

ADDENDUM A

Palomar Pomerado Health
FINANCE COMMITTEE
(BOARD MEETING WITH RESPECT TO BOARD MEMBERS ON THE COMMITTEE)

Pomerado Hospital, 15615 Pomerado Road, Poway, CA

Meeting Room E

Tuesday, October 31, 2006, Meeting Minutes

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
NOTICE OF MEETING	The notice of meeting was mailed before close of business on Friday, October 27, 2006, which is consistent with legal requirements		
MEETING CALLED TO ORDER	6:05 p.m. by Chairman Ted Kleiter		
ESTABLISHMENT OF QUORUM	Present: Directors Nancy Bassett, R.N., Linda Greer, R.N., Marcelo Rivera, M.D., and Ted Kleiter. Finance Committee Member Michael Covert Absent: Finance Committee Members Paul Tornambe, M.D., and Robert Trifunovic, M.D.		
ATTENDANCE	Gerald Bracht, Bob Hemker and Assistant Tanya Howell. Director Bruce Krider also attended as a guest.		
PUBLIC COMMENTS	There were no public comments.		
INFORMATION ITEMS	<ul style="list-style-type: none"> • Administrative Fellow Kwaja Floyd introduced guest Jennifer Ritter, a Masters student at SDSU. Ms. Ritter has been shadowing Ms. Floyd. • Bob Hemker stated that the Special Finance Committee meeting scheduled for Tuesday, November 14, 2006, would likely become a Special Board meeting, with all Board members except Dr. Alan Larson able to attend. Topics scheduled to be on the agenda are the issuance of the Revenue Bonds and review and approval of the Audited Financials for Fiscal Year 2006. He anticipates having documentation to the Board 6-7 days in advance of the meeting, if possible. • Bob Hemker reported that the pilot program with Care Payment is receiving positive feedback. Screening process for participants is thorough, and dollar levels seen thus far are reasonable. • The negotiations with Blue Cross were finalized today. The contract is for 2 years and 8 months, the first increase after 8 months. Congratulations to Margie Drobatschewsky for very successful negotiations. PPH is a strategic provider for payers in the North County. • As requested at the September meeting, Bob Hemker presented a draft Program Review Calendar (<i>see attached slide</i>), which will be utilized for Finance Committee awareness of topics that will be presented over the coming year. He noted that we are moving away from the standard reviews of current programs in favor of new programs/initiatives and requested updates. Currently on the draft Calendar: <ul style="list-style-type: none"> ○ Wound Care: Scheduled for presentation at the December 5th Finance Committee meeting. Although PPH already has a Wound Care program at Pomerado, there is a need for a North County presence in the Escondido area, and we are investigating a possible solution. ○ The Service Line Administrator's workgroup has named and prioritized six 		<ul style="list-style-type: none"> • Once finalized, the Program Review Calendar is to be distributed to the full Board of Directors

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	<p>initiatives that they will be investigating and implementing within the District. As appropriate, these initiatives will be discussed at the EMT Business Matters meetings, and will then to the Finance Committee for review/approval. Timing is not yet scheduled, with an updated Program Review Calendar to be provided to all members of the Board.</p> <ul style="list-style-type: none"> o The New Vision Program being provided by Special Care Hospital Management, which is scheduled for a six-month follow-up/post-implementation review in the December 2006/January 2007 timeframe. 		
<p>MINUTES SEPTEMBER 26, 2006</p>	<p>No discussion.</p>	<p>MOTION: By Director Bassett, seconded by Director Greer and carried, to approve the Minutes from the September 26, 2006, Finance Committee meeting. <i>Dr. Rivera abstained from voting due to his absence from that meeting; however, later review proved the abstention had been unnecessary, as he did attend the September meeting.</i></p>	
<p>PHYSICIAN RECRUITMENT AGREEMENTS</p>			
<p>SERGE KASKA, M.D.</p>	<p>Jackie Forsythe, Director of Physician Recruitment, provided background on Dr. Kaska:</p> <ul style="list-style-type: none"> • Orthopedic surgeon who trained at UC Irvine • Only San Diego orthopedist who performs limb-lengthening surgery (only one of two in the entire state, the other being at UC Irvine) • Already has completed the credentialing and privileges process • Salary <ul style="list-style-type: none"> o MDS performed an independent income analysis, and the proposed income guaranty is within the parameters of the market • Will treat adult and youth populations • Will have to negotiate directly with NCEMA to participate in trauma <p>On a separate note, Chairman Kleiter asked if there were objections to omitting the body of the Physician Recruitment Agreement from Finance Committee agenda packets in the future. He suggested that the Narrative, the Abstract and the Face Page only of the Agreement be included, unless there were changes to the standard agreement. Bob Hemker suggested providing a redline version of only those pages containing changes.</p>	<p>MOTION: By Director Rivera, seconded by Director Bassett and carried to approve the Physician Recruitment Agreement with Serge Kaska, M.D.</p> <p>MOTION: By Director Bassett, seconded by Director Greer, to approve the following documentation of Physician Recruitment Agreements for Board Finance Committee packets, and to recommend that the Board of Directors do the same:</p> <ul style="list-style-type: none"> • The Board Narrative • The Agreement Abstract • The Face Page of the Agreement • Redline page(s) showing any changes made from the Standard Agreement 	<p>The Physician Recruitment Agreement with Serge Kaska, M.D., was forwarded to the November 20, 2006, Board of Directors meeting with a recommendation for approval.</p> <p>The Finance Committee recommended that the Board of Directors adopt the same procedure with regard to documentation of Physician Recruitment Agreements for future Board agenda packets.</p>

