Joint Board Finance & Quality Review Committees – Meeting Minutes – Tuesday, July 29, 2008				
Agenda Item	**Discussion**	**Conclusion/Action**	**Follow Up/ Responsible Party**	**FINAL?**
Meeting Location	Palomar Medical Center, Graybill Auditorium, 555 East Valley Parkway, Escondido, CA			
Meeting Called To Order	6:05 p.m. by Board Finance Chair Kleiter. Chairman Kleiter welcomed Board member Nancy Bassett, who was attending as a guest. He also welcomed members of the PPH Financing Team Ellen Riley & Carlos Bohorquez of Kaufman Hall; and Robert Barna & Chad Keenan of Citigroup.			
Establishment Of Quorum	**Board Finance Committee**: Ted Kleiter, Chair, Bruce Krider, M.A., Marcelo Rivera, M.D., Ben Kanter, M.D., and John Lilley, M.D. Sheila Brown was also in attendance as Interim CEO in Michael Covert's absence. **Board Quality Review Committee**: Marcelo Rivera, M.D., Chair; Linda Bailey, Linda Greer, R.N. – as alternate; Duane Buringrud, M.D., Daniel Harrison, M.D. and Roger Acheatel, M.D.			
Public Comments	There were no public comments			
Information Item(s)	• Chairman Kleiter requested that presenters be clear, concise & succinct in order to adhere to the Agenda timeframe for the Joint and separate mtg of approximately 2 hours. • The first portion of this meeting will be held jointly. As discussed in prior meetings, we will begin doing this on a periodic basis, with the intent being to connect the relationship between quality & finance. In many organizations, those areas tend to run in silos, paying little attention to their ties; however, it is becoming more apparent and transparent as to how they are interdependent. Tonight is an educational component about those interdependencies; more specific information and outcomes related to PPH will be rolled out in future meetings. Opal Reinbold indicated that she is compiling a resource manual as tool for future use It will be forthcoming. o Following the joint portion of the agenda, the meeting will adjourn to a standard Finance Committee meeting in order to address topics required to go before that body. Members of the Quality Review Committee are encouraged to stay for the first portion of the Finance Committee to review the updated Plan of Finance and Facilities Master Plan. • Bob Hemker discussed a "Talking Points" memorandum released by CHA this week regarding the status of the California state budget o No more Medi-Cal payments will be received until the new state budget is finalized ▪ Cash flow is put at risk as it relates thereto ▪ Slowdown only – not lost, but deferred monies that could have a material affect on our cash flow and days cash on hand o About $3B of the total $10B in uncompensated care provided by California hospitals in 2007 resulted from underfunding of the Medi-Cal Program o On average, hospitals are losing 22 cents on every dollar of costs spent providing care to Medi-Cal patients o Medi-Cal makes up about 20% of the hospital's revenues	***Information Only***		
The Critical Tie Between Quality of Care and the Future Financing of Healthcare	Bob Hemker and Opal Reinbold led the discussion, utilizing the presentation included as Addendum A in the agenda packet. They anticipated 30 minutes of presentation time, to be followed by a short question & answer period. An update on specific PPH issues will follow at the January 2009 meeting.	***Information only***	Forwarded to the August 11, Board of Directors meeting as information	

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL?
	• Overview information and discussion of plans, with key points regarding: o Value-based purchasing and mandates, as well as denial issues o Quintile rates across the country o Evidence based practices are encouraged ■ Hospitals are reimbursed based on that performance ■ Downstream effect of pay-for-performance ■ Need to define consumerism from eye of consumer ⅄ Difference in today's consumer – such as they are Internet research savvy o Quality improvement roadmap *(Add A-9)* o Key milestones over the last 20 years ■ National quality forum – first time a group of federal/state/JCAHO came together and defined the types of data they wanted to see ■ First Institute of Medicine (IOM) report in 1990 ■ Leapfrog Group ⅄ Evidence-based influence o PMC received about $80K in reimbursement ■ Only hospital in California to have high scores in all 4 core measures o Hospital Compare ■ Website where the public can go online to compare hospital quality reviews o CMS preventable events ■ CMS will no longer pay on hospital-acquired conditions or conditions we cannot document as previously existing o Pay for performance really means penalties for non-performance ■ No added dollars for positive performance ■ Government is beginning to pay lower performers less ⅄ Recorded on both state & federal level o Need to have documentation for clinical care so coders can refine coding to hit appropriate DRG ■ Tremendous amt of time for infection control nurses to gather and report information – takes them away from the bedside and presents challenges ■ Well positioned to partner with physicians to document information – clinical documentation project o Broad-based public release of data doesn't assist consumer ■ Patient needs to have information in a useful format ■ Legislation and requirements bear good concept, and there's a fiscal burden to do so o Payment Restructuring *(Add A21-23*) ■ Don't have traditional laws of economics of supply & demand - Payers, physicians,			

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL?
	hospitals & patients all factored into the equation ■ Unnecessary fees being paid for conditions being deemed preventable ⅄ Present on Admission (POA) vs Hospital-acquired condition (HAC) (a) Need to document and clearly understand everything patient is presenting with at time of admission (b) If no proof of POA, payers assume HAC ⅄ Plan of action for HAC *(Add A-28)* (a) IT needs to be involved due to Cerner usages (b) Full-blown plan on clinical documentation improvement project (i) 4 RNs on the floor with the physicians (ii) Being handled through Best Practice Steering ■ Never events *(Add A-29-30)* ⅄ No effective solution for bifurcating payment based on never event ⅄ How do you go through a detail, line-itemed bill what went under the never event portion and what will the payers be paying? o Recovery Audit Contractors (RACS) *(Add A23-36)* ■ Recovered about $300K in take-backs in the State o Team presented issues facing PPH with regard to MRSA ■ Jerry Kolins, MD, Lab Medical Director; Sue DeWindt, CLS, Microbiology Supervisor; Joyce Agorrilla, RN, Infection Control Manager; Shannon Bagnasco, BSN, Advance Clinical RN ■ MRSA (methicillin-resistant Satphylococcus aureaus) ⅄ First identified in 1961 – present everywhere ⅄ CDC doesn't know what to do (a) 100% confident that there isn't anyone who really knows what to do (b) California legislature still wants to mandate (i) New senate bills require that hospitals screen just about everyone *(Add A40-41)* ⅄ How PPH handles MRSA patients *(Add A-45)* ⅄ In a 2005 study conducted by the CDC, the national average was 4.6% (a) At 4.8%, PMC is just over that average (i) Decrease in known cases at PMC from 2006-2007 ⅄ Costs of screening *(Add A-49-57)* (a) 5-20% of the population are generally carriers (b) Expensive process (i) Cultures cost less but turn around time (TAT) is 24 hours (ii) Polymerase Chain Reaction molecular (PCR) testing ensures highest			

JOINT BOARD FINANCE & QUALITY REVIEW COMMITTEES – MEETING MINUTES – TUESDAY, JULY 29, 2008

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL?
	quality of care, with 2-hour TAT (iii) Could only bill for those lab screenings done prior to admission (c) Lab test only identifies who's colonized with MRSA (d) Patients to be placed into isolation until MRSA status is known o MRSA is great example of how Quality & Finance must work together ■ How do we isolate HACs while still providing the proper continuum of care? ■ How do we address from the money side? • Q&A and Comments o Did not address MRSA screening for our healthcare workers o What about visitors? o Need to educate providers on how to document • Feedback was requested and the consensus was that the joint meeting format and content meet the Board's expectations.			
ADJOURNMENT	**The Joint Meeting of the Board Finance & Quality Review Committees was adjourned to the Board Finance Committee at 7:18 p.m.**			
SIGNATURES: • COMMITTEE CHAIR	Ted Kleiter			
• COMMITTEE SECRETARY	Tanya Howell			

