

FY2022 Annual Operating and Capital Plan

Board of Directors Budget Presentation

June 16, 2021



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Agenda

Executive Summary

FY2022 Budget Overview:

- Key Plan Drivers | Inflationary Assumptions

Key Statistical / Growth Indicators

Revenue:

- Key Revenue Assumptions / Payor Mix
- Revenue Trend Analysis

Salaries, Wages, Benefits & FTEs:

- Salary, Benefits, and FTE Trend Analysis

Non Labor Analysis:

- Supplies | Professional Fees | Purchased Services | Other Direct Expense

FY2022 Annual Budget Summary / EBIDA Recap

Three-Year Capital Plan

Five-Year Financial Projections

Executive Summary

The FY2022 budget lays out a plan for the coming year that builds upon the post-COVID-19 financial recovery from FY2021 and refocuses on strategic growth to meet the needs of the district. The plan:

- Supports achievement of the five-year financial and capital plan
- Incorporates a realistic recovery plan from the COVID-19 pandemic
- Targets EBIDA of \$106 million, with growth of \$7.8 million from current projected FY2021 performance
- Continues deployment of capital resources from the 2017 issuance of Certificates of Participation (revenue bonds) as well as the new 2021 issuance for the parking garage and signage
- Identifies expense management initiatives designed to support the long-term goal of cost alignment with Medicare reimbursement models
- Maintains focus on key organizational goals regarding clinical excellence / outcomes and patient satisfaction
- Drives alignment of the operating and capital budgets with our current year and long-term strategic plan objectives

FY2022 Budget – Key Drivers & Overview

Key Plan Drivers

- Strategic Plan alignment including year-over-year EBIDA improvement, which is consistent with the long-range financial and capital plan targets
- Volume projections that include targeted growth as well as adjustments in demand as the community adjusts to a “new normal”
- Closure of the Downtown Campus at the end of FY2021 and continued development of new locations to prepare to meet local healthcare needs in a post-COVID-19 environment
- Continued expansion of key service lines including Behavioral Health, Women’s Services, Oncology, Spine, Orthopedics, and Cardiology
- Opportunity to offset supply and drug inflation via strategic purchasing initiatives, including new GPO and drug suppliers
- Increased staffing needs to support throughput and patient experience initiatives, as well as increased patient volumes
- Reimbursement pressures driven by industry / payor relationships offset by reimbursement enhancement strategies that yield rate increases consistent with annual expense inflation

Inflationary Assumptions

- FY2022 budget is based on industry-wide expectations and reflects the impact of unpredictable availability over the past year
- Palomar Health will continue to focus on negotiating competitive agreements for high cost physician preference products in order to keep supply costs in line with reimbursement

Healthcare Industry Inflation Comparison

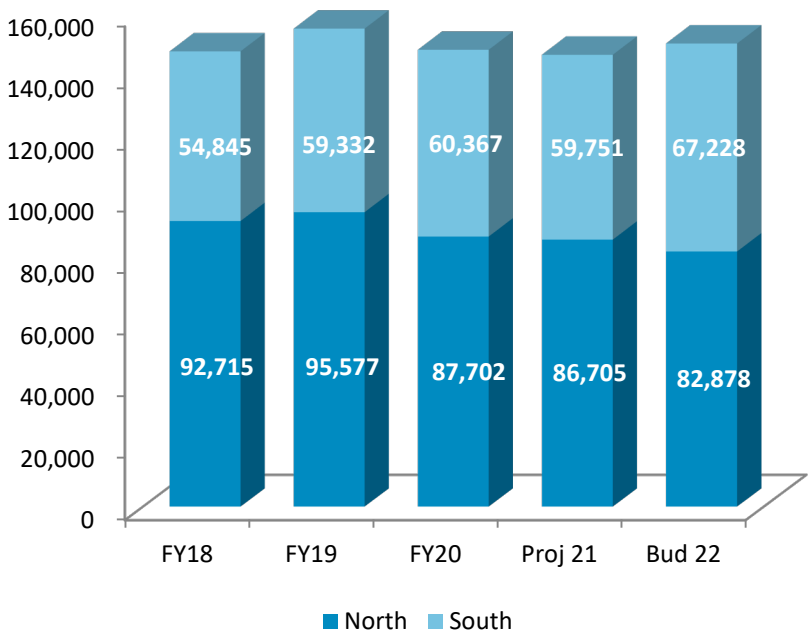
Category / Expense	FY2022 Budget	Industry Expectation
Implants	0.5%	1.5%
General Surgery Supplies	1.0%	1.5%
Surgical Needles	2.0%	2.8%
Oxygen – Gas	4.1%	4.1%
IV Solutions	2.5%	2.5%
Pharmaceuticals	2.7%	1.7-3.2%
Radioactive and X-Ray Material	2.3%	2.3%
Other Medical	2.3%	2.8%
Food	3.8%	3.8%
Linen	2.0%	2.3%
All Other: Cleaning, Forms, Office, Uniforms	1-4%	1-4%

Key Statistical Indicators

Key Statistical Indicators | Inpatient

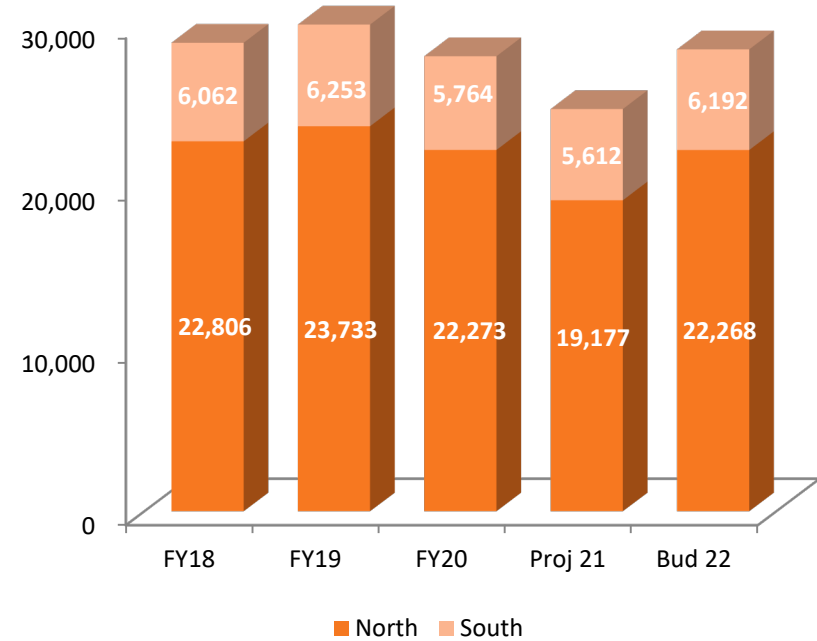
Total Patient Days (Incl. SNF)

FY2022 planned patient days are increasing by 2.5% over the projection for the current year, as demand for care begins to normalize



Total Discharges (Incl. SNF)

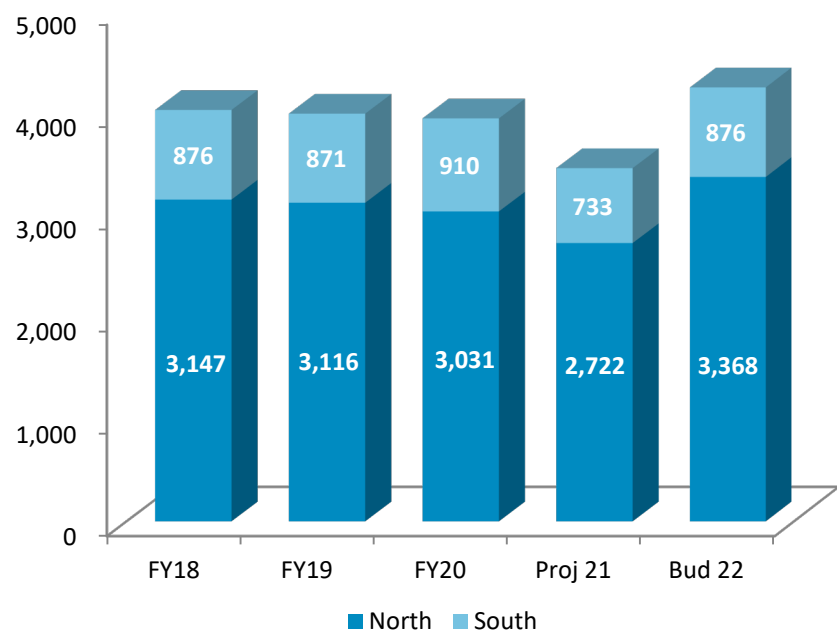
FY2022 discharges are increasing by 3,671, or 14.8%, year-over-year



