

Minutes
Finance Committee – March 28, 2006

TO: Board Finance Committee

MEETING DATE: Tuesday, April 25, 2006

FROM: Tanya Howell, Secretary

BY: Bob Hemker, CFO

Background: The minutes of the Finance Committee meeting held on Thursday, March 28, 2006, are respectfully submitted for approval (*Addendum A*).

Budget Impact: N/A

Staff Recommendation: Approval of the Thursday, March 28, 2006, Finance Committee minutes.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

Updated Financial and Capital Plan

TO: Joint Board/Finance Committee

MEETING DATE: Tuesday, April 25, 2006

FROM: Bob Hemker, CFO

Background: At its July 13, 2004, Board of Directors meeting, the Board adopted the Facilities Master Plan (FMP) as recommended by the Strategic Planning Committee at its July 12, 2004, meeting. With the adoption of the FMP, the Plan of Finance to fund the FMP was finalized by the Financing Team and approved by the Board of Directors at its August 4, 2004, meeting. Included in this approval of the final FMP and the Integrated Plan of Finance was the use of General Obligation Bond Measure (\$496 million), issuance of Revenue Bonds (\$210 million), and the balance from Cash/Philanthropy to fund the Facilities Master Plan.

Subsequently, various financing and funding vehicles have been evaluated to fund the FMP. These vehicles included Tax-Exempt Revenue Bonds, General Obligation Bonds, Cash Reserves, and Philanthropy. The Financing Team's review and recommendations incorporated PPH's current financial condition, bond rating and debt capacity, the timing and scope of funding needs, legal and regulatory requirements, and fiscal accountability. The resultant Plan of Finance was deemed fiscally prudent and a careful integration of several financing vehicles.

Precursor to the resultant Plan of Finance was a thorough review, assessment and updating of the Strategic Financial and Capital Plan. A ten-year targeted financial operating performance and debt capacity roadmap was developed, with a focus on maintaining "A rating" credit worthiness. An understanding of the current and necessary future internal financial strength, as well as the current and future capital market conditions, resulted in the approved Integrated Plan of Finance in August 2004.

Since that time, the Financing Team has been and continues to develop the various steps of financing for the Master Facility Plan, which, to date, has included the issuance of the first tranche of G.O. Bonds for \$80 million; evaluation of the possible restructuring of the existing Revenue Bonds; development of a variable rate indebtedness policy/strategy; assessment of utilizing a hedge strategy; and preparation for the issuance of new Revenue Bonds.

At the March 28, 2005, Board Finance Committee, the Plan of Finance update included the introduction of the use of variable rate debt instruments. At that time, the Committee recommended, and it was subsequently approved by the Board, that Management be allowed to pursue the development of a variable rate debt and underlying debt policy for PPH, to include identification of a target range of stabilized variable rate exposure, and the establishment of guidelines for use of traditional and non-traditional fixed and variable rate instruments.

Management worked with the Financing Team to develop the next steps of financing, as well as the components of the requisite debt/swap policy. At the December 6, 2005, meeting, the Board Finance Committee approved and recommended to the full Board authorizations for the Financing Team to:

- Use Credit Enhancement
- Issue Variable Rate Debt and Maintain an Unhedged Portion Within the Guidelines of the Debt Policy
- Increase the Borrowing Amount in 2006
- Enter into an Interest Rate Swap Agreement
- Lock in Interest Rates
- Formulate a Debt and Interest Rate Swap Policy

The above authorizations were approved by resolution at the December 12, 2005, Board Meeting.

Updated Financial and Capital Plan

At its December 20, 2005, Board of Director's Strategic Planning Committee Meeting, the Committee, full Board invited, reviewed the current development of the Master Facility Plan, including design, project scope, and updated cost estimates. As the result of current market conditions, notably increased material and labor costs, and refinement of project definition within the approved Facility Master Plan, the project costs increased from a total of \$754 million to approximately \$983 million. At that time, the Board requested that Management and the Financing Team assess the impact on PPH's debt capacity and update the Plan of Finance, along with identifying cost savings/reduction opportunities to minimize the project cost increase.