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BOARD FINANCE COMMITTEE MEETING
ATTENDANCE ROSTER & MEETING MINUTES
CALENDAR YEAR 2008

MEMBERS	MEETING DATES:										
	1/22/08	2/26/08	3/25/08	4/29/08	5/27/08	7/1/08	7/29/08	8/26/08	9/30/08	10/28/08	12/2/08
NANCY BASSETT, R.N.	P	P	P	P							
TED KLEITER – CHAIR	P	P	P	P	P	P	P				
BRUCE KRIDER, M.A.	P	P	P	P	P	E	P				
MARCELO RIVERA, M.D.	P	P	P	P	P	E	P[1]				
MICHAEL COVERT, FACHE	P	P	P	P	P	P	E[2]				
BEN KANTER, M.D.	E	P	P	P	P	E	P				
JOHN LILLEY, M.D.	P	E	P	E	A	P	E				
LINDA GREER – ALTERNATE			GUEST			P	P[1]				
LINDA BAILEY – 2ND ALTERNATE						E	GUEST				
ALAN LARSON, M.D. – 3RD ALTERNATE						E					
NANCY BASSETT, R.N. – 4TH ALTERNATE						P	GUEST				
STAFF ATTENDEES											
BOB HEMKER	P	P	P	P	P	P	P				
GERALD BRACHT	P	P	P	P	P	P	P				
DAVID TAM			P	P	P	E	P				
STEVE GOLD	P	P									
TANYA HOWELL – SECRETARY	P	P	P	P	P	P	P				
INVITED GUESTS	**SEE TEXT OF MINUTES FOR NAMES OF GUEST PRESENTERS**										

[1] Director Rivera left the meeting following the Plan of Finance update, and was replaced by Linda Greer as the Finance Committee Alternate
[2] Sheila Brown attended as Interim CEO, with full voting privileges

Board Finance Committee – Meeting Minutes – Tuesday, July 29, 2008				
Agenda Item	**Discussion**	**Conclusion/Action**	**Follow Up/Responsible Party**	**FINAL?**
Meeting Called To Order	7:18 p.m. by Chair Ted Kleiter. Chairman Kleiter invited the members of the Board Quality Review Committee to remain for the Plan of Finance presentation, as guests of the Board Finance Committee.			
Plan of Finance – Market Update & Updated Financial & Capital Plan	Some of the things discussed and ability to quantify them, how can they be placed into our 5- to 10-year forecast The Financing Team (Citi, Kaufman Hall, Bob Hemker) presented collectively **Market update *(Addendum B of Agenda Packet)*** • Interest rates on 2006 auction rate securities resets are averaging 3.17% over 12-week rolling o Sense of urgency still there – not quite as radical, but still have a direction where we might need to go o Insurance is key for us – preserving it for a fixed rate issuance solution; FSA's rating is being challenged in the market place ■ Dexia, as a potential issuer of a liquidity instrument, is also under some pressure on its rating • Pg 4 – market blow-up is obvious o Spreads are still there – not yet a flat-line to which we had become accustomed o Could be going down – potentially a different instrument would eliminate volatility ■ Market is grasping for negativity in market place and driving rates up – taking advantage of anything negative to cause hiccups ■ Director Krider indicates he forecasts a downward trend with less volatilities o What are the implications of Bear Stearns, Citigroup, Fannie Mae & Freddie Mac? ■ Correlation is that municipal credits that we're in are riding the bandwagon of what's happening in subprime arena – two distinct markets and should be treated separately, but they're not – getting hammered on subprime ■ Everything ties back to investors' ability to get their money back (i.e., liquidity) – how liquid for that investor is that instrument (i.e., 7 day liquidity or 30 years?) • Pg 5 - Team's diligence has gone through all the what-ifs and then some • Pg 6 - New options ■ Moving more toward a fixed instrument at this juncture ⅄ Keep insurance ⅄ No swap preserved – negative number to be refunded ⅄ FSA still has to consent – likely ⅄ Longer-term indications fixed rate solution with insurance (a) If no insurance – FSA may not give consent or invoke unacceptable terns and covenants on the transfer	**MOTION:** By Director Krider seconded by Interim CEO Sheila Brown and carried to recommend that the Board instruct Management to continue on the pathway of moving toward completion of the due diligence required to finalize the issuance of FY2009 GO Bonds in the amount of $100 million, the refunding of the 2006 ARS and recommend Board approval of the updated Financial & Capital Plan dated July 29, 2008. All in favor. None opposed.	Forwarded to the August 11, Board of Directors meeting with a recommendation for approval.	

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
	• Pg 7 – Current market conditions would indicate that a fixed interest rate of 5.94% o VRDO lower, but not as safe an option – level of uncertainty on liquidity instrument renewal and duration of instrument o without insurance – rate higher but still a viable option, from a cost structure standpoint - backup o 5.35%'s could move closer to 5.94% before closing, then locked in with a fixed rate so unaffected in the future o Made money, "on paper" for swap termination payment in year one on swap – this year will give it back o Don't fixate on rate – takeaway is on volatility, not actual rate – look at relative magnitude that each variable makes on the information o What is confidence level that ARS has settled down? All conditions being equal, we would still have issued auction rate instruments • Pg 8 – All factors discussed and put into review. • Pg 9 – Implications of swap termination – cash flow impact and potential source of funding were discussed. Cost of refunded issue factors in amortization of swap termination payment o Positive factor – we had FSA insurance and didn't HAVE to exit market – gave us flexibility • Pg 10 – over the next 30 days – will continue to work toward a traditional fixed rate restructuring in conjunction with a new money offer for 2008 GO bonds (really fiscal 09)– leverages up due diligence aspects • Additional information for review not discussed • Director Krider is not clear that the volatility is there – has ARS market stabilized and renormalized to what we were seeing pre 2/11? • Must ask whether bandwidth on this will remain equal to or better than rate we can get on fixed • Recommendation to proceed with diligence – tied in with work on GO issue – not necessarily executing the change – "go/no-go" once diligence is done and we're ready to issue – all bond documents would be brought back for Board approval • Director Krider – guess 4-5 weeks at an exit point? Exit at what is most likely going to be a low point – just doesn't want us to exit too early • As we go through next 45-60 days, what if we see stabilization, especially at a lower point? • Ellen Riley – looking at what can happen to the rate – also issue as to whether you fundamentally think ARS instrument is viable – market analysts thinking it is a fundamentally broken instrument • Investors thought they had liquidity, Feb 11th proved that wrong • If structure of why we got into that is not sound, then we must understand structure of instrument and if not sound, then we're placing ourselves at risk			

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?

