

# Meeting Minutes

## BOARD FINANCE COMMITTEE CALENDAR YEAR 2023



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

ATTENDANCE ROSTER							
MEMBERS	MEETING DATES:						
	1/25/23	5/4/23	5/31/23				
DIRECTOR LAURA BARRY – CHAIR	P	P	P				
DIRECTOR JEFF GRIFFITH, EMT-P	E	P	P				
DIRECTOR MIKE PACHECO	P	V/P	V				
DIANE HANSEN, PRESIDENT & CEO		P	P				
KANCHAN KOIRALA, MD, CoS PMC ESCONDIDO	P	E	V				
SAM FILICIOTTO, MD, CoS, PMC POWAY	P	E	P				
DIRECTOR LAURIE EDWARDS-TATE, MS – ALTERNATE	G		V/G				
DIRECTOR JOHN CLARK	G	V/G	V/G				
ANDREW NGUYEN – ALTERNATE CoS PMC ESCONDIDO		V					
MARK GOLDSWORTHY, MD – ALTERNATE CoS PMC POWAY							
<b>STAFF ATTENDEES</b>							
HUGH KING, CHIEF FINANCIAL OFFICER	P	V	P				
OMAR KHAWAJA, MD, CHIEF MEDICAL OFFICER	P	P	P				
RYAN OLSEN, CHIEF OPERATIONS OFFICER		E	P				
MEL RUSSELL, RN, CHIEF NURSE EXECUTIVE		E	V				
AMANDA PAPE, VP OF FINANCE	P	V	V				
TANYA HOWELL – COMMITTEE ASSISTANT	P	P	P				
INVITED GUESTS	SEE TEXT OF MINUTES FOR NAMES OF INVITED GUESTS						

BOARD FINANCE COMMITTEE – MEETING MINUTES – THURSDAY, MAY 31, 2023			
AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
DISCUSSION			
<b>NOTICE OF MEETING</b>			
<ul style="list-style-type: none"> <li>The agenda (as Notice of Meeting) was posted on Friday, May 26, 2023, 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 in the Linda Greer Conference Room, 2125 Citracado Parkway, Suite 300, Escondido, CA and virtually – was called to order at 12:03 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>BOARD FINANCE COMMITTEE FOLLOW-UP</b>			
<ul style="list-style-type: none"> <li>Assistant Tanya Howell stated that there had been a request that the verbiage contained in the Form A related to Drs. Bailey &amp; Schechter be amended before being forwarded to the Board to remove references to Cardiac Rehabilitation &amp; Pulmonary Rehabilitation; however, that request was overlooked when documents were being prepared <ul style="list-style-type: none"> <li>As the Board reviewed only the listing of all Form As recommended for approval rather than the individual ones, the request became a moot point</li> </ul> </li> </ul>			
1. MINUTES –FINANCE COMMITTEE – WEDNESDAY, JANUARY 25, 2023	MOTION: None	None	N
<ul style="list-style-type: none"> <li>The minutes were not yet ready for review/approval</li> </ul>			
2. EXECUTED, BUDGETED, ROUTINE PHYSICIAN AGREEMENTS	MOTION: By Director Griffith, seconded by Director Pacheco, and carried to recommend approval of the Executed, Budgeted, Routine Physician Agreements with corrections as discussed.  Vote taken by Roll Call: Chair Barry – aye; Ms. Hansen – aye; Director Pacheco – aye; Director Griffith – aye; Dr. Filiciotto –aye; Dr. Koirala – aye. Absent:	Forwarded to the May 8, 2023, Board of Directors meeting with a recommendation for approval	Y
<ul style="list-style-type: none"> <li>No discussion</li> </ul>			

