

Palomar Pomerado Health
JOINT FINANCE COMMITTEE/SPECIAL BOARD MEETING
Palomar Pomerado Health, 15255 Innovation Drive, San Diego, CA
Conference Rooms B&C
January 26, 2006, Meeting Minutes

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
NOTICE OF MEETING	The notice of meeting was mailed before close of business on Monday, January 23, 2006, which is consistent with legal requirements		
MEETING CALLED TO ORDER	6:00 p.m. by Chairman Marcelo Rivera, M.D.		
ESTABLISHMENT OF QUORUM	Present: Directors Marcelo Rivera, M.D., Chairman of the Board, Ted Kleiter, Chairman of the Finance Committee, Nancy Bassett, R.N., Linda Greer, R.N., Bruce Krider, Alan Larson, M.D., and Nancy Scofield. Finance Committee Members Michael Covert and Paul Tornambe, M.D.		
ATTENDANCE	Also in attendance were: Bob Hemker, Gerald Bracht, Jim Flinn, Assistant to the Board Christine Meaney and Assistant to the Finance Committee Tanya Howell.		
ADJOURNMENT TO CLOSED SESSION	<p>After establishment of a quorum of the Board and the Finance Committee, the meeting adjourned to Closed Session at 6:10 p.m.:</p> <p>~ PURSUANT TO CALIFORNIA GOVERNMENT CODE §54956.8</p> <p>PROPERTY: ESCONDIDO RESEARCH & TECHNOLOGY SITE (ERTC) Lots 27, 28, 29, 30, 31, 32, 33, 34, 35, and 36 of Escondido Tract No. 834, in the City of Escondido, County of San Diego, State of California, according to Map thereof No. 14983, filed in the Office of the County Recorder of San Diego County on March 17, 2005 as File No. 2005-0220836, Official Records</p> <p>AGENCY NEGOTIATOR: BOB HEMKER, CFO, PPH</p> <p>NEGOTIATING PARTIES: PALOMAR POMERADO HEALTH; JAMES R. MCCANN; JRM-ERTC I, L.P.</p> <p>UNDER NEGOTIATION: INSTRUCTION TO NEGOTIATOR WILL CONCERN TERMS OF PAYMENT</p> <p>ESTIMATED DATE OF PUBLIC DISCLOSURE: FEBRUARY 28, 2006</p> <p>~ Anticipated Action</p> <p>~ PURSUANT TO CALIFORNIA GOVERNMENT CODE §54956.8</p> <p>PROPERTY: POMERADO OUTPATIENT SERVICES PAVILION (OSP) A PORTION OF POMERADO HOSPITAL'S CAMPUS LOCATED AT 15615 POMERADO ROAD, POWAY, CA 92064</p> <p>AGENCY NEGOTIATOR: BOB HEMKER, CFO, PPH</p> <p>NEGOTIATING PARTIES: PALOMAR POMERADO HEALTH; PDP POMERADO, LLC</p> <p>UNDER NEGOTIATION: INSTRUCTION TO NEGOTIATOR WILL CONCERN TERMS OF PAYMENT</p> <p>ESTIMATED DATE OF PUBLIC DISCLOSURE: FEBRUARY 28, 2006</p> <p>~ Anticipated Action</p>		
MEETING CALLED TO ORDER	7:28 p.m. by Chairman Marcelo Rivera, M.D.		