	• We are trading in a strong range because we have a strong insurer – reflected base on credit of insurer. Now there is a difference in bond insurers, risk now that we're paying for 30 years of certainty, but if FSA goes the way of other insurers and loses their AAA rating, we would be at risk. Already paid for insurance, where can we extract value from that? Going to fixed does that.
	Proceeded to review Plan of Finance Document *(Attachment 1)*
	• Cost of Issuance is funded out of district funds on a Revenue Bond – unlike a GO Bond
	  o Funding could come from issuing an amount above par amount
	    ■ Example: issue $105M for $100M net proceeds, $5M is a cost to PPH
	• Evaluated our credit position if we did a Revenue Bond vs. GO Bond – re-establishing credit strength comes from issuing a GO Bond first
	• Can't issue all remaining GO Bonds all at once – tax levy would exceed target, plus couldn't spend them down in time to meet tax exempt financing rules
	• Pg 4 – ties updated Plan of Finance to approved $982M total Facility Master Plan – thus no consideration for debt capacity capability for an amount in excess of the approved FMP budget
	• Pg 5 and 6 – recommended that the next new money issue will be based upon Scenario 2A – GO Bonds in FY09 and Revenue Bonds in FY10 inclusive of Strategic Initiatives
	• 2009-2018 $936M of capital needs inclusive of routine capital and strategic initiatives
	  o 7 years post-opening will begin to see a reinfusion of routine capital needs as new campus equipment life cycles out. Routine capital should mirror depreciation.
	• Strategic initiatives – are key to future volume growth and sustainability of fiscal well-being
	  o Certain capital components that are front-loaded, which are deficits to provide future value
	  o Assessed that initiative is affordable – short term losses through to becoming profitable – front loading of capital and operating losses requires a short and long term analysis
	  o Must continue to grow the business – provides funding opportunities for the future
	  o Previously approved strategies – some timelines moved out in terms of when they would have benefit; moved all strategies out one more year from previous timeline
	• Pg 10 – Reviewed Revenue Bond vs. GO Bonds and with or with out initiatives – where would we be?
	• Pg 11 – Recap of the 4 scenarios
	  o 10-year plan – are we renormalized?
	  o 2a – GO first, revenue after			

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
	o Newer focus of rating agencies is to review / assess Cash to Debt along with Days cash on hand as a creditworthiness indicator • Pg 12 – Reviewed exposure points o Circling what we had in the past – allowing for capacity in the future o Magnitude of 61.1% to 38.7% o Cash to debt – reflection of liquidity – measure of significant liquidity in order to pay back debt service o Cash on hand • Pg 13 – Goal is to be above the red line o Can be seen that we grow creditworthiness strength in outer years on Plan but go through troughs in the early years • Pg 14 – Recommended Scenario 2A o Establishment of baseline for going out with rating agencies and insurers so we have trended predictability o Use of FY09 and part of FY10 and stabilizing credit components gives better options for revenue bonds in a year or so rather than today o EBITDA margin remains fairly level until 2013 o Drive toward GO Bond issue and then Revenue Bond, then working for initiatives implementation and pick and choose better drivers in early years that feed others – all would kick into force about the same time – strategies are important because positive to credit and Plan of Finance in long run • Pgs 20-21 – Kaufman Hall observations o 1st & second positive; 3rd – must watch all closely o Understand next 5 years – trough years, capital intensive • Pg 22 – Over 10-year cycle we're okay • 5-year horizon on cusp in terms of cash flow needed and generated • Pg 26 – Next steps – fine bandwidth of tolerance o Will continue to update model – including FY08 year-end performance – somewhere around end of 2008 CY o Audit targeted for October – most of interim work is done, we're holding financials for end of interim work			
BREAK	At 8:40 p.m., Chairman Kleiter called a 10-minute break to allow time for the guest presenters and any members of the Board Quality Review Committee who so wished to leave the meeting.			
MINUTES – JULY 1, 2008	No discussion.	**MOTION:** By Director Krider seconded by Director Greer and carried to approve the minutes of the July 1, 2008, Board Finance Committee meeting as presented. All in favor. None opposed.		

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
PHYSICIAN RECRUITMENT AGREEMENT				
OSMAN S. KHAWAR, MD, AND PALOMAR MEDICAL GROUP, INC. – INTERNAL MEDICINE	Dr. Khawar will be establishing an Internal Medicine practice with Palomar Medical Group, Ind., in both their Escondido and San Marcos offices. • Agreement was signed with understanding that Dr. Khawar would begin August 1, 2008; however, it was not provided to PPH in time for review at the July Board Finance and Board meetings. PMG is requesting that the agreement be approved with an effective date of August 1, 2008.	**MOTION:** By Director Krider seconded by Director Greer and carried to recommend approval of the Physician Recruitment Agreement with Osman S. Khawar, M.D., and Palomar Medical Group, Inc. All in favor. None opposed.	Forwarded to the August 11, 2008, Board of Directors meeting with a recommendation for approval.	
GENERAL OBLIGATION BONDS – TAX LEVY 2008-2009	• As outlined in Form A and supporting documents – No additional discussion requested	**MOTION:** By Director Krider seconded by Director Greer and carried to recommend approval of the Resolution authorizing the County of San Diego to levy and collect the required *ad valorem* taxes for the 2008-2009 tax roll in the amount of $17.75/$100,000 of assessed value. All in favor. None opposed.	Forwarded to the August 11, 2008, Board of Directors meeting with a recommendation for approval.	
ESTABLISHMENT OF APPROPRIATIONS LIMIT FOR FY2009	• As outlined in Form A and supporting documents – No additional discussion requested	**MOTION:** By Director Krider seconded by Director Greer and carried to recommend approval of the adoption of the Appropriations Limit for Palomar Pomerado Health for Fiscal Year 2009. All in favor. None opposed	Forwarded to the August 11, 2008, Board of Directors meeting with a recommendation for approval.	

JUNE 2008 AND YTD FY2008 FINANCIAL REPORT	June stats and YTD stats – consistent with past years, have kept financials open to address any observations that came out in interim field work from Deloitte & Touche. No financial results at this meeting – will be brought back – usually about 30 days after normal financial closing dates.
	• Consolidated admissions 900 under budgeted performance
	  o Up at POM down at PMC
	• Days follow suit 800 days off
	• ADC nearly on budget of 311
	• Patient days
	  o Solid consistency in terms of ICU; however Med/Surg tended to be up and down
	  o Falling off in terms of telemetry
	  o NICU more volatile – falling off consistency over last quarter
		Information only – no action required	Forwarded to the August 11, 2008, Board of Directors meeting as information.	

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?

	• Outpatient surgeries – ESC now included as hospital based department – short at both PMC and POM compared to budget
	  o 250 shortfall definitely from ESC, which is off 500
	• CV surgery – rebounding in June, couple of low months
	• ED admissions off on year on year growth compared to previous years and in terms of Admission to Visit percentage
	  o Indicates more level 1 & 2
	  o Busy ED not indicator of automatic busy inpatient activity
	• Trauma off for the year – some resurgence in June – off from previous years
	• OB Deliveries off slightly at PMC, up at POM
	• Payer mix constant & predictable – some movement of self-pay to Medi-Cal as the result of better case finding
	• County Medical Services (CMS) is positioning themselves for a changed model – will likely renew contract for one year
	• Early indications for FY08 – volumes slightly off, nothing remarkable based on tracking – fairly close to where we thought we would be			

ADJOURNMENT	**The meeting was adjourned at 8:54 p.m.**			
SIGNATURES: • COMMITTEE CHAIR ______ Ted Kleiter • COMMITTEE SECRETARY ______ Tanya Howell				

ATTACHMENT 1

Financial and Capital Plan Update – Finance Committee

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

San Diego, California / July 29, 2008

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Discussion Outline

- Review updated Plan of Finance / Projections
- Overview of Strategic Capital Assumptions
- Financial Projections and Credit Profile
- Capital Position Analysis
- Conclusions / Recommendations
- Next Steps

Review of the Plan of Finance

Integrated Plan of Finance (from 2006 Board Update)