In April 2006, Management, the Board Chair, the Board Treasurer and members of the Financing Team met with potential Bond Insurers, and they will meet with Rating Agency(s) in May 2006. The outcome of these meetings is pending and will focus available options and type of Revenue Bonds to be issued (i.e., Hedge or no Hedge, Variable or Fixed Rate, etc.).

Management and the Financing Team have subsequently assessed and evaluated the impact of the increased project costs, current market conditions, and PPH's credit position and market position. The updated Financial and Capital Plan, including the impact of increased Revenue Bonds on Debt Capacity to fund the updated project costs and the various sensitivity analyses utilized to arrive at the likely scenario, will be reviewed. The Updated Financial and Capital Plan will be presented and reviewed at the meeting.

The associated Board Resolutions and Declarations needed to facilitate a Revenue Bond issuance later in calendar year 2006 will also be reviewed and presented for approval. The resolutions and declaration (*Attached as Addenda B, C & D*) are:

- Declaration of Official Intent of Palomar Pomerado Health to Reimburse Certain Expenditures from Proceeds of Indebtedness
- Resolution of the BOD of PPH Authorizing the Issuance of Not to Exceed \$283.5 Million of Revenue Bonds
- Resolution of the BOD of PPH Authorizing Actions Necessary to Complete Implementation of the FMP Including an Increase in the Capital Project Costs and Approval of Revised Plan of Finance

Budget Impact: Increase in Facility Master Plan project budget to approximately \$983 million and associated increase in new money Revenue Bond indebtedness to \$295 million of project proceeds.

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action: X

Information:

Required Time:

Purchase of Land and Building at 2227 Enterprise, Escondido, CA

TO: Joint Board/Finance Committee
MEETING DATE: Tuesday, April 25, 2006
FROM: Bob Hemker, CFO

Background: As part of the ERTC Development Agreement and Memorandum of Understanding with the City of Escondido for the downtown campus, Palomar Pomerado Health committed to moving its Warehousing & Supply Chain Services and procurement of Equipment to a location within the City of Escondido. As a result of this relocation, associated local sales and use taxes resulting from the acquisition of supplies and equipment would be allocated to the City of Escondido. These amounts would then be applicable to the aggregate Public Benefit Payment pursuant to the ERTC Development Agreement with the City. Currently, the existing warehouse services are located at the Corporate Offices known as "Innovation" and thus, could be considered part of the move of Corporate Offices to the City of Escondido pursuant to the Memorandum of Understanding. However, the nature of the warehousing functions, including the associated trucking requirements, were not ideally suited to relocating to the existing Palomar Medical Center site and were excluded from relocation to that site. Instead, it was determined they would be located somewhere within the confines of the City.

Utilizing the services of a Real Estate broker, suitable sites were identified and evaluated. After evaluation for suitability and appraisal of value, it was determined that the above referenced property—land & building (*Addendum E*)—met the criteria for relocation of Warehousing & Supply Chain Services. It is ideally located in proximity to the ERTC campus site and will serve that and the other existing hospital and business locations of the District well. The property is currently zoned for the intended use.

Negotiations resulted in a purchase price that was at or below market value as determined by Third Party appraisal. The agreed-upon price for the 19,401 square feet is \$153 per square foot. It is anticipated that up to \$750,000 of capital improvements will be made to: expand the mezzanine, add HVAC, build out office space and restroom facilities, and equip the facility.

In addition, a portion of the property is accessible for use during escrow on a rental basis (rental to be applied to purchase price). The available space will be used for creating the mock-up rooms for the new hospital. Currently, that activity is being done at the SMACC building. However, with the impending build-out of the space for the School of Nursing, the mock-up rooms need to be moved. Temporary rental space was avoided as part of this solution, saving an additional \$50,000 plus for temporary rental space. The new building will service this purpose before and after close of escrow while certain improvements are being made – build-out of offices, etc. It is expected that this build-out will be completed about the time the mock-up space is no longer required, thereby allowing the relocation of Supply Chain Services on a transition basis from its current location at Innovation. Complete relocation to the new site is targeted for the Fall of 2006.

