

# 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	10/25/23
DIRECTOR LAURA BARRY – CHAIR	P	P	P	P	P	P
DIRECTOR JEFF GRIFFITH, EMT-P	E	V	P	P	E	E
DIRECTOR MIKE PACHECO	P	V/P	V	P	P	P
DIANE HANSEN, PRESIDENT & CEO	V	V	P	E	E	P
KANCHAN KOIRALA, MD, CoS PMC ESCONDIDO	P	E	V	V	V	P
SAM FILICIOTTO, MD, CoS, PMC POWAY	P	E	P	V	V	P
DIRECTOR LAURIE EDWARDS-TATE, MS – ALTERNATE	V/G		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	P
OMAR KHAWAJA, MD, CHIEF MEDICAL OFFICER	P	P	P	V	P	P
RYAN OLSEN, CHIEF OPERATIONS OFFICER	V	E	P	E	P	P
MEL RUSSELL, RN, CHIEF NURSE EXECUTIVE	V		V	E	V	V
MELISSA WALLACE, VP OF FINANCE				P	P	V
TANYA HOWELL – COMMITTEE ASSISTANT	P	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>					

**BOARD FINANCE COMMITTEE – MEETING MINUTES – WEDNESDAY, OCTOBER 25, 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 Thursday, October 19, 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 1:35 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>Case Mix Index Comparisons                             <ul style="list-style-type: none"> <li>Hugh King, CFO, stated that the team was still researching to find an appropriately comparable hospital, and Chair Barry noted that she would be interested to hear the outcome</li> </ul> </li> </ul>			
<b>2. MINUTES –FINANCE COMMITTEE – WEDNESDAY, MAY 31, 2023</b>	<b>MOTION:</b> By Ms. Hansen, seconded by Dr. Koirala, and carried to approve the Minutes from the Finance Committee meeting held on Wednesday, May 31, 2023, as presented.  Vote taken by Roll Call: Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto –aye; Dr. Koirala – aye; Ms. Hansen – aye; Absent: Director Griffith	Forwarded to the November 13, 2023, Board of Directors meeting as information	Y
<ul style="list-style-type: none"> <li>No discussion</li> </ul>			
<b>3. MINUTES –FINANCE COMMITTEE – WEDNESDAY, JULY 26, 2023</b>	<b>MOTION:</b> By Director Pacheco, seconded by Ms. Hansen, and carried to approve the Minutes from the Finance Committee meeting held on Wednesday, July 26, 2023, as presented  Vote taken by Roll Call: Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto –aye; Dr. Koirala – aye; Ms. Hansen – aye; Absent: Director Griffith	Forwarded to the November 13, 2023, Board of Directors meeting as information	Y
<ul style="list-style-type: none"> <li>No discussion</li> </ul>			