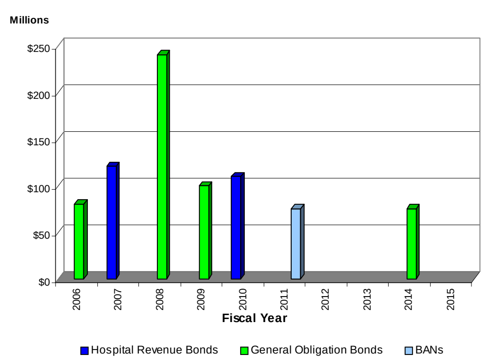
- Successful election results
- Restructure existing capital structure (debt) and issue Revenue Bonds (employing a stand alone credit rating)
- Issue GO bonds, Revenue Bonds and BANs; timed to meet construction draw requirements
- At the end of the day….
  - $496 million of GO's
  - $375.7 million of Revenue Bonds
  - $83 million of restructured existing debt
  - $70 million combination of cash from operations / philanthropy

Updated Integrated Plan of Finance

- Issued to date: $121M revenue bond project proceeds (FY2007); $80M GOs (FY2006) and $241M GOs in FY2008
  - Unspent proceeds of $254 million
- Issue GO bonds, Revenue Bonds and BANs; timed to meet construction draw requirements (Scenario 2A) with project proceeds of:
  - $100M GOs in FY2009
  - $110M Revenue Bonds (COPs) in FY2010
  - $75M BANs in FY2011
  - $75M GOs in FY2014 to take out the BANs
- At the end of the day….
  - $496 million of GOs
  - $375.7 million of Revenue Bonds
  - $83 million of restructured existing debt
  - $70 million combination of cash from operations / philanthropy

Phased, Integrated Plan of Finance

- Issue Revenue Bonds in conjunction with GO Bonds
  - Meet projected construction draw schedule without undue delay
  - Maintain $17.75 per $100,000 tax promised to voters
- Revenue Bonds issued in FY 2007 and FY 2010



Note: $75 million of GOs in 2014 to take out the BANs

Att 1-4

2008 Update Financial and Capital Plan
Key Strategic Capital Assumptions

Summary of Capital Spending and Borrowing Assumptions

Over the next 10 years (FY09-FY18), PPH will spend approximately $938 million in capital for projects including: Expansion / Replacement, Strategic and Routine

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	TOTAL
Expansion and Replacement	$ 211,005	$ 166,433	$ 309,985	$ 32,245	$ 39,444	$ -	$ -	$ -	$ -	$ -	$ 759,113
Routine and Strategic	$ 11,998	$ 18,818	$ 16,889	$ 19,891	$ 16,159	$ 18,000	$ 18,000	$ 20,000	$ 20,000	$ 20,000	$ 179,754
Total Capital	**$ 223,003**	**$ 185,251**	**$ 326,874**	**$ 52,136**	**$ 55,603**	**$ 18,000**	**$ 18,000**	**$ 20,000**	**$ 20,000**	**$ 20,000**	**$ 938,867**

Note: Total Facilities Master Plan is $982 million of which $223.4 million has been spent prior to FY2009. Routine and Strategic includes capitalized interest.

In order to fund the capital needs of the organization, PPH will need to improve operating margins along with the following, consistent with the Plan of Finance; issue GO / Revenue Bonds, realize market share gains as a result of service line specific strategic initiatives and realize projections for the capital campaign.

- GO and Revenue Bond from FY2008 to FY2011 will equal to approximately $416 million of GO Bonds and $110 million of Revenue Bond project proceeds

Summary of GO and Revenue Bond Project Proceeds

	2008	2009	2010	2011	Total
Revenue Bonds ($000s)	$ -	$ -	$ 110,000	$ -	$ 110,000
GO Bonds ($000s)	$ 241,000	$ 100,000	$ -	$ 75,000	$ 416,000

Palomar Pomerado Health

Summary of Key Assumptions (continued)

- Based on the current contribution margin and PPH's payor mix the overall contribution of the six service line growth initiatives by FY2016 is approximately $24.5 million. The total expected operating income contribution from FY2009 to FY2017 is approximate $107 million based on an estimated investment of approximately $24.1 million; these initiatives will have significant contributions in the latter years.

	Projection Years									
Service Line	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total Capital / Operating Expense
Cardiovascular										
Operating Income	$ -	$ 1,460	$ 5,010	$ 6,269	$ 5,148	$ 4,983	$ 5,279	$ 5,690	$ 6,234	**$ 900**
Orthopedics										
Operating Income	$ 1,361	$ 777	$ 1,189	$ 1,423	$ 1,555	$ 4,182	$ 6,056	$ 6,112	$ 6,104	**$ 1,300**
Cancer										
Operating Income	$ -	$ (783)	$ (187)	$ 97	$ 556	$ 889	$ 1,271	$ 1,696	$ 2,176	**$ 5,150**
Women's Services										
Operating Income	$ (861)	$ (443)	$ (161)	$ 23	$ 60	$ 104	$ 151	$ 205	$ 266	**$ 1,400**
General Surgery										
Operating Income	$ -	$ (228)	$ 767	$ 1,655	$ 2,195	$ 2,569	$ 4,117	$ 5,204	$ 6,206	**$ 900**
Neurosciences										
Operating Income	$ -	$ (126)	$ 817	$ 1,727	$ 2,556	$ 2,822	$ 3,110	$ 3,421	$ 3,900	**$ 1,300**
Primary Care Impact		$ (2,000)	$ (2,000)	$ (2,000)						**$ 13,200**
Annual Operating Income	**$ 500**	**$ (1,343)**	**$ 5,435**	**$ 11,194**	**$ 12,070**	**$ 15,549**	**$ 19,984**	**$ 22,328**	**$ 24,886**	**$ 24,150**

- Total Philanthropy contribution of $45 million from FY2009 to FY2018

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Palomar Pomerado Health

Issues of Consideration

- Deployment of Resources – Including Strategic Initiatives
- Timing of Revenue Bond Issue
  - Scenario 1A Includes Strategic Growth Initiatives – Rev. Bonds issued in FY2009
  - Scenario 1B Excludes Strategic Growth Initiatives – Rev. Bonds issued in FY2009
  - Scenario 2A Includes Strategic Growth Initiatives – Rev. Bonds issued in FY2010
  - Scenario 2B Excludes Strategic Growth Initiatives – Rev. Bonds issued in FY2010

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Att 1-6

Palomar Pomerado Health
Scenario Summary Table

Scenario	2008	2009	2010	2011	2012	2013	2018	Moody's "A" Rated Hospitals
		Projected						
Scenario 1A - Includes Strategic Growth								
Operating Margin	-1.9%	1.1%	1.4%	1.6%	-0.3%	0.0%	3.6%	3.2%
Days Cash on Hand	88	117	124	115	119	131	294	166
Debt to Capitalization	61.1%	63.9%	56.2%	50.9%	49.5%	47.9%	38.7%	36.0%
Cash to Debt	20.3%	22.4%	26.1%	26.6%	30.2%	35.8%	116.4%	120.4%
Scenario 1B - Excludes Strategic Growth								
Operating Margin	-1.9%	1.1%	1.6%	0.7%	-2.0%	-1.9%	1.0%	3.2%
Days Cash on Hand	88	117	140	131	131	136	272	166
Debt to Capitalization	61.1%	63.9%	56.1%	51.1%	50.0%	48.9%	42.8%	36.0%
Cash to Debt	20.3%	22.4%	27.8%	28.0%	30.1%	33.6%	94.0%	120.4%
Scenario 2A - Includes Strategic Growth								
Operating Margin	-1.9%	1.1%	1.4%	1.6%	-0.3%	0.0%	3.7%	3.2%
Days Cash on Hand	88	118	113	119	122	134	297	166
Debt to Capitalization	61.1%	52.8%	56.2%	50.9%	49.5%	48.0%	38.9%	36.0%
Cash to Debt	20.3%	28.1%	23.7%	27.4%	31.0%	36.5%	117.1%	120.4%
Scenario 2B - Excludes Strategic Growth								
Operating Margin	-1.9%	1.1%	1.6%	0.7%	-2.0%	-2.0%	1.1%	3.2%
Days Cash on Hand	88	118	128	134	135	139	276	166
Debt to Capitalization	61.1%	52.8%	56.1%	51.1%	50.0%	49.0%	42.9%	36.0%
Cash to Debt	20.3%	28.1%	25.5%	28.7%	30.8%	34.2%	94.8%	120.4%

Note: Credit medians for freestanding hospitals and single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.