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SEPTEMBER 2006 & YTD FY2007 FINANCIAL REPORT	<p>Utilizing the presentation included in Addendum C of the agenda packet, Bob Hemker discussed the financial statements:</p> <ul style="list-style-type: none"> • The presentation and the Board Financial Package have now been incorporated into a single document that is still evolving <ul style="list-style-type: none"> o The Statistics within the Executive Summary have been turned into a table • Favorable reaction to volume changes • Admissions - Acute <ul style="list-style-type: none"> o Consolidated Admissions are just over last year's o PMC is up from budget and POM shows little change • Acute Patient Days are down across the district, so LOS is also down • Average Daily Census is still below break-even of 320 YTD • Surgeries <ul style="list-style-type: none"> o Several new surgeons are just getting started on staff at PMC o Another OR is opening at PMC in response to surgeons' requests for additional time • Outpatient Registration shows general increases in volume • ER Visits at PMC are up about 5% year-on-year • Trauma Cases – up 15% against budget – are not showing any notable monthly trend line, with the last 2 months patterning the same as last year • Trauma Admissions are 25% above prior year figures and almost up to budget • Deliveries are following a cyclical pattern <ul style="list-style-type: none"> o Consolidated and PMC up o Slightly below both last year's figures and budget at POM • SNF LOS is up against budget & year-on-year <ul style="list-style-type: none"> o Key driver is the census o Decanting patients from acute to SNF frees beds and places patients in proper continuum of care • Gross Patient Revenue is down about 10% against budget, consistent with lower volume • PMC is ahead of budget on Net Patient Revenue, with POM holding just below budget • Salaries are slightly below budget • Supplies are slightly below budget, which is positive • Net Operating Income <ul style="list-style-type: none"> o PMC is well ahead of budget o POM is down, attributed to lower OB and Surgical volumes o Consolidated remains ahead of budget • Collections <ul style="list-style-type: none"> o Medicare deferrals in September amounted to about \$2 million, which should be caught up in October 	<p>MOTION: By Director Bassett, seconded by Director Greer and carried to approve the September 2006 and YTD FY2007 Financial Report as presented.</p>	<p>Forwarded to the November 20, 2006, Board of Directors meeting with a recommendation for approval.</p> <ul style="list-style-type: none"> • Budget lines in graphs [for each facility & consolidated] need to be in different colors for readability

