look at the budgeting, you're 8-10% plus or minus, then when you look at the same number YTD, it's a different number; and our Net Patient Revenue was $58M, and in August 2019 it was $64M almost $65M; and when you go back to the Adjusted Discharges, a year prior it was 22%, not 8-10% of the variance
  - He was trying to reflect on what's going into the variance and the budget – if you knew that the year before, how could you be that far off?
- Ms. Hansen noted that this year we were working off a much lower census base, as we're not even getting close to 300 when it was well over 300 between the two facilities last year
  - When you see Adjusted Discharges down so much, we didn't know and were doing our best to predict/project based on what we had experienced during 4 weeks of a pandemic and how we thought it might flow through
  - We also looked at what we needed to achieve in terms of surgical volume and deliveries to make sure that we were in a position to hit comply with our bond covenants at the end of the year
- Ms. Hansen stated that she would caution the Committee to worry less about month-to-month fluctuations, as the quarterly basis was more important, because you would start to level out some of that variation
  - After the first 6 months, what adjustments need to be made in the second half of the year
- Chair Clark again we have COVID, it hit and we were discussing this previously and thought that by July/August would be coming out of it, but we're not

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        - We're down 26 surgeries August to July, so what is the larger vision of when we can expect this tide to turn?
    - Ms. Hansen replied that Management has been working on a number of strategies around increasing volume in a variety of additional services that we are looking at providing, and some of those will definitely have an impact on surgical volume
        - A lot of other organizations are struggling with the same issues, with volume being down because people are still wary of going to an acute care hospital
            - Palomar Health has a large social media presence and has been assuring people it is safe, and detailing all the things that are being done to make sure the patients are protected from an infectious disease standpoint
        - There is no magic ball for getting back to surgical volume, but the District has been partnering with our FQHCs, having specific discussions with them around delivery; additional service lines are being investigated; and there have been discussions with our physicians encouraging them to refer additional volumes to the District
        - Just looking at surgical volumes is also not the answer without understanding the mix, and the value of those surgeries is not necessarily the entire answer
    - Revenues are still holding strong even with volume being down for surgeries, and as long as we can maintain expenses in line with the volume, we will continue to be better or at least meeting budget on a monthly basis
    - Management has been working with the business development team on different avenues to increase surgeries; but again, it depends on the mix of surgeries, as if the increase in surgical cases is attributed to cases that don't provide a good margin, it isn't helpful to just increase volume
- Director Engel commented that the whole idea when reviewing a budget and determining whether it had a favorable or unfavorable variance, you also needed to know what the absolute dollars were, as you're either making more money over expenses or not
    - He has been a voting member of the Finance Committee for a number of years and has watched the budgeting cycle and the process and the approach during that time, as well as having spent a fair amount of time speaking with former CFO Carlos Bohorquez, Ms. Hansen and others in the C-Suite, and his understanding is that our current administrative team had taken a somewhat different approach to budgeting as opposed to administrations in the past—a real philosophy of creating a realistic budget and managing really tightly to that budget
    - It wasn't like the numbers had been drawn out of thin air, there was an intentionality to present a realistic budget so that the variances were reasonable
    - He has observed this in his own personal exposure to this process and thinks it's a conservative approach that brings integrity to the numbers each month
- Director Engel also had a comment about surgical volume, which he's closely tracking and observing and concerned about that, especially at this time when he is also involved in interviewing anesthesiologists from around the state and county for his medical group
    - Just as recently as yesterday, when he was speaking to candidates about Palomar's circumstance vs. theirs, including surgical volume, which from his standpoint appears to be about 75% below from what it was pre-COVID
    - The comparative information he receives from these applicants is that number is significantly better than what they've been experiencing in their areas
    - Bottom line is that whatever we thought we were going to see in June/July/August and what we have seen is the reality for today and there's no way anyone could have predicted it

