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	V	
Director Richard Engel, MD	P	P						V	V	V	
Director Doug Moir, MD	P	P						V	V	V	
Diane Hansen, President & CEO	P	P						V	V	V	
Sabiha Pasha, MD, CoS PMC Escondido	P	P						V	E	V	
Edward Gurrola, MD , CoS, PMC Poway	P	P						V	E	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	V	
Sheila Brown, RN, Chief Operations Officer	P	P						V	V	V	
Omar Khawaja, MD, Chief Medical Officer	P	P						V	V	V	
Mel Russell, RN, CNO, PMC Escondido	E	E						V	V	V	
Joyce Volsch, PhD, CNO PMC Poway								V	V	V	
Jim Smith, Controller	E	P						V	V		
Tanya Howell – Committee Assistant	P	P						V	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, October 28, 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, October 22, 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 12:01 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 Chair Clark had asked to discuss requests made by him for specific financial information, and that discussion would be taken up at the end of the meeting			
2. Minutes – Board Finance Committee – Wednesday, September 23, 2020	**MOTION:** By Director Engel, seconded by Ms. Hansen, and carried to approve the Minutes from the Wednesday, September 23, 2020, Finance Committee as presented. Vote taken by Roll Call: Director Engel – aye; Director Moir – aye; Ms. Hansen – aye; Chair Clark – aye; Dr. Pasha – aye; Absent: Dr. Gurrola	Reported to the November 9, 2020, Board of Directors meeting as information	Y
• No discussion			
3. Executed, Budgeted, Routine Physician Agreements	**MOTION:** By Director Moir, seconded by Ms. Hansen, and carried to recommend approval of the Executed, Budgeted, Routine Physician Agreements as presented. Vote taken by Roll Call: Director Engel – aye; Director Moir – aye; Ms. Hansen – aye; Chair Clark – aye; Dr. Pasha – aye; Absent: Dr. Gurrola	Forwarded to the November 9, 2020, Board of Directors meeting with a recommendation for approval	Y
• Chair Clark inquired about the medical group to which Dr. Davis belonged, and was informed that it was Anesthesia Consultants of California			

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
• DISCUSSION			

  - In response to an inquiry about whether the Medical Directorship was just at Poway, Omar Khawaja, MD, CMO, stated that there were separate Chairs for the Departments of Anesthesia for the Medical Staffs at both campuses
- In response to Chair Clark's inquiry about the Wound Care Professional & Cardiac Rehabilitation Physician Coverage agreement, Sheila Brown, RN, COO, stated that there was a CMS requirement to provide outpatient services with direct physician emergency oversight, both for Wound Care and Cardiac Rehab
  - Wound Care must provide professional physician coverage during their hours of operation
  - Since Cardiac Rehab services are no longer provided on a hospital campus (having been moved to San Marcos with the closure of the downtown campus), an ER physician must be present, and Drs. Bailey and Schechter are certified ED physicians and will provide that emergency oversight
- Director Engel provided a clarification to close the loop regarding the inquiry about Dr. Davis, who is the Chair of the Department of Anesthesia at Poway
  - This is an elected position, and Dr. Gurrola had mentioned in an open Board meeting that the position needed to be updated because the previous chair, Dr. Laubach, left in the middle of a term and was being replaced by Dr. Davis
  - The reason the agreement was being presented for approval at the Board Finance Committee was that all department chairs within the Medical Staff receive a stipend for serving as chair, and the payment structure is that generally half of the stipend is paid by each Medical Staff, and the other half is paid by Palomar Health's administration, and the portion to be paid by the District requires a contract structure
    - Just like every medical staff department chair, the amounts that are paid are vetted through and consistent with the FMV process
  - He further stated that there seemed to be some confusion about a department chair being a different position than that of a medical director