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ACTION RESULTING FROM CLOSED SESSION DISCUSSION	<p>Item 1: There was no action resulting from the closed session discussions with regard to the ERTC.</p> <p>Item 2: There was action taken resulting from the closed session discussion with regard to the Pomerado Outpatient Services Pavilion (OSP).</p>	<p>MOTION: By Director Kleiter, seconded by Director Krider and carried, with one abstention by Director Larson, to approve the amendments to the Development Agreement for the POM OSP, to include: 1) The Ground Lease; 2) The Parking License Agreement; 3) The Parking Management Plan; 4) The Subtenant Recognition Agreement; 5) The change in equity structure; and, 6) Authorization to initially lease Floors One & Two.</p>	
TRANSFER OF GAVEL	<p>Immediately following the vote on the OSP at POM, Chairman of the Board Marcelo Rivera, M.D., turned the gavel over to Chairman of the Finance Committee Ted Kleiter, requesting him to chair the remainder of the Joint Board/Finance Committee meeting.</p>		
PUBLIC COMMENTS	<p>There were no public comments.</p>		
INFORMATION ITEM(S)	<ul style="list-style-type: none"> • Dr. Ronald Feldman has been making inquiries about bidding on the services under some of PPH's capitated contracts and has requested to address the Board on the topic. Bob Hemker briefly discussed capitation contracting procedures and the matrices used to determine if additional providers are required to meet the business needs of the district, noting that PPH has not at this point made a decision that additional providers are needed. 	<p>Michael Covert was requested to write a letter to Dr. Feldman on behalf of the Board, reminding him of the open session comments period available to all members of the public and inviting him to address the Board and/or the Finance Committee through that venue.</p>	
MINUTES DECEMBER 6, 2005	<p>No discussion.</p>	<p>MOTION: By Director Rivera, seconded by Director Bassett and carried to approve the minutes as presented.</p>	
APPROVAL TO PPH MANAGEMENT THE AUTHORITY TO EXECUTE REAL ESTATE CONTRACTS	<p>PPH Management is moving closer to consummating the transaction for the ERTC site. Part of the conditions precedent to moving forward with that transaction will be approval of the Development Agreement with the developer, along with the underlying Covenants, Conditions & Restrictions (CC&R's) under which the business park will be governed by an Association. Discussions are proceeding positively, and the documents will need to be in executable form prior to the scheduled closing of the transaction on February 28, 2006.</p> <ul style="list-style-type: none"> • Management requested of the Board the following authority: <ul style="list-style-type: none"> ○ To enter into the Development Agreement, as part of the closing documents ○ To acknowledge the CC&R's • The overall closing process—including finalized Purchase Agreement and other documents precedent to closing—will be returned for Board review and approval prior to closing, likely through a Special Board meeting 	<p>MOTION: By Director Rivera, seconded by Director Krider, and carried to authorize PPH Management to enter into the Development Agreement regarding the ERTC site—including acknowledgement of the underlying CC&R's—with the developer.</p>	
REPORT ON NEGOTIATIONS WITH THE CITY OF ESCONDIDO REGARDING DEVELOPMENT AGREEMENT	<p>Bob Hemker stated that positive discussions are ongoing with the City Administration with regard to the Memorandum of Understanding (MOU) and the Development Agreement related to the ERTC, two distinct but inter-dependent documents, that will be executed concurrently:</p> <ul style="list-style-type: none"> • MOU deals with the commitment and processes for the downtown Escondido campus 	<p>INFORMATION ONLY</p>	

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	<ul style="list-style-type: none"> • Development Agreement is associated with the ERTC park directly and relates to the infrastructure • Documents are not in sufficient draft form for presentation to the Board 			
DOCUSYS ANESTHESIA EMR & MEDICATION MANAGEMENT SYSTEM	<p>Bob Hemker reported that funds had previously been reserved through the capital process to implement an anesthesia pharmaceutical inventory management system with Pyxis dispensing units. DocuSys Anesthesia EMR & Medication Management System is a unique solution that—championed by Dr. Benjamin Kanter, Chief Medical Informatics Officer, has been reviewed and approved by all the constituencies. Dr. Kanter discussed the reasons this unique system was chosen (<i>outline attached</i>), highlighting the following:</p> <ul style="list-style-type: none"> • DocuSys provides an innovative solution that <ul style="list-style-type: none"> o Can accurately track individual doses of medication given via an IV push o Automates concurrent charting of medications in the OR o Automates the medication reconciliation process o Provides 5-rights checking at the time of administration o Has a module that specifically tracks antibiotic administration for CDC/CMS compliance • In addition, the DocuSys system will provide financial, strategic and marketing opportunities via <ul style="list-style-type: none"> o Improved co-morbidity documentation o Decreased drug waste & costs; surgical site infection; and medication errors o New ability to charge for inhalational agents o Automated drug charging and improved professional billing capture o Improved safety, quality and regulatory compliance o Improved surgical metrics, which will provide an enhanced community image <p>Dr. Kanter also noted that one of the reasons DocuSys is being chosen is the system's superb ability to interface with unique/highly proprietary operating systems, such as Cerner; and the DocuSys team is actively courting PPH because of our relationship with Cerner.</p> <p>Substitution is budget neutral.</p>	MOTION: By Director Scofield, seconded by Director Rivera and carried to substitute the DocuSys Anesthesia EMR & Medication Management System for the previously approved Pyxis system.		