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	<ul style="list-style-type: none"> o Collections are still down against both prior year and goal o Must be on target November, December and January – cash collections will be watched through the next quarter o HealthWoRx is concentrating on getting bills out quickly and efficiently o Payors <ul style="list-style-type: none"> ▪ Denials are being watched closely to review eligibility and stay issues • OEBITDA is at 10.2% • Net Income shows a positive \$1.8 million against budget for the first quarter <ul style="list-style-type: none"> o Driven by investment income increase • Bond Covenant Ratios <ul style="list-style-type: none"> o Holding Days Cash on Hand o Working cash is being used toward capital when possible o Maranatha property will soon be reimbursable o Cash is being paid to Escondido out of GO Bond funds 		
NOMINATIONS FOR CHAIR, VICE-CHAIR AND SECRETARY OF THE ICOC	<p>After confirming that all were willing to serve a second term, the Board Finance Committee concurred with the recommendation that the incumbent Officers of the ICOC be re-appointed for a second consecutive term of office.</p>	<p>MOTION: By Director Bassett, seconded by Director Greer and carried to recommend to the Finance Committee Chair that the incumbent officers – Steve Yerxa as Chair, Bob Wells as Vice-Chair and John McIver as Secretary – be reappointed to those positions on the ICOC.</p> <p>Board Finance Committee Chair Ted Kleiter presented the recommendation to Board Chair Marcelo Rivera, who reappointed the incumbents listed above on behalf of the Board of Directors</p>	<p>Forwarded to the November 20, 2006, Board of Directors meeting as information.</p>
2007 CAPITATION DECISIONS	<p><i>Director Rivera withdrew from these discussions.</i></p> <p>Utilizing the attached presentation, Margie Drobatschewsky, Director of Managed Care, discussed capitation trends from calendar year 2006</p> <ul style="list-style-type: none"> • PPH Capitation Policy: Capitation agreement with our medical groups/IPA partners will require an upside and downside sharing of risk where appropriate. Risk will be applied on an equal and consistent basis over a trended period of time • PPH's Capitation partners are Centre for Healthcare (CHC); Graybill Medical Group (GMG); Penn Elm; and Sharp Community Medical Group North Inland (SCMG) • Division of Financial Responsibility <ul style="list-style-type: none"> o PPH's risk is negotiated with each group • Based on 2004 and prior final pool settlements, capitation has worked in the past • 2005's final settlement was devastating for one group • 2006's final settlement is projected to be at least break even and could end on a positive note <ul style="list-style-type: none"> o One group has been in a deficit, but as of today's date is breaking even 	<p>MOTION: By Director Greer, seconded by Director Bassett and carried to recommend that PPH remain in capitation with all four groups for Calendar Year 2007.</p>	<p>Forwarded to the November 20, 2006, Board of Directors meeting with a recommendation for approval.</p>

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	<ul style="list-style-type: none"> o 2 of the 4 groups have been tasked with proving their strategies for improvement warranted remaining in capitation for Calendar Year 2007 • Should PPH remain in capitation or not for Calendar Year 2007? o Budgeted for FY2007 as though remaining in capitation, with no changes • Recommendation was to remain in capitation for Calendar Year 2007 with all four groups 		
STATUS UPDATE ON RAMONA PROPERTY	<ul style="list-style-type: none"> • The period of Due Diligence had been extended to allow independent engineering tests on the site. • The results of the testing showed there were no adverse conditions. No additional Due Diligence issues remain. • Escrow is scheduled to close this Friday, November 3, 2006, in that all pre-closing conditions and Due Diligence has been completed and found to be satisfactory. 	INFORMATION ONLY	Forwarded to the November 20, 2006, Board of Directors meeting as information.
DRAFT AUDITED FINANCIAL STATEMENTS FOR YEARS ENDED JUNE 30, 2006 AND 2005 & INDEPENDENT AUDITORS' REPORT	This item was pulled from the agenda and will be presented at the November 14, 2006, Special Board of Directors meeting.		
ADJOURNMENT	There being no further business, the meeting was adjourned at 8:15 p.m.	MOTION: Seconded and carried for adjournment.	
SIGNATURES: <ul style="list-style-type: none"> • COMMITTEE CHAIR _____ T.E. Kleiter • COMMITTEE SECRETARY _____ Tanya Howell 			

Working Draft - FY07 Program Review Calendar

NEW PROGRAMS/INITIATIVES		SPONSOR(S)
December 2006	Wound Care	Sheila Brown
SLA Presentation Order		
1	Developing a Cardiovascular Institute	Kim Dodson & Bill Kail
2	POM OSP	Diane Key & Bill Kail
3	Neurosciences	Marcia Jackson & Kim Colonnelli
4	PEDS	Diane Key
5	Satellite Centers	Marcia Jackson, Susan Linback & Kim Colonnelli
6	Minimally Invasive Surgery	Kim Dodson
PROGRAM FOLLOW-UP		SPONSOR(S)
December 2006/ January 2007	New Vision Program by Special Care Hospital Management	Mary Oelman