4. RESOLUTION NO. 11.09.20(01)-15 BANKING ACCOUNT CLOSURE	**MOTION:** By Director Moir, seconded by Ms. Hansen, and carried to recommend approval of Resolution No. 11.09.20(01)-15 Banking Account Closure as presented. Vote taken by Roll Call: Director Engel – aye; Director Moir – aye; Ms. Hansen – aye; Chair Clark – aye; Dr. Pasha – aye; Absent: Dr. Gurrola	Forwarded to the November 9, 2020, Board of Directors meeting with a recommendation for approval	**Y**

- Hugh King, Interim CFO, stated that this resolution was a perfunctory action as a routine part of the audit is to review banking accounts vs. the ledger
  - In the course of that review, it was determined that a banking account was no longer needed, so the Finance team closed it
  - The Resolution is a formal validation by the Board of the action taken to close the bank account

5. RESOLUTION NO. 11.09.20(02)-16 DECLARATION OF OFFICIAL INTENT OF PALOMAR HEALTH TO REIMBURSE CERTAIN EXPENDITURES FROM PROCEEDS OF INDEBTEDNESS	**MOTION:** By Director Moir, seconded by Ms. Hansen, and carried to recommend approval of Resolution 11.09.20(02)-16 Declaration of Official Intent of Palomar Health to Reimburse Certain Expenditures from Proceeds of Indebtedness as presented. Vote taken by Roll Call: Director Engel – aye; Director Moir – aye; Ms. Hansen – aye; Chair Clark – aye; Dr. Pasha – aye; Absent: Dr. Gurrola	Forwarded to the November 9, 2020, Board of Directors meeting with a recommendation for approval	**Y**

- Mr. King started the discussion by backing up and talking about something that occurred about 2 years ago, noting that one of the challenges at the Escondido

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• DISCUSSION

campus has been parking, and at that time the Board passed a resolution that would allow Management to enter into a lease agreement with another nonprofit organization, who would issue the bonds necessary to build a parking structure, and the District would make lease payments to that organization which would have generally been funded by proceeds from the parking fees

- At the time, that was the only viable financing mechanism for the parking structure, with a downside that the District would essentially have paid for the garage, but it would have belonged to the other organization
- Since that time, the District has paid off some bond indebtedness and maintained good credit ratings with bond rating agencies, and Management believes there is an opportunity to issue bonds to fund the financing of the parking structure, meaning it will be District property from day one

- The Resolution presented today merely states the Board's intent to reimburse the District from the proceeds of bonds to be issued in the future, but if the resolution isn't in place, the District would be precluded from reimbursing expenditures related to the parking structure prior to the issuance of the bonds
  - The resolution is a legal construct that says the District intends to issue bonds, and if that intent becomes reality, the District can reimburse itself for those expenditures already made toward the parking structure, so approval of the resolution is merely approval that if the bonds are issued, the District can reimburse itself
- Chair Clark stated that it sounded like the Board wasn't obligating itself to anything, but would basically be "shooting ourselves in the foot" if the resolution wasn't passed, and Mr. King said that was correct
- Director Engel stated that in the intervening years, it sounded like Management had developed an opportunity to finance the parking structure as opposed to leasing it, with financing through the issuance of bonds, and he asked Mr. King to provide a brief overview of the plans for that issuance
  - Mr. King stated that this would not be a motion authorizing the bonds, about which a full presentation would be made when the plan of finance was brought back to the Committee and the Board for approval
    - Management has been working with Cain Brothers, a well-established group, and with Kaufman Hall financial advisors to develop a private placement bond issue
    - The financing team will work with the local health facilities financing authority to issue the bonds, which would then be sold to an investment bank
    - This is a faster and less expensive means of issuing bonds for a relatively small issue, as $35M is technically a small bond issue in the world of public finance
    - The issue would be for a relatively short set of bonds, for only 6 years; and the 2006 revenue bonds can be refinanced in 2026, so the goal would be to refinance them both at the same time, making interest-only payments for those 6 years, which would preserve cash
  - Chair Clark stated that, in essence, the District would go from not owning the asset, to actually owning the asset
    - Mr. King stated that he was correct, as the amount of the lease payments the District would have been obligated to pay would have been the amount the other organization had to pay, so the District essentially would have paid for the structure but would not have owned it
  - Director Engel asked what a private placement bond was, and Mr. King explained that the bonds would be issued to a smaller number of individual investors or entity investors
    - In response to an inquiry about whether any of those investors were known at this point, Mr. King stated that the bonds would be put out to bid in order to obtain the lowest interest rate, and the terms on the bonds would be exactly the same as the current indenture
      - Cain Brothers would be acting as the District's representative and would contact about 20 organizations such as insurance companies and investment banks—some of which do currently own District bonds—to put the bonds out to bid, with the best offer to accept being the one that would provide the lowest interest rate