Key Statistical Indicators | Inpatient

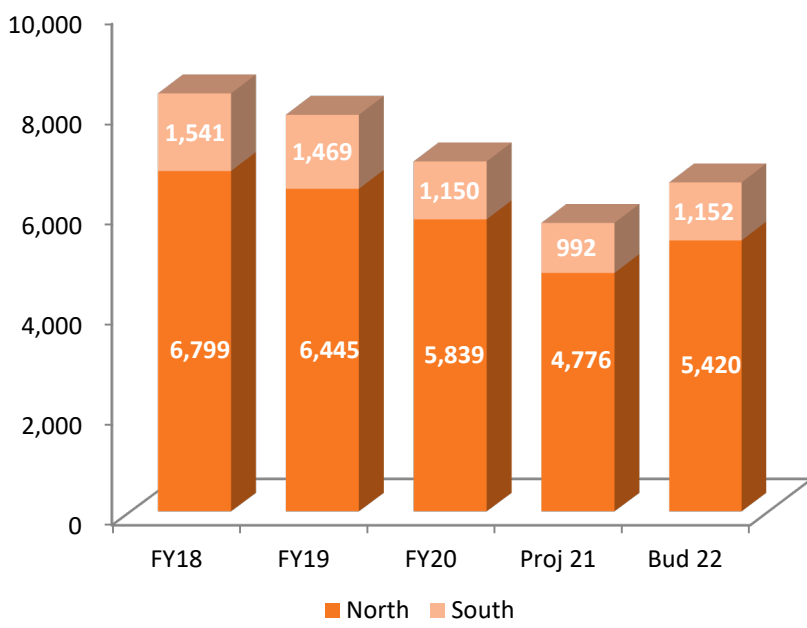
Deliveries

FY2022 deliveries are increasing 22.9%, based on planned growth in Women's Services



Inpatient Surgeries

FY2022 inpatient surgeries are increasing by 13.9%, as capacity for elective cases begins to open, but is also reflective of a reduction in Kaiser cases

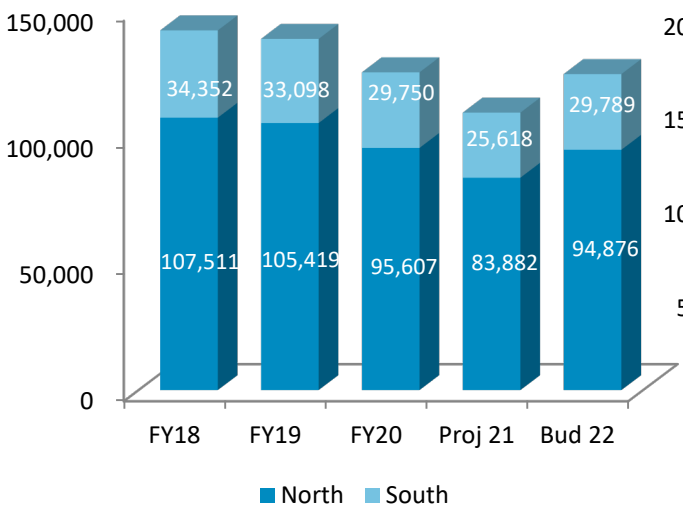


Key Statistical Indicators | Outpatient

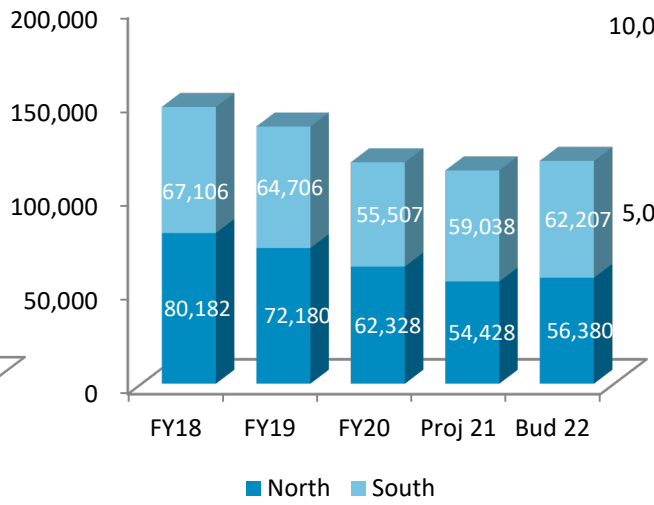
Outpatient Services

- Emergency Department visits are increasing by 15,165, or 13.8%, to align with industry expectations
- Outpatient registrations are increasing based on growth in Oncology, Crisis Stabilization Unit, and Forensic Health Services
- Outpatient surgeries are increasing by 7.6%, driven by the return of elective cases

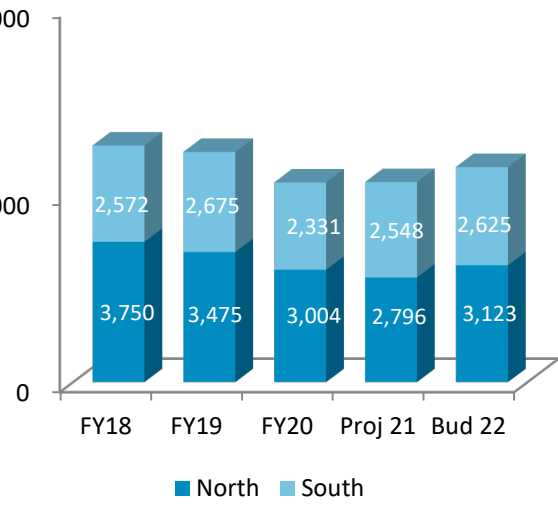
Emergency Visits



Outpatient Registration



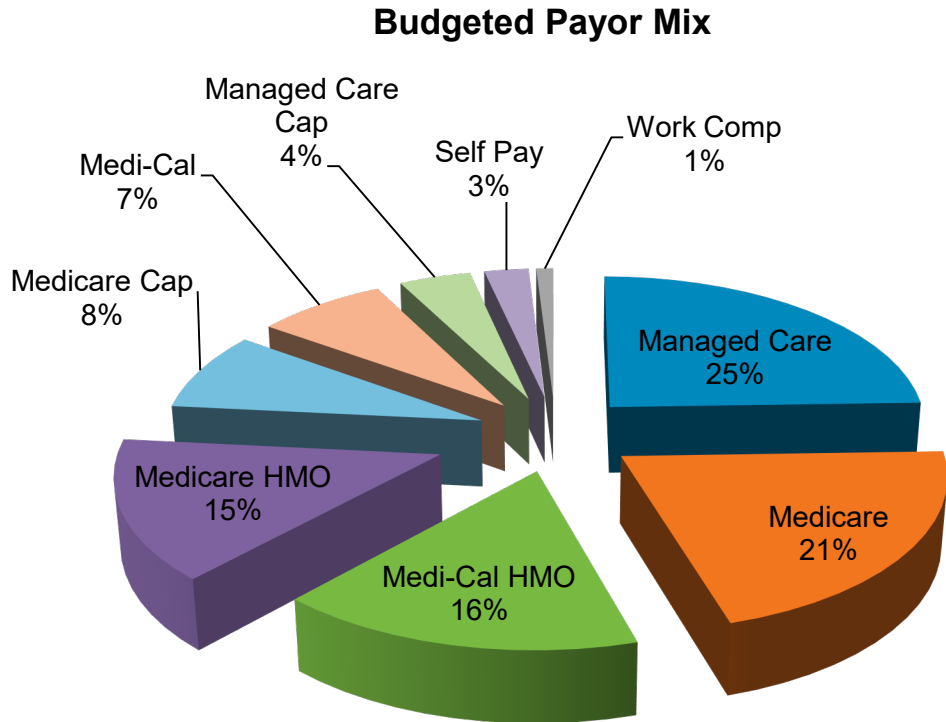
Outpatient Surgery



Revenue

Key Revenue Considerations

Payor Category	Total Charges (\$000s)
Managed Care	\$ 1,111,046
Medicare	\$ 950,176
Medi-Cal HMO	\$ 738,616
Medicare HMO	\$ 670,804
Medicare Cap	\$ 377,165
Medi-Cal	\$ 339,433
Managed Care Cap	\$ 186,590
Self Pay	\$ 115,027
Work Comp	\$ 43,934
Total	\$ 4,532,790



