

**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 | P | P | | |
| BRUCE KRIDER, M.A. | P | P | P | P | P | E | P | P | E | | |
| MARCELO RIVERA, M.D. | P | P | P | P | P | E | P ¹ | A | P | | |
| MICHAEL COVERT, FACHE | P | P | P | P | P | P | E ² | P | P | | |
| BEN KANTER, M.D. | E | P | P | P | P | E | P | P | E | | |
| JOHN LILLEY, M.D. | P | E | P | E | A | P | E | A | E | | |
| LINDA GREER – ALTERNATE | | | GUEST | | | P | P ¹ | | | | |
| LINDA BAILEY – 2 ND ALTERNATE | | | | | | E | GUEST | | P | | |
| ALAN LARSON, M.D. – 3 RD ALTERNATE | | | | | | E | | | | | |
| NANCY BASSETT, R.N. – 4 TH ALTERNATE | | | | | | P | GUEST | | | | |
| STAFF ATTENDEES | | | | | | | | | | | |
| BOB HEMKER | P | P | P | P | P | P | P | P | P | | |
| GERALD BRACHT | P | P | P | P | P | P | P | P | P | | |
| DAVID TAM | | | P | P | P | E | P | E | P | | |
| STEVE GOLD | P | P | | | | | | | | | |
| TANYA HOWELL – SECRETARY | P | P | 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, SEPTEMBER 30, 2008

| AGENDA ITEM | DISCUSSION | CONCLUSION/ACTION | FOLLOW UP/ RESPONSIBLE PARTY | FINAL ? |
|--|---|---|---|------------|
| MEETING LOCATION | Graybill Auditorium, Palomar Medical Center, 555 East Valley Parkway, Escondido, CA | | | |
| MEETING CALLED TO ORDER | 6:05 p.m. by Chair Ted Kleiter | | | |
| ESTABLISHMENT OF QUORUM | See roster | | | |
| PUBLIC COMMENTS | There were no public comments | | | |
| ADJOURNMENT TO CLOSED SESSION | THE MEETING ADJOURNED TO CLOSED SESSION AT 6:05 P.M., PURSUANT TO CALIFORNIA GOVERNMENT CODE §54956.9 (B)(3)(A): CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION. SIGNIFICANT EXPOSURE TO LITIGATION (1 CASE). ANTICIPATED ACTION. | | | |
| OPEN SESSION RESUMED | Chairman Kleiter resumed the Open Session at 7:04 p.m. | | | |
| ACTION RESULTING FROM CLOSED SESSION DISCUSSION | Discussion: PPH has a proposed 2-year capitation agreement (Calendar Year 2009-2010) with PacifiCare/United, to be memorialized with PacifiCare/United. Current status on discussions with capitated groups/IPA were reviewed, and the terms and conditions under which PPH would be willing and able to maintain a capitated risk relationship with them. Each group/IPA will be included in the risk contract if acceptable terms and conditions can be reached. | MOTION: By CEO Covert, seconded by Director Bailey and carried to recommend that PPH enter into an agreement for two (2) years with PacifiCare/United for Commercial Capitation and with Secure Horizons for Senior Capitation, in accordance with specifics negotiated with them to date, in addition to working with our current Medical Groups and IPA Risk Partners based on an outline of direction given to CFO Bob Hemker in negotiated agreements with them. All in favor. None opposed. | Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval. | Y |
| INFORMATION ITEM(S) | <ul style="list-style-type: none"> • Final property on Valley Boulevard, owned by the Hrnjak Family Trust • One of the tenants requested us and also through the City Council of Escondido to help them remain in their lease <ul style="list-style-type: none"> o PPH negotiated an extended escrow time with the Hrnjaks, in recognition that their tenants will need to have plenty of time to relocate <ul style="list-style-type: none"> ▪ We have no obligation to the tenancy going forward, as it is a matter | Information Only | | |

