

# Meeting Minutes

## BOARD FINANCE COMMITTEE CALENDAR YEAR 2022



Passion. People. Purpose.™

ATTENDANCE ROSTER								
MEMBERS	MEETING DATES:							
	SPECIAL 1/26/22	4/27/22	7/27/22	8/24/22	SPECIAL 9/27/22	10/26/22	SPECIAL 11/30/2022	
DIRECTOR LAURA BARRY – CHAIR	V	V	V	V	V	CANCELLED	V	
DIRECTOR JEFF GRIFFITH, EMT-P	V	V	E	V	V		V	
DIRECTOR MIKE PACHECO	V	V	V	V	V		V	
DIANE HANSEN, PRESIDENT & CEO	V	V	V	E	V		V	
SABIHA PASHA, MD, CoS PMC ESCONDIDO	V	E	V	V	V		V	
EDWARD GURROLA, MD, CoS, PMC POWAY	V	V	V	V	V		E	
DIRECTOR LAURIE EDWARDS-TATE, MS – ALTERNATE		G			G		G	
DIRECTOR TERRY CORRALES, RN – 2 <sup>ND</sup> ALTERNATE			V					
KANCHAN KOIRALA – ALTERNATE CoS PMC ESCONDIDO								
SAM FILICIOTTO, MD – ALTERNATE CoS PMC POWAY	V (GUEST)		G				V	
<b>STAFF ATTENDEES</b>								
HUGH KING, CHIEF FINANCIAL OFFICER		V	V	V	V		V	
OMAR KHAWAJA, MD, CHIEF MEDICAL OFFICER	V	V	V	E	V		V	
STEPHANIE BAKER, RN, CHIEF OPERATIONS OFFICER				E	V		E	
MEL RUSSELL, RN, CHIEF NURSE EXECUTIVE	V	V	V	V	V		V	
AMANDA PAPE, VP OF FINANCE			E	E	E			
TANYA HOWELL – COMMITTEE ASSISTANT	V	V	V	V	V			
SHEILA BROWN, CHIEF OPERATIONS OFFICER	V	V	E					
MICHAEL BOGERT, CHIEF FINANCIAL OFFICER	V							
JIM SMITH, VP OF FINANCE	E							
<b>INVITED GUESTS</b>	SEE TEXT OF MINUTES FOR NAMES OF INVITED GUESTS							

BOARD FINANCE COMMITTEE – SPECIAL MEETING MINUTES – WEDNESDAY, NOVEMBER 30, 2022			
AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
<ul style="list-style-type: none"> <li>DISCUSSION</li> </ul>			
<b>NOTICE OF MEETING</b>			
<ul style="list-style-type: none"> <li>The full agenda packet (as Notice of Meeting) was posted on Wednesday, November 30, 2022, at Palomar Health’s Administrative Offices, which is consistent with legal requirements</li> <li>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</li> </ul>			
<b>CALL TO ORDER</b>			
<ul style="list-style-type: none"> <li>The meeting – held virtually – was called to order at 3:31 p.m. by Chair Laura Barry</li> </ul>			
<b>ESTABLISHMENT OF QUORUM</b>			
<ul style="list-style-type: none"> <li>Quorum was established – see roster for details</li> </ul>			
<b>PUBLIC COMMENTS</b>			
<ul style="list-style-type: none"> <li>None filed</li> </ul>			
<b>INFORMATION ITEMS</b>			
<ul style="list-style-type: none"> <li>None</li> </ul>			
1. CHARTER OF THE FINANCE COMMITTEE OF THE BOARD	<p><b>MOTION:</b> By Director Pacheco, seconded by Dr. Filiciotto, and carried to recommend approval of the Charter of the Board Finance Committee as presented.</p> <p>Vote taken by Roll Call: Dr. Pasha – Aye; Chair Barry –Aye; Ms. Hansen – Aye; Director Pacheco – Aye; Director Griffith – aye; Dr. Filiciotto – aye. Absent: Dr. Gurrola</p>	Forwarded to the October 10, 2022, Board of Directors meeting with a recommendation for approval	Y
<ul style="list-style-type: none"> <li>Chair Barry stated that all the Board Committee charters were basically derived from the Board Governance Committee charter, with some edits to reflect the differing duties of each Committee</li> </ul>			
2. DEBT POLICY – LUCIDOC #58892	<p><b>MOTION:</b> By Director Pacheco, seconded by Ms. Hansen, and carried to recommend re-adoption of the District’s Debt Policy - #58892, as written.</p> <p>Vote taken by Roll Call: Dr. Pasha – Aye; Chair Barry –Aye; Ms. Hansen – Aye; Director Pacheco – Aye; Director Griffith – aye; Dr. Filiciotto – aye. Absent: Dr. Gurrola</p>	Forwarded to the February 2, 2023, Board Governance Committee meeting with a recommendation for approval	Y
<ul style="list-style-type: none"> <li>Chair Barry stated that this Lucidoc policy was still applicable as written</li> <li>Dr. Filiciotto asked why the policy still listed former CFO Michael Bogert as the owner, and Secretary Tanya Howell stated that the update to current CFO Hugh King would take place as part of the update in Lucidoc after the policy had gone through the remainder of the approval processes</li> </ul>			