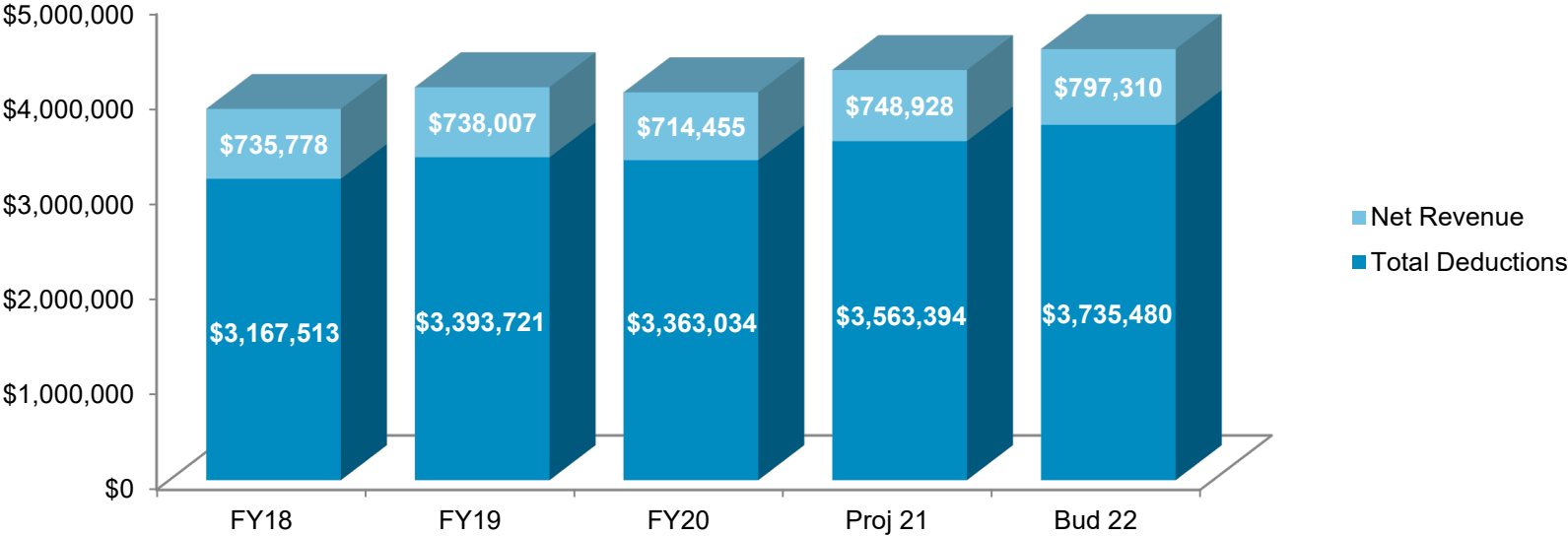
Assumptions:

- To remain competitive in the local marketplace, the FY2022 budget does not reflect a rate increase
- Increased unemployment has driven bad debt to its highest level in recent years
- FY2022 bad debt and uncompensated care 2.4%; FY2021 Budget = 1.9%

Revenue Trend Analysis

Net revenue is increasing by 6.5% from current year projections as volume begins to normalize

Gross Charges and Net Revenue (\$000s)



\$	3,167,513	\$	3,393,721	\$	3,363,034	\$	3,563,394	\$	3,735,480	Total Deductions*
\$	735,778	\$	738,007	\$	714,455	\$	748,928	\$	797,310	Net Revenue
\$	3,903,290	\$	4,131,728	\$	4,077,488	\$	4,312,322	\$	4,532,790	Total Gross Revenue

*Deductions include net capitation impact

Salaries, Wages, Benefits & FTEs

Labor Impact Summary

The FY2022 labor budget establishes a plan to:

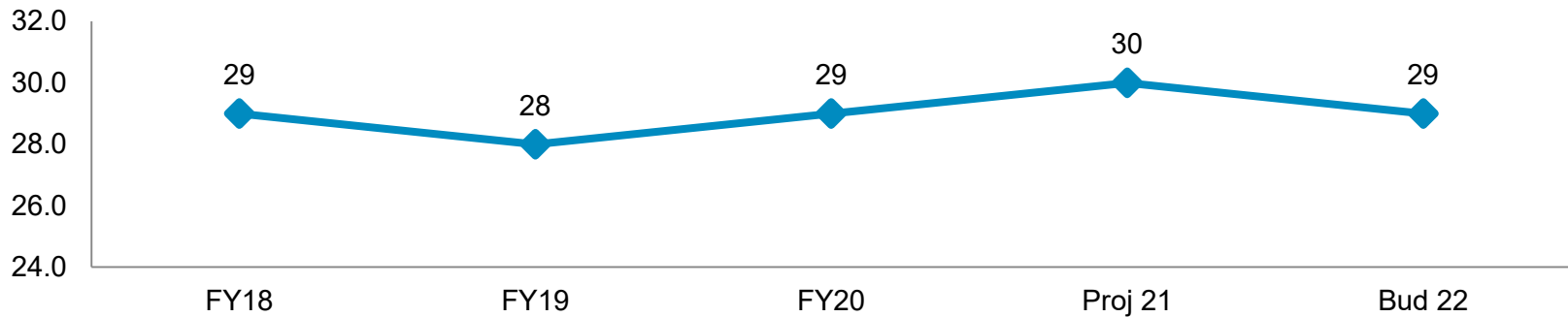
- Support ongoing throughput and patient experience initiatives with targeted FTE additions
- Refocus on staff education and a return to pre-COVID-19 learning practices
- Transition Poway 2nd floor unit from Acute Rehabilitation back to Medical / Surgical / Telemetry
- Increase staffing in Perioperative Services, Oncology, Behavioral Health, and Women’s Services to meet strategic growth initiatives

2022 Budgeted FTE Roll Forward	FTEs
FY2021 Paid FTEs (as of 3/27/2021)	3,295
Volume-Related Changes	170
Operational Efficiency	19
Targeted FTE Additions	68
Increased Staff Training Hours	20
FY2022 Paid FTEs	3,571

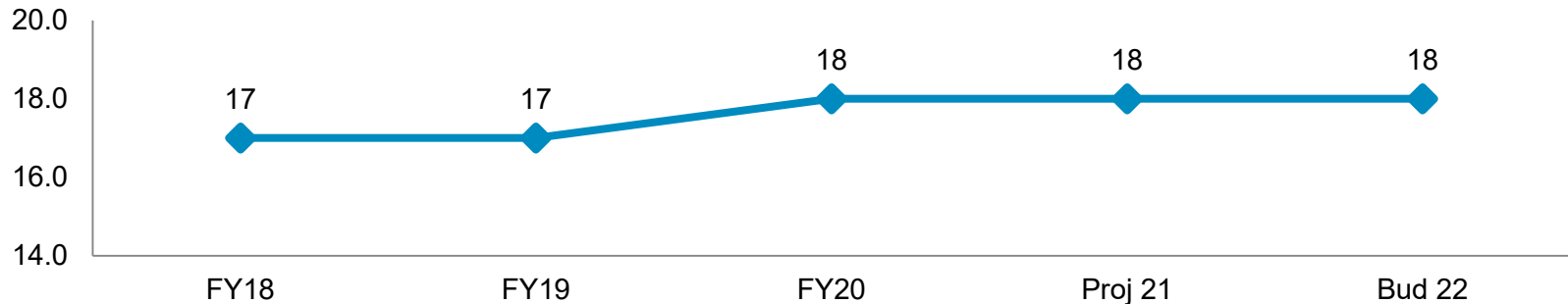
Labor Analysis | FTEs

Though FTEs are decreasing slightly on a per adjusted discharge basis, direct caregivers per adjusted discharges remain consistent

FTEs per Adjusted Discharge (Incl. SNF)