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• DISCUSSION

        - Yes, it's a challenge, but from the many cases of which he's aware we're doing better; and he knows it's a problem, but everyone's wrapped into it
    - Some of the candidates with whom he has spoken have done locum tenens temporary jobs in anesthesia, which used to be a lucrative way to grow their businesses, but is no longer
    - Assessment is we're experiencing declines, but we're doing better than many other locations
  - Mr. King stated that was exactly what he was hearing from his colleagues, and he had heard in some cases volumes were down 50%
  - Mr. King also stated that he'd discussed the topic of when the pandemic would be over with colleagues in Chicago and California, and they didn't think that things would be back to normal until there was a vaccine; and, realistically, all the experts have been saying it would be next spring or summer, so we'd be living with this for another 6-8 months
- CURRENT VS. PRIOR YEAR-TO-DATE *(SLIDE 33)*
  - Total Net Revenue – at $121.8M – had a favorable variance of $806K vs. budget
  - Total Expenses – at $120.2M – had a favorable variance of almost $2M vs. budget
    - Mr. King added another comment that referred back to profitability and volume: When he was the CFO 2 to 3 years ago, one of the areas that was a big problem was the use of outside agency staffing at a cost of $1.2M per month, particularly in nursing; so when he saw that it was now under $300K, he was pleasantly surprised
      - So what was happening was, as volume was dropping, in admissions we've employed nurses rather than using traveling nurses
      - The folks who've been working here over those past 3 years have known they were making improvements month to month, but as they made those improvements, they probably didn't realize how dramatic they were over that extended period of time; and he thought Ms. Brown and her team had made a remarkable improvement that he didn't think had been recognized enough
  - Income from Operations – at $1.6M – had a favorable variance of $2.8M vs. the budgeted loss of $1.2M
  - Net Income – at $934K – had a favorable variance of $3.1M vs. a budgeted loss of $2.2M
    - Again, the gains were predominantly in expense management and the management team has done an excellent job in controlling expenses
  - In response to an inquiry by Chair Clark regarding the big swing in net income and what the major factors were, Mr. King stated that as discussed previously, it was the expense management piece, with very tight control
    - For example, when he left 2 years ago, the now-robust productivity system was just being implemented, and it is now in full swing, not only with monthly dashboards for managers, but also with the annual reviews of the managers tied to their productivity performance
    - There have also been new programs involving purchasing until COVID is resolved, and many contracted services have been suspended, with everyone doing more with less, which is driving the income
- BALANCE SHEET *(SLIDE 31)*
  - Talked at some length about cash and what happens with cash, and how we move money from cash to investments as needed, to make sure we optimize our investment income
  - If you look purely at cash at the end of July, we had about $10.1M, but when you add in investments, it's actually at $234.7M
    - Compared to August, the actual cash in the demand deposit account was up by $10M to $20.1M, but we had moved investments out of that investment account, so even though cash in the bank was up $10M our actual cash—the sum of cash and investments—was down by about $11M, and that's directly attributable to reducing the accounts payable volume by $4M and other current liabilities by $6.5M

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  - So we moved money out of investments into cash to cover operating expenses, and you'll see those kinds of fluctuations
  - You will also see that in April and October, when we have to make bond payments; and there will also will be a cash deficit when we have to make IGT payments
    - There will be a significant drop in cash and investments when we fund the bond payment in October, which is due November 1st
  - We also still have $55.6M in Medicare accelerated payment funds that they still haven't begun to recapture; and we have recently been notified that that recapture will not begin until this latest round of legislation has been completed and we find out what Congress wants CMS to do
    - Ms. Hansen commented that there is a chance they may not take back all of those funds immediately, instead that it may be spread over a 3-year period, so maybe take back 25% the first year, 50% the second, and if that occurred, it would be incredibly helpful to the District
    - In response to a question from Chair Clark regarding whether those funds would change to a long-term liability, Mr. King stated that, right now it is currently sitting on both sides of the balance sheet – in Board-designated cash as well as and in current liabilities for the expected payback; and if CMS were to notify us that it would be a 3-year period, the $55M would remain in Board-designated, and the liability would be adjusted to the current amount anticipated to be paid in the next year, with the remainder to be paid in future years into a non-current asset
      - Management has been making sure that those monies are segregated to ensure transparency

- Mr. King stated that concluded his presentation and asked if there were any questions, and Chair Clark replied that he had some questions regarding the consolidated statements, so Mr. King scrolled to that slide
- CONDENSED COMBINING STATEMENT OF REVENUE, EXPENSES & CHANGES IN NET POSITION *(SLIDE 23)*
  - Regarding the situation with Arch, at this point in time at 2 months into the year, they are down $4.3M that's the key to the loss, correct?
  - Mr. King stated that the Arch component and the change in net position for the year was $4.4M, and there were a couple of reasons for that: 1) Arch had also been hit by COVID; and, 2) A lot of Arch's revenues come from the shared risk revenue of about $3M, showing on the income statement for the two months
    - Those risk pools operate on a calendar year basis, and Arch reports on June 30th fiscal year
    - The settlements related to the risk pools are usually not finalized until August or September of the following calendar year as the incurred but not reported liabilities are recorded and paid
    - Arch was off on its expectation from the risk pool by a negative $1.4M, so they had recorded about $600K-700K of that in their prior fiscal year, which was already accounted for in last year's financial statements; however, so far they have had to reduce the shared risk revenues as a result of that shortfall
    - Also, those risk pool dollars were related to the 2019 calendar year, and because of COVID and all the other things that have happened with fee for service and with patients not coming to the hospital or seeing their doctors, the premiums for those patients have remained the same and the capitated risk pool payments were higher
    - Mr. King anticipated that the risk pools were going to have some pickup in the latter part of the year, and he didn't expect that Arch was going to have a running $2M/month loss, and he thought we would start to see a return to normalcy and the risk pool funds would start to kick in
  - Director Engel asked about the YTD Net Position at the bottom of the page, which noted that Arch's net position was a negative $4,373,966, and wondering whether that referred to net position before or after the Interfund transfer to Arch
    - Mr. King stated that the Interfund transfer pretty much washed itself out, with the difference being a capital funding of $2.1M that was transferred and the $2.2M that was reported is a capital-related activity