**BOARD FINANCE COMMITTEE – MEETING MINUTES – THURSDAY, MAY 31, 2023**

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
• DISCUSSION			
3. CAPITAL & OPERATING BUDGETS – OPERATING BUDGET	<p><b>MOTION:</b> By Director Griffith, seconded by Ms. Hansen, and carried to approve the changes recommended and to recommend.</p> <p>Vote taken by Roll Call: Chair Barry – aye; Ms. Hansen – aye; Director Pacheco – aye; Director Griffith – aye; Dr. Filiciotto –aye; Dr. Koirala – aye. Absent:</p>	Forwarded to the May 8, 2023, Board of Directors meeting with a recommendation for approval	Y
4. CAPITAL & OPERATING BUDGETS – CAPITAL PLAN	<p><b>MOTION:</b> By Ms. Hansen, seconded by Director Griffith, and carried to approve the changes recommended and to recommend.</p> <p>Vote taken by Roll Call: Chair Barry – aye; Ms. Hansen –aye; Director Pacheco – aye; Director Griffith – aye; Dr. Filiciotto –aye; Dr. Koirala – aye. Absent:</p>	Forwarded to the May 8, 2023, Board of Directors meeting with a recommendation for approval	Y
5. CAPITAL & OPERATING BUDGETS – CHARGE MASTER RATE 12% HOSPITAL 6% SNF	<p><b>MOTION:</b> By Ms. Hansen, seconded by Director Griffith, and carried to approve the changes recommended and to recommend.</p> <p>Vote taken by Roll Call: Chair Barry – aye; Ms. Hansen – aye; Director Pacheco – aye; Director Griffith – aye; Dr. Filiciotto –aye; Dr. Koirala – aye. Absent:</p>	Forwarded to the May 8, 2023, Board of Directors meeting with a recommendation for approval	Y
6. CAPITAL & OPERATING BUDGETS – 5-YR STRATEGIC PLAN	<p><b>MOTION:</b> By Ms. Hansen, seconded by Director Griffith, and carried to approve the changes recommended and to recommend.</p> <p>Vote taken by Roll Call: Chair Barry – aye; Ms. Hansen – aye; Director Pacheco – aye; Director Griffith – aye; Dr. Filiciotto –aye; Dr. Koirala – aye. Absent:</p>	Forwarded to the May 8, 2023, Board of Directors meeting with a recommendation for approval	Y
<ul style="list-style-type: none"> <li>• CFO Hugh King thanked Melissa Wallace, Director of Financial Planning &amp; Decisions Support, and her team, as they were responsible for coordinating the budgeting activity and – although they spent a huge amount of time doing so – it wasn’t their budget, it was the budget for the entire district               <ul style="list-style-type: none"> <li>○ He also thanked the Executive Team and their supporting teams, as well as Amanda Pape who’s over the finance group, and pulled together things such as interest, depreciation, income from investments and subsidiaries, etc.</li> <li>○ Mr. King anticipated that some of the questions that would arise during the budget review would be related to revenue projections, since there would be changes known/anticipated in payor mix and volume due to the opening of Kaiser’s new hospital, and those details would be discussed during the presentation</li> <li>○ A bright spot this year had been the growth in outpatient services, as both he and CEO Diane Hansen had been concerned about the composition of inpatient vs. outpatient services, as with more volume shifting to outpatient, Management needed to ensure that the revenue stream shifted with it, with services maintained here, not going to other providers, so a lot of emphasis had gone into those areas</li> </ul> </li> </ul>			