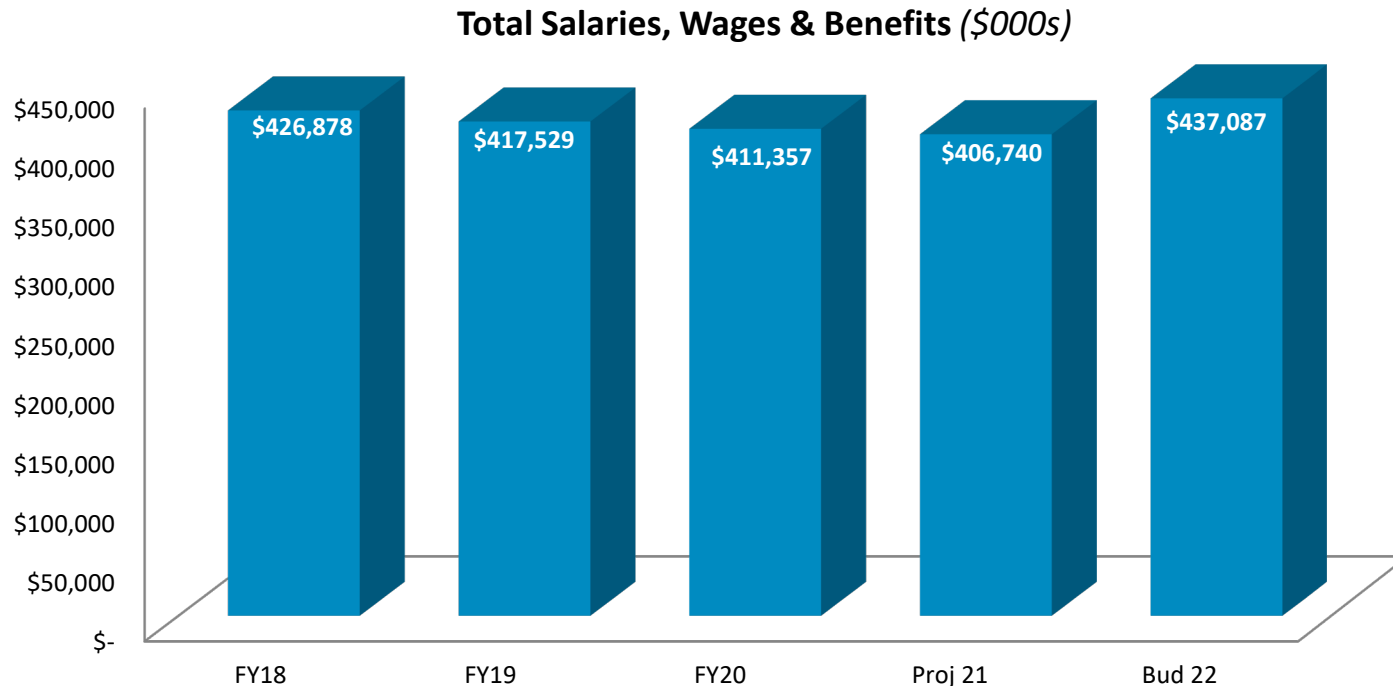


Direct Caregiver FTEs per Adjusted Discharge (Incl. SNF)



Labor Analysis | Salaries, Wages & Benefits

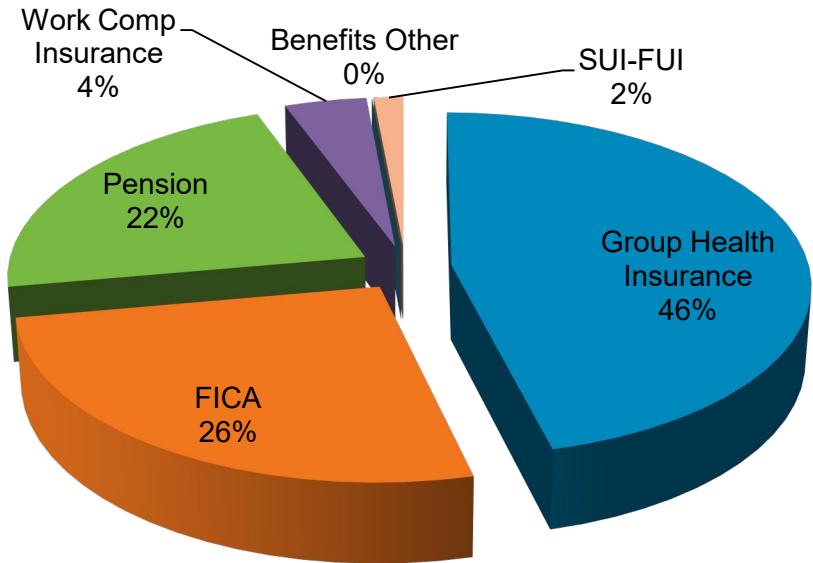
- FY2022 total Salaries, Wages, Contract Labor, and Benefits are increasing by \$30 million or 7.5%
- Salary increases from volume growth are partially absorbed by planned improvements in premium pay and contract labor



Labor Analysis | Benefits (Excl. PTO)

Type of Benefit	% of Total Benefits
Group Health Insurance	46%
FICA	26%
Pension	22%
Workers' Compensation Insurance	4%
SUI-FUI	2%
Total Benefit Spend (\$000s)	\$96,626

Labor Benefits Analysis



Significant Impacts

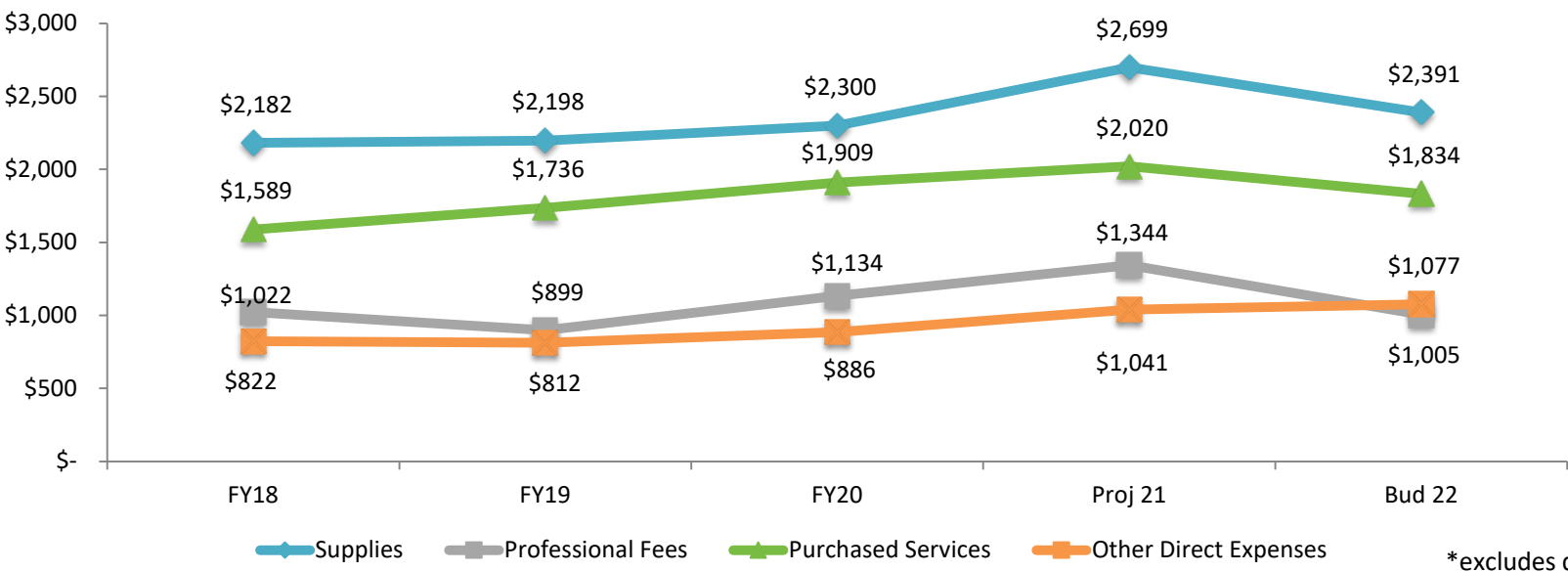
- Group health insurance expense is increasing by 7.4%
- Increases are driven by additional staffing to meet volume demands and lower utilization of healthcare services during the pandemic

Non Labor Analysis

Non Labor Analysis | Summary

- FY2022 non-labor expense* is increasing \$8.5 million or 3.1%, in line with increases in patient volume
- Despite an overall increase, non-labor expense is decreasing by 11.2% on a per adjusted discharge basis

Trended Non Labor Expense per Adj. Discharge +SNF (000s)



