

# 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	7/26/23	8/23/23		
DIRECTOR LAURA BARRY – CHAIR	P	P	P	P	P		
DIRECTOR JEFF GRIFFITH, EMT-P	E	V	P	P	E		
DIRECTOR MIKE PACHECO	P	V/P	V	P	P		
DIANE HANSEN, PRESIDENT & CEO	V	V	P	E	E		
KANCHAN KOIRALA, MD, CoS PMC ESCONDIDO	P	E	V	V	V		
SAM FILICIOTTO, MD , CoS, PMC POWAY	P	E	P	V	V		
DIRECTOR LAURIE EDWARDS-TATE, MS – ALTERNATE	V/G		V/G	V/G			
DIRECTOR JOHN CLARK	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	P	P		
OMAR KHAWAJA, MD, CHIEF MEDICAL OFFICER	P	P	P	V	P		
RYAN OLSEN, CHIEF OPERATIONS OFFICER	V	E	P	E	P		
MEL RUSSELL, RN, CHIEF NURSE EXECUTIVE	V		V	E	V		
MELISSA WALLACE, VP OF FINANCE				P	P		
TANYA HOWELL – COMMITTEE ASSISTANT	P	P		P	P		
AMANDA PAPE, VP OF FINANCE	P	V	V				
<b>INVITED GUESTS</b>	<b>SEE TEXT OF MINUTES FOR NAMES OF INVITED GUESTS</b>						

<b>BOARD FINANCE COMMITTEE – MEETING MINUTES – WEDNESDAY, AUGUST 23, 2023</b>			
<b>AGENDA ITEM</b>	<b>CONCLUSION/ACTION</b>	<b>FOLLOW UP/RESPONSIBLE PARTY</b>	<b>FINAL ?</b>
<b>DISCUSSION</b>			
<b>NOTICE OF MEETING</b>			
<ul style="list-style-type: none"> <li>The agenda (as Notice of Meeting) was posted on Friday, August 25, 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 1:36 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>1. BOARD FINANCE COMMITTEE FOLLOW-UPS</b>			
<ul style="list-style-type: none"> <li>There were no follow-ups</li> </ul>			
<b>2. MINUTES –FINANCE COMMITTEE – WEDNESDAY, MAY 4, 2023</b>	<b>MOTION:</b> By Director Pacheco, seconded by Dr. Koirala, and carried to approve the Minutes from the Finance Committee meeting held on Wednesday, May 4, 2023, as presented.  Vote taken by Roll Call: Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto –aye; Dr. Koirala – aye. Absent: Ms. Hansen and Director Griffith	Forwarded to the September 11, 2023, Board of Directors meeting as information	<b>Y</b>
<ul style="list-style-type: none"> <li>No discussion</li> </ul>			
<b>3. MINUTES –FINANCE COMMITTEE – WEDNESDAY, MAY 31, 2023</b>	<b>MOTION: None</b>	None	<b>N</b>
<ul style="list-style-type: none"> <li>Assistant Tanya Howell informed the Committee that this set of minutes was not yet ready for review</li> </ul>			
<b>4. MINUTES –FINANCE COMMITTEE – WEDNESDAY, JULY 26, 2023</b>	<b>MOTION: None</b>	None	<b>N</b>
<ul style="list-style-type: none"> <li>Assistant Tanya Howell informed the Committee that this set of minutes was not yet ready for review</li> </ul>			