6-MONTH YEAR-TO-DATE FINANCIAL REVIEW	<p>In lieu of the usual monthly financial review, Bob Hemker led a discussion covering the first six months of FY2006. The past six months have presented some challenges, and the management team is working to identify opportunities for bringing in additional dollars or cutting expenses in order to improve our financial situation. Their projections for the next six months were also presented, as per the attached presentation.</p> <ul style="list-style-type: none"> • Balanced Scorecard overview <ul style="list-style-type: none"> o Greens are good; yellows are put on "watch" list; reds need attention o Most of the greens deal with expense management o Bottom line is red (Revenue minus expense equals bottom line) • Consolidated Balance Sheet <ul style="list-style-type: none"> o Focus on cash position, days in cash remain acceptable o GO Bonds issued in July are required by accounting principles to be reflected on the books of PPH 	INFORMATION ONLY	A column reporting outcomes will be added to the Strategy/Issue Analysis, and the Analysis will be used as a report card over the next 6 months.	

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	<ul style="list-style-type: none"> ▪ Ratings agencies are aware of this accounting procedure and remove for rating purposes o Continue to use working capital for Facility Master Plan efforts – about \$20 million has been advanced out thus far, reflecting approximately 22 days • At December, gross days in a/r are 56.8 <ul style="list-style-type: none"> o About mid-point between stabilized days and post-conversion high o Cash collections continue at or above FY06 goal, and well above where we were last year • Consolidated Income Statement <ul style="list-style-type: none"> o YTD net revenue is down about \$3 million o YTD expenses are up about \$1.7 million o Off a total of about \$4.3 million at the bottom bottom line from budget o Actual bottom line to date at about \$5 million o 7.6% OEBITDA – right in line with target for our current rating • Consolidated projections (6 months actual + 6 months budget – if exactly on budget remainder of year) <ul style="list-style-type: none"> o \$4.5 million net income, against a budget of \$9 million o Bottom bottom line of \$13.8 million, against a budget of \$18.2 million o Resulting in a \$4.3 million unfavorable variance • Consolidated projections (6 months actual + 6 months annualized – based on current income trend continuing) assuming current trends would be: <ul style="list-style-type: none"> o Near break-even on net income o Bottom bottom line of only \$9.9 million, against a budget of \$18.2 million o \$8.2 million unfavorable variance • FY04 had about a \$16 million bottom line; FY05 was at \$17 million – 6.25% growth year-on-year, which is the benchmark for where the organization should be performing in FY06 over FY05 • We're 1000 patient days ahead on a consolidated basis • Gerald Bracht—with input from Sheila Brown—led a discussion on key statistics for PMC <ul style="list-style-type: none"> o Patient days are exceeding budget, notably in acute rehab services o PCCC had a slow start at the beginning of the year, so the case management approach was modified and business has picked up <ul style="list-style-type: none"> ▪ Turnover is high <ol style="list-style-type: none"> (1) Seeing more rehab patients who are younger and have shorter LOS (2) The hospitalist program has improved the continuum of care, which shortens acute LOS o ED visits are up 1200 over budget o Trauma cases are down 177 cases from the prior year <ul style="list-style-type: none"> ▪ Dr. Rivas, Dr. Velky, Kim Colonnelli & Mr. Bracht have met with administrators at Pioneer Hospital and El Centro Hospital in Imperial Valley to discuss potential referrals to PPH 		