Palomar Pomerado Health
Scenario 1A (Includes Strategic Growth and Rev. Bonds in FY2009) Financial Projections ($000s)

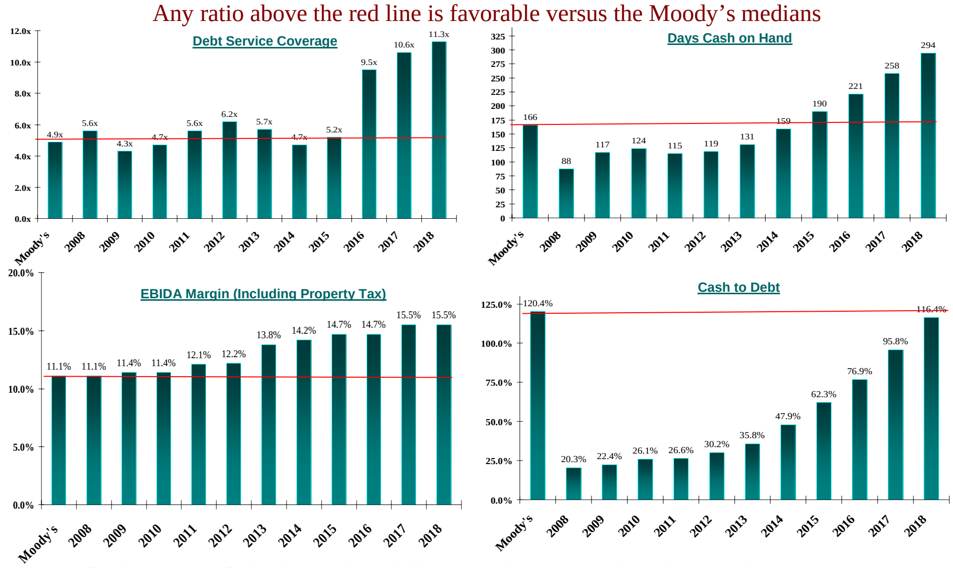
Ratio/Statistic	Moody's "A" Rated Hospitals	Annualized 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Projected									
Total Operating Revenue	$391,257	$460,712	$484,585	$527,378	$580,201	$631,832	$683,146	$734,225	$791,322	$839,893	$891,266	$945,798
Operating Income	$11,635	($8,844)	$5,484	$7,475	$9,528	($1,981)	$93	($458)	$7,085	$14,732	$22,152	$34,384
Net Income	$21,680	$24,851	$27,265	$29,852	$32,359	$21,413	$24,036	$24,818	$33,784	$41,153	$56,230	$69,567
Cash Flow (Net Inc + Depr)	$36,478	$46,287	$49,450	$54,784	$65,288	$72,808	$89,195	$94,004	$106,106	$114,338	$129,027	$137,592
Unrestricted Cash	$242,406	$107,936	$146,598	$168,624	$169,879	$190,400	$221,752	$290,671	$370,401	$454,674	$562,631	$679,110
EBIDA	$43,259	$50,928	$55,277	$60,045	$69,952	$76,866	$94,463	$104,590	$116,066	$123,696	$138,275	$146,741
Long-Term Debt	$144,003	$531,723	$653,867	$646,362	$638,472	$630,162	$618,905	$607,186	$594,878	$591,195	$587,412	$583,531
Profitability												
Operating Margin	**3.2%**	**(1.9%)**	**1.1%**	**1.4%**	**1.6%**	**(0.3%)**	**0.0%**	**(0.1%)**	**0.9%**	**1.8%**	**2.5%**	**3.6%**
Operating Margin (Inc. Property Tax)	**3.2%**	**2.8%**	**3.9%**	**4.0%**	**4.1%**	**2.0%**	**2.2%**	**2.0%**	**2.8%**	**3.6%**	**4.3%**	**5.3%**
Excess Margin	**5.9%**	**5.0%**	**5.4%**	**5.4%**	**5.4%**	**3.3%**	**3.4%**	**3.3%**	**4.1%**	**4.8%**	**6.1%**	**7.1%**
EBIDA Margin	**11.1%**	**11.1%**	**11.4%**	**11.4%**	**12.1%**	**12.2%**	**13.8%**	**14.2%**	**14.7%**	**14.7%**	**15.5%**	**15.5%**
Debt Position												
Debt Service Coverage (x)	4.9x	5.6	4.3	4.7	5.6	6.2	5.7	4.7	5.2	9.5	10.6	11.3
Long-Term Debt to Capitalization	36.0%	61.1%	63.9%	56.2%	50.9%	49.5%	47.9%	46.4%	44.5%	42.9%	40.9%	38.7%
Cushion Ratio (x)	16.1x	6.0	11.6	13.6	14.0	15.9	16.3	13.3	17.1	21.0	43.5	52.5
Debt to Cash Flow (x)	3.3	11.5	13.2	11.8	9.8	8.7	6.9	6.5	5.6	5.2	4.6	4.2
Liquidity												
Cash to Debt	120.4%	20.3%	22.4%	26.1%	26.6%	30.2%	35.8%	47.9%	62.3%	76.9%	95.8%	116.4%
Days Cash On Hand (days)	**166**	**88**	**117**	**124**	**115**	**119**	**131**	**159**	**190**	**221**	**258**	**294**
Days in A/R, net	48.1	68.9	57.8	57.8	55.0	54.0	53.0	52.0	51.0	51.0	51.0	51.0

Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.
Note: Debt, Principal and Interest has been excluded for GO bonds. Equity contribution equal to GOs has been included.

Att 1-7

Scenario 1A – Key Ratios Summary Graphs

Any ratio above the red line is favorable versus the Moody's medians



Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.