BOARD FINANCE COMMITTEE – SPECIAL MEETING MINUTES – WEDNESDAY, NOVEMBER 30, 2022			
AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
DISCUSSION			
3. ANNUAL ADOPTION OF STATEMENT OF INVESTMENT POLICY – LUCIDOC #27092	<p><b>MOTION:</b> By Director Pacheco, seconded by Ms. Hansen, and carried to recommend re-adoption of the District’s Statement of Investment Policy – Lucidoc #27092, as written</p> <p>Vote taken by Roll Call:            Dr. Pasha – Aye; Chair Barry –Aye; Ms. Hansen – Aye; Director Pacheco – Aye; Director Griffith – aye; Dr. Filiciotto – aye. Absent: Dr. Gurrola</p>	Forwarded to the February 2, 2023, Board Governance Committee meeting with a recommendation for approval	N
<ul style="list-style-type: none"> <li>CFO Hugh King stated that there were no changes being recommended, noting that the District really didn’t have a lot of options since State law governs the type of investments that can be made</li> <li>There are currently 3 different groups that advise the Finance team on investments, and the team compares and contrasts their different approaches before decisions are made</li> </ul>			
4. EXECUTED, BUDGETED, ROUTINE PHYSICIAN AGREEMENTS	<p><b>MOTION:</b> By Ms. Hansen, seconded by Director Griffith, and carried to recommend approval of the Executed, Budgeted, Routine Physician Agreements as presented.</p> <p>Vote taken by Roll Call:            Dr. Pasha – No; Chair Barry –Aye; Ms. Hansen – Aye; Director Pacheco – Aye; Director Griffith – aye; Dr. Filiciotto – aye. Absent: Dr. Gurrola</p>	Forwarded to the October 10, 2022, Board of Directors meeting with a recommendation for approval	N
<ul style="list-style-type: none"> <li>Chair Barry stated that the agreements all appeared to be routine</li> <li>There was some discussion about whether an extension of the OBHG contract was appropriate, with various members of the executive team weighing in on the discussion, following which Chair Barry recognized Secretary Howell, who clarified that this particular contract was not an extension, rather it was a contract approved last June that added a metric requiring in-house training in order to meet their bonus requirements               <ul style="list-style-type: none"> <li>Director Pacheco asked if the Committee was being requested to approve a bonus, and Chair Barry clarified that the request was for approval of an additional required metric to which they would be held before being considered for a bonus, with Ms. Hansen commenting that there wasn’t a dollar amount tied to the metric, it was just an added metric within their contractual requirements                   <ul style="list-style-type: none"> <li>Ms. Hansen further noted that should there be a time when a bonus or increase to payments would be considered, it would first be discussed with staff and the Board</li> </ul> </li> <li>In response to a further inquiry, Ms. Hansen referenced Page 24 of the packet, noting that the Bonus Metric being added was related to quarterly multidisciplinary formal education and weekly informal staff education</li> </ul> </li> </ul>			
5. OCTOBER 2022 & YTD FY2023 FINANCIAL REPORT	<p><b>MOTION:</b> By Ms. Hansen, seconded by Dr. Filiciotto, and carried to recommend approval of the October 2022 &amp; YTD FY2023 Financial Report as presented.</p> <p>Vote taken by Roll Call:            Dr. Pasha – Aye; Chair Barry –Aye; Ms. Hansen – Aye; Director Pacheco – Aye; Dr. Filiciotto – aye. Absent: Dr. Gurrola &amp; Director Griffith* <i>*Left prior to the vote on this topic</i></p>	Forwarded to the October 10, 2022, Board of Directors meeting with a recommendation for approval	N