6. SEPTEMBER 2020 & YTD FY2021	**MOTION:** By Director Moir, seconded by Dr. Pasha, and carried	Forwarded to the November 9, 2020,	N

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
• DISCUSSION			
FINANCIAL REPORT	to recommend approval of the September 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; Dr. Pasha – aye; Absent: Dr. Gurrola	Board of Directors meeting with a recommendation for approval	

- Utilizing the presentation included in the agenda packet, Mr. King presented the September 2020 and YTD FY2021 financial report noting that he would not read the narrative, but would highlight pertinent areas and make comments
- Monthly Management Discussion & Analysis *(Slides 32-34)*
  - Mr. King noted that the DNFB baseline of 4.6 days had improved to 2.1 days for the month of September
    - He commended the revenue cycle team as in his over 40 years in this business he had never seen the DNFB stat at 2 or less
    - DNFB is counted from the time the patient is discharged and through the time the bill has gone out the door
    - 2 days was the best he'd ever seen, but the final goal would be to have the bill in the mailbox when the patient got home
  - Urgent Insurance verification (e.g., verification of insurance for walk-ins who needed emergency care) was at 98.7% for the month, which was very good and exceeded the target of 98%
- Executive Dashboard *(Slide 37)*
  - Adjusted Discharges—at 3,350—had an unfavorable variance of 11.6% vs. a budgeted 3,788
    - Volumes have yet to achieve budget or even approach the pre-COVID numbers
  - Acute Patient Days and ADC only had a negative variance vs. budget of 2.9%
    - That appears to be a disconnect, as if discharges were down 11.6%, patient days should have also been down by the same amount
    - The reason patient days weren't down by the same amount is that both ALOS and the Case Mix Index had gone up, which means there were fewer patients, but they were sicker and staying longer
- Income Statement Month-to-Date *(Slide 38)*
  - Net Patient Revenue—at $58.66M—had an unfavorable variance of just below $500K vs. a budgeted $59.15M
    - This indicates that more money per patient was being collected than had been budgeted
      - Again, the patients who were admitted were sicker and stayed longer
      - Management had also negotiated higher rates from the insurance payors, which are typically 2-3%, but were increased to 3.5-5% following aggressive negotiations, causing an increase in the amount received per discharge
  - Net Revenue—at $59.4M—had an unfavorable variance of just below $650K vs. a budgeted $60.0M
    - Although not where Management would like it to be, an indication that a good job of managing expenses has been done
  - Expenses—at $58.3M–had a favorable variance of $2.0M vs. a budgeted $60.3M
    - Salaries, Wages & Contract Labor and Benefits each were below budget by $1.2M, for a combined total below-budget favorable variance of $2.5M in those two areas
  - Income from Operations—at $1.0M—had a favorable variance of $1.4M vs. a budgeted loss of $320K
  - Net Income—at $499K—had a favorable variance of $815K vs. a budgeted loss $316K
- Income Statement Year-to-Date *(Slide 39)*
  - YTD Net Patient Revenue—at $179.0M—had a favorable variance of $660K vs. a budgeted $178.3M

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?