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Palomar Pomerado Health
Scenario 1B (Excludes Strategic Growth and Rev. Bonds in FY2009)
Financial Projections ($000s)

Ratio/Statistic	Moody's "A" Rated Hospitals	Annualized 2008	Projected 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Operating Revenue	$391,257	$460,712	$484,585	$501,542	$533,657	$564,715	$609,569	$645,277	$683,234	$723,606	$766,541	$812,211
Operating Income	$11,635	($8,844)	$5,484	$7,959	$3,913	($11,365)	($11,874)	($15,705)	($12,310)	($6,780)	($1,652)	$8,418
Net Income	$21,680	$24,851	$27,265	$30,422	$26,927	$12,026	$11,668	$8,718	$13,006	$17,892	$30,049	$40,689
Cash Flow (Net Inc + Depr)	$36,478	$46,287	$49,450	$54,553	$58,634	$62,149	$75,555	$76,632	$84,056	$90,020	$102,324	$108,514
Unrestricted Cash	$242,406	$107,936	$146,598	$179,814	$178,589	$189,452	$207,764	$260,097	$318,719	$379,144	$460,857	$548,738
EBIDA	$43,259	$50,928	$55,277	$59,814	$63,298	$66,207	$80,823	$87,218	$94,016	$99,378	$111,572	$117,663
Long-Term Debt	$144,003	$531,723	$653,867	$646,362	$638,472	$630,162	$618,905	$607,186	$594,878	$591,195	$587,412	$583,531
Profitability												
Operating Margin	**3.2%**	**(1.9%)**	**1.1%**	**1.6%**	**0.7%**	**(2.0%)**	**(1.9%)**	**(2.4%)**	**(1.8%)**	**(0.9%)**	**(0.2%)**	**1.0%**
Operating Margin (Inc. Property Tax)	**3.2%**	**2.8%**	**3.9%**	**4.3%**	**3.4%**	**0.5%**	**0.4%**	**(0.1%)**	**0.4%**	**1.2%**	**1.8%**	**3.0%**
Excess Margin	**5.9%**	**5.0%**	**5.4%**	**5.8%**	**4.8%**	**2.0%**	**1.8%**	**1.3%**	**1.8%**	**2.4%**	**3.8%**	**4.8%**
EBIDA Margin	**11.1%**	**11.1%**	**11.4%**	**11.9%**	**11.9%**	**11.7%**	**13.3%**	**13.5%**	**13.8%**	**13.7%**	**14.6%**	**14.5%**
Debt Position												
Debt Service Coverage (x)	4.9x	5.6	4.3	4.7	5.0	5.4	4.9	3.9	4.2	7.6	8.6	9.0
Long-Term Debt to Capitalization	36.0%	61.1%	63.9%	56.1%	51.1%	50.0%	48.9%	47.9%	46.8%	45.8%	44.4%	42.8%
Cushion Ratio (x)	16.1x	6.0	11.6	14.5	14.7	15.9	15.3	11.9	14.7	17.5	35.6	42.4
Debt to Cash Flow (x)	3.3	11.5	13.2	11.8	10.9	10.1	8.2	7.9	7.1	6.6	5.7	5.4
Liquidity												
Cash to Debt	120.4%	20.3%	22.4%	27.8%	28.0%	30.1%	33.6%	42.8%	53.6%	64.1%	78.5%	94.0%
Days Cash On Hand (days)	**166**	**88**	**117**	**140**	**131**	**131**	**136**	**160**	**186**	**210**	**242**	**272**
Days in A/R, net	48.1	68.9	57.8	57.8	55.0	54.0	53.0	52.0	51.0	51.0	51.0	51.0

Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.
Note: Debt, Principal and Interest has been excluded for GO bonds. Equity contribution equal to GOs has been included.

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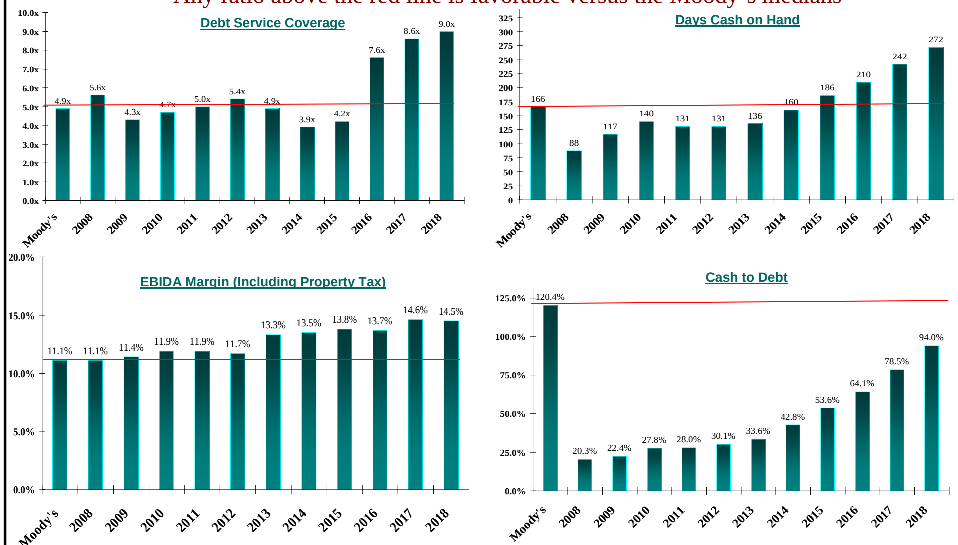
Att 1-8

Scenario 1B – Key Ratios Summary Graphs

Any ratio above the red line is favorable versus the Moody's medians



Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.

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Palomar Pomerado Health
Scenario 2A (Includes Strategic Growth and Rev. Bonds in FY2010)
Financial Projections ($000s)

Ratio/Statistic	Moody's "A" Rated Hospitals	Annualized 2008	Projected 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Operating Revenue	$391,257	$460,712	$484,585	$527,378	$580,201	$631,832	$683,146	$734,225	$791,322	$839,893	$891,266	$945,798
Operating Income	$11,635	($8,844)	$5,484	$7,475	$9,528	($1,981)	($178)	($269)	$7,274	$14,921	$22,341	$34,573
Net Income	$21,680	$24,851	$27,272	$29,709	$32,281	$21,540	$23,891	$25,161	$34,157	$41,533	$55,489	$68,947
Cash Flow (Net Inc + Depr)	$36,478	$46,287	$49,457	$54,641	$65,210	$72,935	$89,050	$94,347	$106,479	$114,718	$128,286	$136,972
Unrestricted Cash	$242,406	$107,936	$147,301	$153,488	$174,665	$195,313	$226,564	$298,253	$378,356	$463,009	$570,226	$686,084
EBIDA	$43,259	$50,928	$55,284	$59,902	$69,874	$76,993	$94,589	$104,744	$116,250	$123,887	$137,345	$145,932
Long-Term Debt	$144,003	$531,723	$524,563	$646,362	$638,472	$630,162	$621,407	$609,688	$597,380	$593,697	$589,914	$586,033
Profitability												
Operating Margin	**3.2%**	**(1.9%)**	**1.1%**	**1.4%**	**1.6%**	**(0.3%)**	**(0.0%)**	**(0.0%)**	**0.9%**	**1.8%**	**2.5%**	**3.7%**
Operating Margin (Inc. Property Tax)	**3.2%**	**2.8%**	**3.9%**	**4.0%**	**4.1%**	**2.0%**	**2.1%**	**2.0%**	**2.8%**	**3.6%**	**4.3%**	**5.4%**
Excess Margin	**5.9%**	**5.0%**	**5.4%**	**5.4%**	**5.4%**	**3.3%**	**3.4%**	**3.3%**	**4.2%**	**4.8%**	**6.0%**	**7.0%**
EBIDA Margin	**11.1%**	**11.1%**	**11.4%**	**11.4%**	**12.0%**	**12.2%**	**13.8%**	**14.3%**	**14.7%**	**14.8%**	**15.4%**	**15.4%**
Debt Position												
Debt Service Coverage (x)	4.9x	5.6	4.3	4.7	5.6	6.2	6.6	4.7	5.3	9.6	10.7	11.4
Long-Term Debt to Capitalization	36.0%	61.1%	52.8%	56.2%	50.9%	49.5%	48.0%	46.5%	44.6%	43.0%	41.0%	38.9%
Cushion Ratio (x)	16.1x	6.0	11.6	12.4	14.4	16.3	16.4	15.6	17.6	21.6	44.8	53.8
Debt to Cash Flow (x)	3.3	11.5	10.6	11.8	9.8	8.6	7.0	6.5	5.6	5.2	4.6	4.3
Liquidity												
Cash to Debt	120.4%	20.3%	28.1%	23.7%	27.4%	31.0%	36.5%	48.9%	63.3%	78.0%	96.7%	117.1%
Days Cash On Hand (days)	**166**	**88**	**118**	**113**	**119**	**122**	**134**	**164**	**194**	**225**	**261**	**297**
Days in A/R, net	48.1	68.9	57.8	57.8	55.0	54.0	53.0	52.0	51.0	51.0	51.0	51.0

Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.
Note: Debt, Principal and Interest has been excluded for GO bonds. Equity contribution equal to GOs has been included.