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	<ul style="list-style-type: none"> o OB deliveries are down against budget o Inpatient & outpatient surgeries are down slightly o Cardiovascular surgeries are down significantly, due in large part to a nation-wide trend of stenting in the cath lab versus open-heart procedures; stenting procedures are approximately 14% higher than budget • Jim Flinn commented on key statistics at POM <ul style="list-style-type: none"> o Acute patient days are up 214 over budget <ul style="list-style-type: none"> ▪ Notable as the budget was based on ortho surgery cases with Kaiser, which began later than budgeted for and is not yet being fully utilized o ED visits are up significantly o Admissions are up to budget o Deliveries are down 41 <ul style="list-style-type: none"> ▪ Changes within OB physician groups were contributory to the lower volumes ▪ Deficit is expected to recover due to aggressive solicitation of business with new OB physicians/groups o Inpatient surgeries down versus budget for the first 6 months, but up 21% over the prior year o Outpatient surgeries are up 13% over budget for the first 6 months, which is actually up 30% over the prior year <p><i>Bob Hemker again took the lead in the presentation:</i></p> <ul style="list-style-type: none"> • Gross revenue payor mix <ul style="list-style-type: none"> o Shows a significant increase in the Underinsured/Uncompensated book of business (ie, Medi-Cal, CMS and Self Pay) o At PMC, Medicare is off about \$7.8 million against gross revenue, while Medi-Cal, CMS & Self Pay show an aggregate increase of about \$20 million <ul style="list-style-type: none"> ▪ Also of concern are the changes in insurance profiles – higher deductibles, consumer-driven plans and increasing co-pays ▪ In order to meet the needs of the community—as well as obtaining revenues both for ourselves and other providers—we are responsible for identifying all insurable eligibility opportunities (such as Medi-Cal, CMS and charity care) for those patients who present as Self Pay o At POM, the trend is almost the opposite of PMC, with Medicare growing by \$4 million, with overall Medi-Cal, CMS & Self Pay showing a decrease of \$4.9 million • Capitation <ul style="list-style-type: none"> o On calendar-year model, with valuation rates near finalization with all capitation partners for 2006 o \$1.6 million positive contribution for capitation contracts • Salaries and Wages <ul style="list-style-type: none"> o Total salaries and wages variance of negative \$1.4 million <ul style="list-style-type: none"> ▪ Positive variance of \$2.0 million in regular wages ▪ Negative variance of \$1.6 million in contract labor ▪ Negative variance of \$1.7 million in overtime 		

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	<ul style="list-style-type: none"> o Lorie Shoemaker addressed nursing wages at both campuses <ul style="list-style-type: none"> ▪ \$1.4 million positive variance in contract labor, as travelers are being used less as we continue to fill vacancies ▪ Increase in new-hires is causing negative variances in regular and overtime hours, as preceptors must be on the floor at all times that preceptees are scheduled—often causing premium pay to the preceptor ▪ Nurses from our contract with Global Care for foreign recruitment will be arriving near fiscal year end ▪ Nurses have also been brought over from India, but they will be travelers for the first two years, then will convert to regular staff ▪ We are meeting our mandated ratios, as well as reducing the number of travelers • Benefits <ul style="list-style-type: none"> o Negative variance of \$540K due to a rate setting accrual for health benefits, as well as a rise at the end of the year in our self-insured dental usage • Paul Sas addressed the overall negative variance in supplies of \$796K <ul style="list-style-type: none"> o \$500K in pharmaceuticals – new, expensive drugs (i.e., new chemotherapy drug with fewer side effects; Factor VII for blood clotting; CroFab for snake bite) o \$295K in implants - projected an increase in ICDs & BiVs, but projection was \$400K too low o \$477K in surgical supplies – increase in interventional radiology procedures <ul style="list-style-type: none"> ▪ We have not moved to standardization for implantables, instead are utilizing capitated contracts with vendors to offer the physicians more choices to meet their preferences ▪ Cap contracts have not increased in four years – will be working with VHA on new contracts • Physician recruitment shows a positive