The purchase price of \$2,968,353 and other key terms and conditions are outlined on the accepted Counter Letter of Intent to Purchase dated April 10, 2006 (*Addendum F*). The Intent to Purchase is conditioned upon Board of Director approval and certain Due Diligence. Close of Escrow is set for on or about June 15, 2006. Upon approval, a Purchase Agreement will be consummated and executed. Additional key terms and highlights will be discussed and presented at the meeting.

Purchase of Land and Building at 2227 Enterprise, Escondido, CA

Board of Director approval is requested to proceed with the purchase, subject to the satisfactory completion of due diligence and acceptable Purchase Agreement. Board approval is requested for capital funds of up to \$3.72 million for acquisition (\$2,968,353) and post closing owner capital improvements (\$750,000), to be funded from working capital.

Budget Impact: \$2,968,353 for the purchase of the property known as 2227 Enterprise, Escondido, CA, and up to \$750,000 for capital improvements.

Staff Recommendation: Staff recommends approval of the acquisition and the associated Board Resolution (*Addendum G*), subject to satisfactory completion of due diligence, to be funded from working capital reserves.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action: X

Information:

Required Time:

March 2006 & Fiscal YTD 2006 Financial Report

TO: Joint Board/Finance Committee

MEETING DATE: Tuesday, April 25, 2006

FROM: Robert Hemker, CFO

Background: The Board Financial Reports (unaudited) for March 2006 and Fiscal YTD 2006 are submitted for the Committee's approval (*Addendum H*).

Budget Impact: N/A

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

**PALOMAR MEDICAL CENTER
ADMINISTRATIVE SERVICES AGREEMENTS
MEDICAL STAFF OFFICERS, DEPARTMENT CHAIRS, QMC CHAIR**

TO: Joint Board/Finance Committee
MEETING DATE: Tuesday, April 25, 2006
BY: Gerald E. Bracht, Chief Administrative Officer

BACKGROUND: Palomar Medical Center Medical Staff Officers and Department Chairs are provided a stipend for services performed as required by the Medical Staff By-laws. These agreements serve to document the relationship of the medical staff officers and department chairs to PPH, and the duties to be performed as consideration for the stipend to assure compliance with Federal regulations.

Presented are two-year Administrative Services Agreements for the Medical Staff Officers, Department Chairs and QMC Chair (*Addendum I – Boiler-plate Agreements, with one full Agreement attached, followed by only those pages from the remaining Agreements that contain officer-specific differences*).

There are thirteen agreements for implementation at Palomar Medical Center:

- Chief of Staff – Robert D. Trifunovic, M.D.
- Chief of Staff Elect – John J. Lilley, M.D.
- Chairman, Department of Orthopaedics – Paul Milling, M.D.
- Chairman, Department of Medicine – John J. Lilley, M.D.
- Chairman, Department of Anesthesia – Pierre Lotzof, M.D.
- Chairman, Department of Emergency Medicine – Jaime Rivas, M.D.
- Chairman, Department of Family Practice – Nicholas Jauregui, M.D.
- Chairman, Department of Radiology – Gary Spoto, M.D.
- Chairman, Department of OB/GYN – Gregory Langford, M.D.
- Chairman, Department of Pediatrics – David Golembeski, M.D.
- Chairman, Department of Trauma – Thomas S. Velky, M.D.
- Chairman, Department of Pathology – Lachlan Macleay, M.D.
- Chairman, Quality Management Committee – Daniel Harrison, M.D.

The attached Agreement Abstract is the same for all thirteen Agreements.

BUDGET IMPACT: None.

STAFF RECOMMENDATION: Approval.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion: X