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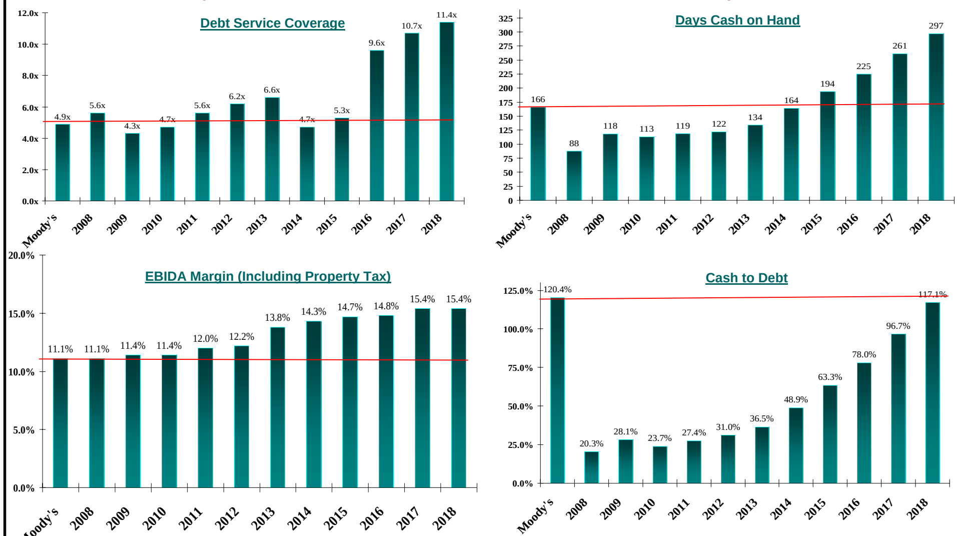
Att 1-9

Scenario 2A – Key Ratios Summary Graphs

Any ratio above the red line is favorable versus the Moody's medians



Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.

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Palomar Pomerado Health
Scenario 2B (Excludes Strategic Growth and Rev. Bonds in FY2010)
Financial Projections ($000s)

Ratio/Statistic	Moody's "A" Rated Hospitals	Annualized 2008	Projected 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Operating Revenue	$391,257	$460,712	$484,585	$501,542	$533,657	$564,715	$609,569	$645,277	$683,234	$723,606	$766,541	$812,211
Operating Income	$11,635	($8,844)	$5,484	$7,959	$3,913	($11,365)	($12,145)	($15,516)	($12,121)	($6,591)	($1,463)	$8,607
Net Income	$21,680	$24,851	$27,272	$30,279	$26,849	$12,153	$11,523	$9,061	$13,380	$18,273	$29,309	$40,071
Cash Flow (Net Inc + Depr)	$36,478	$46,287	$49,457	$54,410	$58,556	$62,276	$75,410	$76,975	$84,430	$90,401	$101,584	$107,896
Unrestricted Cash	$242,406	$107,936	$147,301	$164,678	$183,375	$194,365	$212,576	$267,680	$326,676	$387,481	$468,454	$555,717
EBIDA	$43,259	$50,928	$55,284	$59,671	$63,220	$66,334	$80,949	$87,372	$94,201	$99,570	$110,643	$116,856
Long-Term Debt	$144,003	$531,723	$524,563	$646,362	$638,472	$630,162	$621,407	$609,688	$597,380	$593,697	$589,914	$586,033
Profitability												
Operating Margin	**3.2%**	**(1.9%)**	**1.1%**	**1.6%**	**0.7%**	**(2.0%)**	**(2.0%)**	**(2.4%)**	**(1.8%)**	**(0.9%)**	**(0.2%)**	**1.1%**
Operating Margin (Inc. Property Tax)	**3.2%**	**2.8%**	**3.9%**	**4.3%**	**3.4%**	**0.5%**	**0.4%**	**(0.1%)**	**0.5%**	**1.2%**	**1.9%**	**3.0%**
Excess Margin	**5.9%**	**5.0%**	**5.4%**	**5.8%**	**4.8%**	**2.1%**	**1.8%**	**1.4%**	**1.9%**	**2.4%**	**3.7%**	**4.7%**
EBIDA Margin	**11.1%**	**11.1%**	**11.4%**	**11.9%**	**11.8%**	**11.7%**	**13.3%**	**13.5%**	**13.8%**	**13.8%**	**14.4%**	**14.4%**
Debt Position												
Debt Service Coverage (x)	4.9x	5.6	4.3	4.7	5.0	5.4	5.7	4.0	4.3	7.7	8.6	9.1
Long-Term Debt to Capitalization	36.0%	61.1%	52.8%	56.1%	51.1%	50.0%	49.0%	48.0%	46.8%	45.8%	44.5%	42.9%
Cushion Ratio (x)	16.1x	6.0	11.6	13.3	15.1	16.3	15.3	14.0	15.2	18.0	36.8	43.6
Debt to Cash Flow (x)	3.3	11.5	10.6	11.9	10.9	10.1	8.2	7.9	7.1	6.6	5.8	5.4
Liquidity												
Cash to Debt	120.4%	20.3%	28.1%	25.5%	28.7%	30.8%	34.2%	43.9%	54.7%	65.3%	79.4%	94.8%
Days Cash On Hand (days)	**166**	**88**	**118**	**128**	**134**	**135**	**139**	**165**	**191**	**215**	**246**	**276**
Days in A/R, net	48.1	68.9	57.8	57.8	55.0	54.0	53.0	52.0	51.0	51.0	51.0	51.0

Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.
Note: Debt, Principal and Interest has been excluded for GO bonds. Equity contribution equal to GOs has been included.

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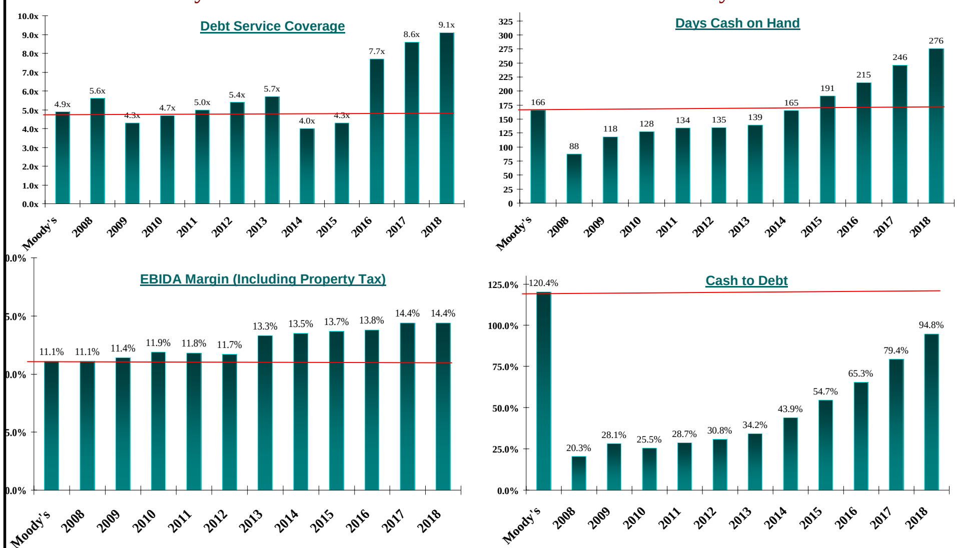
Att 1-10

Scenario 2B – Key Ratios Summary Graphs

Any ratio above the red line is favorable versus the Moody's medians



Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.