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**• DISCUSSION**

- The budget for 2023 had been aggressive, and outpatient gross revenues had exceeded the budgeted target every month this year and were continuing to do so, so that work effort was starting to pay off
- Melissa Wallace, Director of Financial Planning and Decision Support, presented the draft FY2024 Budget, utilizing the presentation included as Addendum B of the packet
  - At the beginning of the budget process, the goal was to align with the 5-year strategic financial and capital plan in order to meet the financial needs of the district
  - The team also was looking at how to plan following a challenging year that had rising labor costs, while also concentrating on which initiatives were bearing fruit and showing improvement, in order to course correct and develop a plan for the coming year
- EXECUTIVE SUMMARY (PAGE 17)
  - Targeting \$120M EBIDA, which was in alignment with the strategic financial plan
  - Establishment of initiatives to stabilize the costs of labor
  - Incorporation of volume growth from multi-year strategies
  - Deployment of capital to support strategic objectives
- KEY PLAN DRIVERS (PAGE 19)
  - Establishment of key drivers to help shape the budget was a crucial step, with some of those drivers having been:
    - Strategic focus on stable patient volumes
    - Emphasis on community needs and capacity
    - Continued development of key services lines, including Oncology, Cardiology, Orthopedics, Spine, the newly opened NICU at PMCE, and increased capacity for Emergency Services
    - Additional flexibility in staffing plans due to changing regulatory requirements, as well as the need to stabilize the labor workforce to team members rather than contract labor
- INFLATIONARY ASSUMPTIONS (PAGE 20)
  - Mitigation of inflationary factors through strategic utilization and standardization initiatives across the district
  - Mr. King also noted that the Supplies numbers were not industry expectations, but were instead developed by a third party professional organization for GPOs, and Palomar was trending well against that benchmark
- KEY STATISTICAL INDICATORS (PAGES 21-24)
  - Total Patient Days were anticipated to increase by 3.7% due to increases in services with longer LOS (e.g., SNF and NICU)
  - Total Discharge numbers were basically reflective of the loss of Kaiser patients
    - In response to an inquiry from Dr. Sam Filiciotto, the terms “North and South” were confirmed to mean “Escondido and Poway”, with The Villas included in the Poway numbers
  - Deliveries showed an anticipated decrease of 14% due to program consolidation and market forces
  - Inpatient Surgeries had an anticipated decrease of 2.7% based on the remove of C-Section services at PMCP
  - Emergency Department visits were anticipated to increase by almost 5K (3.7%) additional visits

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<ul style="list-style-type: none"> <li>○ Outpatient Registrations were anticipated to be flat, and it was noted that the ambulatory surgery center volumes weren't included in these numbers because of the structure of those agreements</li> <li>• REVENUE (PAGES 25-27)               <ul style="list-style-type: none"> <li>○ Gross Charges across the system were anticipated to be \$5.5B</li> <li>○ The Payor Mix from the various payors – including the larger payors Medicare, Medi-Cal, their HMO's and Managed Care – were presented via pie chart on page 26                   <ul style="list-style-type: none"> <li>– Mr. King pointed out that the Finance Committee was being requested to approve an overall effective rate increase of 12%; as well as a 6% rate increase related to the SNF                       <ul style="list-style-type: none"> <li>▪ There hadn't been a rate increase 2 years ago, and the increase last year had been marginal</li> <li>▪ Adding to that the inflationary trend seen over the last year, as well as the fact that there were a lot of fixed payors, the increase was necessary in order to address inflation</li> <li>▪ Mr. King also pointed out that there was an automatic 40% write-off for self-pay patients                           <ul style="list-style-type: none"> <li>♦ There was also a very aggressive financial assistance policy, wherein as long as the patient—whether paying all or a part of their bill—worked with the Palomar team to provide financial information about their financial situation, the financial assistance team was allowed to work with that patient to write-down their out-of-pocket costs based on financial needs</li> </ul> </li> </ul> </li> <li>○ Net Revenue was anticipated to increase ~5% year over year, predominantly driven by the growth initiatives previously discussed</li> </ul> </li> <li>• SALARIES, WAGES, BENEFITS &amp; FTEs (PAGES 28-32)               <ul style="list-style-type: none"> <li>○ Mr. King noted that as of the end of March, there were 3,433 paid FTEs</li> <li>○ Adjustments would be made due to expected growth in some of the previously discussed programs, which would lead to the addition of staff to meet those demands</li> <li>○ There were also reductions made:                   <ul style="list-style-type: none"> <li>– Due to program consolidations (e.g., Obstetrics, the NICU and Wound Care)</li> <li>– Due to new Joint Ventures such as Home Health, whose services were being provided by a Home Health agency as a JV partner                       <ul style="list-style-type: none"> <li>▪ The services were still being providing to Palomar Health's patients, but the employees were employees of the JV partner and no longer receiving a Palomar Health paycheck/benefits</li> </ul> </li> </ul> </li> <li>○ Management was also working on benchmarking system performance against peer hospitals of similar size and structure, with planned emulation of some of the things they were doing to cut costs</li> <li>○ It was anticipated that the total staffing complement would go down by almost 100 FTEs</li> <li>○ Referencing the FTE charts, Mr. King noted that all the benchmarking targets were back office functions, not front-line patient care staff                   <ul style="list-style-type: none"> <li>– The FTEs per Adjusted Discharge had been declining from its peak in 2022; however, the Direct Caregiver FTEs had been consistently maintained at 18 FTEs, confirming that clinical/patient-facing staff were not, nor had they been reduced in relation to volume of services – proof that any talk about reductions in nursing other than as previously discussed above was inaccurate</li> </ul> </li> </ul> </li> </ul> </li></ul>			