- DISCUSSION

  - YTD Net Revenue—at $181.1M—had a favorable variance of $157K vs. a budgeted $181.0M
  - YTD Operating Expense—at $178.5M—had a favorable variance of $4.0M vs. a budgeted $182.5M
    - Driven by Salaries, Wages & Contract Labor dollars and Benefits dollars
  - Income from Operations—at $2.7M—had a favorable variance of $4.1M vs. a budgeted loss of $1.5M
  - Net Income—at $1.4M—had a favorable variance of $3.9M vs. a budgeted loss of $2.5M
    - In times like this, it is not atypical for financial managers, In order achieve their budgets, to lean down their contractuals, and Mr. King assured the Committee that was not happening with the District's financials
    - The finance team has looked closely at the marketplace, which caused concern about the stimulus packages expiring with no phase two, as well as concern regarding continued layoffs and the closing of some business, so the allowances for bad debt had actually been increased with an idea that there might be a forthcoming increase in those areas
    - He wanted to show the Board that the team was not stripping down District reserves and was maintaining vigilance on allowances and contractual accounts
- Balance Sheet *(Slide 44)*
  - Mr. King noted that he had discussed cash position to some degree in the past, and the top 3 line items on the balance sheet represent cash
    - The Board-Designated $55.6M Medicare advance funding has still been kept separate
    - Cash & Cash Equivalents and these are in what he called short-term investment accounts, short term because they are intended to be traded when there is a need
      - An analogy would be to consider the Cash & Cash Equivalents as the District checking account and the Investments as the savings account
        - (i) As much money as possible is kept in the savings account earning interest, and those must be government-approved investments, so they don't earn a large interest rate, but do earn, and Management moves money back and forth as needed
      - A review of those two line items shows that last month there was a total of $223.8M, and this month that total was $225.0M, so it increased slightly, but with more in the investment accounts
        - Money could be moved at the end of each month into the checking account to make it look good, but then it would not be earning interest and the District's assets would not be properly guarded
    - The $55.6M is interest-free money from the government, and it will be earning interest until such time as the government takes it back over the next three years
  - Accounts Receivable increased from $110.7M to $113.9M, a normal fluctuation in receivables
  - Current Liabilities went from $186.8 to $197.7, all of which can be explained by normal fluctuations in payment terms during the course of business
  - The only significant change was in Other Long-Term Liabilities, as Management financed a piece of medical equipment (a surgical robot), and it was a capitalized lease
- Mr. King stated that concluded the bulk of his report and asked if there were any questions
- Chair Clark stated that he had a few questions and asked Ms. Hansen what she saw coming down the road, as adjusted discharges continued to be diminished by almost 16% off from last year, and he wondered if that was all due to COVID
  - Ms. Hansen replied that part was related to the pandemic, and ED volumes and surgical volumes just hadn't bounced back, and when ED visits are down, that translates into patient days (e.g., if patients visit the ED as outpatients, then go home, that counts as an outpatient visit, but if the patient were to be admitted, those inpatient stays would count into the adjusted discharge numbers)
    - She further noted that surgical volumes were just not seeing the demand, and if you asked any other organization across the county you would learn

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• DISCUSSION

that surgical volumes were down, even though there are numerous ads on television reminding people to take care of their medical needs