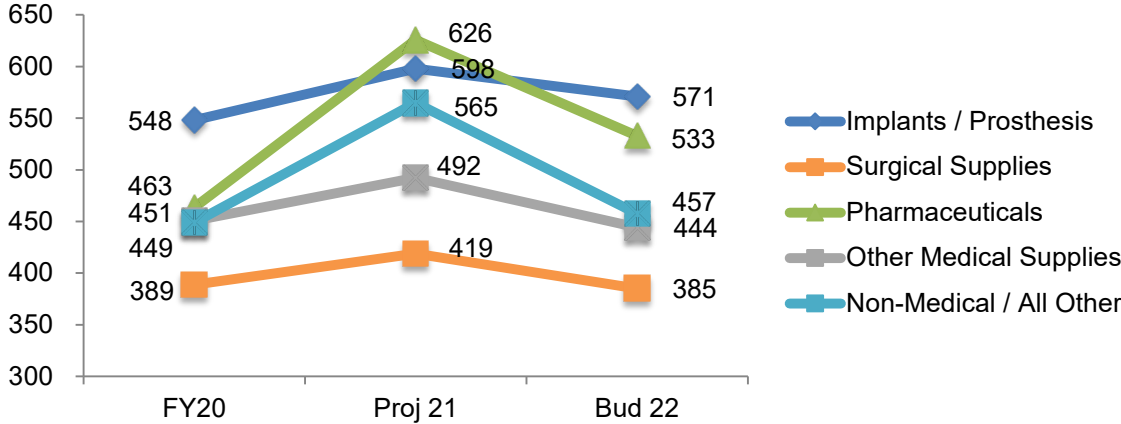
*excludes depreciation

Non Labor Analysis | Supplies

FY2022 Supply Roll Forward	Expense (\$000s)
FY2021 Supply Expense (Mar 2021 Projection)	\$105,375
Changes due to Volume and Utilization	3,930
Inflationary Increases	1,949
Supply Reduction Initiatives	(2,900)
FY2022 Budgeted Supply Expense	\$108,354

Supplies per Adjusted Discharge (Incl. SNF)

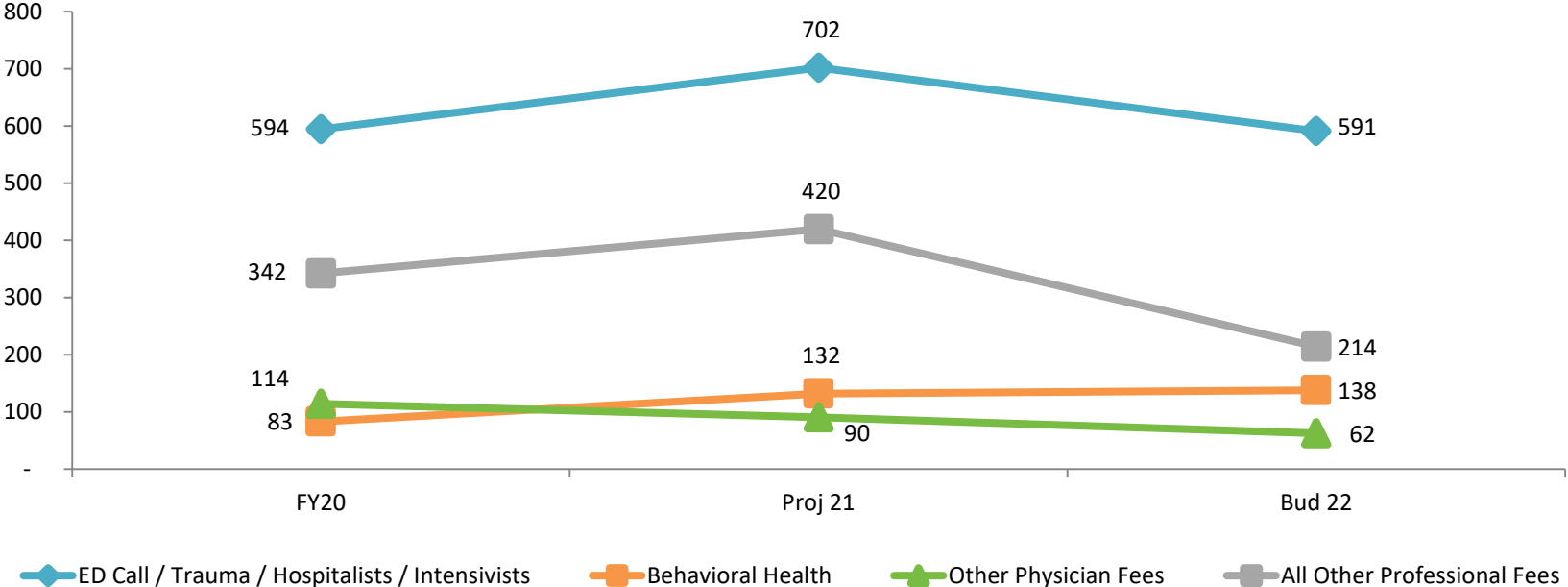
Supply management efforts and reduction initiatives are offsetting higher than usual inflationary projections in the coming year



Non Labor Analysis | Professional Fees

- FY2022 Professional Fees are decreasing by \$6.9 million or 13.2%
- Reductions in legal, consulting, and management fees expenses are driving this decrease

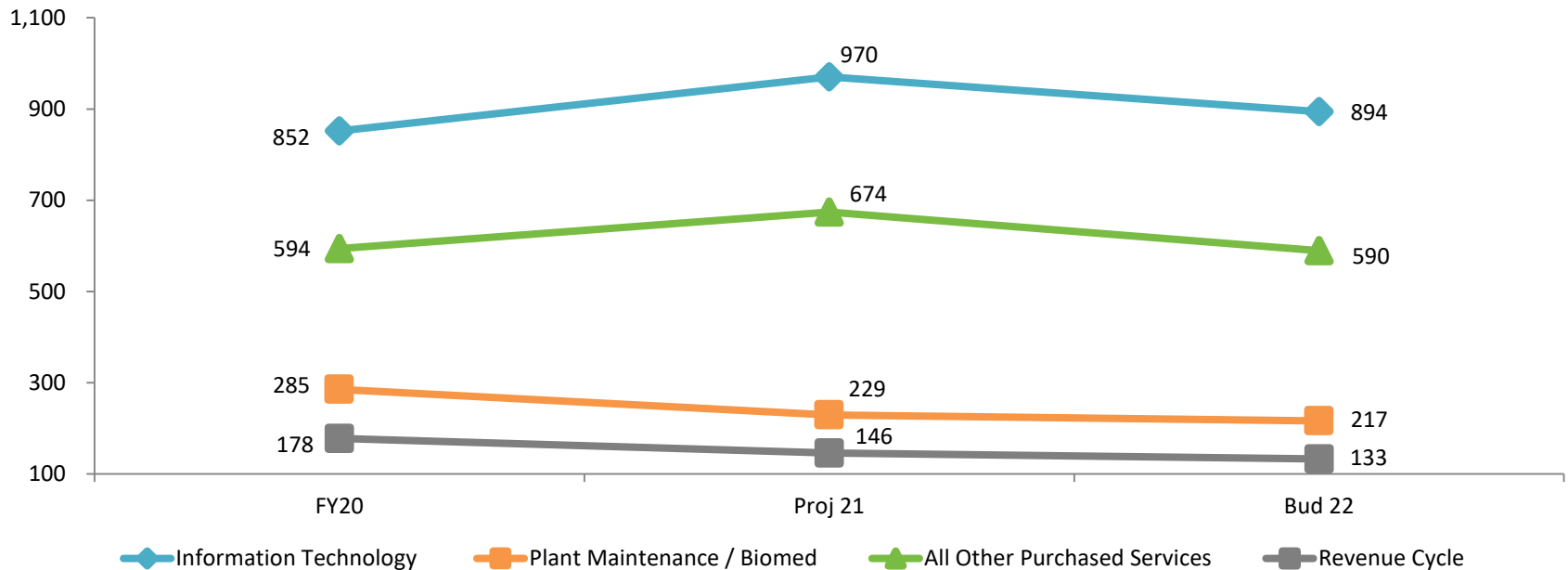
Professional Fees per Adj Discharge + SNF



Non Labor Analysis | Purchased Services

- FY2022 Purchased Services are increasing by \$4.2 million or 5.4%, year over year
- Increases support organizational initiatives around Information Technology, Facility Maintenance, Medical Records, and Marketing