Palomar Pomerado Health

Kaufman Hall's Observations

- Internal and external factors have affected PPH's credit position in the market as reflected in liquidity and profitability analysis. The market has been affected by availability of instruments, insurance and tightening of credit ratings by the rating agencies.
- GO tax support for the current master facility plan, experienced management, and long-term benefit of Facility Master Plan (FMP) continue to be the strength in PPH's underlying credit position.
- In addition to capital already spent for the FMP, PPH will spend approximately $938 million (FMP $759 million and $179 million for routine / strategic) in capital from FY2009-FY2018 with a significant portion of expenditures in the next 5 years. PPH will need to closely monitor budgeted/planned capital expenditure levels and potential cost overruns.

Kaufman Hall's Observations (continued)

- Immediate and sustained financial risks for the organization include:
  - **Short-Term Horizon :** In the last four years of the ten year projections liquidity levels are significantly above Moody's 'A' rated days cash on hand targets. However, from FY2008-FY2014 days cash on hand levels are below Moody's 'A' target of 166 days. The challenge for FY2009 is to stabilize operations in order to restore liquidity.
  - **Strategic Growth Initiatives:** The benefit of the strategic growth initiatives are realized in the latter years. There is some risk in achieving the projected market share gains and volumes as a result of the strategic growth initiatives.
  - **Operational Risks:** Short-term operating challenges experienced in FY2008 and throughout the construction horizon will continue to challenge PPH's credit position. PPH will need to monitor staffing levels, supply expenses and other operating expenses as new acute care bed capacity comes on-line. Additionally PPH will need to monitor acute care bed capacity to meet growth projections and on-going strategic initiative demands.

Capital Position Summary Table

Scenario	Five Year FY2009-FY2013		Ten Year FY2009-FY2018	
	Required Annual Cash Flow	Projected Annual Cash Flow	Required Annual Cash Flow	Projected Annual Cash Flow
Scenario 1A - Includes Strat. Growth	$ 65,251	$ 66,305	$ 83,606	$ 91,259
Scenario 1B - Excludes Strat. Growth	$ 58,918	$ 60,068	$ 75,148	$ 76,189
Scenario 2A - Includes Strat. Growth	$ 65,269	$ 66,258	$ 83,343	$ 91,209
Scenario 2B - Excludes Strat. Growth	$ 58,937	$ 60,022	$ 74,885	$ 76,139

Note: Scenarios 1A & 1B include Revenue Bonds in FY2009
Scenarios 2A & 2B include Revenue Bonds in FY2010

Att 1-12

Palomar Pomerado Health

Scenario 2A
Five Year Horizon – Capital Position Analysis 2009-2013 ($ in millions)

Uses of Cash (2009 - 2013)		Sources of Cash (2009 - 2013)	
Routine & Strategic Requirements	$68,000	Unrestricted Cash - 2008	$107,936
Expansion and Replacement	774,867		
Total Capital Requirements	842,867	Revenue Bonds	110,000
Principal Payments	37,715	GO Bond Proceeds	175,000
Target Cash Required		Philanthropy	23,000
Days Cash 2013 -125	211,700		
		Trusteed Held	355,000
Working Capital Approx.	5,000		
Total Capital Uses	$1,097,282	Total Capital Sources	$770,936
Total Cash Flow Surplus (Shortfall)			($326,346)
Average Annual Cash Flow Target			$65,269
Projected Average Annual Cash Flow			$66,258

Historical Cash Flow	
Projected 2008 Annual Cash Flow	$46,287
Actual 2007 Annual Cash Flow	$52,493
Actual 2006 Annual Cash Flow	$39,704

** Cash Flow is defined as Net Income plus Depreciation*

Note: Debt, Principal and Interest has been excluded for GO bonds. Equity contribution equal to GOs has been included.

Palomar Pomerado Health

Scenario 2A
Ten Year Horizon – Capital Position Analysis 2009-2018 ($ in millions)

Uses of Cash (2009 - 2018)		Sources of Cash (2009 - 2018)	
Routine & Strategic Requirements	$164,000	Unrestricted Cash - 2008	$107,936
Expansion and Replacement	774,867		
Total Capital Requirements	938,867	Revenue Bonds	110,000
Principal Payments	77,963	GO Bond Proceeds	175,000
Target Cash Required		Philanthropy	23,000
Days Cash 2018 -250	577,535		
		Trusteed Held	355,000
Working Capital Approx.	10,000		
Total Capital Uses	$1,604,365	Total Capital Sources	$770,936
Total Cash Flow Surplus (Shortfall)			($833,429)
Average Annual Cash Flow Target			$83,343
Projected Average Annual Cash Flow			$91,209

Historical Cash Flow	
Projected 2008 Annual Cash Flow	$46,287
Actual 2007 Annual Cash Flow	$52,493
Actual 2006 Annual Cash Flow	$39,704

** Cash Flow is defined as Net Income plus Depreciation*

Note: Debt, Principal and Interest has been excluded for GO bonds. Equity contribution equal to GOs has been included.

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Conclusions / Recommendations

- Long-term vision with respect to capital deployment 'You need to spend money to make money' (i.e. the strategic initiatives generate significant contributions in the latter years).
- Issuance of Revenue Bonds in FY2010 thereby enabling PPH to restore credit position and operating margins (Scenario 2A).
- Five year horizon will be challenging, because of the significant expenditures needed to complete the Facility Master Plan.
- Recommend moving forward with strategic initiatives and updated plan of finance.

Next Steps

- Communicate Updated Financial and Capital Plan to different levels of management including the key operating assumptions necessary in order to meet the updated Plan of Finance (FY2009 GO and FY2010 Revenue Bonds).
- Update the plan with audited FY2008 results and YTD FY2009 performance in the first quarter of calendar 2009.
- Initiate planning and due diligence for issuance of $100 million GO Bonds in FY2009.

Definition of Financial Ratios

Profitability / Cash Flow Ratios

Operating Margin:
Operating Income
Total Operating Revenue

Excess Margin:
Operating Income + Non-operating Revenue
Total Operating + Non-operating Revenue

Operating EBIDA Margin:
Operating Income + Depreciation, Amortization and Interest
Total Operating Revenue

Debt Ratios

Historic Debt Service Coverage:
Excess Revenue Over Expenses + Interest + Dep + Amort
Annual Debt Service

Capitalization Ratio:
Long-Term Debt
Long-Term Debt + Fund Balance

Liquidity Ratios

Days Cash on Hand:
Cash & Marketable Securities + Board Design. Funds
((Total Operating Expense - Depreciation) / 365)

Cushion Ratio:
Unrestricted Cash
Maximum Annual Debt Service

Other Ratios

Cash to debt:
Cash & Marketable Securities + Board Design. Funds
Long-Term Debt

Average Age of Plant:
Accumulated Depreciation
Annual Depreciation