**BOARD FINANCE COMMITTEE – MEETING MINUTES – WEDNESDAY, AUGUST 23, 2023**

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
• DISCUSSION			
5. EXECUTED, BUDGETED, ROUTINE PHYSICIAN AGREEMENTS	<p><b>MOTION:</b> By Dr. Koirala, seconded by Dr. Filiciotto, and carried to recommend approval of the Executed, Budgeted, Routine Physician Agreements</p> <p>Vote taken by Roll Call:</p> <p>Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto – aye; Dr. Koirala – aye. Absent: Ms. Hansen and Director Griffith</p>	Forwarded to the September 11, 2023, Board of Directors meeting with a recommendation for approval	Y
<p>• As a point of order, Dr. Koirala asked why the contract with Stat Radiology was being brought forward, as there had been some issues with their services, and Dr. Khawaja clarified that the agreement in question was the one under which they were already performing, so this approval was retroactive to the signature date of the contract on the first of June</p>			
6. JUNE 2023 & YTD FY2023 PRE-AUDIT FINANCIAL STATEMENTS	<p><b>MOTION:</b> By Director Pacheco, seconded by Dr. Koirala, and carried to recommend approval of the June 2023 &amp; YTD FY2023 Pre-Audit Financial Statements</p> <p>Vote taken by Roll Call:</p> <p>Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto – aye; Dr. Koirala – aye. Absent: Ms. Hansen and Director Griffith</p>	<p>Forwarded to the September 11, 2023, Board of Directors meeting with a recommendation for approval</p> <ul style="list-style-type: none"> <li>• An updated Page 25 will be distributed with the Board packet – <b><i>DONE</i></b></li> </ul>	N
<p>• Hugh King, CFO, apologized to the members of the Committee that the financial statements had not been posted sooner; however, the Finance team had been working on them until late the day before the meeting</p> <ul style="list-style-type: none"> <li>○ He reminded the Committee that a new accounting standard called GASB 87 had been implemented last year, and this year another one called GASB 96—which was related to software contracts and only applied to governmental entities—had been implemented; and the Finance team was still working with the auditors to ensure that the numbers were accurately reflected <ul style="list-style-type: none"> <li>– The major contracts had been posted; however, there were some minor contracts that would be posted as post-closing audit entries</li> <li>– It was all relatively minor; however, in the rush to finalize the packet, an error had been made on the Consolidating Combining Statement of Revenue, Expenses, and Changes in Net Position (page 25), and Mr. King asked that the Committee disregard that statement, as it would be corrected and an update would be published with the packet that went to the Board</li> </ul> </li> </ul> <p>• EXECUTIVE DASHBOARD (SLIDES 8-10)</p> <ul style="list-style-type: none"> <li>○ Volumes were down compared to budget, as well as compared to June of the prior year</li> <li>○ Reviewing all of the statistics, virtually every category was below budget, with one notable exception being Outpatient Surgeries <ul style="list-style-type: none"> <li>– Outpatient surgical volume was 15.5% over budget for the month, and YTD was over budget by 16.3%</li> </ul> </li> <li>○ Days Cash on Hand ended the fiscal year at 91.5, largely due to the significant amount of IGT payments that had been collected, as well as some real estate transactions that had been completed <ul style="list-style-type: none"> <li>– Cash for the hospital had been predicted at \$190M, and it finalized at \$197M, so favorable to prediction by about \$7M</li> </ul> </li> </ul>			


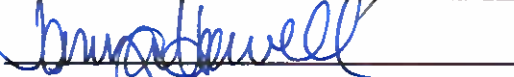
**BOARD FINANCE COMMITTEE – MEETING MINUTES – WEDNESDAY, AUGUST 23, 2023**

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
• DISCUSSION			
<ul style="list-style-type: none"> <li>○ Income from Operations was a negative \$5.3M, and there were some pickups in Non-Operating Income that made the net loss for the month \$535K</li> <li>○ YTD Income from Operations was \$3.1M, with a net loss for the year (considering operations and non-operating expenses and revenues) of \$2.4M</li> <li>• INCOME STATEMENT: CURRENT MONTH (SLIDE 12)               <ul style="list-style-type: none"> <li>○ Mr. King stated that the review of the Income Statement would begin with June, then move on to the comparison of current vs. prior year</li> <li>○ Total Net Revenue for the year was budgeted at \$74.9M, with actual at \$67.4M, negative for the month by \$7.5M                   <ul style="list-style-type: none"> <li>– Largely due to the volumes in June, which had not historically been a good month, but had been worse than usual this year</li> </ul> </li> <li>○ Salaries, Wages &amp; Contract Labor – at \$33.6M – had an unfavorable variance to the budgeted \$32.0M of \$1.6M                   <ul style="list-style-type: none"> <li>– The single biggest variance was in contract labor, with a budgeted amount of \$1.2M and an actual of \$6.0M, an unfavorable variance of almost \$5M                       <ul style="list-style-type: none"> <li>▪ On a positive note, the new plan was just put into place to retain nurses and recruit nurses with the \$100K bonus over a period of 3 years, and the numbers for salaries and wages for July showed a significant drop in contract labor, a trend that is expected to continue</li> </ul> </li> </ul> </li> <li>○ Total Expenses were budgeted at \$70.6M, and the actual total was \$72.7M, an unfavorable variance of \$2.0M                   <ul style="list-style-type: none"> <li>– Much of that was contract labor</li> <li>– Depreciation was at \$10.3M vs. a budget of \$3.8M, while Other Expenses were budgeted at \$3.4M, with an actual of -\$3.7M                       <ul style="list-style-type: none"> <li>▪ This unusual situation arose from the new GASB 87 lease requirements that moved lease expenses off the books, replacing them with the amortization of a right of use asset and interest expense on the right of use asset                           <ul style="list-style-type: none"> <li>♦ The ownership of PHOC 3 changed hands in the month of June, and the new owner offered to renegotiate the lease on that building; however, that resulted in the rebooking of the lease with a false positive pick up for the District</li> </ul> </li> </ul> </li> </ul> </li> <li>○ Other Non-Operating Revenue was budgeted at \$244K but wound up at \$4.5M                   <ul style="list-style-type: none"> <li>– There was an extra \$2.7M pic up because of the above-referenced renegotiated lease</li> <li>– The District also received \$1.7M in community development funds</li> </ul> </li> <li>○ In response to an inquiry from Chair Barry, Mr. King confirmed that another component of the unfavorable variance in Salaries, Wages &amp; Contract Labor was related to the approximately \$1M in severance pay to roughly 100 workers who left when the Home Health operations were discontinued                   <ul style="list-style-type: none"> <li>– Every one of those employees had an opportunity to stay with Palomar Health, and a very limited number did; however, most wanted to remain in the home health business and there were opportunities with other home health providers</li> <li>– The positive note was that the closure would take \$15M worth of expenses off the books going into FY2024</li> </ul> </li> <li>○ In response to an inquiry by Dr. Filiciotto, Mr. King stated that the approximately \$5M that would be saved from having fewer travelers would not be totally used up by the retention bonus dollars                   <ul style="list-style-type: none"> <li>– Total traveler cost last year was \$35.6M, and it had been \$69.9M this year, a \$34.3M increase</li> <li>– The nurse retention program was expected to have about a \$15M payout in the first year, so there would actually be about a \$19M-\$20M pickup in the differential</li> <li>– Mr. King also noted that everyone knew that the District would be losing Kaiser patients in the near future, but a more troubling issue with that relationship was the fact that Kaiser actively recruited Palomar’s more experienced nurses, and the retention program would be a big aid in keeping those nurses in house</li> </ul> </li> </ul> </li> </ul>			