annual variance of \$700K as recruitments will not be finalized until late in the fiscal year • Jim Flinn noted that they were attentive to the type of repairs being done at PMC in light of its future refurbishments and renovations, causing a positive variance of \$400K in Repair & Maintenance • Wallie George addressed the \$472K negative variance in Recruiting <ul style="list-style-type: none"> o An executive search firm—engaged as a result of staff shortages in the Human Resources Department—has filled 8 Director positions at a cost of \$8K per search, along with numerous other positions o This variance should not be ongoing, as we now have an almost full complement at the Director level • The Strategy/Issue Analysis slides provide an overview of how Management identified strategies and opportunities to impact revenues for the remaining 6 months of the FY06, resulting in a \$3.7 million strategic back-to-budget plan • Revised projection for FY06 with recovery strategies is \$17.6 million, which is still \$600K short of the approved fixed budget • Opportunities/Threats <ul style="list-style-type: none"> o The projected Cerner 2005.02 upgrade is almost \$1M of unbudgeted expenses, 		

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	<p>should we proceed, and this has been included in the forecast</p> <ul style="list-style-type: none"> ▪ Full Phase II upgrade takes about 6 months, and it contains fixes needed now ▪ 2006 upgrade will be available before completion ▪ Options to be assessed by Management are to install the complete 2005.02 upgrade; to install only the fixes from 2005.02 upgrade; or to wait and just install the 2006 upgrade <ul style="list-style-type: none"> o There is continued exposure in pharmaceuticals, and another high-dollar case could prevent recovery in that area o Revenue Cycle is undergoing a complete restructuring, with about 60 individuals across the organization scheduled to attend a two-day kick-off retreat in March o Cardiovascular Surgeries vs. Interventional Procedures <ul style="list-style-type: none"> ▪ Dynamic industry-wide change ▪ Assessing pros and cons <ul style="list-style-type: none"> • Finance Committee Chair Kleiter commended Mr. Hemker and the staff on the excellent report 		
NOVEMBER & DECEMBER 2005 & YTD FY2006 FINANCIAL REPORT	<p>This information was included within the 6-Month Year-to-Date Financial Review. No further discussion or questions.</p>	<p>MOTION: By Director Rivera, seconded by Director Krider and carried to approve the November & December 2005 & YTD FY2006 Financial Report as presented.</p>	
ANNUAL REVIEW OF FINANCE COMMITTEE BYLAWS & POSITION DESCRIPTION	<p>No changes have been made to these documents.</p>	<p>MOTION: By Director Rivera, seconded by Director Scofield and carried to approve the Finance Committee Bylaws and Position Description.</p>	
NEW FINANCE COMMITTEE MEETING SCHEDULE FOR 2006	<p>The regular meetings of the Finance Committee for Calendar Year 2005 having been on the last Tuesday of the month, with dinner at 5:30 p.m. and meeting start at 6:00 p.m., and location rotation between Palomar Medical Center and Pomerado Hospital as available, it was recommended by staff that the regular Finance Committee meetings for Calendar Year 2006 continue that pattern.</p> <p>Bob Hemker did request the indulgence of the Committee to change the date of the February 2006 meeting (which would have fallen on February 28, 2006) as he has an out-of-town speaking engagement.</p>	<p>MOTION: By Director Rivera, seconded by Director Bassett and carried to set the regular meetings of the Finance Committee as recommended, and to accommodate the CFO by changing the date of the February 2006 Finance Committee meeting to February 23, 2006.</p>	<p>The location for the February 23, 2006, meeting is to be arranged by Finance Committee Asst Tanya Howell, who will then publish the schedule to the Board, staff and the public.</p>
ADJOURNMENT	<p>There being no further business, the meeting was adjourned at 9:45 p.m.</p>		
SIGNATURES: <ul style="list-style-type: none"> • BOARD CHAIR • BOARD SECRETARY 	<p>_____</p> <p>Marcelo Rivera, M.D.</p> <p>_____</p> <p>Linda C. Greer, R.N.</p>		