Palomar Pomerado Health
JOINT BOARD OF DIRECTORS/FINANCE COMMITTEE BUDGET WORKSHOP
Pomerado Hospital, 15615 Pomerado Road, Poway, CA
Meeting Room E, 3rd Floor
May 18, 2004, Meeting Minutes

| AGENDA ITEM | DISCUSSION | CONCLUSION / ACTION | FOLLOW UP |
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| OPEN SESSION CALLED TO ORDER | 6:05 p.m. by Chairman, Alan Larson, M.D.<br><br>Chairman Larson stated that the Annual Board Budget Workshop would be held first, then the meeting would adjourn to the regularly scheduled Finance Committee. | | |
| ESTABLISHMENT OF QUORUM | Directors Nancy Bassett, R.N., T.E. Kleiter, Bruce Krider, Alan Larson, M.D., Chairman, Marcelo Rivera, M.D., and Nancy Scofield<br><br>Absent: Director Michael Berger, M.D. | | |
| ATTENDANCE | Also in attendance were: Michael Covert, James S. Otoshi, M.D., Alan Conrad, M.D., Bob Hemker, Gerald Bracht, Jim Flinn and Tanya Howell, Secretary to the Finance Committee.<br><br>**Guests:** Sheila Brown, LeAnne Cooney, Maria Feliciano, Gustavo Friederichsen, Stephanie Glucksman, Diane Hansen, Tamara Hemmerly, Marcia Jackson, Mary Oelman, Elizabeth Renfree, Lorie Shoemaker, Gary Spoto, M.D., Genie Tanksley, Val Tesoro, M.D., Lori Wells and Andrea Moss of the North County Times. | | |
| NOTICE OF MEETING | The notice of meeting was mailed consistent with legal requirements. | | |
| PUBLIC COMMENTS | There were no public comments | | |
| FY05 OPERATING AND CAPITAL BUDGETS | Chairman Larson turned the floor over to Bob Hemker, CFO. Mr. Hemker acknowledged the efforts of the Executive Management Team (EMT), the departmental directors and the Physician's Capital Advisory Committee (PCAC) in the preparation of the Operating and Capital Budgets ("Budget"). Their diligence allowed the acceleration of the budgeting process by a period of about six weeks.<br>Mr. Hemker also acknowledged Diane Hansen and LeAnne Cooney for leadership from a financial planning standpoint, they directed the Budget, noting that their interactions with the Directors and the EMT helped keep the process on task, meeting very tough deadlines.<br>The District has developed fiscal viability and stability in its performance over the past few years. It is vitally important that we keep on this track. The Budget reflects those efforts and the operating resources necessary to drive the fiscal performance necessary to serve our communities. It will also put us in a position of strength as it relates to the credit markets as we go forward in terms of our future endeavors in terms of potential capital formation.<br>We continue to develop our strategic focus in the budgeting process, and it reflects our strategic goals. The targeted bottom-line performance is tied to the 10-year debt capacity and capital formation plan. It sets the stage and roadmaps for future performance. A key focus is to continue to improve our bond<br>Key assumptions: Significant emphasis and review was placed on volume projections for the FY 05 year. New beds were brought online at both campuses and | MOTION by Director Rivera to approve the Capital and Operating Budgets as presented, seconded by Director Bassett and passed unanimously. | |

| AGENDA ITEM | DISCUSSION | CONCLUSION / ACTION | FOLLOW UP |
|---|---|---|---|
| | needed to be incorporated as well as assuring optimization of capacity – drilling through bed day capabilities, surgical capabilities, etc. Volume is a starting point for many indicators, in terms of our gross revenues, in terms of how it's going to reflect into the contractual allowance area, how it drives SWB costs, supplies, etc. Really did a validation check, rather than just rolling over the volumes from FY04.<br>The budget reflects growth (ADC of 232 at PMC, 81 at POM, for combined acute census of 313/day, which is 5.7% growth). SNF's are also up (PCCC 90, Villa POM 122, combined census of 212 as compared to 209 this year, about 1.4% growth). Those also reflect the shift over and the incorporation of the sub acute program, which will be a subset of skilled. Serving community on a daily basis of 525 patients. LOS is holding flat. As such, patient days are being driven by additional admissions.<br>Director Krider asked how the projections were calculated. Mr. Hemker indicated it was a combination of marketplace dynamics and measurement of the volume growth—where the community's going, where our capacities really are. Tying into where our strategic planning says we need to be in terms of total growth. Michael Covert stated discussions were also held with the medical staff. Lorie Shoemaker and Mary Oelman have been charged with blending it all in to the available nursing units and the incorporation of optimizing space capacity.<br>Some of the other key volume drivers were discussed: ER visits are increasing by about 4%, which translates into almost 80,000 visits for the year between the two campuses. Home Health visits up about 10%, reflecting a reconfiguration based on Medicare changes – continued growth in that area.<br>Chairman Larson wondered why ER was only 4% growth projection if there was a 6% admission rate. Looked at what we are really expecting in ED, what has community growth been doing? There is a use rate per thousand in terms of ED visits, tracking of population and capacity growth. This challenges our current capacity at the 4% level. Director Krider noted that was potentially a very conservative projection, and Mr. Hemker agreed. Budget was not built on the backbone of volume – it combines volume with a cost efficiency approach. We could have a larger volume growth, but must be able to service the volume. A percentage of ER visits translates into admissions. Mr. Covert stated we would also be monitoring door to doc time over the next year and our ability to manage the throughput.<br>A recap of the financial class sources of revenues indicates no major shifts in the financial class mix. We will still be in some capitated arrangements with Pacificare and four of the medical groups. .<br>Assumptions and strategies within the budget. We're proposing an 8% blended charge increase. How was the 8% figure arrived at? Retention of fiscal responsibility. The viability of where we're going, kept in balance with the community responsibilities. Comfortable with 8%. Healthcare premiums are showing double-digit increases – we're below that. We continually renegotiate various managed care contracts to achieve improved payments. Medicare and Medi-Cal contracts are regulatory driven. Bad debt/uncompensated care is targeted to be at approximately 3.9% of revenues. This translates into approximately $38M in uncompensated/undercompensated care provided to our community.<br>One of the key challenges faced in the budget was supply inflation, including | | |

| Agenda Item | Discussion | Conclusion / Action | Follow Up |
|---|---|---|---|
| | pharmaceuticals. We feel some of our key strategies there will allow us to absorb most of the inflation. We're holding inflation in terms of pharmaceutical and prosthetics. There are 1%-2% nominal inflationary increases as relates to medical & non-medical.<br>By comparison, In the last 12 months (April 2003 to April 2004), in the Western US, medical care has gone up about 6.3%. In Southern California (benchmarked offer the greater-LA area) it is 4.6%. We're very consistent with the inflationary indexes.<br>Increase will absorb some expense costs.<br>As to Salaries, wages and benefits, we are a market leader with regard to our rates of pay. We enhanced our pension benefits this past year, decreasing the wait to only one year. We are 100% at risk for rewards as they are not reserved in the budget. As performance is demonstrated, they will be funded. In aggregate, SWB reflects a 13.5% increase in terms of raw dollars – a very significant investment in our employees.<br>SWB expenditures are an overall $23M increase. Chairman Larson stated that he was delighted with the District's action to become a good employer, and that he was proud of our leadership. The pension improvement was exceptional in the market. Recruitment efforts have provided about 250 new RN recruits; and Director Bassett stated this was significant for patient satisfaction, as outside staff do not have the same commitment to patient satisfaction. We're seeing a return on investment from recruiting and will also introduce a foreign RN recruitment effort from the Philippines. 4 of 18 positions have been identified for FY05, with the rest to follow in FY06. Director Bassett pointed out that all of these candidates are English-speaking BSN candidates who will have passed all of their exams before coming to the US. Other countries are also being explored.<br>The budget reflects increases in FTEs resulting from volume increases, make / buy analyses and ties to our strategic initiatives. Director Bassett wanted to know if all 49 FTEs were budget neutral, and the answer was "yes". Funded through cost-savings or direct replacement of how currently being rendered. As an example, Self-pay billing / collections is currently outsourced, and it is being brought back in-house. All efforts (i.e., postage, follow-up, etc.) will equal about $250K in cost savings. In-house is better for customer service. In-house means that the patients are dealing with someone within PPH as opposed to an outsourcing agency.<br>In terms of purchased services, they are going up about $4.4M with half of the increase being volume related. Certain increases will occur as the IT projects go-live for license fees, maintenance agreements, etc. Overall, the IT strategic plan results in reduced expenditures and net present value savings.<br>The marketing budget includes increases for community awareness. Non-cash expenditure profit & loss. There is a 6-month convention for most depreciation. IT will show a full year for hardware, software, other medical equipment, capital replacement and the IT strategy.<br>As to the Capital Budget, $12.8 million of the targeted $14 million has been budgeted. The remaining $1.2 million has been reserved for the Imaging strategy plan along with approximately $1.3 million contained in the budget. The Imaging Strategy will be considered as a special capital budget. We're in the third year of the bed replacement strategy. | | |

| Agenda Item | Discussion | Conclusion / Action | Follow Up |
|---|---|---|---|
| | Michael Covert asked if the target took into consideration the changes as related to Behavioral Medicine program. Mr. Hemker stated that it didn't. Mr. Covert stated that he wanted the additional $400K in changes needed for the Fire Marshal's changes considered, and we're also looking at an additional $400-$600K depending on what the Fire Marshal's decide – really looking at an additional $1M to gain additional beds. Still an overall $14M as it pertains to the budget, and he wants to continue to move forward with it as it is well worth the investment. These items will come back to the Board through the Finance Committee.<br>Director Rivera questioned the refurbishment of the nurses' stations to accommodate workspaces associated with the I.T. conversion. It is incorporated into the budget, just not a separate item.<br>Chairman Larson questioned separating out $16M IT and radiology. Why was it off the budget? Why not handle as a regular capital budget item? They are disproportionate "big ticket" projects. Would use an overall disproportionate amount of the overall budget, to which we would either have to defer or just pull out as an entity unto itself. General replacements, viewed as advanced, multi-year strategies that would carry well beyond 3 years. Dr. Conrad noted that the PCAC came up with this as an answer to the problem, as it was almost impossible to put such long-term projects into the regular budget. Director Kleiter likened the projects to construction projects, managed over a period of years as total projects rather than attempting to split them into fractions over a single budget period.<br><u>Operating Budget Recap:</u> Projected FY05. Almost $1B gross revenue. Net patient revenue is up about 12%. Salaries, wages and benefits (SWB) are a 13.5% increase. The projected $8,000,000 operating income reflects a 24% growth year-on-year. Projected Net Income ( bottom-line ) is $20,000,000.<br>Operating EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization expenses - Interest, depreciation and amortization are the portions of this equation that affect us) is projected at $40.38 million including property tax revenue. This is an 11.2% operating EBITDA. Rating agencies include property tax revenues. An Aa rating is approximately 11.1% on the indexes, and our budget reflects an Aa performance.<br>An uncertainty to the budget occurred on May 13th. The Governor sought a budget compact that translates into 3% minimum contribution of taxing districts that will go back to the State for two years, with a bill to be passed to do so for two years, with the State forbidden to do so after that time. Impact on our district could be 3%, or $285K of the FY05 budget. This compact is part of the Governor's proposal to fix the State deficit. Director Kleiter stated that the Governor has a commitment to have legislation introduced to prevent these funds from being taken by the State in the future. Bob Hemker stated that if the funds are levied from us, we would have to absorb them into the budget and hold ourselves accountable to find a solution. Director Kleiter also noted that the 3% figure is the minimum. Healthcare districts were originally excluded from those having to pay, but other special districts complained about this preferential treatment, so healthcare was brought back in. The Governor has been meeting with each group privately to work it out. Although it looks like healthcare is going to be 3%, it could go as high as 25%. Some districts have tax | | An update on the Governor's budget compact will be provided at the June 14 Finance Committee meeting. |

| AGENDA ITEM | DISCUSSION | CONCLUSION / ACTION | FOLLOW UP |
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| | overrides for parcel tax, which would ensure exclusion from the 3%. Also, anything passed by a 2/3-voter margin (i.e., GO bond financing, revenue bonds, etc.) would also be excluded. Districts with less than $1M in tax monies are also excluded. Director Bassett questioned the timing of the legislation, and Director Kleiter stated that it would be two to three weeks at most.<br>Chairman Larson and Director Rivera asked if there were questions or comments. Director Scofield stated that she was most appreciative of time provided to her by Bob Hemker in response to her numerous questions. Director Kleiter stated that the presentation was very clear, and that all questions had been answered. Budget was well put-together.<br>Following the motion, Director Rivera commented that you could trust Bob Hemker, and therefore could trust the staff. The administrative staff showed great cooperation, and Michael Covert deserved credit for an excellent job of delegation. He thanked Diane Hansen, LeAnne Cooney, Stephanie Glucksman and Genie Tanksley for their support | | |
| FINAL ADJOURNMENT | There being no further business, the Joint Board/Finance Committee Budget Workshop was adjourned at 7:09 p.m., with a short break before commencing the Finance Committee meeting, for which all were welcomed to stay. | | |
| SIGNATURES:<br>• BOARD SECRETARY | Nancy Bassett | | |
| • RECORDING SECRETARY | Tanya Howell | | |