



SPECIAL FULL BOARD AUDIT & COMPLIANCE COMMITTEE MEETING MINUTES – TUESDAY, OCTOBER 18, 2022	
AGENDA ITEM	CONCLUSION / ACTION
<ul style="list-style-type: none"> DISCUSSION 	
I. CALL TO ORDER	
<ul style="list-style-type: none"> Pursuant to Board Resolution No. 01.10.22(03)-03, the meeting was held virtually and was called to order at 5:00 p.m. by Board Chair Linda Greer. 	
II. ESTABLISHMENT OF QUORUM	
<ul style="list-style-type: none"> Quorum comprised of Directors Greer, Griffith, Corrales, Barry, Clark, Edwards-Tate Excused Absences: None 	
NOTICE OF MEETING	
<p>Notice of Meeting was posted at Palomar Health’s Administrative office as well as on the Palomar Health website on Friday, October 14, 2022, which is consistent with legal requirements.</p>	
III. PUBLIC COMMENTS	
<p>There were no public comments</p>	
IV. AGENDA ITEM(S) FOR REVIEW	
<p>1. *Conduct TEFRA Hearing</p>	
<p>A. Public Comments to TEFRA Hearing</p>	
<ul style="list-style-type: none"> Palomar Health Chief Financial Officer Hugh King read aloud the attached TEFRA Hearing Script, then opened the floor to any interested individuals to express their views concerning the proposed issuance for the purposes described in the notice of public hearing. 	
<p>There were no public comments.</p>	

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2. *Review/Approval: TEFRA Approval of Certificates of Participation and Authorizations of Issuance of Certificates of Participation

- A. Resolution No. 10.18.22(01)-24
- B. Purchase Agreement
- C. Installment Sale Agreement
- D. Trust Agreement
- E. Supplemental Master Indenture for Obligation No. 12
- F. Certificate Purchase Agreement
- G. Official Statement and Appendix A
- H. Continuing Disclosure Undertaking
- I. Escrow Agreement

2. MOTION: By Director Barry, 2nd by Director Edwards-Tate and carried to approve Resolution 10.18.22(01)-24 as presented.
 Roll call voting was utilized.
 Director Griffith – aye Director Corrales - aye
 Director Greer – aye Director Barry – aye
 Director Clark – no Director Pacheco – aye
 Director Edwards-Tate – abstain
 Chair Greer announced that five board members were in favor. One opposed. One abstention. No absences.
 Motion approved.

- Utilizing the document posted to the Palomar Health Board of Directors Meeting webpage and labeled “Special Full Board Audit & Compliance committee & TEFRA Hearing Information Packet - Addendum A” representatives from Citigroup Global Markets presented the Series 2022 Financing Update, noting that given Palomar’s impressive financial and operational trajectory and expansion plans, now is an opportune time to enter the market to de-risk the debt portfolio and lock in low-cost funding. The plan of finance has gone through several modifications since the July Board of Directors meeting to minimize the cost of capital, de-risk the portfolio and optimize the structure all in an extremely volatile market, and is currently on track to meet the November timeline.
- Director Clark asked how much money was being borrowed and what the interest rate would be over how long of a period of time. Mr. Kenan informed him that the amount is \$220 million at a 5 ¾% interest rate over 30 years. Palomar would receive the full \$220 million upon closing of the transaction.
- Director Edwards-Tate asked where the role of the board trustees come into play to provide essential governance and expertise into that process. Mr. King responded that the approval of this plan by the board provides where the funds are to be used. Palomar Health President & CEO Diane Hansen responded that once this process starts, the expenditures happen; that process is handled by the external third party. The board of Palomar Health does not get involved in reviewing invoices and approval. The board has already approved the construction projects.
- Director Greer stated that she is very happy about eliminating the swap and having a fixed rate on the bonds. She has every confidence in the advisors the organization uses for these processes as they are all top notch.

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- Director Edwards-Tate questioned what would occur if the board approved something today, then cost overruns exceed the amount that was agreed upon; would the board have the ability to analyze everything before a decision was made? Mr. King replied that there is a project budget that cannot be exceeded, and those monies may only be spent at PMC Escondido and PMC Poway. If it looks like a project is going to exceed the cost of funding available, then administration would need to go back to the board to get budgetary approval to spend those dollars over and above the bond issue. He also noted they are a conservative team, and will want to get contracts that are guaranteed not exceed a certain dollar amount. Therefore, to the extent that there could be a cost overrun, the board would definitely be involved in that and would have to approve it.
- Holland and Knight representative Jessica Brown stated that through the board chair, every board member has three minutes to ask questions of the professionals on this call. To the extent any director has any further questions who has not yet spoken, this is now their opportunity to ask the professionals on this call any clarifying questions they may have.
- Director Pacheco asked if the sale of real property would be to the trust or if the property is no longer owned by the district. Mr. King explained that this is a methodology used to issue certificates of participation bonds, noting that the verbiage complies with the law where basically the property is title to the authority. Title then sends it back to the organization in exchange for making payments on the bonds. Palomar Health never loses control of the property. He added that every certificate of participation bond issue that has been done at this hospital is set up in exactly the same manner, and is considered the standard process.
- Director Corrales stated that she has read the entire document and had the opportunity to ask Mr. King questions. Now is the time for the board to go ahead and do this because they know exactly how much will be spent, how much to budget, and what exactly will be done with every penny being spent. This is something that is very important for the board and the district and something that is very necessary; therefore the board must move as quickly as possible. There has been ample discussion of this topic at previous board and board committee meetings; therefore she is in favor of moving forward.
- Director Clark stated that he did not feel he was given enough time to review the materials prior to the meeting; Director Edwards-Tate concurred.
- Director Griffith reminded that the board's main job is to provide oversight and guidance, noting that there is no time to have an ad hoc committee re-examine what has already been reviewed; interest rates are rising and need to be locked in as soon as possible. The board must have trust in the CEO, CFO, and our administration in partnership with our financial advisors. He also added that if particular board members do not have this trust; it is on them. The board has been given all of the information on the bond issuance process, as well as all of the backup documentation relevant to coming to a decision. It is not a slush fund for the administration; the funds are only for projects that will benefit the district. In conclusion, he is supportive of the program, and hopes that the rest of the board understands their business is that of oversight, and will vote for this to be passed.

3. *Moss Adams Audit Presentation: Communication of Results of the June 30, 2022 Audit

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<ul style="list-style-type: none">Mr. King stated that part of the speed in this bond issue is that interest rates are going up; the financial advisors inform that if the organization can get to market before the federal market committee meets, it should be able to obtain a much lower interest rate than would be possible after that meeting. The finance team and many other teams have been working nights and weekend to try to get this process completed to a tee so that the auditors and attorneys will sign off on the report you are now reviewing. That being said, this and a big change that occurred in the accounting department has delayed our ability to do the job we would normally like to do. He commended the attorneys and auditors for their amazing work in this regard.<ul style="list-style-type: none">Director Greer added that the board appreciates everyone’s efforts and hard work to achieve these results in such a tight timeframe, in order to get the lowest interest rates possible.Utilizing the document posted to the Palomar Health Board of Directors Meeting webpage and labeled “Special Full Board Audit & Compliance committee & TEFRA Hearing Information Packet - Addendum B” representatives from Moss Adams presented the Palomar Health 2022 Audit Results report to the board, noting that they appreciate the collaboration working with Mr. King and the team to meet these significant goals while having the same people working on two competing paths at the same time; the bond issuance and the audit.Director Barry asked why the receivables were 108%, and how the organization collected that amount of money. Ms. Stelzriede responded that the way that hospitals get reimbursed is based on contract rates. Medicare pays a certain rate for a procedure; Medi-Cal pays a different rate for the same procedure, and health plans pay yet another different rate. Therefore, estimating what the receivables are is just that; an estimate. It is not a patient to patient reporting; but rather an estimate based on what the contract rates are for those payors and an organization’s recent historical rates.Director Griffith asked whether the increase in some of the weaknesses that were identified was due to the recent change in the CFO position as well as to regulatory changes. Ms. Stelzriede shared her opinion that it is due in part to the significant turnover that has occurred in the accounting department, which can make things challenging insofar as processes running smoothly.	
V. ADJOURNMENT TO CLOSED SESSION	
<i>1. Pursuant to California Government Code § 54962 and California Health & Safety Code § 32106—REPORT INVOLVING TRADE SECRET—Discussion will concern: proposed new service, program or facility. Estimated date of public disclosure: July 1, 2023.</i>	
VI. RE-ADJOURNMENT TO OPEN SESSION	
VII. ACTION RESULTING FROM CLOSED SESSION – IF ANY	
There was no action resulting from the closed session	
VIII. BOARD VOTE TO APPROVE ANNUAL AUDIT	VIII. MOTION: By Director Barry, 2 nd by Director Griffith and carried to accept the auditor for 2022 with minor adjustments by the auditors. Roll call voting was utilized. Director Griffith – aye Director Corrales - aye Director Greer – aye Director Barry – aye Director Clark – aye Director Pacheco – aye Director Edwards-Tate – abstain Chair Greer announced that six board members were in favor. None opposed. One abstention. No absences. Motion approved.

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- Chair Greer requested a motion to approve accepting the audit for 2022 with the minor adjustments by the auditors.

FINAL ADJOURNMENT

- There being no further business, the meeting was adjourned at 6:56 p.m. by Board Chair Greer.

Signatures:	Board Secretary	 _____ Terry Corrales, R.N.
	Board Assistant	 _____ Debbie Hollick