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| | <p>between a landlord and their tenant</p> <ul style="list-style-type: none"> ▪ PPH will not consent to close of escrow with tenants on property ▪ Escrow papers demanded that property be delivered vacant of tenants o All tenants are in month-to-month tenancy <ul style="list-style-type: none"> ▪ No lease structure ▪ 30 days' notice only is required ▪ With extended escrow, actually turned into a 90-day notice o §1033 had nothing to do with tenants • Committee members expressed concerns about some of the comments in the newspapers <ul style="list-style-type: none"> o Incorrect statements about requirements for anything done at the locations to have medical purposes <ul style="list-style-type: none"> ▪ MOU with the City of Escondido calls for PPH to go to the City once all properties have been acquired and make a request that they close the street ▪ City to close the street upon request by PPH | | | |
| <p>MINUTES – AUGUST 26, 2008</p> | <p>No discussion</p> | <p>MOTION: By Director Bailey, seconded by Director Rivera and carried to approve the minutes of the August 26, 2008, Board Finance Committee meeting as presented. All in favor. None opposed.</p> | | <p>Y</p> |
| <p>ISSUANCE OF GO BONDS, ELECTION OF 2004, SERIES 2007A AND CONVERSION OF CERTIFICATES OF PARTICIPATION – ARS 2006</p> | <p>Bob Hemker introduced the members of the PPH Financing Team in attendance ((Robert Barna and Chad Kenan of Citigroup; Carlos Bohorquez of Kaufman Hall; and Kathleen Leak of Orrick) and thanked them for their work. He stated that we are dealing with two bond issues, as well as the uncertainty in the current marketplace, and we need to reduce our exposure to the current variable rate debt.</p> <p>Utilizing the attached presentation (<i>Attachment 1</i>) the team led a discussion on the complex issues involved in the issuance of the next tranche of General Obligation (GO) Bonds, as well as the resolution of issues dealing with the pending conversion of the Certificates of Participation (CoPs) issued in 2006.</p> <ul style="list-style-type: none"> • Pages 3 & 4 graphically summarize the historical occurrences on Wall Street the week of September 15th, as well as the actions of investors in reaction to those occurrences • As PPH cannot control market conditions, we need to: <ul style="list-style-type: none"> o Rationalize our decisions | <p>MOTION: By Director Bailey, seconded by Director Rivera and carried to recommend approval of the Resolution and requisite documents and delegation to Management of the authority to take the appropriate action necessary to finalize the documents and matters necessary to issue the third tranche of General Obligation Bonds, not to exceed \$110M par, to close on or about November 20, 2008, through a negotiated sale utilizing the previously established Joint Exercise of Powers Authority. All in favor. None opposed.</p> | <p>Forwarded to the October 20, 2008, Board of Directors meeting with recommendations for approval.</p> | <p>Y</p> |

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| | <ul style="list-style-type: none"> o Minimize risk exposure points o Take out controllable risk • Conversion is a solution for the 2006 CoPs-ARS <ul style="list-style-type: none"> o Preserves refunding in the future as an option • Chad Kenan briefly reviewed what has happened in the market <ul style="list-style-type: none"> o US Treasuries were yielding 0% for 30 days, so there were no investors for other yields <ul style="list-style-type: none"> ■ Left a huge supply of bonds in the marketplace with no demand o Over \$80B was pulled out of the marketplace in one day <ul style="list-style-type: none"> ■ Page 5 details the exodus of cash from the marketplace ■ The market needs to have inflow for investments o Municipal Bond (“Muni”) Market must improve before we can issue bonds (Page 6) <ul style="list-style-type: none"> ■ Only a few \$50M tranches have sold since September 15th <ul style="list-style-type: none"> ▲ As opposed to \$6B scheduled for sale each week in prior weeks ■ Even though GO Bonds are a no-risk instrument, there are no buyers in the Muni Market due to the globalized uncertainty <ul style="list-style-type: none"> ▲ Only activity in market right now is retail for personal accounts ▲ Institutions are not participating at all <ul style="list-style-type: none"> (a) If bonds are not AAA paper, would cause an exposure when having to sell ■ Sellers are currently holding off <ul style="list-style-type: none"> ▲ If others go to market at the same time as PPH, it could become a buyers market ■ Need to maintain a constant review of the market with issuance scheduled for in mid-November ■ Only 45 days in which to shore up uncertainty and hope that the market will stabilize so there will be bids for the bonds o Rating agency reviews are next week <ul style="list-style-type: none"> ■ All 3 agencies have agreed to conference calls vs. in-person meetings ■ Positive for PPH that they are willing to do the reviews without face-to-face interviews <ul style="list-style-type: none"> ▲ They know who we are, our projects, etc. ■ Review of the District’s ability to issue debt | <p>MOTION: By Director Bailey, seconded by Director Rivera and carried to recommend approval Resolution and requisite documents and delegation to Management of the authority to take the appropriate action necessary to finalize the documents and matters necessary to convert/restructure the 2006 CoP-Auction Rate Securities to fixed rate bonds/CoPs and to terminate the SWAP transaction for the 2006 CoP-Auction Rate Securities, to close on or about November 20, 2008, through a negotiated sale utilizing the previously established Joint Exercise of Powers Authority. All in favor. None opposed.</p> | | |