**BOARD FINANCE COMMITTEE – MEETING MINUTES – WEDNESDAY, AUGUST 23, 2023**

• AGENDA ITEM	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL ?
• DISCUSSION			
<ul style="list-style-type: none"> <li>• INCOME STATEMENT: YEAR-TO-DATE (SLIDE 14)                             <ul style="list-style-type: none"> <li>○ Net Revenue had been budgeted at \$903.9M, with actual at \$846.7M, an unfavorable variance of \$57.3M</li> <li>○ Expenses had been budgeted at \$848.9M, with actual at \$843.6, a favorable variance of \$5.3M                                     <ul style="list-style-type: none"> <li>– There was an \$18.9M pickup in benefits, partially due to the contracted nurses, as the District was paying their benefits to the agency as part of the price to use their services</li> </ul> </li> <li>○ Income from Operations had been budgeted at \$55M, with actual at \$3.1M, an unfavorable variance of \$51.9M</li> <li>○ Net Income had been budgeted at \$48.6M, with actual at -\$2.4M, an unfavorable variance of \$51M                                     <ul style="list-style-type: none"> <li>– Much of that was due to the interest expense related to the new bonds; however, it would have been much higher had the 2006 variable rate bonds not been refinanced into fixed rate bonds</li> </ul> </li> </ul> </li> <li>• INCOME STATEMENT: CURRENT YEAR VS. PRIOR YEAR (SLIDE 16)                             <ul style="list-style-type: none"> <li>○ Total Net Revenue for the current year was \$846.7M vs. the prior year's, at \$800.1M, an increase of \$46.6M/5.8%, not a loss of business as much as not getting the new business that had been planned</li> <li>○ Total Expenses for the current year were \$843.6M vs. the prior year's, at \$758.0M, a negative change of -\$85.6M                                     <ul style="list-style-type: none"> <li>– A large portion of that negative amount was the \$69.9M in contract labor this year compared to \$36.5M in contract labor in the prior year, a 96% increase</li> </ul> </li> <li>○ Net Income for the current year was -\$2.4M vs. the prior year's, at \$42.8M, a negative change of -\$45.2M                                     <ul style="list-style-type: none"> <li>– Largely due to volume increases that didn't materialize, some overruns in contract labor, and, of equal concern was the increase in professional fees   <ul style="list-style-type: none"> <li>▪ Even offering higher rates, it had been challenging to find radiologists, which had proved to be a universal problem that helped drive up costs</li> </ul> </li> </ul> </li> <li>○ Moving forward, the plan for operations improvement presented to the Board earlier this year had included the elimination of home health services, which had since removed \$15M in expenses from the books                                     <ul style="list-style-type: none"> <li>– The consolidation of the OB and the NICU had been completed and the consolidation of Wound Care and some other services to the Escondido campus was in process, with a net impact of \$10M</li> <li>– The new nursing retention program had been put into place, with an anticipated net of \$15M to \$20M</li> <li>– There were also some other benchmarking programs that were slowly rolling out and anticipated to be in place by the end of October, which would provide another \$10M pickup</li> </ul> </li> </ul> </li> <li>• BALANCE SHEET (SLIDE 22)                             <ul style="list-style-type: none"> <li>○ Total Cash, Cash Equivalents &amp; Investments was better than projected, at \$197.9M, when the target had been to hit at least \$190M; however, it was still down \$40.5M from last year's total of \$238.4M                                     <ul style="list-style-type: none"> <li>– Of that \$40.5M, \$21M was the last of the Medicare accelerated payments recaptured over three years</li> <li>– Another significant portion of that was the increase in Net Accounts Receivable (AR), at \$185.1M, an increase of \$36.1M over prior year   <ul style="list-style-type: none"> <li>▪ If those monies had been collected, they would have gone into the bank account</li> </ul> </li> </ul> </li> </ul> </li> </ul>			

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• DISCUSSION			
<ul style="list-style-type: none"> <li>▪ Just as there were nursing shortages, there had been recruitment and retention issues within the revenue cycle team, so a firm had been engaged who would bring in 75 to 100 staff members to do an AR blitz, contacting everyone who owed the District money with the goal of getting AR back down to previous levels, if not lower, within the next 90 to 120 days, which would add \$35M to \$40M back into Cash on the balance sheet               <ul style="list-style-type: none"> <li>○ The only other significant change was that Bond Debt was up by about \$110M, which was related to the bonds issued in November 2022</li> </ul> </li> <li>• In response to an inquiry from Dr. Filiciotto, Mr. King confirmed that the Total Net Revenues for this fiscal year had increased from the past fiscal year in the amount of \$46.6M, due to increases in both revenues and volumes               <ul style="list-style-type: none"> <li>○ The issue with the financials for this fiscal year was that volumes anticipated in the budget for the year had not been met, even though cash had been preserved</li> </ul> </li> </ul>			
<b>ADJOURNMENT</b>		The meeting was adjourned by Chair Barry at 2:12 p.m.	
<b>SIGNATURES:</b>	COMMITTEE CHAIR	 _____ LAURA BARRY	
	COMMITTEE ASSISTANT	 _____ TANYA HOWELL	