- Dr. Omar Khawaja, CMO, commented that he and Director Engel both sat on the committee that oversaw the operating rooms, and what they were doing now was trying to get the number of staff up to meet the needs, as there was a decrease in the number of patients seeking surgical treatment, but there was also a backup due to lower capacity in the operating rooms
  - PMC Poway was at pre-COVID volumes, and PMC Escondido had the opportunity to increase volumes and he hoped to be up 10% by December/January
  - A lot of the surgeries were outpatient surgeries, so there wouldn't be a direct 1 to 1 correlation, but there should be a bump up, but everything was contingent on the virus staying contained and there are no further surges that would affect PPE and testing, so for sure by January—but hopefully by December—more capacity will be opening in the operating rooms
- When Chair Clark asked if it could be said that COVID was over, Dr. Khawaja stated that although there haven't been the huge spikes seen earlier in the year, the biggest struggle was related to perception, as people were still afraid to go to the hospital because they thought they might get COVID there
  - He further noted that places like Scripps and Sharp—as well as Palomar—have been posting on social media, making the public aware of all the things being done keep people safe, and there are the discussions around telehealth and what can be done to capture the volume of people who would prefer that means of communication; however, even if the vaccine was available tomorrow and COVID went away, there's still that psychological aspect that would remain
  - Sheila Brown, RN, COO, commented that all of the layoffs had also affected people by causing them to lose their benefits, so even if they wanted to come in for treatment, many of them couldn't pay for it
    - She has had discussions with some clinic colleagues with the federally funded clinic, and they have an increased number of people signing up for their programs, as people are losing their insurance and are signing up for Medi-Cal
- Director Engel stated that he had been tracking surgical volume and connecting with people outside this organization, and he would confirm that across the county the experience of most other systems is similar, but not identical, as in general there has been a dampening of major elective surgeries; with smaller outpatient procedures being done, but people wanting to make the decision to come in for major procedures had dampened
  - He noted that choosing to have an outpatient surgery was an easier decision, as the patient was in and out quickly; however, there were fewer people willing to make the decision to go to the hospital to have a major procedure that required a multi-day hospital stay
  - He further noted that the State of California was still "clamped down", whereas other states had opened up more, with some areas experiencing up to 120% of pre-COVID surgical volumes, which was not the case he was seeing through most of California, with hospital capacity around the state and county running below normal census levels
  - Even with talk of a spike, COVID cases have not been as high as they were at their peak earlier in the year
  - Director Engel agreed he'd like to see 20% more and see the District exceeding pre-COVID volumes, but they weren't there yet
  - He also commented that even though trauma had been busy off and on, the ER visits were down 4%, and it had been a very unique year, but didn't think the District was the provider experiencing it, so he would be open to any answers Management might have
- Director Moir commented that he had spoken with the Vituity ED physicians, a group that had nationwide coverage, and they told him that a number of their centers were seeing persistent declines of 40-50% in the ED; and while the local situation was worrisome and unfortunate, relative to Vituity's situation, it wasn't as bad
- Chair Clark noted that Deliveries were down 22% from 9 months ago, and he wanted to know the reason behind the month to month loss of delivery capacity
  - Ms. Brown stated that deliveries were down nationwide, and Management has been discussing the matter, and has been reviewing a new OB

• Agenda Item	Conclusion/Action	Follow Up/Responsible Party	Final?