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| | <ul style="list-style-type: none"> • Issuance instrument schedule switched in the last Board-approved Plan of Finance (PoF) <ul style="list-style-type: none"> o Flipped the Revenue and GO schedules <ul style="list-style-type: none"> ■ Allowed us to stabilize and enhance credit aspects on the Revenue bond side ■ Ability to support the promised tax levy amounts by issuing now <ul style="list-style-type: none"> ▲ Agreed to in the PoF was a level tax levy throughout the next 30 years ▲ Issuing now, we're still at the same tax levy of \$17.75/\$100K of assessed value ▲ Assessed value is up about 2% <ul style="list-style-type: none"> (a) San Diego County appears to have been proactive in assessments based on the fires <ul style="list-style-type: none"> (i) Previously voter approved Prop 8 allows homeowners to appeal to the assessor <ul style="list-style-type: none"> 1. Can have home revalued based on neighbors' assessment, which will go back up when the market does (b) We notify the County what to levy (c) There is a little bit of a reserve fund, from which we will also be able to draw ▲ Good from a taxpayer perspective <ul style="list-style-type: none"> (a) Seeing the same tax bill every year • Of the \$320M in bond monies that have been issued <ul style="list-style-type: none"> o \$80M from the series 2005A bonds is totally spent down o As of August the was \$241M from the Series 2007A bonds remaining <ul style="list-style-type: none"> ■ There have been a couple of draws since then totaling about \$20 to 25M • Keeping in sync with the draw-down schedule <ul style="list-style-type: none"> o Must issue \$110M in GO Bonds by 2009 o ARS conversion will provide swap-out monies o Will carry us down to a FY2010 issue <ul style="list-style-type: none"> ■ Preparation will begin about 15 months out from this issue ■ Likely the 2nd or 3rd quarter of FY2010 • Exec summary <ul style="list-style-type: none"> o Paid premium for insurance on the 2006 CoPs <ul style="list-style-type: none"> ■ Insurance is convertible to new issue | | | |

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| | <ul style="list-style-type: none"> <ul style="list-style-type: none"> ■ Don't want to get rid of it if there is value added by keeping it o Swap termination is negative – any probability that it would minimize or reduce? <ul style="list-style-type: none"> ■ Reduction of approximately \$11M o Resolutions and primary documents – need to move through process of Board approval <ul style="list-style-type: none"> ■ Documents do contain “holes” that will be filled in right up until the final issuance o ARS resets continue to fluctuate <ul style="list-style-type: none"> ■ The week of 9/8 they were at 4% ■ Week of 9/15 they were down to 1% ■ Last 2 weeks they have been up to 8% ■ 12-wk rolling is at about 5% <ul style="list-style-type: none"> ▲ It was about 3.5% just before the fluctuations started in February ■ Individual weeks and series show no predictability ■ The risk component is out of hand ■ Can't tell if this is a temporary situation, but the market is decimated • Revenue Bond Index (RBI) vs. SIFMA Rates (<i>Page 11</i>) <ul style="list-style-type: none"> o Overall borrowing costs have increased • Conversion (<i>Page 12</i>) <ul style="list-style-type: none"> o Value to having insurance in place o Bond structure is still on the same 30-year maturity schedule o Sold at either a premium or discount <ul style="list-style-type: none"> ■ Premium is desirable as it covers the cost of issuance money o Adjusting to maximum debt service that must be paid o Target for sale is November 2008 o Plusses and minuses on interest rate we have enjoyed are pretty much neutral at this point <ul style="list-style-type: none"> ■ Lost some positive value ■ The mark to market on the swap payment is about \$8M • GO Bond issue (<i>Page 14</i>) <ul style="list-style-type: none"> o Traditional fixed is required for GO Bonds o Insurance only if value added o Capital Appreciation Bonds | | | |

