

**BOARD FINANCE COMMITTEE
CALENDAR YEAR 2023**

Meeting Minutes



[P = Present V = Virtual E = Excused A = Absent G = Guest]

ATTENDANCE ROSTER							
MEMBERS	MEETING DATES:						
	1/25/23						
DIRECTOR LAURA BARRY – CHAIR	P						
DIRECTOR JEFF GRIFFITH, EMT-P	E						
DIRECTOR MIKE PACHECO	P						
DIANE HANSEN, PRESIDENT & CEO	*V						
KANCHAN KOIRALA, MD, CoS PMC ESCONDIDO	P						
SAM FILICIOTTO, MD, CoS, PMC POWAY	P						
DIRECTOR LAURIE EDWARDS-TATE, MS – ALTERNATE	V/G						
DIRECTOR JOHN CLARK	G						
ANDREW NGUYEN – ALTERNATE CoS PMC ESCONDIDO							
MARK GOLDSWORTHY, MD – ALTERNATE CoS PMC POWAY							
STAFF ATTENDEES							
HUGH KING, CHIEF FINANCIAL OFFICER	P						
OMAR KHAWAJA, MD, CHIEF MEDICAL OFFICER	P						
RYAN OLSEN, CHIEF OPERATIONS OFFICER	V						
MEL RUSSELL, RN, CHIEF NURSE EXECUTIVE	V						
AMANDA PAPE, VP OF FINANCE	P						
TANYA HOWELL – COMMITTEE ASSISTANT	P						
INVITED GUESTS	SEE TEXT OF MINUTES FOR NAMES OF INVITED GUESTS						

BOARD FINANCE COMMITTEE – MEETING MINUTES – WEDNESDAY, JANUARY 25, 2023			
AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
DISCUSSION			
NOTICE OF MEETING			
<ul style="list-style-type: none"> The agenda (as Notice of Meeting) was posted on Friday, January 20, 2023, 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			
<ul style="list-style-type: none"> The meeting – held in the Linda Greer Conference Room, 2125 Citracado Parkway, Suite 300, Escondido, CA and virtually – was called to order at 1:34 p.m. by Chair Laura Barry 			
ESTABLISHMENT OF QUORUM			
<ul style="list-style-type: none"> Quorum was established – see roster for details 			
PUBLIC COMMENTS			
<ul style="list-style-type: none"> None filed 			
BOARD FINANCE COMMITTEE FOLLOW-UPS			
<ul style="list-style-type: none"> None 			
1. MINUTES – SPECIAL FINANCE COMMITTEE – WEDNESDAY, NOVEMBER 30, 2022	<p>MOTION: By Director Pacheco, seconded by Dr. Koirala, and carried to recommend approval of the Minutes from the Special Finance Committee meeting held on Wednesday, November 30, 2022, as presented.</p> <p>Vote taken by Roll Call: Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto – aye; Dr. Koirala – aye. Absent: Director Griffith & Ms. Hansen</p>	Forwarded to the February 13, 2023, Board of Directors meeting with a recommendation for approval	Y
<ul style="list-style-type: none"> No discussion 			
2. EXECUTED, BUDGETED, ROUTINE PHYSICIAN AGREEMENTS	<p>MOTION: By Director Pacheco, seconded by Dr. Filiciotto, and carried to recommend approval of the Executed, Budgeted, Routine Physician Agreements with corrections as discussed.</p> <p>Vote taken by Roll Call: Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto – aye; Dr. Koirala – aye. Absent: Director Griffith & Ms. Hansen</p>	<p>Forwarded to the February 13, 2023, Board of Directors meeting with a recommendation for approval</p> <ul style="list-style-type: none"> The Form A related to Drs. Bailey & Schechter be amended to remove the references to Cardiac & Pulmonary Rehabilitation prior to distribution to the Board 	N