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4. MINUTES –FINANCE COMMITTEE – WEDNESDAY, AUGUST 23, 2023	<p><b>MOTION:</b> By Dr. Filiciotto, seconded by Dr. Koirala, and carried to approve the Minutes from the Finance Committee meeting held on Wednesday, August 23, 2023, as presented</p> <p>Vote taken by Roll Call: Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto –aye; Dr. Koirala – aye; Ms. Hansen – aye; Absent: Director Griffith</p>	Forwarded to the November 13, 2023, Board of Directors meeting as information	Y
• No discussion			
5. EXECUTED, BUDGETED, ROUTINE PHYSICIAN AGREEMENTS	<p><b>MOTION:</b> By Director Pacheco, seconded by Dr. Koirala, and carried to recommend approval of the Executed, Budgeted, Routine Physician Agreements</p> <p>Vote taken by Roll Call: Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto –aye; Dr. Koirala – aye; Ms. Hansen – aye; Absent: Director Griffith</p>	Forwarded to the November 13, 2023, Board of Directors meeting with a recommendation for approval	Y
• In response to an inquiry by Dr. Filiciotto regarding whether the group “Retina Results Medical Corporation” for Ophthalmology Call Coverage was an agreement with Dr. Shah, Dr. Omar Khawaja, CMO, confirmed that it was			
6. SEPTEMBER 2023 & YTD FY2024 FINANCIAL STATEMENTS	<p><b>MOTION:</b> By Director Pacheco, seconded by Ms. Hansen, and carried to recommend approval of the June 2023 &amp; YTD FY2023 Pre-Audit Financial Statements</p> <p>Vote taken by Roll Call: Chair Barry – aye; Director Pacheco – aye; Dr. Filiciotto –aye; Dr. Koirala – aye; Ms. Hansen – aye; Absent: Director Griffith</p>	Forwarded to the November 13, 2023, Board of Directors meeting with a recommendation for approval	N
<ul style="list-style-type: none"> <li>• Mr. King apologized to the Committee for the late distribution of the financials <i>[distributed as supplemental information on the 20<sup>th</sup>]</i>, noting that the team had seen some unusual events, and wanted to ensure that there were accurate numbers for review</li> <li>• EXECUTIVE DASHBOARD (PAGE 8) <ul style="list-style-type: none"> <li>○ Acute General Discharges were below budget by 5.6% and were down 4.1% from prior year <ul style="list-style-type: none"> <li>– He commented that everyone had anticipated a decline with the opening of the Kaiser hospital; however, Kaiser would have normally presented a larger portion of volume than 4.1% or even 5.6%, which he found interesting</li> </ul> </li> </ul> </li> <li>• INCOME STATEMENT: CURRENT YEAR VS. PRIOR YEAR (PAGE 11) <ul style="list-style-type: none"> <li>○ Kaiser had been running full bore last year, with Adjusted Patient Days just over 54K; and this year they were at 53,616, less than a 1% variance</li> <li>○ Adjusted Discharges had a 4% variance, so the inpatient volumes were not as affected by Kaiser alone as might have originally been anticipated, but they were still affected</li> </ul> </li> </ul>			

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• DISCUSSION

- EXECUTIVE DASHBOARD (PAGE 8)
  - Inpatient Surgeries were over budget by 3.3%, but Outpatient Surgeries were down compared to budget by almost 49%
  - ER visits were down compared to budget by 23% for patients that were admitted, and they were down 37% for outpatients that visited the ER and were discharged from there
- INCOME STATEMENT: QUARTER ENDED SEPTEMBER 30, 2023 (PAGE 10)
  - Gross Revenues for the first quarter vs. budget were down by almost \$42M
    - Reviewed at a detailed level – which was not in this packet – Inpatient Revenues were about \$5.4M below budget
    - SNF Revenues were favorable to budget by \$4.5M
    - The single biggest variance was in outpatient volumes, which were down about \$18M vs. budget
    - There had been a backfill strategy related to Kaiser that was largely driven by outpatient services, particularly Oncology and Cardiology, as well as a large family practice group who had indicated an eagerness to join PHMG and bring their admissions to Palomar
  - Total Net Revenue had been budgeted at \$221M, but the actual was only \$197.8M, roughly \$23.3M below budget, which was concerning, given that a lot seemed to be driven by outpatient statistics
    - As Dr. Khawaja and COO Ryan Olsen had been actively involved in putting together a plan to grow outpatient business and recruit additional physicians, Mr. King asked if Dr. Khawaja could comment on what he had been seeing in the marketplace that might explain the differences between anticipated and actual revenues
      - Dr. Khawaja stated that Palomar Health having been in the news due to some financial issues had concerned some of the physician partners, including several with whom negotiations for partnerships had been underway, and most of those services were outpatient related
        - ♦ He didn't believe that any of the negotiations had died, they had just been put on hold until the stability of the district had been proven, and he felt that it might just take a while for things to settle out
    - Mr. King added that in a comparison to prior year, Net Revenues were only down 5.3%
  - Mr. King then stated that there was some good information related to Expenses, noting that for the June financial statements, Contract Labor was under \$9M
    - For the first three months, it had averaged less than \$3M of contract labor per month, and it was continuing to go down, having been \$2.1M in the month of August alone, compared to \$6M three months ago
    - There had also been a cost associated with the bonus payments to the nurses of about \$5M in the first quarter, but it had definitely had a significant impact on contract labor, with a comparison of \$18M for the last quarter of last year vs. under \$9M in the first quarter of this year
  - Purchased Services were up about \$5.5M over budget, due in large part to physician recruitment and the patchwork of radiologists that had to be established to ensure there was radiologist coverage for reading X-rays in the ED
  - Total Expenses were over budget by about \$1.5M, largely driven by the professional fees and purchased services costs that had been \$600K higher than budgeted
    - Depreciation had a higher-than-budgeted cost of \$900K, in large part due to the new accounting rules and how they had to be applied; however, that was offset by about \$1.3M in other expenses which – in the old days – would have been in rent