Capitation 2007

Margie Drobatschewsky

October 31, 2006

PALOMAR
POMERADO
HEALTH

SPECIALIZING IN YOU

A-6

Capitation Policy

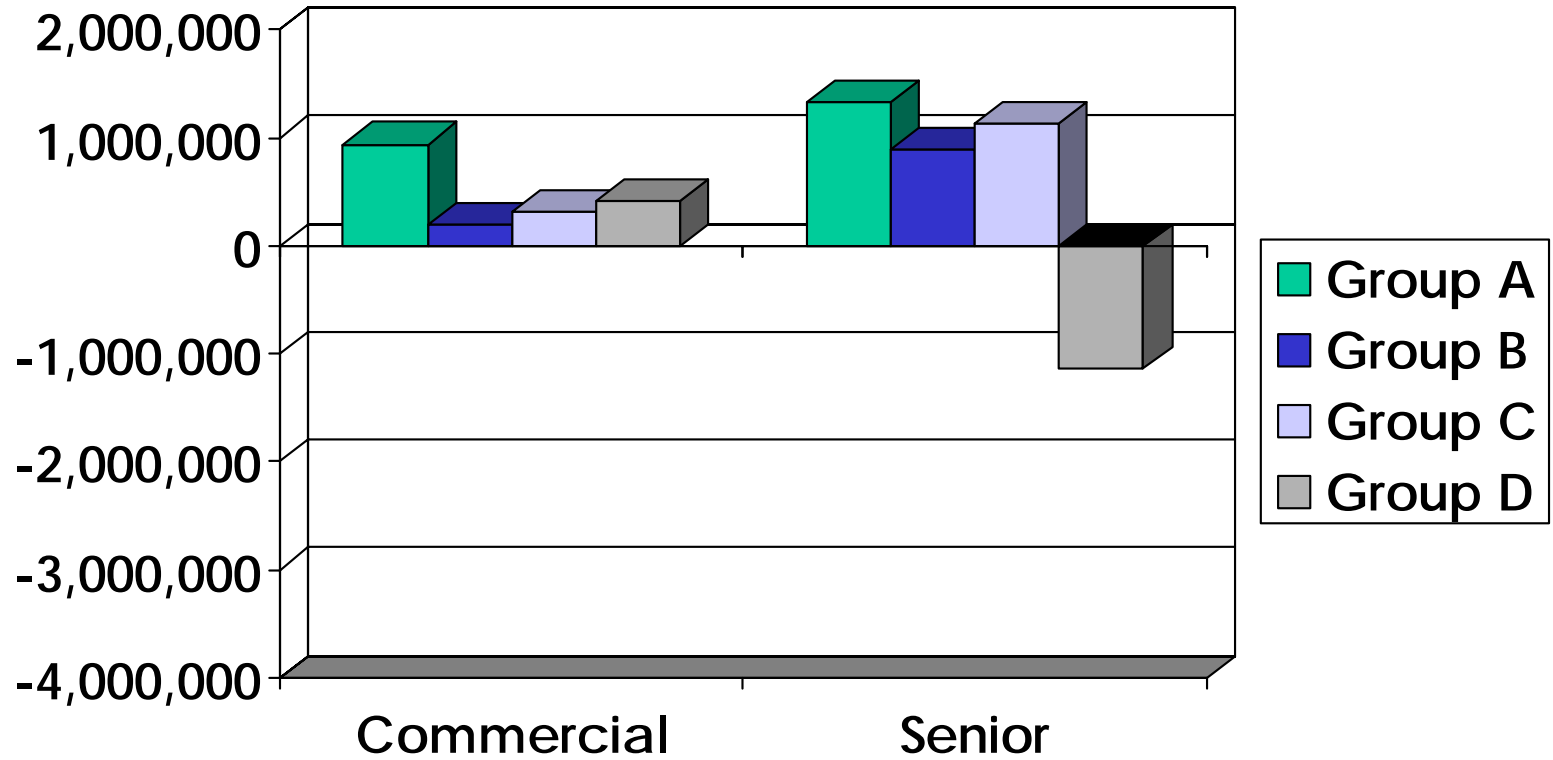
Palomar Pomerado Health has adopted the following policy:

Capitation agreement with our medical groups/IPA partners will require an upside and downside sharing of risk where appropriate. Risk will be applied on an equal and consistent basis over a trended period of time