BOARD FINANCE COMMITTEE – SPECIAL MEETING MINUTES – WEDNESDAY, NOVEMBER 30, 2022

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
• DISCUSSION			
<ul style="list-style-type: none"> <li>• Mr. King stated that he had mixed feelings about presenting this report, and he first wanted to share an experience he had last week                             <ul style="list-style-type: none"> <li>○ He participates in leadership institutes and forums, one of which consists of CFO’s                                     <ul style="list-style-type: none"> <li>– During one of these calls with CFO’s from across the nation, every CFO was reporting exactly the same thing: Significant declines in expected volumes and budgeted revenues, as well as significant increases in expenses</li> </ul> </li> <li>○ He also recently read a report from Kaufman Hall about 900 hospitals in the United States, addressing their performance YTD for CY2022                                     <ul style="list-style-type: none"> <li>– The average net operating margin was a negative 5%</li> </ul> </li> <li>○ While the information Mr. King would be sharing this afternoon will not be the news about which Management and the Committee would be happy, comparatively, he felt good about where the District stood in relation to others</li> </ul> </li> <li>• EXECUTIVE DASHBOARD (PAGE 53)                             <ul style="list-style-type: none"> <li>○ Total Discharges were down 13.6%                                     <ul style="list-style-type: none"> <li>– General Acute was down 12.8%</li> <li>– Behavioral Health was down 27.8%</li> <li>– The Villas was down 25.7%</li> </ul> </li> <li>○ Total Patient Days were consistent with Total Discharges                                     <ul style="list-style-type: none"> <li>– If you look at Acute Adjusted Discharges and Total Adjusted Discharges, volume was only off from budget by 4.8%   <ul style="list-style-type: none"> <li>▪ What explains that is there was an increase in outpatient revenues, and Adjusted Discharges are a mechanism used as a standard in the industry to try to normalize outpatient volumes with inpatient volumes</li> <li>▪ They cut the declines by more than half, which means there was a significant increase in outpatient volumes, toward which we have been working for the last 4 or 5 years, so outpatient program volumes are driving revenues; and the chemo program is driving a 38% operating margin, and we expect to see that continue</li> </ul> </li> </ul> </li> <li>○ Inpatient Surgeries for the month were over budget by 2.6%, but YTD were down 8.4%</li> <li>○ Outpatient Surgeries were over budget by 19.9%, and YTD were up 14.2%                                     <ul style="list-style-type: none"> <li>– Dr. Omar Khawaja, CMO, commented that the team was still in a little bit of the same conundrum of staffing issues that have been ongoing since the pandemic began</li> <li>– A large number of travelling nurses were hired for the operating rooms, staffing up in order to get more cases done, which caused the pickup on the Inpatient side</li> <li>– There has also been a lot of work done related to blocked time, as there were a number of physicians who had time blocked for elective surgeries and weren’t using it fully   <ul style="list-style-type: none"> <li>▪ There is a new leader over the OR Committee, Dr. Greg Campbell, and he’s really been focused on the appropriate use of blocked time at the Escondido campus</li> </ul> </li> <li>– On the Poway side, the ORs are still jam-packed and rolling; but getting the anesthesia recruitment completed should provide the ability to either transition cases to the surgery center or open another room at Poway</li> </ul> </li> </ul> </li> </ul>			