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Administrative Services Agreement
	AGREEMENT DATE	January 1, 2006
	PARTIES	Medical Staff Officers and Department/QMC Chairs, Palomar Medical Center Medical Staff and PPH
	PURPOSE	To provide administrative services on behalf of Palomar Medical Center Medical Staff in accordance with Medical Staff Bylaws
	SCOPE OF SERVICES	As per duties defined in Exhibit 1.1 of the contract and Palomar Medical Center Medical Staff Bylaws
	PROCUREMENT METHOD	<input type="checkbox"/> Request For Proposal <input checked="" type="checkbox"/> Discretionary
	TERM	January 1, 2006 – December 31, 2007 - Chief of Staff, Chief of Staff Elect, Chair, Quality Management Committee, and Chairmen Departments of Orthopaedics, Medicine, Anesthesia, Emergency Medicine, Family Practice, Radiology, OB/GYN, Pediatrics, Trauma, and Pathology.
	RENEWAL	None
	TERMINATION	As described under §5.2 through §5.5
	COMPENSATION METHODOLOGY	Monthly upon submission of required monthly time reports
	BUDGETED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO – IMPACT:
	EXCLUSIVITY	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES – EXPLAIN:
	JUSTIFICATION	These are positions elected by the Medical Staff in accordance with Medical Staff Bylaws.
	POSITION POSTED	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO Methodology & Response: Elected by the Palomar Medical Center Medical Staff
	ALTERNATIVES/IMPACT	N/A
	DUTIES	Defined in Exhibit 1.1 as well as the Palomar Medical Center Medical Staff Bylaws.
	COMMENTS	Agreement templates were developed by legal counsel. The positions are voted upon by Active members of the Medical Staff.
	APPROVALS REQUIRED	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Committee <u>FINANCE</u> <input checked="" type="checkbox"/> BOD

**Independent Citizens' Oversight Committee
Approval of Minutes from Meeting on March 28, 2006**

TO: Joint Board/Finance Committee
FROM: Independent Citizens' Oversight Committee
MEETING DATE: Tuesday, April 25, 2006
BY: Bob Hemker, CFO

Background: On Tuesday, March 28, 2006, the Palomar Pomerado Health Hospital, Emergency Care, Trauma Center Improvement and Repair Measure Bonds Independent Citizens' Oversight Committee (ICOC) held their third meeting.

Pursuant to §6.4 of the ICOC PP&G, a draft report of all ICOC meetings is to be submitted to the District Board for inclusion in the Board's public records. The draft minutes from the meeting on March 28, 2006, have been reviewed by the Chair and the Secretary of the ICOC and approved for presentation to the ICOC members and the District Board (*Addendum J*).

Budget Impact: N/A

Staff Recommendation: Approval of the draft minutes from the ICOC meeting held on March 28, 2006.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion: X

Individual Action:

Information:

Required Time:

**Independent Citizens' Oversight Committee
Resignation of Lee Human, M.D.
Next Steps Required of the Board**

TO: Joint Board/Finance Committee

FROM: Independent Citizens' Oversight Committee
Tuesday, March 28, 2006

MEETING DATE: Tuesday, April 25, 2006

BY: Bob Hemker, CFO

Background: On Tuesday, March 28, 2006, the Palomar Pomerado Health Hospital, Emergency Care, Trauma Center Improvement and Repair Measure Bonds Independent Citizens' Oversight Committee (ICOC) held their third meeting.

At that meeting, a letter of resignation received from Lee Human, M.D., was read and discussed. Dr. Human's resignation was accepted, and a letter confirming that action was sent to Dr. Human by Chairman Steve Yerxa (*Addendum K*).

Dr. Human's resignation in effect causes two vacancies on the ICOC: 1) A vacancy in number, as the Policies, Procedures & Guidelines (PP&G) of the ICOC require that there shall be not less than nine (9) members; and, 2) A vacancy in Required Members, as Dr. Human was the Nurse/Physician representative on the ICOC—required pursuant to the PP&G, and none of the current members are qualified to fill that vacancy.

Pursuant to the PP&G, the PPH Board shall appoint a new person to serve the remainder of the term (Dr. Human was a member of the Class of 2006, with his initial term to expire on June 30, 2006, followed by a second term of two (2) years, to expire June 30, 2008).

- The PPH Board shall post the vacancy and solicit applications from the general public.
- The Board designee [the Board Finance Committee] shall review applications and make recommendations to the Board for applicants to fill the vacant position.

Budget Impact: N/A

Staff Recommendation: Posting of the vacancy created by the resignation of Lee Human, M.D., with applications accepted from qualified nurse or physician applicants only, to be reviewed by the Board Finance Committee for recommendation to the Board.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion: X

Individual Action:

Information:

Required Time: