Palomar Pomerado Health

BOARD OF DIRECTORS

SPECIAL BOARD BUDGET WORKSHOP)

Palomar Medical Center, 555 East Valley Parkway, Escondido, CA

Graybill Auditorium

Monday, June 5, 2006, Meeting Minutes

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
NOTICE OF MEETING	The notice of meeting was posted on June 1, 2006, which is consistent with legal requirements.		
MEETING CALLED TO ORDER	6:30 p.m. by Chairman Marcelo Rivera		
ESTABLISHMENT OF QUORUM	By roll call. Present: Directors Nancy Bassett, R.N., Linda Greer, R.N., Ted Kleiter, Bruce Krider, Alan Larson, M.D., Gary Powers, and Marcelo Rivera, M.D.		
PUBLIC COMMENTS	There were no public comments.		
INFORMATION ITEM(S)	• Bob Hemker introduced Tim Nguyen, the new Corporate Controller. The Finance Division will be undergoing a restructuring under his direction that will include a new Director of Finance, Genevieve Nelwan, who will officially take that position later this month, having occupied it as Interim Director for several months. • Mr. Hemker announced Diane Hansen, Director of Financial Planning, would be leaving at the end of the month, moving to Indiana with her husband, who had been transferred. He stated that Mrs. Hansen had proven herself to earn her position and voiced his regret at losing her. Mrs. Hansen told the Board that it had been a fantastic experience to work with the terrific PPH team and thanked them for the experience. The Board thanked Mrs. Hansen for her excellent service to the District and wished her well in future endeavors. • There is a second Special Board meeting on the calendar for Wednesday, June 14, 2006, should the FY2007 Capital and Operating Budgets not be approved this evening.		
FISCAL YEAR 2007 OPERATING BUDGET & CAPITAL BUDGET	Chairman Rivera welcomed everyone, encouraged questions, and then turned the meeting over to Bob Hemker. Mr. Hemker stated that tonight's meeting had been noticed properly to allow the Board to take action on the FY 2007 Operating and Capital Budgets if they so chose. He indicated that he would be delving into detail only as requested. Utilizing the presentation included in the attached materials, Mr. Hemker presented the draft FY 2007 Capital and Operating Budgets: • The Master Facility Plan and Plan of Finance were key drivers in the budgeting process: o To determine the financial performance necessary to support the required revenue bonds o Determine from a top level perspective, the net income required; budget was then built from the bottom up o Strategic focus on volumes, based on anticipated volume changes *(pages 3 & 4)* o Revenue strategies – rate increases, managed care partnerships	**MOTION:** By Director Larson, seconded by Director Kleiter and carried to approve the FY2007 Operating Budget as presented. **MOTION:** By Director Kleiter, seconded by Director Larson and carried to approve the FY2007 Capital Budget as presented. **MOTION:** By Director Krider, seconded by Director Kleiter and carried to approve the Charge Rate increase of 8% for FY2007.	The process of capital equipment disposal is to be reviewed. Assistant Tanya Howell was asked to distribute the financial information cards for the previous fiscal year in the very near future.

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	o Labor expenses – tied to labor standards based on units of service (UOS) for all departments; key strategy was to absorb volume increases, where possible, in to existing standards o Supply expenses – tied back to UOS; key strategy was new technology and pharmaceutical management o PPH strategic initiatives were tied to required resource allocation and assessment of potential ROI. • Financial Class distribution remains stable; in addition, service lines have remained steady. Both held steady on a trending basis for the budget. *(page 5)* o Self-Pay – Those who pay their own bills, without insurance ■ We exhaust all other avenues for patients who present as Self-Pay (i.e., eligibility for other insurance, MediCal, charity, etc.) o Managed Care – Non-risk HMO/PPO o Managed Care Cap – Capitated HMO/PPO *(Cap = PPH is an at-risk partner in the capitation process)* • Proposed Charge rate increase *(page 6)* o 8% Chargemaster increase ■ Consistent with the marketplace ■ Applied to both I/P and O/P services; marginally beneficial to net revenue depending upon financial class o At Risk Capitation ■ Contracts based on calendar year with four groups for Pacificare Commercial and Secured Horizons ■ Contracts for CY 2007 are under consideration and negotiation o Bad Debt/Uncompensated Care is targeted to be 4.8% for FY2007 • Key Inflationary Assumptions/Considerations *(page 7)* o Conversion to VHA is still underway o Specialties and technologies cause the most exposure in supplies & pharmaceuticals o Appropriateness of the 2% increase in supplies, primarily for commodity goods, was discussed, with the key being to stay on task in order to keep to the budget; technology items (supplies & drugs) were evaluated and included in the budget on a judgment basis • Good balance in terms of the labor plan *(page 8)* o Blended to take into account the entire workforce – union/non-union o Marketplace driven – base wage rates & comprehensive benefit package o Changes in volume & FTEs were true incremental changes based upon nurse staff ratio requirements and ability to absorb volume increases in non-ratio departments • Salaries & wages *(page 9)* o Registry expense is budgeted at a lower total of $7.9 million compared to FY06 – the result of a focused recruitment and retention strategy o 11% overall dollar increase for the labor budget due to volume and reinvestment in the employees		

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	o Labor needs to be managed on a real-time basis and productivity monitoring will be adhered to. • Supplies *(page 10)* o Total increase of $3 million – a change of about 5% ■ Supplies are currently reviewed on a monthly cycle, but a more frequent review (i.e., as POs are generated) will be utilized for high cost items • Professional Fees *(page 11)* o Physician fees related to Trauma and ED on-call coverage represent the single largest increase –new multi-year contract is competitive and provides for financial and coverage certainty o Consulting fees are primarily attributable to Information Systems strategies o Legal fees reflect a decrease year in year; addition of an in-house counsel strategy is included in the Salary and Wages budget • Purchased Services *(page 12)* o Key expense is for Information Systems - annual licensure fees o Linen reduction strategy related to rejected (torn/damaged) linen is expected to provide significant savings • Other Direct Expenses *(page 13)* o Natural gas fluctuation is controlled through spot market purchases; other utilities reflect market based increases o Professional liability insurance is on a claims basis ■ Recent switch to "claims mode" – initial year lags in activity until claims catch up – on way back up out of trough o Outside training is zero-based for the year with base allocations to departments and administratively allocated pools by facility. o Marketing comprises a significant portion of the Other Direct Expense budget • Depreciation Expense *(page 14)* o Depreciation expense increase results from re-infusion/reinvestment in assets the past few years o $5.5 million of the capital budget will be held in reserve for the Master Facility Plan. Thus, FY07 acquisitions and depreciation expense will be offset accordingly • Strategic Initiatives *(page 15)* o Gateway/Parkway's outpatient imaging centers are being strategically evaluated. They have been budgeted as bottom line neutral in the FY07 budget compared in significant FY06 losses. o New vendor for the Bio-Med contract will result in the ability to do a capital asset life expectancy assessment and tracking. The new contract results in a significant operational savings from the previous contract. • Operating Budget Recap *(pages 16, 17 & 17A)* o Net margin percentage *(net margin = bottom bottom line)* is back in line with FY05 results o The net income of $22.6 million is consistent with safety net performance in the Plan of Finance.		

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	• Capital Budget *(pages 18 & 19)* - targeted at $14.5 million, including a $5.5 million reserve
	  o 5 categories: Clinical Equipment; Non-Clinical Equipment; Facilities Renovation; Information Technology; Strategic Programs
	  o Expenditure Requests Over $100 thousand
	    ■ Have been identified and reserved on a preliminary basis
	    ■ Will be revalidated by business plan and economic analysis prior to expenditure
	    ■ $7 million of the budgeted $9 million are for line item requests over $100 thousand
	  o Expenditure Requests Under $100 thousand
	    ■ Placed in "to be allocated" status
	    ■ EMT reviews on a monthly basis for allocation based on priority needs
	  o Capital requests were from front-line users *(pages 20 & 21)*
	
	Members of the Board and staff commented on the number of hours devoted to the creation of the budgets and their confidence in the discipline involved in the budgeting process, which had been intelligently and thoroughly explained this evening.
	Management was instructed to maintain quality, with fiscal disciplines that will keep us focused on the bottom line, concentrating on revenue generating programs and strict adherence to expense management.		

Adjournment	As both the Capital and Operating Budgets for FY2007 were approved at this meeting, there will not be a Special Board Meeting on Wednesday, June 14, 2006. There being no further business, the meeting was adjourned at 8:30 p.m.		
Signatures: • **Board Chair** • **Board Secretary**	 _______________ Marcelo Rivera, M.D. _______________ Linda Greer, R.N.		