• Discussion

strategy as well as a new Women's Services strategy, meeting with the OB physicians to develop a strategy to replace some who are ready to retire as well as working with those who are only providing GYN services and no longer doing Labor & Delivery to ensure that there isn't any out-migration of those OB patients who would have used those physicians
    - Director Engel commented that a relatively significant component of the number of deliveries at PMC Escondido came from Kaiser, and with the complex dynamic of the Kaiser relationship, he wondered if that might also be part of the reason
  - Chair Clark thanked Mr. King for having explained the reduction in current assets, as he felt clear on that explanation; however, he noted that in the month of September, under Liabilities, Accounts Payable had increased by $4M, and Other Current Liabilities had increased by $3M
    - Mr. King stated that those were predominantly normal fluctuations, as Management had not purposely not paid bills; although there was a contract under renegotiation with a pharmacy vendor that wasn't being slow paid, but wasn't being paid before it was due
      - Again, these were just normal fluctuations in the liability accounts and were not concerning
  - Chair Clark then commented that the Investment Fund yield *(Slide 47)*—at .24%—appeared to be significantly off compared to the prior quarter's .71%
    - Mr. King replied that interest rates were down, and with the government having intervened because of the COVID crisis, interest rates were the lowest he'd seen in his career, which for investment accounts was not a good thing
    - Management was not "sitting on their hands" related to the investments and had looked at different investment alternatives
      - Funds have been invested with 4 different groups, and Management has let them know that if any of them could get their yields up, more money could be moved into those accounts
      - He further stated that Management was doing all that could be done to optimize the investments, but the prohibition from investing in the equity market limited what could be done
    - Chair Clark stated that a decline from .7% to .2% was significant, and wondered if there was any one specific hiccup in any of the investment portfolios
      - Mr. King responded that the District's investment strategy is 5-7 years, and the funds are invested in securities that have different yields at different times
      - Management contracted with a group with whom the District's funds have been placed, and that group's investment strategy was consistent with what other governmental entities used, as all governmental entities—the county, the city, and other districts—were bound by the same rules
- Condensed Combining Statement of Revenue, Expenses & Changes in Net Position *(Slide 50)*
  - In response to an inquiry by Chair Clark regarding whether the information provided was for the first quarter of FY2021, Mr. King stated that he was correct
  - Chair Clark further asked if the net loss as of the first quarter was $5.7M, and Mr. King stated that was also correct; however, if likened to a public company or a non-governmental entity, the District's reduction in retained earnings was $5.7M, which was driven predominantly by Arch
  - Chair Clark commented that Arch had lost $6.1M in the first quarter, which put them on track to have lost $18M-20M by the end of the fiscal year, and Mr. King replied that the amount budgeted as a subsidy to Arch for FY2021 was $18M, which basically meant that Management believed that was the amount they were going to lose during the fiscal year
    - Mr. King further noted that there were some activities in which Management had been engaged which, if successful, would help reduce the losses by Arch; however, Arch was going to continue to lose money until their culture and structure could be changed, and part of that had to do with the Graybill affiliation
    - He noted that Graybill operated under a different model, as they were capitated differently, and Management wanted to move both groups into a

structure that was a hybrid, and if that could be done, then the losses from Arch could be reduced
  - Ms. Hansen added that there had never been an anticipation that Arch break even, and benchmarks for similar-sized organizations had been shared with the Board in the past; however, she would like to see them significantly lower, and with the acquisition of Graybill, the dynamics should change
    - She added that it was important to keep an eye on that to make sure that the investment made in Arch was being made wisely and that the biggest bang for buck was obtained; and she was confident that the things that Management had been doing and that Mr. King had been working with them on would make it happen
  - Director Engel commented that it wasn't so much that Arch was losing money as it was that the District was subsidizing Arch's operations to a budgeted amount as per the District's plan, and Management would like to see that budgeted amount go down
    - The math with the affiliation with Graybill will start putting the subsidy per physician FTE where Management would like to target, as the District was in a scenario a benchmark target of the appropriate subsidy per physician FTE based on national metrics and benchmarks
  - Director Engel stated that since Arch had been subsidized to a budgeted amount, he wondered if that budgeted subsidy amount had been exceeded YTD
    - Mr. King stated that it had not, and he assured the Committee that he recognized the Board's concern, noting that Arch was allowed to make a specific draw amount each month that would allow them to hit their budgeted subsidy for the year
    - During the medical group transition, Management has been looking at where Arch's costs were out of line with best practices, and one glaring example was for occupancy costs, as Arch has been paying 1.5 to 2 times the costs associated with best practices
    - Management has been engaged in strategies that don't just cosmetically improve Arch's costs, and have been working on ways to work with the landlords to reduce rents being paid both by PH and Arch in order to benefit both sides, an opportunity he believes would preserve around $2M or so a year
    - As the Committee knows, Arch had been problematic in the past, but Mr. King said he could see substantive financial improvements in the next year
- Director Engel stated that, regarding Arch and the reality of COVID, he believed that Arch—like other similar organizations—would anticipate a struggle this fiscal year; and Palomar has budgeted a subsidy within the confines of which Arch has been remaining, but he thought it might not be unreasonable for the Board to expect that the subsidy might need to be increased
  - Mr. King responded that Arch had been hit hard by COVID, and there was a clear contrast between Arch and Graybill since Graybill was two-thirds capitated, and with people afraid to go to the hospital or not wanting to go to a medical facility, that made capitation a good revenue stream for the fiscal year
  - Arch has been struggling, and he would applaud that their team has managed to keep their costs within the budgeted amount, and Management has been working hard to make sure that Arch doesn't exceed the budgeted subsidy
    - Although it was not in the plan, Management might eventually need to come back to the Board with a subsidy increase request, but he didn't want anyone to believe that would be a realistic probability
  - Director Engel stated that it sounded like Management was hoping for the best with the understanding that it has been and continues to be a very challenging year, and Mr. King responded that he was correct, and no one knew, unfortunately, what the next quarter was going to bring
    - It might be that the flu season would be less severe due to people wearing masks, but then again there could be another COVID surge, so Management has been saving pennies to the best of their ability