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**• DISCUSSION**

- Referencing the Salaries Wages & Benefits (SWB) chart, Mrs. Wallace stated that there would be a slight decrease in SWB of \$11M (2%), largely driven by reduced contract labor, as many of the contractors were being converted to employees
  - Chair Barry asked how smaller labor costs could be possible considering the generous retention/hiring program, and it was noted that was the anticipated outcome of that program
  - Ms. Hansen also provided some information on the recent Job Fair, noting that 50 people had been hired in one day, and they were predominantly RNs
    - HR was going to be setting up another one-day fair in June, targeting 100 new-hires
    - There had also been 7 applicants for positions in the OR, after having had none in a long time
  - In response to an inquiry by Director Griffith about making the incentive program a regular occurrence, Ms. Hansen indicated that it was a possibility, although it might not be at the same level and might extend to other areas than nursing
  - Mrs. Wallace also noted that a positive side effect of the program was that the rates of current contracting firms were coming down as they had less leverage with fewer positions to be filled
- Referencing the graphics on benefits, Mrs. Wallace noted that almost 50% of the total spend would be on group health insurance, and workers' compensation insurance costs continued to decrease as a result of employee safety initiatives
- **NON LABOR ANALYSIS (PAGES 33-35)**
  - Non-Labor Expense was Increasing by \$7.5M/2.5% year on year, with the graph detailing the trend by classification
  - Mr. King noted that Depreciation Expense had a large increase in FY2022 after the District was required to adopt GASB87, in which what used to be called a lease expense on the books became an asset, with a related liability
    - The leasehold asset (called a Right of Use [ROU] asset) then had to be depreciated, which caused depreciation to increase
      - Mr. King anticipated another increase in Depreciation Expense when the new floors that were being added as a result of the bond issue came online, but he then expected it to remain somewhat stable for the next couple of years
  - Interest Expense increased this year, from \$27.6M in FY2022 to \$36.7M, and that increase was the result of 2 components
    - The bond issue in November, which prevented rising interest rates on refunded variable rate bonds, still increased the number of outstanding bonds, but at a locked-in rate of 5.25% vs. the potentially 6.5%-6.75% rates had the bonds gone to market later
    - The second big component was related to the \$10M in ROU assets (e.g., the model states that a 15-year lease was now considered a purchase of an asset, as it provided the right to use that asset for 15 years, with the related liability)
      - Just like a bank loan, a portion of the rent expense would be used to reduce the loan, but a portion would be considered interest expense in what is called an imputed interest rate; therefore, there would be additional interest on leased properties and leased equipment—not in the sense that it would be paid to the bank or a bond owner—but as imputed interest to the landlord
- **ANNUAL OPERATING BUDGET SUMMARY & EBIDA RECAP (PAGES 36-39)**
  - Income from Operations was planned to increase by \$45.8M over the course of the next, year predominantly from strategic revenue growth and reduced contract labor expenses