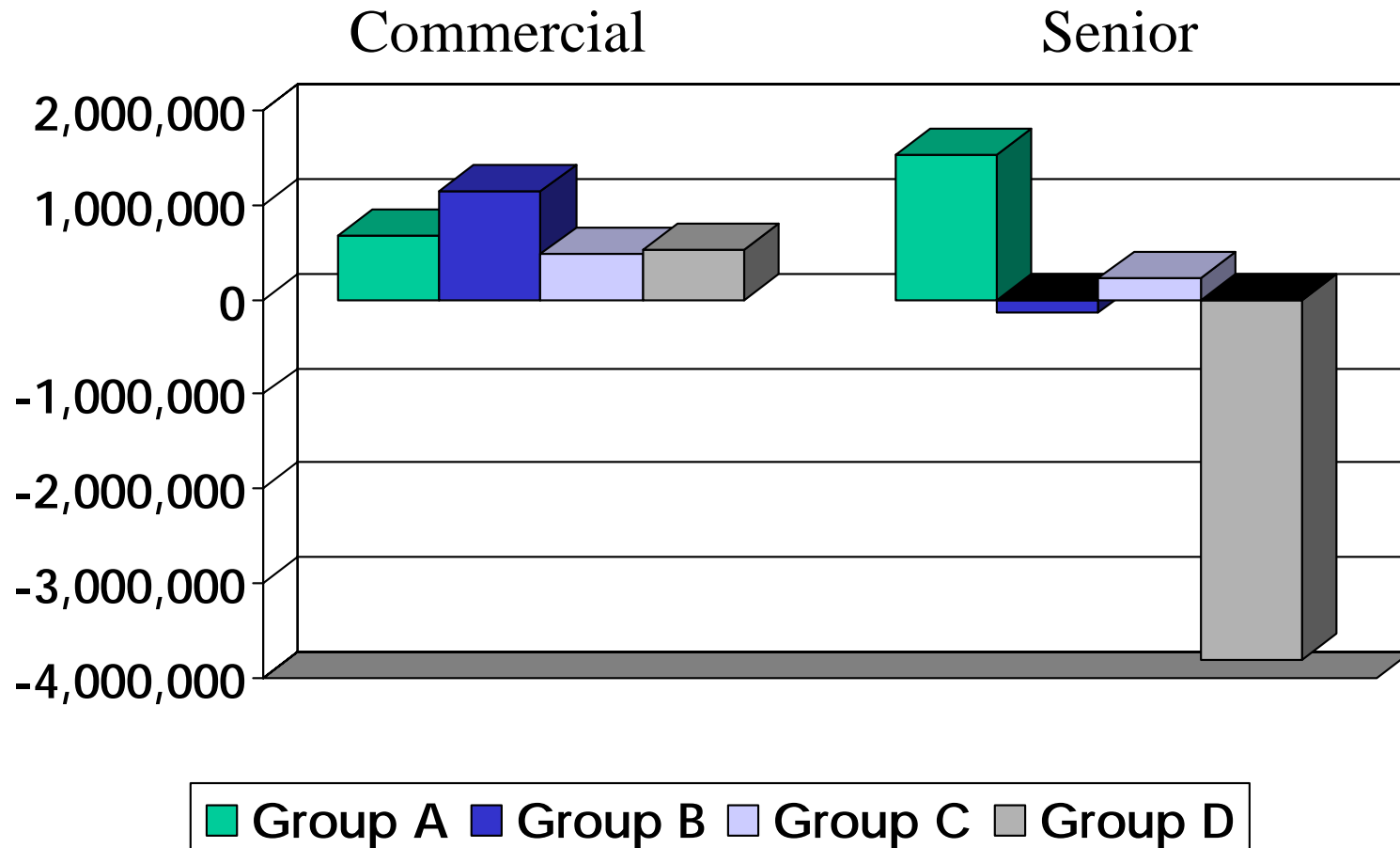
Capitation Procedure

- Minimum 5000 lives under risk
- Senior capitation = > than Medicare reimbursement
- Administrative fee of 1% of monthly cap premium based on plan design
- Valuation rates based on most current OSHPD data
- Consistent Division of Financial Responsibility (DOFR)
- Downside and upside based on group performance
- Surplus split based on group performance
- Risk pools will be financially sound and viable
- Groups must demonstrate effective concurrent and retrospective medical management

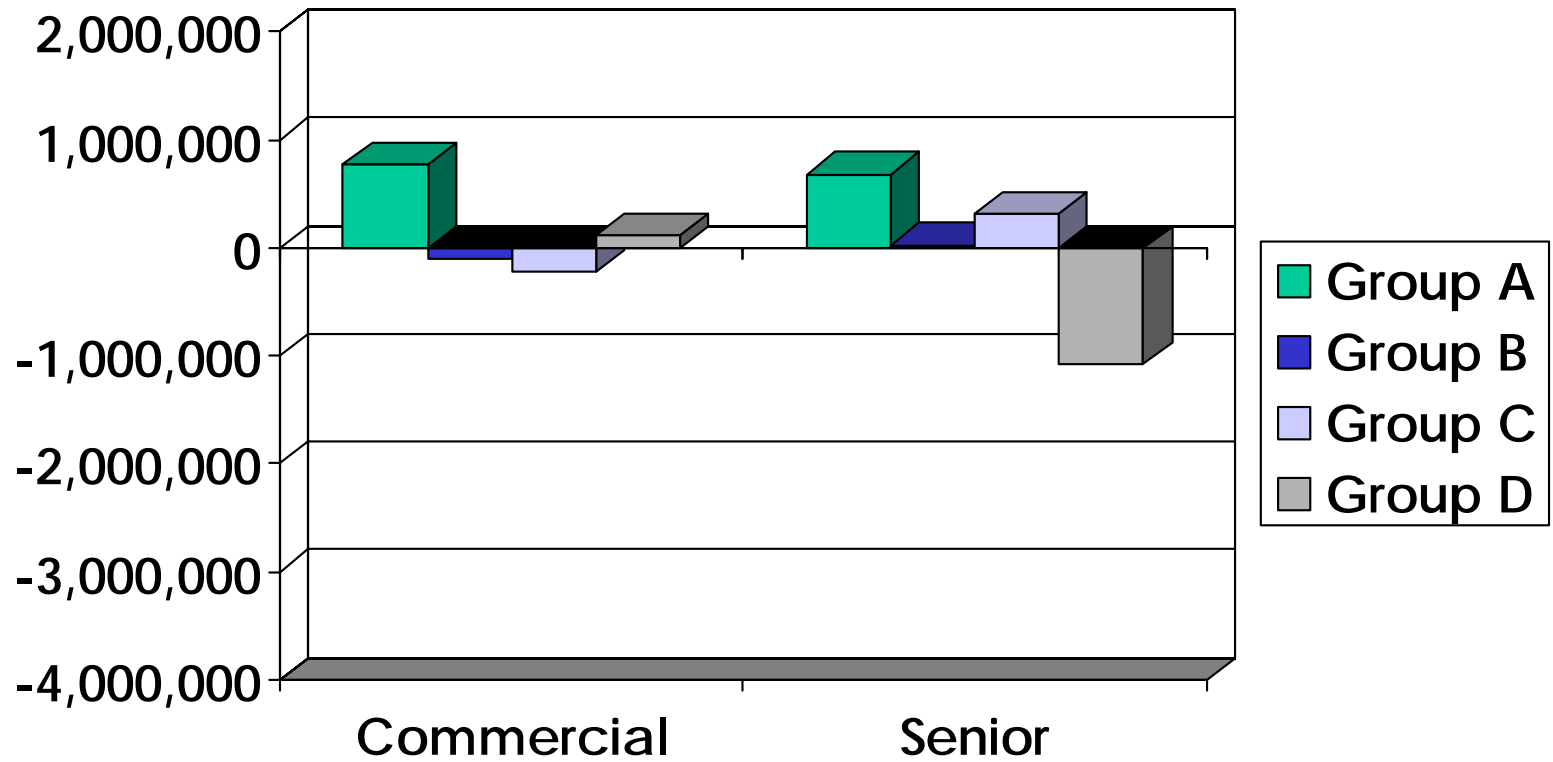
2004 Pools FINAL Settlement



2005 pools FINAL Settlement

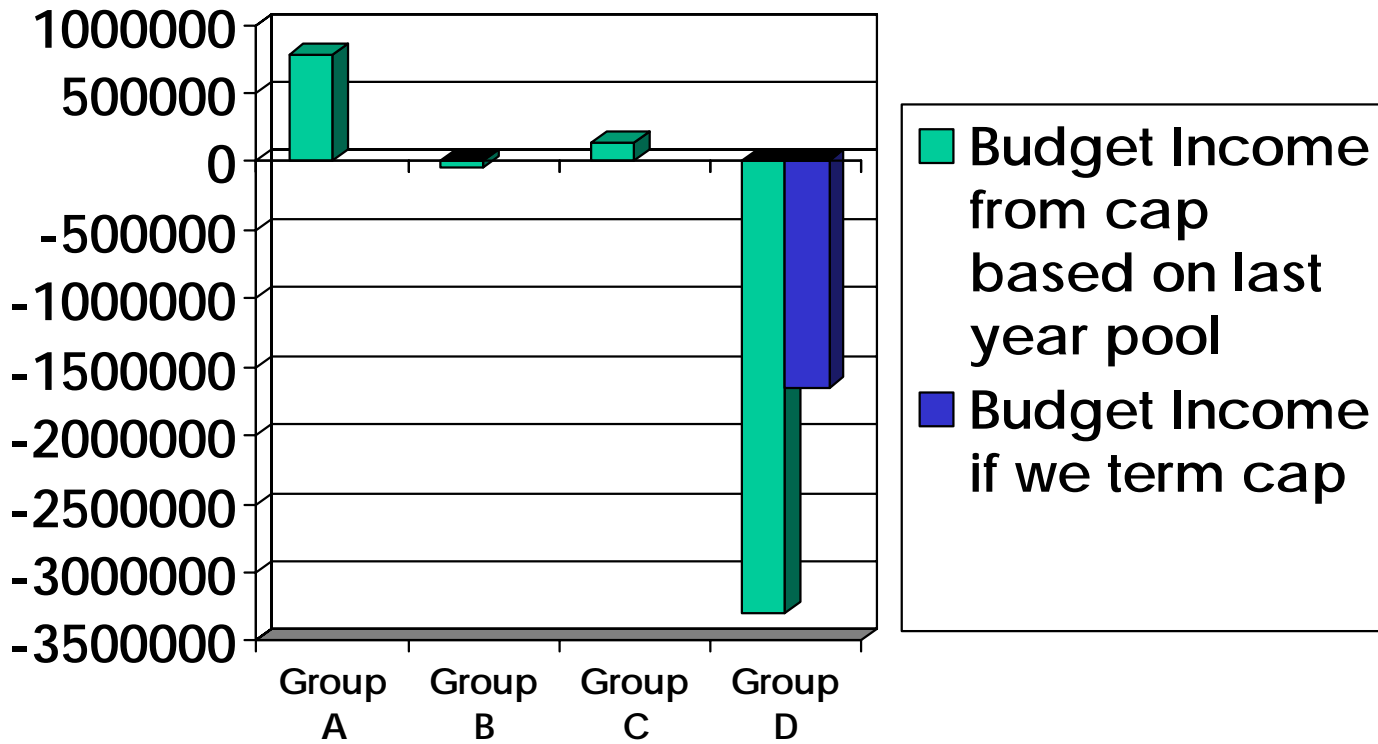


PY 2006 YTD thru June



Projected Full year positive pool or break even

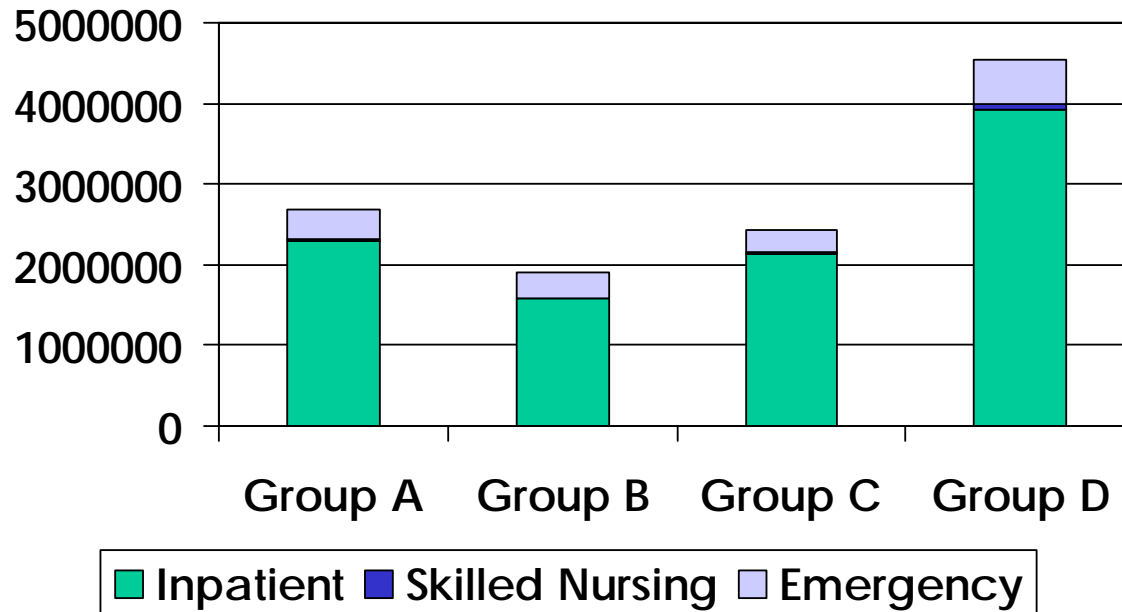
The Effect on cap on the FY07 budget



The pool runs January-December. We are contracted to remain in cap until January 2007.

If PCPs move to other hospital – Lost revenue potential

CY 2005 HMO revenue



- This does not capture the important Medicare and PPO business that could be channeled away from the district.

Background

				Penn Elm	
	GMG	SCMG	CHC	Penn Elm	Quality Care
Comml Lives	7,522	6,826	5,887	3272	2626
Senior Lives	4,095	3,789	2,470	1299	808
Capped since	June 1995	May 1999	February 1999	January 2004	
PCPs within the group	Fallbrook Primary Care	PMG El Norte NCI EIM	CHC Ramona group	Penn Elm Quality Care	

Over the years there has been some movement of these physician. Many of the SCMG physicians belonged at one time to bankrupt PPMA and defunct NCHN. The El Norte group has moved from GMG to SCMG in Feb 2001

PCPs in a Capitated agreements with PPH

CHC	GMG		Penn Elm		SCMG North Inland	
Barker, Michael	Bridgeman, David	Blain, Arthur	Bibler, Mark	Altschuler, Ken	Chiang, Larry	Conrad, Alan
Blando, Ellen	Huang, Victor	Borecky, David	Chabala, James	Birchall, Jeff	Foraci, Anna	Cottel, Jill
Brodkin, Jerome	Kordas, Karin	Carrillo, Pedro	Chang, Nancy	Buzard, Russell	Greenstein, Joshua	Greenstein, Joshua
Carty, David	Martinez, Genaro	Dann, Raymond	Colner, Gary	Chang, Nancy	Haffie, David	Klein, S. Douglas
Cornelius, Carol	Petersen, Jeffrey	Davidson, Elaine	Cueva, Mary	Curley, Edward	Lee, Emmet	Konzen, Larry
Dure-Smith, Belinda	Winton, Frank	Haberman, Mark	Hurd, Melissa	Giesemann, Corrine	Meyerhoff, Brian	Magat, Patrocina A.
Joswig, Bill	Tyson, Brian	Jacobs, Shari	Newman, Jeffrey	Greenberg, Brent	Minkoff, Peter	Merino, Richard A.
Kasch, Janine	Varma, Aruna	Le, Lara	Sharma, Sanjeev	Mendez, Angela	Moir, G Douglas	Ormsby, Monica
Lind, Christine	Weir, Vanessa	Mallo, Richard		Naegeli, Thomas	Salada, Elizabeth	Pasha, Sabiha
Luan, Gordan	Woo-Ming, MI	Martinez, John		Probahakar, Vena	Shapiro, Mark	Pearson, Jeffrey
Maletz, Louis		McKinney, Cynthia		Ricci, Richard	Stein, Robert	Pincock, Norman
Meram, Susan		Paz, Alejandro		Sheffey, Lynn	Tarzy, Neil	Ratniewsky, Alfredo
Nazareth, Vivek		Pengson, Joel			Tremain, Nicole	Rinderknecht, Heini
Presant, Larry		Penunuri, Isela				Safi, Akber
Putnam, Richard		Phan, Christine				Schoengold, Alan
Rivera, Marcelo		Rastle, Thomas				Shaffer, Mark
Zakov, Kamen		Reno, Edward				Weinberg, Stanley
Zgliniec, Robert		Rodriguez, George				Wickes, Aeron
		Stansbury, James				
		Tordilla, P				

Group D 2007 capitation strategy

- Onsite masters degree case manager for PMC, telephonic review for POM until new onsite manager is hired
- Respected medical director for PMC, new hire Medical Director for Pomerado (hire date 12/1/2006)
- Commitment to the hospitalist program at PMC
- Change to valuation rates that are in line with like-payors
- Downside risk
- Out-of-network team will repatriate members back to PPH
- Retrospective review of re-admits
- Monthly operations meetings with senior management

Group C capitation strategy

- Change to a 25/75% split
- Any 2006 surplus will not be paid out until 2007 settlement is calculated
- Continued successful medical management using on-site case manager with a proven track record
- Continued use of Hospice as appropriate
- Medical director involvement in repatriate out-of-network patients back in network
- Change in valuation rates so that they are in line with like-payors

Primary Care Physicians

	Palomar Privileges	Pomerado Privileges	Palomar and Pomerado Privileges
Family Practice	41	7	13
Internal Medicine	21	22	17

Number of PCPs by medical group

Centre for HealthCare	16
El Norte Family Medicine	4
Escondido Internal Medicine	3
Graybill Medical Group	16
North County Health Services	4
North County Internists	6
Palomar Medical Group	4
Penn Elm Medical Group	7
Quality Care Medical Group	8

Recommendations

- Stay in capitation for 2007
- Meet with Groups quarterly, more often if appropriate for business matters and monthly for operational matters
- Review cap pools mid 2007 for decision for 2008