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<ul style="list-style-type: none"> <li>– Benefits were favorable to budget by \$1.3M</li> <li>– Contract Labor was over budget, but to a lesser degree than it had been in prior year</li> <li>○ Income from Operations had been budgeted at \$12.9M, but the actual was a loss of \$11.9M</li> <li>○ Net Income for the first quarter had been a loss of \$17.2M               <ul style="list-style-type: none"> <li>– Not where it had been expected to be, but the team had done a lot of validating, and Mr. King was comfortable that the numbers were accurate</li> </ul> </li> <li>• Diane Hansen, CEO, stated that Management had been reviewing some cost-saving initiatives, and the full plan would be presented later in a closed session</li> <li>• In summary, Mr. King stated that the IGT payments had once again been pushed out another quarter, instead of getting the money in this quarter as expected, and that had impacted cash               <ul style="list-style-type: none"> <li>○ A little over \$4M in IGT had been received today, but it had been expected during the last quarter, not in October; and more funds were expected to be received between now and the end of the calendar year</li> <li>○ In response to an inquiry from Dr. Filiciotto, Mr. King explained that Intergovernmental Transfer (IGT) funds were supplemental payments from the State of California and the Federal Government, based generally on the volume of Medi-Cal patients, but with some also related to quality incentive and other programs established by the State, where every hospital and every group of hospitals would get certain defined dollars                   <ul style="list-style-type: none"> <li>– In other states, the plan would be for Medi-Cal/Medicaid disproportionate share payments—the nomenclature in California was just IGT</li> </ul> </li> <li>○ Last year, Palomar Health received a little over \$60M, and because of some new programs that had been implemented, the anticipated amount for this year was about \$70M, divided into two payments</li> <li>○ In response to an inquiry by Director Pacheco about the expectations regarding the payments continuing to be late, Mr. King indicated that he anticipated that they were probably actually going to start getting slower, not better; however, the District was currently very dependent on having the payments be processed on a more timely basis                   <ul style="list-style-type: none"> <li>– Ms. Hansen added that part of the challenge was that the money had to be sent to the State in order to get the money back, even though the returned funds were approximately 1.5 to 2 times what had been sent out</li> <li>– Mr. King elaborated that the funds were put into a trust account by the State, then there was a convoluted process through the managed care plans before the Federal Government returned the funds                       <ul style="list-style-type: none"> <li>▪ The whole amount was eventually returned, so if \$10M was sent to the State, then \$10M plus whatever the Federal match was would be returned, less a 10% fee to the State</li> </ul> </li> </ul> </li> </ul> </li> <li>• In response to an inquiry by Dr. Filiciotto about locating the DCOH in the packet, Ms. Hansen referred him to the Executive Dashboard (<i>page 9</i>), noting that the number was 54.5</li> <li>• When Director Pacheco asked to be reminded what the cash covenant was, Mr. King pointed out that it was no longer a bond covenant related to the bondholders and the trust indenture, rather it was a covenant related to the bond insurance, and the covenant was 60 DCOH at June 30<sup>th</sup> <ul style="list-style-type: none"> <li>○ He added that the expectation was that—just like last year—the cash would be built up between now and the end of the year, adding that all governmental hospitals in the State of California had the same issue, and all the payors knew it</li> <li>○ He also noted that there were two DCOH calculations, one for the hospital and one for the medical group, and the consolidated number would typically bring the net DCOH down</li> </ul> </li> </ul>			