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**• DISCUSSION**

- Noting that the target for last year hadn't been met, Mr. King reminded the Committee that some of the new programs hadn't come online when anticipated, but he believed things were back on track to meet the goals for this year
- Annual Operating Budget Summary and Trend showed Total Operating Revenue of \$894M, Total Operating Expense of \$839M, and Operating Income of \$55M
  - Mr. King pointed out that – even though the expected results hadn't been achieved this year – revenues for FY2023 were expected to be up about \$50M over last year's \$800M, making the \$54M increase in FY2024 appear to be more in line with the current trend
  - Mr. King also pointed out that PHMG Foundation Support had gone up to \$42M this year, an \$11M increase over FY2023; and he asked the Board to reflect back about 4 to 5 years ago when there were 76 physician FTE's at PHMG with support of \$18-\$20M/year
    - PHMG currently had over 300 physician FTE's, with a subsidy of \$42M/year, which was basically a doubling of the subsidy, but with 4 times as many physicians
    - There had also been an increase in the subsidy about a year ago as an aid to recruiting Anesthesiologists; and that specialty was in a much better situation
    - The challenge this year had been in Radiology, resolved by having brought San Diego Imaging into the group
    - He further noted that the growth in Oncology, the upgrading of the Cath Lab, and the addition of a 2<sup>nd</sup> LINAC were all necessary; however, there had to be physicians to do that extra work
    - The bottom line was that the increase in the number of physicians had actually made the subsidy cost per physician decreased
  - Ms. Hansen added that part of the reason the \$55M target for next year would be achievable was due to what the physician foundation had been willing to take on in support of the District
    - She also noted that one of her goals when she stepped in as CEO 5 or 6 years ago was to get to a positive income from operations on a consolidated basis, and the increase to the subsidy for legitimate purposes was a necessary step toward making that happen
  - Mr. King pointed out that the Salaries, Wages, Registry & Benefits line included both the annual bonuses paid to all employees, and the RN retention bonuses added this year
- The \$120M target for EBIDA comes from \$103M from operating EBIDA, so it would be those items directly related to the operations of the hospital and the various organizations, but the \$120M would include the below-the-line component which was about 13.4%
  - The initial discussions related to the targeted number came from looking at past performance, as well as opportunities for growth and improvement, without being too optimistic
- In response to an inquiry by Dr. Filiciotto, Mr. King stated that there was a rolling 5-year plan, which was updated on an annual basis, reviewed along with the budget and would be discussed in detail later in the presentation
- Dr. Filiciotto also inquired if there were specifics in the budget that were going toward improving quality and patient satisfaction
  - Dr. Omar Khawaja, CMO, replied that there were goals for every single leader in the organization related to the patient experience, quality and meeting regulatory requirements; those goals were tracked quarterly and brought before the QMC; and they were also tied to metrics related to bonuses

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**• DISCUSSION**

- After relating a story about a patient complaining to him about the inability to have online access causing her to consider moving to another provider, Mr. King added that one of the things in this budget was targeted at making it easier for patients to access the health system via the implementation of an online system for access to: Online registration prior to appointments, where they wouldn't have to enter the building until notified it was time for their appointment; and online bill pay
  - Mr. King noted that self-scheduling with physicians would be implemented with next year's budget, but the software implementation for that service had been included in this year's budget
- There was also a discussion following a question Dr. Filiciotto had regarding the 50 new hires in this fiscal year vs. the 88 targeted FTE additions
  - Ms. Hansen noted that the 50 new positions were taking over from the contractors, and Mrs. Wallace noted that some training opportunities had also been built into that number
  - Dr. Khawaja also pointed out that the statement, "we have 3,200 FTE's" didn't mean there were actually that many people on staff, as there might only be 2,800 FTEs on staff, with another 400 not yet hired
    - He also noted that several positions that had previously been posted for a long period of time had been reviewed with the groups; and, after determining that a specific position was no longer necessary, many of those postings had been removed from the number of available FTEs
  - Mr. King also stated that the HR retention plan had been extremely well designed
    - Following an analysis of nursing turnover that showed a large number of nurses leaving at the end of their second year (which affected quality as their replacements then needed to be trained), the plan was designed to nurses to remain past that hump and stay 3 or more years
- When Dr. Filiciotto then inquired about the reasoning behind a "flat-line" on the 5-year plan for Direct Caregiver FTEs, wondering if that would have an effect on patient satisfaction to hold it flat rather than adding 1 or 2 FTEs over the course of the plan to potentially make it go up
  - Ms. Hansen responded that just throwing bodies at patient care wouldn't necessarily solve a patient satisfaction issue, and there were a lot of other things such as assistance with navigating facilities and having a centralized call center for the whole system that would also help improve patient satisfaction
  - Mr. King noted that in his past experiences at hospitals in 5 or 6 other states, as well as through his meetings with other CFOs from around the country, he had observed that there were only a couple of states with mandated nurse staffing ratios, one of which was California
    - If having more nurses per patient was the source of improved quality, then it should follow that all of the highest quality hospitals would then be in California, which wasn't the case
- CAPITAL PLAN (PAGES 40-42)
  - Mrs. Wallace noted that during the capital planning process, feedback and support was requested from leaders across the organization (e.g., physicians, IT, construction, etc.), so that a true assessment of available funds could be reviewed to ensure that the best determination could be made on how those funds should be deployed
  - Over the next 3 years, \$184M was anticipated to be spent on capital expenditures, with \$80M in the current year, decreasing to \$75M in FY2024, and decreasing further to \$29M in FY2026
    - Those expenditures would be funded from unrestricted cash, as well as the proceeds from the various bond issues, predominantly from the Series 2022 bonds



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**• DISCUSSION**

- In response to an inquiry by Chair Barry, Mr. King confirmed that the build-outs for the two shelled floors at PMCE would occur over the next two fiscal years, but would be finalized before FY2026
  - Mr. King also pointed out that there were major renovations occurring throughout the district, as discussed in detail by Mike Mills, VP Facilities & Construction at yesterday’s Board Strategic & Facilities Planning Committee meeting; and the total anticipated costs of those projects through FY2025 would be just under \$120M, about \$105M of which would come from the series 2022 bond issue
    - He further noted that—although investment opportunities for districts were limited under California law—the current interest rates on those investments had been running between 4.8% and 5%, which would earn an additional \$5M in interest over the next two years on the bond funds that had been invested
  - The remainder of the funds would be from about \$4M left over from the series 2017 bond issue, which were also being spent during the current fiscal year
- In summary, Mr. King noted that the focus was on strategic capital, and the routine replacement of equipment, including:
  - Upgrading the Cath labs and imaging equipment
  - The addition of LINAC #2
  - A focus on the build-out, which in itself would become a creator of revenue
  - An increase in the IT spend, especially with the continued cyberattacks, and statements by the FBI that the question was, “not if, but when” attacks might occur; and the district had already made a significant investment in things to mitigate attacks
    - In response to an inquiry by Chair Barry about the possibility that providing better access to IT services for patients would open the system up to cyberattack, Mr. King acknowledged that the more people who could get into the system, the greater the risk factor was for attack, but he was confident in the protections designs used by the IT team to minimize those risks
- BUDGET SUMMARY & KEY TAKE-AWAYS (PAGES 43-44)
  - Mrs. Wallace stated that the budget for the next fiscal year set targets that were achievable and would also drive toward executing strategic initiatives, and contained the following:
    - A 4.7% growth in Net Patient Revenue through a combination of collections from insurance carriers and continued support from the supplemental programs and funds that augmented revenues from the growing Medi-Cal population
    - A need to continue the successful recruitment of key staff
    - Ongoing expense management strategies, evaluating performance against industry benchmarks as a tool to highlight opportunities to shift spending from areas that might have inefficiencies to those with a more strategic focus
  - She also noted that achieving those targets would allow the continued deployment of capital for the expansion projects throughout the district and the community, improvement of outcomes and patient satisfaction, and the achievement of the \$55M in operating income