Purchased Services per Adj Discharge + SNF



Purchased Services | IT Roadmap

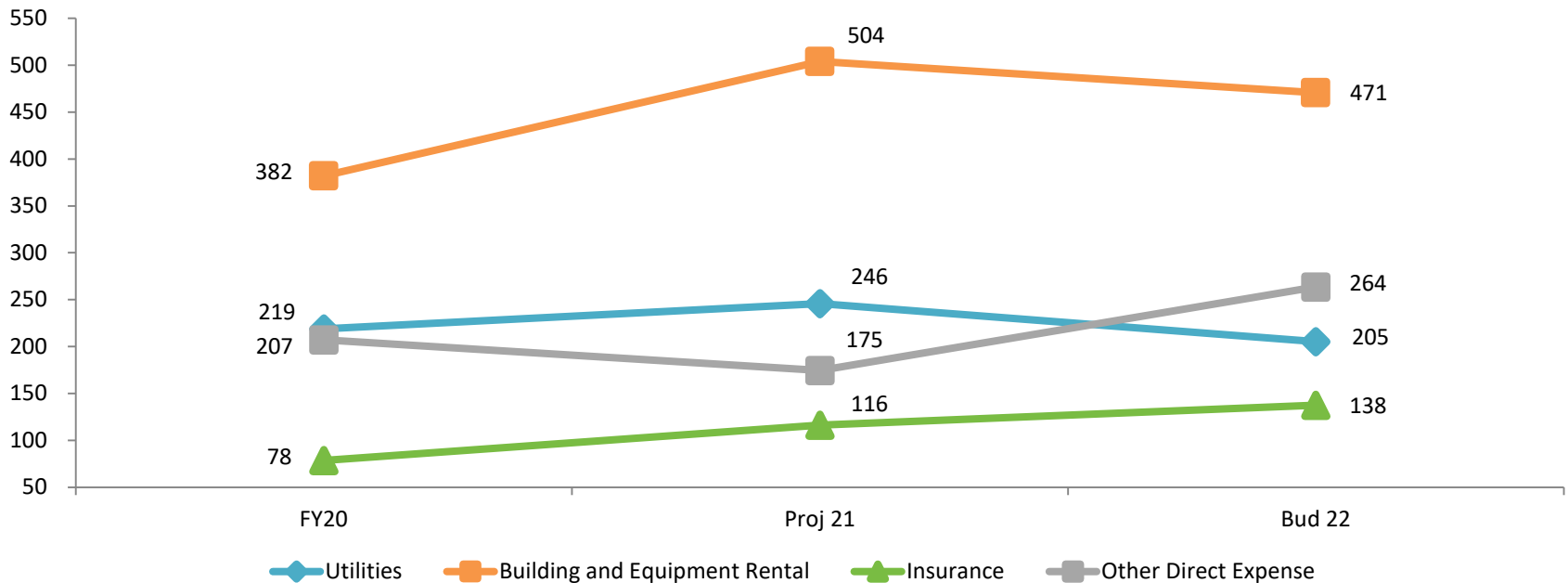
FY2021 Accomplishments	
Palomar Health Rehabilitation Institute	Digital Antennae System DAS
TeleTracking Upgrade	BH HealthSight Diversion
OBHG	Sterile Instrument Tracking (SPM)
E-Prescribing	Field Medical Station + 18 COVID projects
IV Drips/Titration	COVID Vaccination Center & Bed Expansion
Cerner Enhanced Dispensing	Physician PW Resets & Power Plan Updates

FY2022 Planned Projects	
Patient Safe Implementation	ADT Notifications – Patient Ping
Viz AI Stroke Program	Network Security & Infrastructure Upgrades
Anesthesia Documentation System	Tele Health Phase 1
Patient Status Orders	MCDS-Leapfrog
Health Intent/EDW	Single Sign On (SSO)
Patient Portal Optimization	Quality Improvement Program

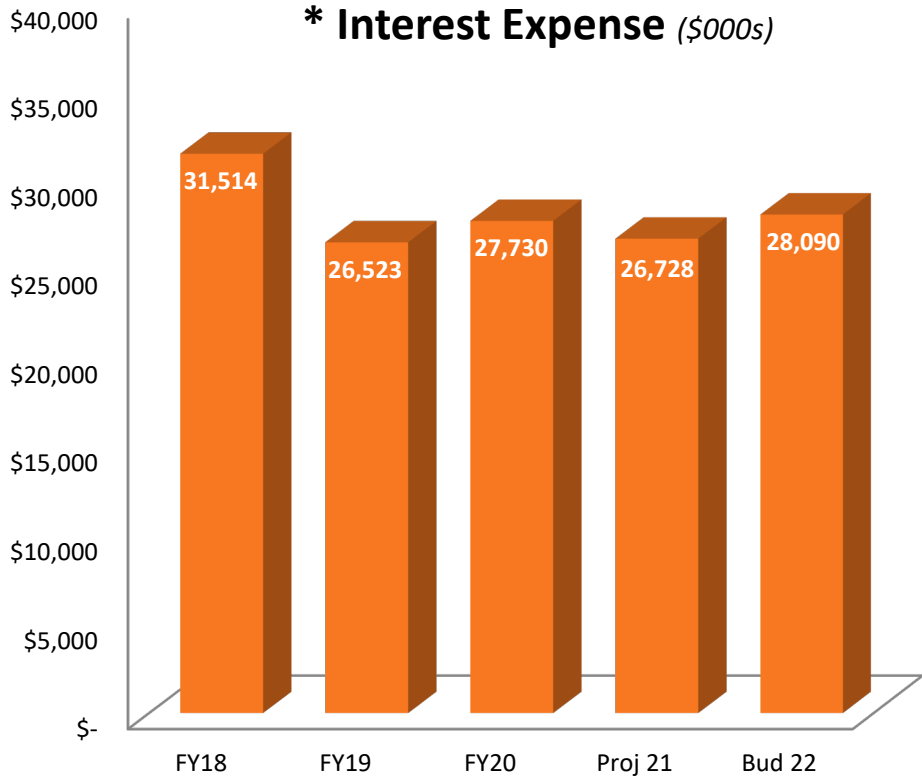
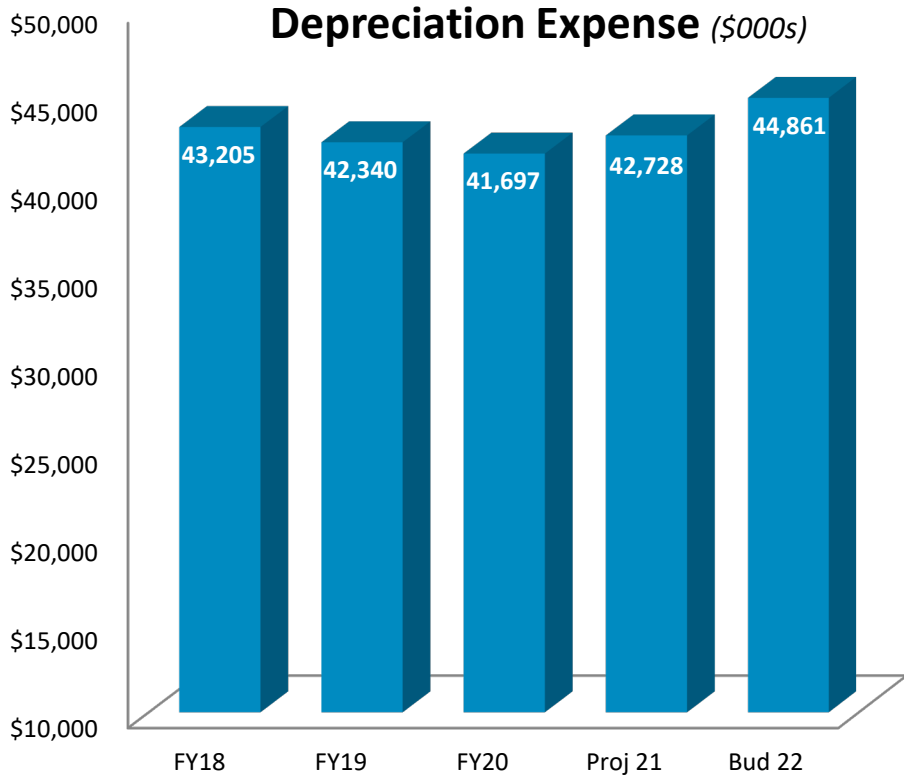
Non Labor Analysis | Other Direct Expense

- FY2022 Budgeted Other Direct Expense is increasing by \$8.2M million, or 20%
- Increases are primarily driven by marketing and building rent and are partially offset by utilities savings due to the closure of the Downtown Campus

