

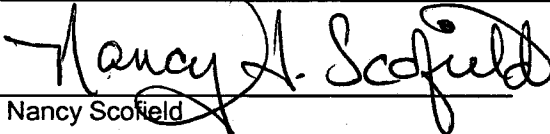
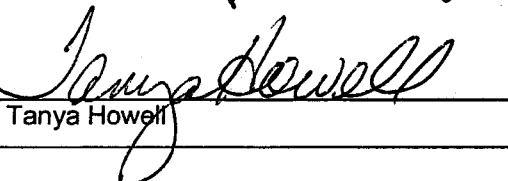
Palomar Pomerado Health
BOARD OF DIRECTORS BUDGET MEETING
Pomerado Hospital, 15615 Pomerado Road, Poway, CA
Meeting Room E, 3rd Floor
Thursday, June 26, 2003, Meeting Minutes

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
OPEN SESSION CALLED TO ORDER	6:25 p.m. by Chairman Alan Larson		
ESTABLISHMENT OF QUORUM	Directors Larson, Gigliotti, Rivera, Kleiter, Scofield and Bassett Absent: Michael Berger, M.D.		
ATTENDANCE	Also in attendance were: Michael Covert, Bob Hemker, Gerald Bracht and Recording Secretary Tanya Howell Guests: Sheila Brown, LeAnne Cooney, Stephanie Glucksman, Tamara Hemmerly, Allan Heryet, Marcia Jackson, George Kung, M.D., Peggy Orr, James Otoshi, M.D., Elizabeth Renfree, Anamaria Repetti, Paul Sas, Lorie Shoemaker, Genie Tanksley, Gil Taylor, Melanie Van Winkle, and Marty Graham 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.		
FY 2003 CAPITAL AND OPERATING BUDGET	<p>Robert Hemker introduced the Financial Planning team, beginning with Allan Heryet, Director of Financial Planning. He thanked him for taking up the challenge of the budget, especially in light of the multiple activities in which he was required to participate at the same time.</p> <p>Mr. Heryet introduced the remainder of his staff, beginning with LeAnne Cooney, whom he stated had paid close attention to the budget, mentoring the other staff members. Genie Tanksley was responsible for the budget software; Stephanie Glucksman was a new team member, dealing with budgeting issues and the labor meetings. Diane Hansen was also a key member of the team, but she was unable to attend the meeting this evening.</p> <p>Melanie Van Winkle, Controller, was introduced by Mr. Hemker, as she and her staff also played a vital role in the budgeting process.</p> <p>FY03 has been a positive year, with good growth and positive challenges. Along with the FY03 expected results, two other factors were key drivers to the FY04 proposed operating budget:</p> <p>a) In order to assure the financial viability needed for the upcoming facility expansion, a long-term financial model has been implemented. The FY04</p>	<p>MOTION: By Director Kleiter, 2nd by Director Bassett, to approve the Capital Budget for FY04 as presented. Director Berger was absent, Director Gigliotti opposed, all others in favor. Carried.</p> <p>MOTION: By Director Rivera, 2nd by Director Bassett, to approve the Operating Budget for FY04 as presented. Director Berger was absent, Director Gigliotti opposed, all others in favor. Carried.</p>	

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	<p>bottom line income is consistent with the model.</p> <p>b) New resource allocation – labor, supplies, services, etc. – were tied to the nine strategic goals. Requested resources were approved upon validation to the goals.</p> <p>There is some expected volume growth, due in part to the 8 acute beds added at POM and additional census at the skilled nursing facilities.</p> <p>Explanation of Welcome Home Baby Grant by Sheila Brown: We asked for \$2M, got \$1.3M. Expenses equal actual monies received.</p> <p>The requested rate increase is an 8% blended rate, based on market competitiveness and price sensitivity. Risk capitation contracting will continue with agreed medical groups where appropriate. In the past, we have cancelled some.</p> <p>Bad debt is projected at 3.8%. FY03 deductions from revenue are estimated at about 61% without bad debt; 64% with. The FY04 budget is 65%.</p> <p>Director Scofield wondered about statistics on the self-pay losses—if they all paid, how much would be received. Self-pay includes charity cases (very strict screening and application process for a case to become charity—must have exhausted all other possibilities for other means of payment before application can even be made). We don't get about 85% of self-pay monies. Marcia Jackson stated that about 80-85% of the uninsured in the state are working, just not earning enough to purchase or be provided insurance by their employers. Director Scofield wondered if we could help businesses get their people insured. PPH's role is better defined in what we currently assist in – community clinics and the hospitalist program, providing services to keep them healthier.</p> <p>Dr. Larson noted that some payors (at least 50%) are not bound by rate increases, so the 8% increase isn't really a full 8%. Some payors pay case rates, per diems, etc.</p> <p>Director Gigliotti stated that he thought the net revenue projection was low. Last year we had 21% growth, this year is only projected at 12%. Robert Hemker explained how net revenue is calculated based upon the modeling of payor mix, volume mix, rate increases, etc. Michael Covert asked that Director Gigliotti explain his specific areas of concern so that they could be directed to the staff during the modeling in the future.</p> <p>Director Kleiter wanted to know why the net revenue is higher than budgeted for FY03. Mr. Hemker stated that contract improvements, better charge capture and improved cash collections were contributing factors.</p> <p>Director Gigliotti stated that the FY04 operating income should be greater and believes that a higher net revenue is achievable. Feels it is useless to have such low projections when revenues were so much higher in FY03. He would like to see \$22M in net income budgeted. The Board is supposedly the reviewing authority, but what is the point of the review if they can't change it?</p> <p>As follow up, Director Kleiter stated that, with his experience in the health care field,</p>		

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	<p>he wouldn't use net revenue to achieve the operating income. Revenue is not the way to control net income. We need to control expenditures based on the projections, not spend time arguing about revenues. Perform on the expenditure side, with every dollar saved going to the bottom line. Only 36% from gross revenue goes to the bottom line.</p> <p>Mr. Covert stated that the goal is not to negotiate the budget here, but to review and approve it. If it is not realistic, that's a problem. The current issue is oversight.</p> <p>Director Gigliotti responded that if the expectation were set, then management would meet it.</p> <p>In the recap of operating income, the EBITDA has slipped some this year. This is due to \$7M in unique events that occurred last year and won't be repeated (\$3M from the City of Poway, \$3M in investment income received, and \$1M from the pension settlement). Depreciation expense, although not a cash issue, is budgeted to increase \$2M.</p> <p>Director Rivera stated that he understood where Director Gigliotti was coming from. From his perspective, on the expense side: 1) The challenge is for management to identify potential discrepancies in the capitation contracts; 2) Expenses –hospitalists; services at PMC vs POM; 3) Improve ER efficiency.</p> <p>Director Larson questioned the difference between the revenue predictions this year and last. 8% increase is one factor. Why are we proposing 8%, the same factor as last year? Mr. Hemker said it is based upon market dynamics, price sensitivity and reimbursement models.</p> <p>The salaries, wages and benefits are up 12% from last year, due to a commitment to provide competitive compensation and benefits, ratification of the union contracts, state mandated staffing ratios, and increases for the nonunion workforce. The approach to labor budgeting is Labor Standards X Units of Service = Productive Hours X Rate of Pay. Pension eligibility has been improved – the wait period was 3 years, now it's only 1 year. Director Kleiter questioned the reduction in registry expenses of only \$2M. Was this adequate in light of the improved salaries, wages and benefits for our employees? Director Rivera stated that it was a challenge to have an in-house registry pay off. Contract labor continues to be an expense challenge.</p> <p>Supplies show an almost 10% increase, \$2.5M of which is utilization of hi-tech items like AICD's and drug-eluting stents. These are on Mr. Hemker's watch list for next year.</p> <p>Director Scofield wondered about reusable items. Director Rivera stated that these were items that could safely be reused without affecting quality. He referred to a document from Paul Sas asking what items could be approved for reuse.</p> <p>Director Scofield also wondered about getting physicians to standardize. Director Rivera stated that the Chiefs of Staff had to buy in, then it needed to be accepted by quality management before implementation. Mr. Hemker stated that we're currently in a collaborative stage, and it must be phased in over the course of time.</p> <p>Recruitment efforts and the sensitivities regarding physician recruitment were</p>		

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	<p>discussed. We have always followed strictly the Federal government guidelines. Physician recruitment as determined by the community needs assessment is not a one-year strategy, and it cannot be funded in one year.</p> <p>As to the capital budget, there were \$28M in requests, budgeted back to \$14M, prioritized into quarterly allocations, with the final quarter to be held in contingency. Management spent hours together going line by line to cut those items not absolutely necessary. The Physician's Capital Advisory Committee was kicked off this month, and they reviewed initial budget figures at that time. They will be meeting quarterly to correlate physician interaction in the budgeting process. Director Rivera would like more coordination of efforts with the Foundation (and, Mr. Hemker inserted that it would be advantageous with the Auxiliary, as well). Mr. Covert will address these concerns internally.</p> <p>Director Scofield expressed her appreciation to the staff for their hard work in cutting items back.</p> <p>Director Kleiter wanted to know if the vote should be for capital budget, separate from the operating budget. Director Larson said he thought it would be both at once. It was noted that there was a separate vote last year, so the consensus was to separate them again this year.</p>		
OTHER BUSINESS	<p>Director Larson asked if there was any other business.</p> <p>Director Kleiter expressed a vote of appreciation to Mr. Hemker.</p> <p>Director Rivera asked if the meetings with the CFO were helpful. Director Larson stated that they were both helpful and educational. Mr. Covert and Director Gigliotti stated that the Board or interested Board members should become involved in the budgeting process earlier, before the fine-tuning was done, so they would have earlier knowledge of the details.</p> <p>Mr. Hemker stated that the budgeting process is both an art and a science. He is appreciative of the comments regarding the potential under-estimated revenues made by Director Gigliotti. Stated that we try to be as accurate as we can, and there is always opportunity for revision or fine-tuning. Next year's budget will be completed on an even more timely basis.</p> <p>Director Scofield stated that Director Gigliotti's discussion drives home a point – she has always appreciated discussion during the Board meetings and misses it. Suggested that next year there might be a place for two budget meetings/workshops.</p> <p>Director Rivera acknowledged Director Gigliotti's comments, recalling that he'd made the same comments last year and had been correct—would probably prove himself right again next year. Stated that this year the emphasis had been to cut out reports, with more thorough reports from the key committees coming through at the Board meetings. More meetings is not the answer – any Board member can address issues through the Chair or</p>		

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	<p>Mr. Hemker. If addressed, it will get on the Finance Committee agenda. The Business Department is always willing to help, as well.</p> <p>Mr. Covert expressed appreciation for everyone's work. He will follow up and do an internal post-mortem. This year he chose to "go with the flow" as it has worked in the past. He is used to a different process, consisting of a series of budget workshops, with discussion similar to this evening's, but without the pressure. Will talk more with the Board and staff about those approaches.</p>		
FINAL ADJOURNMENT	<p>There being no further business, the meeting was adjourned at 8:20 p.m.</p>		
SIGNATURES: <ul style="list-style-type: none"> • Board Secretary • Recording Secretary 	<p style="text-align: center;">  <hr/> Nancy Scofield </p> <p style="text-align: center;">  <hr/> Tanya Howell </p>		