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<ul style="list-style-type: none"> <li>• FIVE-YEAR FINANCIAL PROJECTIONS (PAGES 45-47)                             <ul style="list-style-type: none"> <li>○ Ms. Wallace stated that part of the process was looking beyond 1 year and thinking about the needs of the organization over the coming 5 years related to having funding for continued operations and investments into facilities and technology, and Management had engaged Kaufman Hall (KH) to help assess the District’s performance compared to competitors in the marketplace, as well as to develop projections that would allow the District to continue to be sustainable and successful                                     <ul style="list-style-type: none"> <li>– Before turning the meeting over to the KH team, Mr. King noted that KH was one of the premier financial advisory firms in the healthcare industry   <ul style="list-style-type: none"> <li>▪ Having been the District’s financial advisors for at least 20 years, the KH team was very familiar with the District’s processes, which was helpful in their validation of what Management believed would happen over the next 5 years based on their knowledge of the District and overall view of the industry</li> <li>▪ He then turned the meeting over to Matt Jakobovits, VP at KH</li> </ul> </li> </ul> </li> <li>○ Mr. Jakobovits noted that the creation of the 5-year plan began with the budget in 2024, and then—working with Mr. King, Ms. Wallace and their team—applied and incorporated assumptions related to volume growth, revenues, expenses and capital, as well as inflation and specific initiatives, through 2028</li> <li>○ Mr. Jakobovits explained the graphic on Page 32                                     <ul style="list-style-type: none"> <li>– The red line indicated where nursing and contract labor costs were anticipated to be over the 5 years, absent specific initiatives to control those costs, showing that revenues would be outpaced by expenses</li> <li>– The yellow line showed an intermediate step, where a number of those costs, particularly related to nursing, labor and inflation, were being controlled</li> <li>– The green line showed the true goal, reflecting expense control, growth in volumes and revenues, and management of capital</li> <li>– Ms. Wallace added that it would have been preferred to be at \$55M in operating income this year; however, roadblocks had been encountered in the form of lack of staffing and the expenses of contract labor, as well as the delays in licensing that caused units to open later than anticipated   <ul style="list-style-type: none"> <li>▪ She felt the graphic provided a helpful visual as it showed that there could be curveballs, and the budget process was a means of reflecting on a review of and determination related to working around the curveballs</li> </ul> </li> <li>– Mr. King also pointed out that there were other matters that couldn’t be anticipated, as the 5-year financial plan 5 years ago would not have foreseen the COVID pandemic   <ul style="list-style-type: none"> <li>▪ He also noted that the year after COVID was the best year, and the year after was the second best year in the history of the District</li> </ul> </li> </ul> </li> <li>○ Mr. Jakobovits then reviewed the actual projections shown on Page 33, noting that key metrics had been highlighted, and that the financial projections were consolidated and included the medical group                                     <ul style="list-style-type: none"> <li>– Revenue was anticipated to grow about 5%, from just under \$1B in 2023 to closer to \$1.3B in 2028, which included volume growth as well as reimbursement increases</li> <li>– Operating EBIDA Margin was budgeted around 6% in 2024, and it was projected to grow about 1% each year based on volume growth and expense reduction efforts, hitting 10.3% by 2028</li> </ul> </li> </ul> </li> </ul>			

**BOARD FINANCE COMMITTEE – MEETING MINUTES – THURSDAY, MAY 31, 2023**


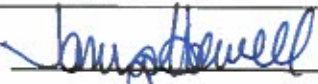
• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
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**• DISCUSSION**

- Days Cash on Hand had been modeled on the principal interest repayments on existing debt and also included the capital budget that had been reviewed earlier, so the projection for 2024 was around 70 days, anticipated to grow a little bit each year, reaching about 100 days in 2026, then moving closer to 140 to 150 days in 2028
- o Mr. King added that growing businesses eat cash, so it was hard to grow a business without expending cash
  - He also agreed with Chair Barry that once all the floors had been built out and that significant capital expenditure had been completed, revenues should start outpacing expenditures to the point where the District could then begin to build cash
- o In response to a question by Dr. Filiciotto, Mr. King stated that the targeted days cash on hand was set at 80, so 77 would not affect the bonds or interest rates
  - He also noted that there were no cash covenants associated with any of the outstanding bonds, and the only cash covenant was with the bond insurer

**ADJOURNMENT** **The meeting was adjourned by Chair Barry at 1:11 p.m.**

**SIGNATURES:**

	COMMITTEE CHAIR	 _____ LAURA BARRY
	COMMITTEE ASSISTANT	 _____ TANYA HOWELL