Other Direct Expense per Adj Discharge + SNF



Depreciation and Interest Expense



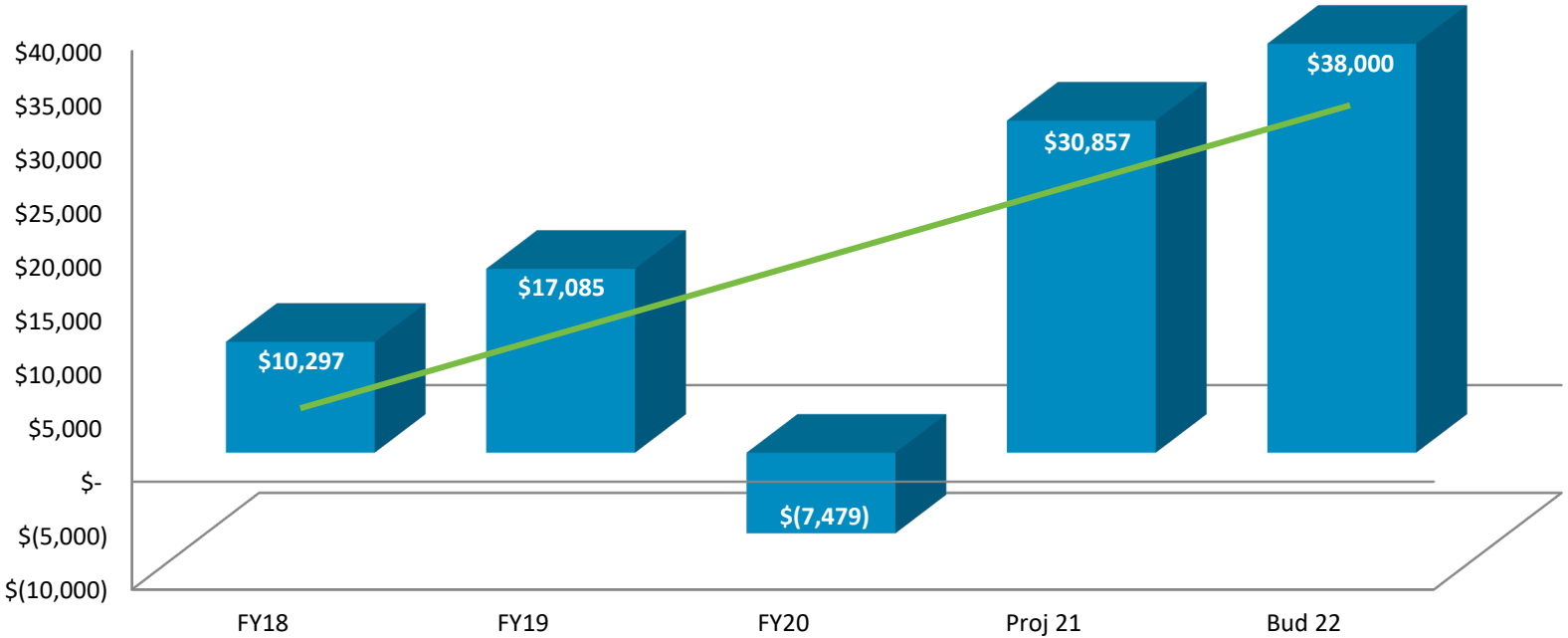
*Interest Expense reflected for Revenue Bonds only

Annual Operating Budget Summary & EBIDA Recap

Income from Operations

- FY2022 Income from Operations is increasing by \$7.1 million from current year projections
- The increase is driven through strategic volume and revenue growth, combined with continued focus on expense management

Income from Operations (\$000s)



Annual Operating Budget Summary and Trend

	FY2019 Results	FY2020 Results	FY2021 Projection	FY2022 Budget
Revenue:				
Net Revenue	738,007,078	714,454,518	748,928,237	797,309,966
Other Operating Revenue	11,477,276	10,948,217	8,723,891	8,461,084
Total Operating Revenue	\$ 749,484,354	\$ 725,402,735	\$ 757,652,128	\$ 805,771,050
Expenses:				
Salaries, Wages, Registry, Benefits	417,529,146	411,357,391	406,739,969	437,087,067
Supplies	106,120,524	103,317,897	105,375,413	108,353,965
Depreciation	42,340,412	41,697,090	42,728,032	44,861,153
Other	166,408,813	176,508,912	171,951,621	177,468,865
Total Operating Expense	\$ 732,398,895	\$ 732,881,291	\$ 726,795,034	\$ 767,771,050
Operating Income	17,085,459	(7,478,556)	30,857,093	38,000,000
Non-Operating Income (Loss)	(1,275,603)	24,374,389	6,045,758	3,903,618
(Interest Expense)	(26,523,316)	(27,730,285)	(26,728,000)	(28,089,613)
Unrealized (loss) gain on interest rate swap	(6,569,730)	(9,642,486)	0	0
Property Tax Revenue	17,608,947	18,356,493	18,289,072	19,000,000
Income (Loss)	\$ 325,757	\$ (2,120,446)	\$ 28,463,923	\$ 32,814,005
PHMG Foundation Support	16,382,000	18,959,000	23,678,000	27,000,000
Net Margin %	0.0%	-0.3%	3.8%	4.1%
OEBIDA Margin (Excl. Property Tax Rev)	7.9%	4.7%	9.7%	10.3%
OEBIDA Margin (Incl. Property Tax Rev)	10.3%	7.2%	12.1%	12.6%
EBIDA Margin	10.1%	10.6%	12.9%	13.1%
Total Uncompensated Care & Bad Debt	70,688,405	84,604,670	105,123,477	110,277,359
Total Uncompensated Care as % of Gross	1.71%	2.07%	2.44%	2.43%

FY2022 EBIDA Recap (\$000s)

	FY2019 Results	FY2020 Results	FY2021 Projected	FY2022 Budget
Net Income from Ops (Excl. Interest Expense)	17,085	(7,479)	30,857	38,000
Depreciation Expense	42,340	41,697	42,728	44,861
OEBIDA	\$ 59,426	\$ 34,219	\$ 73,585	\$ 82,861
OEBIDA Margin (Excl. Property Tax Rev)	7.9%	4.7%	9.7%	10.3%
OEBIDA Margin (Incl. Property Tax Rev)	10.3%	7.2%	12.1%	12.6%
EBIDA	75,759	76,949	97,920	105,765
EBIDA Margin	10.1%	10.6%	12.9%	13.1%
Total Uncompensated Care & Bad Debt	70,688	84,605	105,123	110,277
Total Uncompensated Care as % of Gross	1.71%	2.07%	2.44%	2.43%
Net Income / (Loss) after Non-Op Income	\$ 326	\$ (2,120)	\$ 28,464	\$ 32,814

Capital Plan

Capital Plan | Three-Year Planning Process

During the preparation of the three-year plan, capital priorities are based on:

- Equipment reaching end of useful life
- Organizational strategic initiatives and expansion of services in the community
- Enhancing the IT capabilities of the organization to improve physician, staff, and patient experience
- Deploying capital across the entire district
- Balancing the needs vs. resources of the organization

Funding sources for capital projects and acquisitions include:

- Proceeds from 2017 and 2021 Certificates of Participation (COP) issuances
- Cash from operations
- Equipment Leases
- Tenant Improvement Funds
- Foundation fundraising

Capital Plan | Three-Year Summary

Three-Year Capital Budget Summary (\$000s)

	FY2022	FY2023	FY2024	Total Project Spend
Funded by Operations:				
Equipment	2,648	3,000	3,500	9,148
Facilities	12,100	8,800	8,200	29,100
Information Technology	5,369	4,335	4,326	14,030
Leased Equipment	12,287	9,803	12,494	34,585
Leased IT Equipment	3,975	300	175	4,450
Total Funded by Operations	36,379	26,238	28,695	91,312
Other Funding Sources:				
Funded from Restricted Cash:				
Escondido 9th Floor Build-out	9,200	0	0	9,200
NICU Expansion - Escondido	850	0	0	850
Parking Garage - Escondido	17,500	16,500	0	34,000
Other	1,600	0	0	1,600
Subtotal	29,150	16,500	0	45,650
Funded by Tenent Improvement Credit:				
Outpatient Strategy	10,500	8,500	2,500	21,500
Funded by Foundation:				
Conference Center / Physician Sleep Rooms	3,000	0	0	3,000
Other	0	3,000	4,000	7,000
Subtotal	3,000	3,000	4,000	10,000
Total from Other Funding Sources	42,650	28,000	6,500	77,150
Grand Total	79,029	54,238	35,195	168,462