BOARD FINANCE COMMITTEE – SPECIAL MEETING MINUTES – WEDNESDAY, NOVEMBER 30, 2022

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
• DISCUSSION			
<ul style="list-style-type: none"> <li>– There are definitely different drivers at both campuses, but there was some good movement occurring, and Dr. Khawaja was happy to have great physician leadership who were supportive of the efforts to effectively use the ORs</li> <li>○ ER Visits               <ul style="list-style-type: none"> <li>– Inpatient ER Visits, which consisted of patients who presented at the ER then got admitted                   <ul style="list-style-type: none"> <li>▪ Those cases were down 12%, which was consistent with inpatient volume across the board</li> </ul> </li> <li>– Outpatient ER volume went up 14.7%, indicating that more patients were presenting in the ER and being treated then discharged than had been budgeted                   <ul style="list-style-type: none"> <li>▪ So the ER volume has been coming back, but not on the inpatient side, which is consistent with is occurring across the nation</li> </ul> </li> </ul> </li> <li>• EXECUTIVE DASHBOARD (PAGE 54)               <ul style="list-style-type: none"> <li>○ Days Cash on Hand (DCOH) was at 63.8, compared to over 100 DCOH at end of last fiscal year</li> <li>○ Operating Income was below budget by \$3.5M</li> <li>○ Net Income was below budget by \$4.0M</li> </ul> </li> <li>• INCOME STATEMENT: CURRENT MONTH (PAGE 55)               <ul style="list-style-type: none"> <li>○ Net Patient Revenue was down \$319K, a number about which Mr. King felt pretty good, as Total Net Revenue generated \$74.1M vs. a budget of \$74.5M, for a total \$400K negative variance                   <ul style="list-style-type: none"> <li>– Given that inpatient volume was down almost 15%, we’re seeing the outpatient volume help bring us back to budget, which is good, but still not where it should be</li> <li>– With volumes lower than expected and had in prior years, there were three specific circumstances that have changed what we should be looking for in inpatient volume                       <ul style="list-style-type: none"> <li>▪ The first was the NICU, which had been operating as a four-bed unit at the Escondido campus, owned and operated by Rady under their license                           <ul style="list-style-type: none"> <li>♦ An 11-bed NICU has been built and will be operating under Palomar’s license, and the original goal was to have it open on July 1, 2022, with those patients recorded as Palomar inpatients and providing revenue to Palomar, not to Rady</li> <li>♦ CNE Mel Russell and his team have been working diligently to get the State surveyors in so that unit could be opened, and Mr. King believed that that the survey was scheduled for completion in December, with the unit to be open in mid to late January</li> <li>♦ Mr. Russell stated that the team had been at the mercy of the surveyors, from whom he hoped to hear back with a date of actual licensure by December 16<sup>th</sup> or 17<sup>th</sup>, and he was hopeful the unit would be able to open the first week of January</li> <li>♦ Mr. King stated that the NICU was anticipated to operate at 7 to 8 inpatients per day, and that increase in volume would count as acute inpatient days</li> </ul> </li> <li>▪ The second was the closure of the Gero-Psych Unit, which as currently configured no longer met the regulatory requirements of CMS                           <ul style="list-style-type: none"> <li>♦ A waiver had been granted during COVID, but that waiver expired this year, and the unit had to be closed, even after appeal attempts and the exercise of every available option</li> <li>♦ The closure of the unit clearly has impacted patient days and revenues, and the team has been working to get the beds converted to med/surg beds due to the surgical volumes at Poway</li> </ul> </li> </ul> </li> </ul> </li> </ul> </li> </ul>			


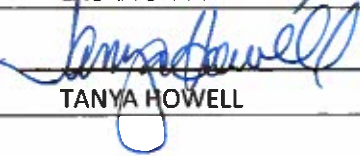
BOARD FINANCE COMMITTEE – SPECIAL MEETING MINUTES – WEDNESDAY, NOVEMBER 30, 2022

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
• DISCUSSION			
<p>(i) Ms. Hansen stated that the topic of the closure had been discussed at great length, but the plan now was to get the beds converted and back in service as soon as possible, with a potential date for that in mid-December</p> <ul style="list-style-type: none"> <li>▪ The third was the fact that the stats at The Villas were down significantly, in the 30%-40% range           <ul style="list-style-type: none"> <li>♦ During COVID, the bed capacity at the SNF had been reduced by 20-25 beds to provide extra beds for COVID patients should that facility be needed</li> <li>♦ Now that COVID has more or less subsided, those beds—which are profitable beds for the organization—can be reopened</li> <li>♦ One delay at this time is the same as Dr. Khawaja mentioned related to recruiting nurses for the OR – it has also been difficult to staff nurses for the subacute unit; however, to the extent that nurses can be recruited, the volumes at the SNF can be increased</li> <li>♦ The Villas is a very highly rated SNF, so the issue hasn't been patients not wanting to go there, it has strictly been a staffing issue</li> </ul> </li> <li>○ Expenses were \$3.1M negative to budget due to Supplies and Salaries, Wages &amp; Contract Labor, with the biggest variance in Contract Labor           <ul style="list-style-type: none"> <li>– Management is still working on reducing Contract Labor, which is significantly driving up the total costs for overall labor</li> <li>– Supplies               <ul style="list-style-type: none"> <li>▪ The major overage in Supplies was due to a vendor from whom a piece of equipment is leased, and supplies are included in that lease                   <ul style="list-style-type: none"> <li>♦ During the first 6 or 7 months of last year, the vendor was not billing appropriately for those items, and some corrections in the amount of between \$700K and \$800K had to be made to cover those costs</li> </ul> </li> <li>▪ There have been increases in chemo, and drug costs have also gone up, but the revenues for those items are going up with them</li> </ul> </li> <li>– Other Expenses were negative to budget by \$900K, due mainly to utility costs having gone up more than 25% this year, something about which all the other CFOs with whom Mr. King had spoken expressed concerns</li> </ul> </li> <li>○ Income from Operations, although over \$1M, vs. a budgeted \$4.5M, was negative by \$3.5M           <ul style="list-style-type: none"> <li>– Mr. King stated that his colleagues were looking at losing closer to the \$5M range, so the District was performing better vs. colleagues</li> </ul> </li> <li>○ Net Income was \$20K, negative vs. budget by \$4M           <ul style="list-style-type: none"> <li>– Revenue Bond Interest expenses were over budget by \$700K               <ul style="list-style-type: none"> <li>▪ The financing of the new bonds didn't take effect until mid-October, so the 2006 bonds with resets were still on the market, and the Fed was raising interest rates</li> </ul> </li> </ul> </li> <li>• INCOME STATEMENT YTD &amp; CURRENT VS. PRIOR YTD (PAGES 56-57)           <ul style="list-style-type: none"> <li>○ YTD Net Revenue was \$277.3M vs. a budget of \$303M, \$26.3M below budget               <ul style="list-style-type: none"> <li>– Driven by declines in inpatient services</li> <li>– YTD vs. prior YTD, Net Revenue was \$7M over last year                   <ul style="list-style-type: none"> <li>▪ Challenge was the inability to bring the other services online by July 1, 2022, as had been hoped</li> <li>▪ The good news is those services will all soon be coming online: the NICU, the med/surg replacements at Poway; and The Villas expansion are all expected to occur by the end of the fiscal year, although recruiting for staffing will remain a challenge</li> </ul> </li> </ul> </li> <li>○ YTD Expenses were \$283.8M vs. a budget of \$272.8M, \$11M favorable to budget, which offsets the \$26.3M unfavorable variance in YTD Net Revenue</li> <li>○ YTD Income from Operations was \$4.5M vs. a budget of \$19.8M, \$15.3M below budget</li> </ul> </li> </ul>			