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<ul style="list-style-type: none"> • Chair Barry read the names of the physicians/physician groups and the types of agreement for each • Dr. Kanchan Koirala, Chief of Staff at PMC Escondido, commented that the Medical Directors should be providing education for the nurses once a month or once in every 2 months, and there should be metrics for report-out to the QMC • He also noted that the oversight of the pulmonary rehab department should be provided by a pulmonologist, and he didn't believe either of the physicians was a pulmonologist • Dr. Omar Khawaja, CMO, agreed that it was a great idea to have metrics for the Medical Directors to be reported to the QMC as—for all intents and purposes—those physicians work for the hospital system and should be involved in quality improvement projects that provide efficiency <ul style="list-style-type: none"> ○ As well, some of the Medical Directors do provide medical education, although it is not in the contract as their duties are more about working with the other physicians and leadership to ensure that the ORs are used as efficiently as possible • Dr. Khawaja further noted that the Form A narrative for Wound Care had been written poorly, as it should not have referenced Cardiac or Pulmonary Rehabilitation, it should merely have referenced Wound Care, which was the service that would be provided in this particular contract (he also noted that it was written properly into the contract, just not in the documentation in the packet) <ul style="list-style-type: none"> ○ Dr. Sam Filiciotto, Chief of Staff at PMC Poway, inquired about correcting the documentation, and it was agreed that it should be re-written before presentation to the Board • In response to an inquiry from Dr. Filiciotto related to definitions within Medical Director Contracts of the duties of the Medical Directors, as well as metrics to which they were held accountable, Dr. Khawaja stated that all contracts contained boiler-plated language regarding the patient experience on the unit, attendance at Quality Improvement Project meetings, and attending meetings for all Medical Directors <ul style="list-style-type: none"> ○ He also noted that other specific duties might also be included, depending on the contract 			
3. ESTABLISHMENT OF THE DATE, TIME AND LOCATION FOR THE REGULAR MEETINGS OF THE BOARD FINANCE COMMITTEE FOR CALENDAR YEAR 2023 AND JANUARY 2024	MOTION: By Director Pacheco, seconded by Dr. Filiciotto, and carried approve the Board Finance Committee schedule for Calendar Year 2023 and January 2024 as amended by the addition of a meeting on May 24 th . Vote taken by Roll Call *Ms. Hansen joined the before this vote: Chair Barry – aye; Ms. Hansen – aye; Director Pacheco – aye; Dr. Filiciotto – aye; Dr. Koirala – aye. Absent: Director Griffith	Forwarded to the February 13, 2023, Board of Directors meeting as information	Y
<ul style="list-style-type: none"> • Referencing the proposed schedule provided on Page 6 of the packet, Chair Barry proposed the addition of a meeting on May 24th, specifically regarding a review of information related the upcoming year's budget • Director Pacheco inquired about adding monthly financials to the schedules in these meetings so that the financials could be presented to the Board on a monthly basis <ul style="list-style-type: none"> ○ Chair Barry responded that the financials were required by the SEC to be posted on EMMA for bonds on a quarterly basis, and the meetings had been scheduled in order for the Finance Committee to review the quarterly financials prior to those postings <ul style="list-style-type: none"> – Further, since quarterly posting was what was required, that was what she had requested be done ○ In response to a question from Dr. Filiciotto related to what should happen if monthly financial statements were to be posted (perhaps just for the Board to review on a confidential website), Chair Barry stated that since it was Board policy that the Finance Committee review financials prior to their 			