- Director Engel had one more comment, which he wanted Mr. King to confirm he was understanding correctly, then he asked the Mr. King go back to

Slide 38

- In a reality scenario where there have been revenue challenges because what's happened with COVID in previous months, and Total Net Revenues were down $650K MTD, but Income From Operations was $1.3M favorable vs. budget, he wondered how that could happen
  - What he believed was that it was active management by the administrative team in a scenario with difficult and complex circumstances, and it was the result of difficult decisions that were made
    - Salaries & Wages were favorable to budget by $1.3M, and Benefits were favorable to budget by $1.2M
    - So in these challenging times for the month of September, he believed the $1.3M favorable Income from Operations was because of active management in the face of decreased revenues, and he didn't think it should be glossed over
    - The long-term solution for debt management was to increase revenue, but in the near term what he saw, at least as represented in the month of September, was active management addressing complex and difficult circumstances, resulting in true benefit to the bottom line
  - Director Engel was appreciative of that effort and wanted to make that point

- Chair Clark thanked Director Engel, noting that was surely a part of the whole picture; and he also appreciated how Mr. King had explained that the patients who did present at the hospital were sicker, meaning there was more coming in from inpatient revenues, which answered his question regarding why revenues had stayed the same even though surgeries were down, and he agreed that it was better management, and he was thankful for it
- Chair Clark asked that Mr. King return to Slide 50, then noted that net position was at $110.9M, and asked if it included the $20M from the CARES Act, to which Mr. King responded in the affirmative
  - Chair Clark further noted that if the CARES Act funding hadn't been received, then the net position would have actually been roughly about $90M
    - Mr. King stated that he would argue that the reason the CARES Act funding was that hospitals were responding to directives, which was the right thing for patient, but had definitely hurt revenues across the country, noting that it was a tradeoff, and he would gratefully trade continuing the trend the hospital was on in FY2020 without COVID and return the $20M to the government, because if all of this could be undone, the District would actually be money ahead
    - Management actually had to justify to the auditors the cost of COVID and had absolutely no problem documenting that it cost more than the $20M from the government
  - Chair Clark then asked if net position was net worth, and when Mr. King stated that it was, Chair Clark asked if it didn't give anyone concern that net position at the end of 2017 was $216M, then it went down to $185M in 2018, and further down to $148M in 2019, then in FY2020 it was $110M (or even maybe $90 M), over a $100M delta?
    - Mr. King told Chair Clark that he was right, but since that issue had been raised at the Audit Committee meeting, he had done some research, taking the previous 3 administrations and putting them into 3-year groupings (although one was basically a 2-year grouping)
      - In the last year CEO Michael Covert was with the District, Net Worth declined by $145M; it declined by $50M when Bob Hemker was the CEO; and it has declined $99M since Ms. Hansen became CEO]
      - If one were to adjust for Arch and unrealized and realized gains on the interest rate swaps – under a contract signed as part of the 2006 bond issue long before Ms. Hansen became the CEO – during Mr. Covert's tenure as CEO the District lost an average of $45M a year in Net Worth; during Mr. Hemker's tenure as CEO the District lost between $35-36M per year in Net Worth; and under Ms. Hansen's tenure, the loss in Net Worth has only been $25M per year
        (i) He agreed it wasn't good to lose $99M over 3 years, but it was a lot better than losing $150M over that period of time