BOARD FINANCE COMMITTEE – SPECIAL MEETING MINUTES – WEDNESDAY, NOVEMBER 30, 2022

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• DISCUSSION			
<ul style="list-style-type: none"> <li>– While below budget, there was still a positive Income from Operations, a position about which some of Mr. King’s CFO colleagues were jealous</li> <li>○ YTD Net Income was a loss of \$1.1M vs. a budget of \$17.9M, \$18.9M below budget             <ul style="list-style-type: none"> <li>– There was a \$3.2M negative variance in the Revenue Bond Interest Expense</li> </ul> </li> <li>• STATEMENT OF NET POSITION: EXCLUDES GO BONDS (PAGE 62)             <ul style="list-style-type: none"> <li>○ Cash at the end of the prior fiscal year was \$238.4M, by the end of last month, it was down to \$157.7M, and at the end of October, it was down to \$133.1M – driven by three or four major factors, compared to prior years and budgeted expectations                 <ul style="list-style-type: none"> <li>– Annually, about \$60M+ is received from Medi-Cal supplemental funding, a variety of five different programs that generate extra money for providers that provide a disproportional amount of service to Medi-Cal patients                     <ul style="list-style-type: none"> <li>▪ Medi-Cal has committed to the funds, but funds that normally would have been received in July, August and September of this year have been pushed out (this is between the State and the Feds), and they will not be received until April, May and June of 2023 – about a half year’s worth of funding, or \$30M in funding                             <ul style="list-style-type: none"> <li>♦ Compounding that, those funds are generally used to pay the bond payment that’s due in November, which has to be forwarded to the trustee before the end of October</li> </ul> </li> </ul> </li> <li>– Medicare Accelerated Payments – under Board Designated Funds, at the end of the last fiscal year, there were \$21.1M in that fund; however, at the end of October, they had decreased to \$2.4M                     <ul style="list-style-type: none"> <li>▪ Medicare recouped the advanced accelerated payments that were received in May of 2022, so in a four-month period, they took back \$18.5M                             <ul style="list-style-type: none"> <li>♦ This means that the District will be able to keep about \$4.5M of collected revenues instead of holding them to repay Medicare in future months</li> </ul> </li> </ul> </li> <li>– There is also about \$7M in construction funding for which the District is being reimbursed from the 2017 Certificates of Participation Project Fund and from the 2021 Certificates of Participation that were used to build the parking garage                     <ul style="list-style-type: none"> <li>♦ Invoices were paid near the end of October, for which the above funds were used as reimbursement</li> </ul> </li> <li>– Based on the above, the District should now be able to begin building up cash</li> <li>– Other impacts to cash were \$10M in construction costs that were not reimbursable from bond proceeds – a drain on cash, but an increase in property/plant/equipment; as well as the ~\$20M in lost inpatient revenue</li> <li>– Mr. King further stated that Ms. Hansen has asked that expenses be reviewed in order to find ways to “tighten the belt”, and Mr. King anticipates in the next 60 to 90 days to be presenting to the Committee plans to reduce expenses and improve revenues</li> <li>– Ms. Hansen also commented that – although it doesn’t look great on paper right now – Management fully anticipates getting the Medi-Cal supplemental funds by the end of the fiscal year, which will alleviate any concerns about tripping bond covenants on the FYE measurement date</li> </ul> </li> </ul> </li></ul>			

**BOARD FINANCE COMMITTEE – SPECIAL MEETING MINUTES – WEDNESDAY, NOVEMBER 30, 2022**

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
• DISCUSSION			
<b>ADJOURNMENT</b>			
<b>The meeting was adjourned by Chair Barry at 4:26 p.m.</b>			
<b>SIGNATURES:</b>	<b>COMMITTEE CHAIR</b>	 _____ LAURA BARRY	
	<b>COMMITTEE ASSISTANT</b>	 _____ TANYA HOWELL	