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<p>presentation to the Board, any review of financials on a monthly basis would require that a Finance Committee meeting be held every month, which was not a great use of financial staff resources</p> <ul style="list-style-type: none"> ○ When asked to comment, Hugh King, CFO, stated that the law required that the financials be posted quarterly, which was also the industry standard; however, the staff could arrange financial presentations on whatever schedule the Board might request ○ CEO Diane Hansen told Director Pacheco that the suggestion was appreciated; however, the decision was ultimately up to the Board Treasurer’s discretion, and she didn’t believe the matter would be resolved at this meeting ○ Mr. King also clarified that the vote on this particular topic today was related to the dates of the remaining meetings, which did coincide with the quarterly financial statements, but did not specify the frequency of the financial statements 			
<p>4. DECEMBER 2022 & YTD FY2023 FINANCIAL REPORT</p>	<p>MOTION: By Director Pacheco seconded by Ms. Hansen and carried to recommend approval of the December 2022 & YTD FY2023 Financial Report as presented.</p> <p>Vote taken by Roll Call: Chair Barry – aye; Ms. Hansen – aye; Director Pacheco – aye; Dr. Filiciotto – aye; Dr. Koirala – aye. Absent: Director Griffith</p>	<p>Forwarded to the February 13, 2023, Board of Directors meeting with a recommendation for approval</p>	<p>N</p>
<ul style="list-style-type: none"> • EXECUTIVE DASHBOARD (SLIDES 31 & 32) <ul style="list-style-type: none"> ○ Mr. King noted that it was not a good thing to see discharges – both Total and General Acute – with a negative variance vs. budget of 7% to 8%; however, compared to YTD number, the variance was an improvement <ul style="list-style-type: none"> – The decline was partially due to the fact that there had been an increase in volumes largely due to the cold and flu season, and also because the Behavioral Health would not be improving and could be expected to get worse over time, since that unit had been closed – He hoped that The Villas would begin to catch up, as the decrease wasn’t due to a lack of patients, it was due to a shortage of nurses to handle that demand, and new nurses were being added to the staff to meet that need ○ Days Cash on hand were at 63.2 compared to the end of December of the prior year at 112.5 <ul style="list-style-type: none"> – This was because cash had declined by about \$104M since June of 2023 ○ Operating Income was at \$444K; unfortunately, that was compared to a budget of \$4.76M ○ Net Income was a negative \$592K—almost \$593K—vs. a \$4.3M budget ○ EBIDA Margin was positive at 10.2% vs. a budgeted 13.8% • INCOME STATEMENT: CURRENT MONTH (SLIDE 33) <ul style="list-style-type: none"> ○ Total Net Revenue was at \$71.5M actual, unfavorable vs. budget by \$4.8M (or 6.2%) ○ Expenses were at \$71.1M, slightly favorable vs. budget by almost \$500K <ul style="list-style-type: none"> – Salaries, Wages & Contract Labor were slightly favorable vs. budget, which was somewhat misleading as reduced volumes would suggest a significantly lower cost, but contract labor—an industry-wide challenge—was pushing those costs up ○ Benefits for the month were over budget by about \$800K, largely due to several large insurance claims under the self-insured insurance program ○ Supplies were over budget by about \$300K, due to pharmaceuticals and other issues related to the cold and flu season ○ Net Income from Operations was at \$444K compared to a budget of \$4.8M 			

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• DISCUSSION

- In speaking with his colleagues on a CFO call today, most of them had either no or negative operating margins, so even a small operating margin was a positive
- Ms. Hansen commented that she had attended the CHA Board meeting yesterday, at which it had been made very clear they had massive concerns about healthcare in California, with more than 50% of health systems having negative operating margins
 - Although she was not happy that the district was not meeting budget, it was doing better than even larger health systems who would have been expected to manage through the massive changes in expenses and inflation
- In response to an inquiry from Director Pacheco related to whether there was any relief in sight, Ms. Hansen noted that she had just gotten off a call with the Committee for Economic Development (CED), and every one of the CEO's who had been on the call was stressed about the workforce shortage, and they were expecting a shortage of 1M clinical and physician components within the health systems across the nation over the next 5 years due to retirements or just loss of staff with no backfill strategy, and they noted that it was the same for healthcare workers – not just clinical staff, but EVS and FANS staff, as well
 - Members of the CED have been reviewing matters on a national level to determine how that pipeline could be created, and they were in the process of preparing a white paper to be published in June, advising those who create policy and spurring them on to discuss how changes could be made to the way things have been done in the past, including revamping programs from the college level up
- Mr. King also noted that part of the problem within the district was the delayed opening of the NICU under the PMC Escondido license, as the unit had been included in the budget starting July 1, 2022, but didn't open until January 2023
 - It had been planned to grow from 4 to 11 beds, but was now certified for 12 as the surveyor determined there was sufficient space and capacity for the 12th bed
 - During the first week, the NICU was full, and the census—originally expected to ramp up by 3.5 to 7.5-8—had already exceeded that expectation
 - ♦ Assuming that trend will continue, those 6 months of lost revenues might be recovered by year end
- Mr. King also reminded the Committee of the closure of the GPU in October 2022, over which Management had no choice, as the program had lost its accreditation
 - The accreditation had originally been granted at the Downtown campus, the unit was allowed to move to PMC Poway under a waiver due to COVID; however, once the pandemic was deemed to be over, the waiver was removed and, along with it, the accreditation
 - Facilities has been converting that unit to accommodate 24 med/surg beds, with a planned opening within the next 30 days, and most of those beds were anticipated to be filled as soon as the unit was open
- o The Expense side is much more difficult and, as Ms. Hansen had noted, the healthcare staffing shortage isn't just physicians, as nurses and technicians are also in shorter supply; however, Dr. Khawaja had been struggling trying to get physicians on-boarded, and many physician groups were on the verge of collapse because the contracts they had in place didn't cover the needs for the physicians in terms of compensation, especially with revenue streams down
- o Mr. King also commented that Ms. Hansen had asked the executive team to present ideas to overcome some of the aforementioned matters at the Board Strategic & Facilities Planning Committee next week, and Ms. Hansen added that there was a lot of concern in general for the healthcare industry, as supply costs, labor and everything else across the board seemed to be more expensive