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- Chair Clark clarified that Dr. Engel's question was whether the negative $4.37M included the $2.1M transfer, and Mr. King said that it did
- Chair Clark asked if we could do such a good job of reducing expenses at the hospital, why couldn't Arch do the same thing, and Mr. King stated that physicians would get hit harder by COVID than the hospital because the hospital would still have ER patients and COVID patients who would all largely be treated by ER physicians and hospitalists, not PCPs
  - The trick was determining how to manage expenses and try to make it up on the risk pools as the dollars came in
  - Ms. Hansen stated that it also does come down to timing with Arch's revenues and the flow of when they actually hit their income statement; and the other part is that Palomar is continuing to monitor Arch's work and expenses and how they're managing day to day in order to make sure that losses are minimized and, subsequently, the support needed from Palomar
  - She did want the Committee to know that Administration is staying connected, Mr. King has meetings with Arch on a regular basis and sits on its finance committee, so there is absolutely a connection, with an understanding and trying to maintain what's going on daily
- Chair Clark stated that it had been predicted going forward this year that the budget for the Interfund transfers to Arch might have to be re-evaluated, and Mr. King stated that might need to occur closer to the end of the year, after the amount of funding actually available from the risk pool was known and whether those funds would be in the anticipated amount
  - Ms. Hansen stated that she didn't expect with the improvement and the things Arch had in the works for improving revenues and decreasing expenses, she thought they would still be okay by the end of the year; however, 6 months in, when the risk pool has been reviewed and the anticipation for them for the first 6 months of our fiscal year, there would be a better idea as to whether a request to increase budgeted funding would need to be brought back to this Committee and the Board, but it was just too early in the year to make that call

- In response to a question by Director Moir about whether Arch guaranteed each physician a baseline income, as he understood their income was based on productivity, Mr. King stated that there was generally a relatively low baseline, but to even hit that baseline, the physician had have to hit a minimum range of WRVU productivity, so they are paid based on productivity
  - He further noted that the physician compensation was in line with volumes, but the overhead costs would remain the same, regardless of volumes, and even though variable costs could drop 20%, there would still be rent, insurance and those types of payments
  - So Dr. Moir responded that a lot of the leak was less reflective of the fact that the physicians weren't as busy, and you had to have staff and the other overhead expenses
  - Director Moir asked if Arch had been working to reduce some of those previous overhead expenses, and Mr. King responded that there were several strategies in the works that would impact that in a positive manner
  - He stated that Arch had also implemented a new revenue cycle management system that went live in July, and the expectation was there would be a pickup in net revenue per patient treated once that system was fully functional
  - Director Moir stated that having that information might be comforting to the Board (e.g, "Arch isn't just taking the check, here are some of the ongoing measures that are being taken to reduce their costs"), Mr. King agreed that was a great idea, and he did think that by the end of the first quarter we would start to see some of the fruits of those labors
  - Mr. King further noted that Management has discussions about Arch on a regular basis with all the Board members and recognizes the challenges that Arch is facing, and Dr. Moir replied that there is sometimes a disconnect, so perhaps that flow of information could be improved upon

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PUBLIC COMMENTS			
• None filed			
BOARD MEMBER COMMENTS			

• Director Engel noted that with all of the external reporting and the audit process, he understood that the organization had an obligation to interact with CMS and file Medicare cost reports, and he wondered when that happened

- Mr. King responded that it was a requirement to remain part of the Medicare program, and the report was due by the last day of the fifth month following fiscal year end, so the District's report was due by November 30th
  - The District has an external accounting firm that prepares the cost report, which must be prepared using the same data as the audit report, which goes into the cost report, which must be signed and filed either by the CFO or the CEO
  - Mr. King further stated that Management takes steps to ensure the report uses the audited financial numbers as it's similar to filing a tax return
- Director Engel stated that it was a validation of the integrity of the information seen as a Board in these presentations and the audited financial report

ADJOURNMENT	**The meeting was adjourned by Chair Clark at 1:13 p.m.**	
SIGNATURES:	**COMMITTEE CHAIR**	JOHN CLARK
	COMMITTEE ASSISTANT	TANYA HOWELL