    - Mr. King further noted that there was work to be done, as the hospital—as Director Engel said—was deeply in debt with over $1.3M in long-

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
• DISCUSSION			

term debt, with no parking facility
- When Mr. King was doing the research and reviewed some of the newspaper articles about the financial situation of the District in 2014 & 2015, it was bleak
- Management does need to make improvements, but last year the loss was $30M, $20M of which was Arch, and $10M of which was a loss on the swaps, so the District was operating at break even, and without COVID it would have been ahead of the game

– Ms. Hansen thanked Mr. King for a very good explanation, noting that the change in net position also included depreciation, and if there was a $1B asset on the books, there would be an accompanying $45-50M per year in depreciation, which is a non-cash item, so it really doesn't speak to the strength of the organization when that kind of debt load is on the books, and backing the depreciation out would make a huge difference in this particular scenario

- o Director Engel addressed Chair Clark's question about whether it was of concern, and he had actually spent time going over some of this information with Mr. King, and he felt he understood it better
  - – Another thing Director Engel wanted to point out was what was happening on national scale vs. the trend of what has been happening within Palomar Health in terms of financial performance, in the previous fiscal year through February or early March, like Mr. King said, he'd trade all the government subsidies and continue that trend because the District would have had a banner year
  - – But COVID did happen, so the financials are where they are with the reality of COVID, the District has basically survived it, and he felt that we were "landing on our feet"
  - – Although it would be challenging on a lot of levels, he felt there was opportunity for optimism because of the financial trends pre-COVID, but he did agree with Chair Clark in the general sense that there will be a lot of challenges on the books ahead of us, but his sense was that we're doing the things that need to be done to work through those challenges
- o Chair Clark thanked Director Engel for his comments, noting that he was just trying to get a handle on it, as it was an alarming statistic

- Chair Clark stated that he was always trying to dig in as much as he could to understand the financial situation of the District across all operations, and he had asked for specific information about the numerous product lines within the District as he felt it was information to which he should have access as the Chair of the Finance Committee; and, although he had repeatedly asked for information as Chair of this Committee, he had been constantly blocked from obtaining the information requested
  - o He further stated that he was frustrated with the process and hoped to meet Mr. King next week to see what could be done to better improve the flow of information to the Committee
  - o He stated that it was frustrating to see the decreases in inpatients at Poway, and he couldn't see anything in the published financial statements to help him understand why, so he would again bring the topic up as the fiscal year moved forward
- Chair Clark then asked if there were any other discussions or questions on the financials
  - o Mr. King commented that there are two annual bond payments, one of which comes due on November 1st
    - – Finance is in the process of making that payment right now, and the other comes due in May and will be made in April
    - – Those payments will be in the amounts of $25-30M, payable to the bond trustee, and will decrease days cash on hand by 15 days
  - o Mr. King also noted that Management is hopefully nearing execution on the Graybill transaction, with cash to reduce in early November, somewhere in the range of $10M
    - – The District would start making payroll, supply and interest payments for the new Graybill employees and facilities, and would expend $1-2M in working capital before collections would start coming in, probably the third or fourth week of the month
  - o Mr. King just wanted to preview to the Board that there was an expected decline in cash, which would begin to recover with IGT payments, assuming

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
• DISCUSSION			
that there was the usual good first quarter, with revenues from the first quarter, and assuming things went well with the sale of the Downtown Campus, Days Cash on Hand would be approximately 130 days—excluding the Medicare advanced payments –at the end of the year			
PUBLIC COMMENTS			
• When Mrs. Howell noted that none had been filed, Director Engel asked her to double-check as he had thought there was a guest who wanted to make a comment, but she confirmed that no one had contacted her as the Committee Assistant to make any comments at today's meeting			
ADJOURNMENT	**The meeting was adjourned by Chair Clark at 1:20 p.m.**		

SIGNATURES:	**COMMITTEE CHAIR**	JOHN CLARK
	COMMITTEE ASSISTANT	TANYA HOWELL