Capital Plan | Three-Year Cash Flow

Three-Year Capital Budget Summary (\$000s)

	FY2022	FY2023	FY2024	Total Project Spend
Funded by Operations:				
Equipment	2,648	3,000	3,500	9,148
Facilities	12,100	8,800	8,200	29,100
Information Technology	5,369	4,335	4,326	14,030
Leased Equipment	2,721	4,893	7,660	15,274
Leased IT Equipment	880	880	880	2,641
Total Funded by Operations	23,719	21,908	24,566	70,193
Other Funding Sources:				
Funded from Restricted Cash:				
Escondido 9th Floor Build-out	9,200	0	0	9,200
NICU Expansion - Escondido	850	0	0	850
Parking Garage - Escondido	17,500	16,500	0	34,000
Other	1,600	0	0	1,600
Subtotal	29,150	16,500	0	45,650
Funded by Tenent Improvement Credit:				
Outpatient Strategy	10,500	8,500	2,500	21,500
Funded by Foundation:				
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Other	0	3,000	4,000	7,000
Subtotal	3,000	3,000	4,000	10,000
Total from Other Funding Sources	42,650	28,000	6,500	77,150
Grand Total	66,369	49,908	31,066	147,343

FY2022 Budget Summary & Key Take-Aways

Summary

➔ **FY2022 Budget is an achievable plan, based on current industry assumptions for the next phase of the COVID-19 pandemic. It aligns with Palomar Health's Strategic Financial & Capital Plan and will require success in the following areas:**

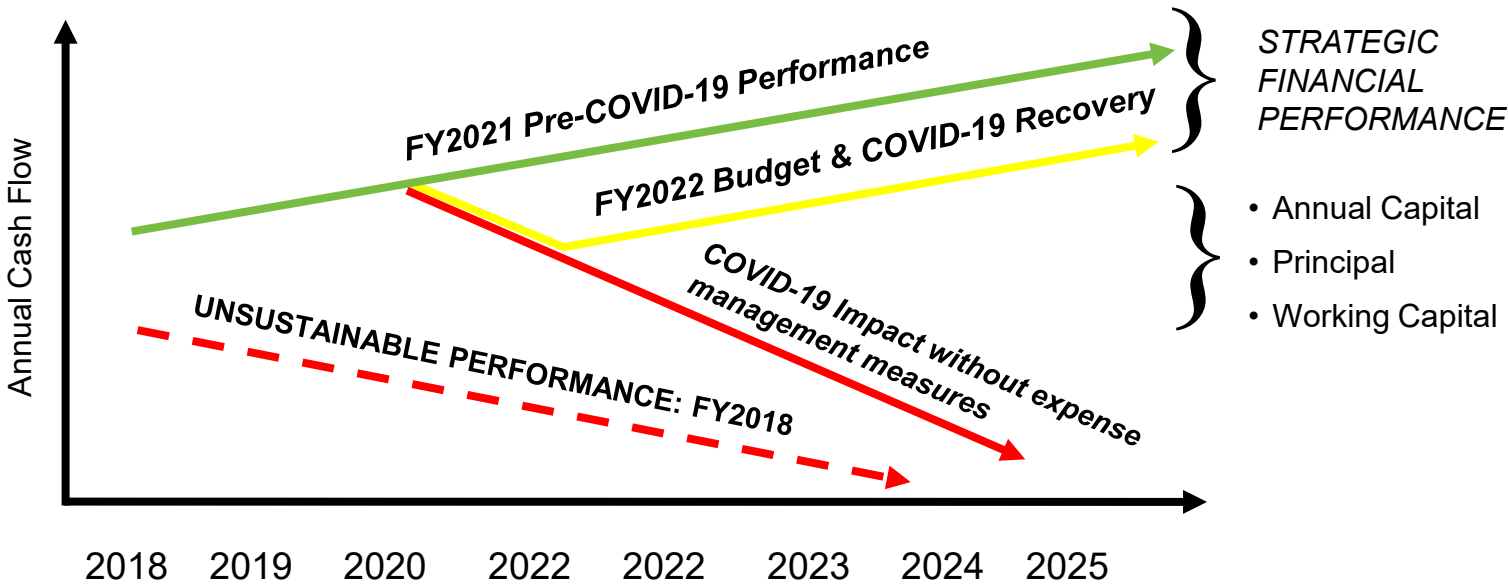
- Effective execution of planned strategies to increase volume in key service lines
- Sufficient progress in COVID-19 vaccination efforts in San Diego County to allow patient volumes to normalize in the concluding state of the pandemic
- Continued implementation of expense management initiatives to begin shifting the organization to a Medicare cost-profile
- Partnership with San Diego County to plan and provide services for the growing Behavioral Health population

➔ **Successful execution will allow Palomar Health to:**

- Effectively navigate the ongoing COVID-19 pandemic and successfully operate in the post-COVID-19 environment
- Deploy sufficient capital to meet the needs of the organization and continue improvement of liquidity
- Continue improvements in clinical excellence and patient satisfaction
- Achieve net income improvement of \$4.4 million year over year; and operating income improvement of \$7.1 million

Five-Year Financial Projections

Five-Year Financial Projections



Palomar Health needs a sound financial strategy in order to:

- Deploy sufficient capital to support the strategic plan and development / expansion of services
- Adjust capacity to serve the changing needs of the community in a post-COVID-19 environment
- Continue the development of a fully integrated health delivery system
- Sustain improvement of key liquidity ratios and achieve investment level ratings for all the rating agencies

Five-Year Financial Projections

Ratio/Statistic (in thousands)	Audit	Target	Projection Years				
	2020	2021	2022	2023	2024	2025	2026
Total Operating Revenue	\$765,928	\$807,628	\$868,838	\$910,456	\$948,934	\$980,445	\$1,013,260
Operating EBIDA	\$11,491	\$45,902	\$57,221	\$72,192	\$85,882	\$86,518	\$86,163
Operating Income	(\$59,287)	(\$25,001)	(\$18,204)	(\$1,763)	\$11,880	\$12,859	\$12,632
Operating Income Excl. Interest Expense	(\$31,517)	\$1,045	\$10,455	\$25,075	\$38,358	\$38,418	\$37,246
Palomar Health	(\$7,509)	\$25,673	\$38,000	\$47,535	\$52,733	\$51,705	\$50,442
PHMG	(\$23,356)	(\$24,000)	(\$27,000)	(\$22,000)	(\$14,000)	(\$13,000)	(\$13,000)
Net Income	(\$25,592)	(\$2,234)	\$4,561	\$29,430	\$45,184	\$48,497	\$50,141
Unrestricted Cash	\$302,348	\$249,962	\$221,896	\$248,645	\$298,552	\$345,949	\$393,657
Capital Expenditures	\$35,137	\$30,000	\$79,029	\$54,238	\$35,195	\$35,000	\$35,000
Profitability							
Operating Margin	(7.7%)	(3.1%)	(2.1%)	(0.2%)	1.3%	1.3%	1.2%
Operating Margin Excl. interest expense	(4.1%)	0.1%	1.2%	2.8%	4.0%	3.9%	3.7%
Excess Margin	(3.3%)	(0.3%)	0.5%	3.2%	4.8%	4.9%	4.9%
Consolidated Operating EBIDA Margin	1.5%	5.7%	6.6%	7.9%	9.1%	8.8%	8.5%
Palomar Health Operating EBIDA Margin	4.7%	9.2%	10.3%	11.0%	11.1%	10.7%	10.3%
Debt Position							
Debt Service Coverage (x)	1.4x	1.7x	1.8x	2.2x	2.4x	2.1x	1.7x
Liquidity							
Cash to Debt	51.3%	41.0%	36.5%	41.6%	50.8%	60.3%	70.5%
Days Cash On Hand (days)	141.7	115.8	96.4	104.9	122.5	137.3	151.0
Days Cash On Hand (days) - Excl. AMP	115.6	93.3	91.7	104.9	122.5	137.3	151.0
Days Cash On Hand (days) - Excl. interest	146.6	119.8	99.8	108.3	126.3	141.3	155.0
Other							
Discharges	28,453	24,767	27,373	27,853	28,165	28,323	28,482
Adjusted Discharges	44,946	39,123	41,848	41,803	41,754	42,187	42,625
Cost / Adj Discharge	\$15,996	\$17,977	\$17,959	\$18,662	\$19,429	\$19,933	\$20,452
Capital Spending Ratio	81.7%	66.9%	169.0%	115.1%	74.1%	72.8%	71.5%