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<ul style="list-style-type: none"> ○ Under the Non-Operating Revenue section, Investment Income had been budgeted at last year’s actual of \$83K, but this month’s actual was \$1.3M, a positive variance of \$1.2M <ul style="list-style-type: none"> – When the Fed raised interest rates, it also raised the income on investments, which are lagging, because investments must be purchased, then sold to buy new ones, so there’s a trade-off, but the ultimate effect was rising investment income ○ Income was also offset by Interest Expense <ul style="list-style-type: none"> – The remaining variable rate bonds were converted in November to fixed rate bonds, for which the interest rate would be fairly consistent on a monthly basis going forward – It was and will remain negative to budget because the interest rate was unknown when the budget was created, but Mr. King assured the Committee that—based on what’s happened—the variance would be not quite \$1.6M, especially as the new money received from the bond issue was through fixed rate bonds, and had the variable rate bonds remained, the interest expense would also have gone up • INCOME STATEMENT: YEAR-TO-DATE (SLIDE 34) <ul style="list-style-type: none"> ○ Total Net Revenue was budgeted at \$454.3M, with actual at \$419.9M, a negative variance of \$34.4M ○ Expenses were budgeted at \$425.5M, but actual was \$414.9, favorable vs. budget by \$10.6M ○ Income from Operations was \$5M vs. a budget of \$28.8M, a negative variance of \$23.7M ○ Net Income was a negative \$9K, a negative variance vs. budget of \$25.9M ○ EBIDA was in excess of 10%, with a target of 13.9%, a negative variance of 3.8% • BALANCE SHEET YEAR-TO-DATE (SLIDE 40) <ul style="list-style-type: none"> ○ June 2022, Total Cash Position was at \$238.4M, and as of December 2022, it was \$134.1M, a decline in cash of a little over \$100M, and there were 4 major contributors to this decline: <ul style="list-style-type: none"> – Board-Designated cash was at \$21.1M in June 2022; however, those were the funds remaining from the Medicare accelerated payments received in May 2020, which were fully paid off in November 2022 <ul style="list-style-type: none"> ▪ The funds were a loan the District was required to pay back as the services for which those funds had been advanced were provided – Net Property Plant and Equipment in June 2022 was \$974.1M, it was \$986.7M, an increase in cash spend that required the use of capital <ul style="list-style-type: none"> ▪ The District can be reimbursed for some of those expenditures from the bond proceeds; however, that process had not occurred as of December – Debt Service Payment on the bonds of \$24M was paid at end of October, for payments to be paid in November <ul style="list-style-type: none"> ▪ Normally by that time, Medi-Cal supplemental payments would have been paid in a net amount of \$24M-\$30M <ul style="list-style-type: none"> ♦ Those were payments for services rendered in CY2021—almost 18 months ago—that normally would have been paid in July, August and September; however, because of a dispute between the State of California and the Federal Government, those funds will not be paid until April, May and June of 2024 ♦ Medicare will be stepping up and providing some additional funding, the only problem being that the payments will continue to be stretched out even further (e.g., for some of the new programs and services provided this calendar year, claims will not be paid until 2025) <ul style="list-style-type: none"> (i) This sets up a perpetual cash flow problem with which Management will have to deal in order to find a means of funding until those funds arrive ♦ Mr. King anticipated the receipt of somewhere around \$40M in Medi-Cal supplemental payments this year in April, May and June 			