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| | <ul style="list-style-type: none"> ■ Allows handling of when principle reduction is done ■ Interest accrued at maturity o Costs of issuance are funded as part of issuance proceeds • Several instruments are involved in the issuance of the GO Bonds <ul style="list-style-type: none"> o All documents are similar to those used in prior issues o Will distribute the most current draft of Appendix A • ARS Reset utilizes a Preliminary Remarketing Agreement as opposed to Preliminary Offering Statement <ul style="list-style-type: none"> o Same type of documents, otherwise o Delineates what we're committing to as an organization • Discussion <ul style="list-style-type: none"> o If we go to market and orders are not offered at appropriate rates, we can reject the rates o Some flexibility to back out if—with advice from Citigroup and Kaufman Hall—we determine there is still too much volatility in the market <ul style="list-style-type: none"> ■ Would have to bring back to the Board for approval o Federal bail-out and elections will have occurred before we go to market and could influence the market | | | |
| <p>HEALTH DEVELOPMENT LINE OF CREDIT (LoC)</p> | <p>Before the Committee is a request from Health Development to increase their LoC to fund the Research Institute and Health Development operating deficits</p> <ul style="list-style-type: none"> • In conjunction with approval of the FY09 Operating Budget <ul style="list-style-type: none"> o Correlating the LoC with the Budget o Operating expenses embedded in the budget, but cash flow needs not in conjunction with budget presentation <ul style="list-style-type: none"> ■ Needs to go through separate entities ■ Also allows funding for Research Institute to be separated out | <p>MOTION: By Director Bailey, seconded by CEO Covert and carried to recommend approval of the increased LoC with Health Development from \$2.9 million to \$3.4 million as requested. All in favor. None opposed.</p> | <p>Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.</p> | <p>Y</p> |
| <p>FIRST AMENDMENT TO MEDICAL DIRECTOR AGREEMENT – ALAN CONRAD, MD</p> | | | | |

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| DIABETESHEALTH FOR PPH | <ul style="list-style-type: none"> No discussion | <p>MOTION: By Director Bailey, seconded by Director Rivera and carried to approve the First Amendment to Medical Director Agreement between PPH and Alan Conrad, M.D., for DiabetesHealth Services, extending the agreement for two years [November 1, 2008 through October 31, 2010]. All in favor. None opposed.</p> | <p>Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.</p> | Y |
| FIRST AMENDMENT TO CLINICAL DIRECTOR SERVICES AGREEMENT – MARINA KATZ, MD | | | | |
| OUTPATIENT BEHAVIORAL HEALTH | <ul style="list-style-type: none"> No discussion | <p>MOTION: By Director Bailey, seconded by CEO Covert and carried to approve the First Amendment to Clinical Director Services Agreement Between PPH and Marina Katz, M.D., wherein Dr. Katz will also provide Clinical Director coverage and medical leadership for the Outpatient Behavioral Health Program at Palomar Medical Center, beginning on November 1, 2008, and continuing through the expiration of the original agreement on August 31, 2010. All in favor. None opposed.</p> | <p>Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.</p> | Y |
| INDEPENDENT CITIZENS’ OVERSIGHT COMMITTEE (ICOC) | | | | |

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| <p>ANNUAL REPORT FOR DISTRICT FISCAL YEAR 2007-2008</p> | <p>At the Annual meeting of the ICOC, the expenditures paid for by the District from General Obligation funds as approved by Measure BB were reviewed and approved by the ICOC. The Annual Report for District Fiscal Year 2007-2008 was included as Addendum C in the agenda packet. There were no exceptions noted as related to annual submittals.</p> <ul style="list-style-type: none"> • Voluntary oversight committee <ul style="list-style-type: none"> o Ramping up and getting comfortable with their duties <ul style="list-style-type: none"> ■ They are validators of expenditures <ul style="list-style-type: none"> ▲ Some concerns that they're not involved in decision-making o Dedication toward duties evidenced by the fact that one member came in prior to the meeting and reviewed all draws at the invoice level <ul style="list-style-type: none"> ■ Discussion regarding hiring of an external auditor to review for them <ul style="list-style-type: none"> ▲ Defeats purpose of their duties ▲ No funds from which to pay ■ Will ensure documents continue to be available for members who wish to review prior to meeting | <p>MOTION: Motion by Director Bailey, seconded by Director Rivera and carried to recommend approval of the ICOC Annual Report for District Fiscal Year 2007-2008 as presented. All in favor. None opposed.</p> | <p>Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.</p> | <p align="center">Y</p> |
| <p>APPOINTMENT OF OFFICERS</p> | <p>At the Annual meeting, the ICOC initially nominated the incumbent officers for re-election</p> <ul style="list-style-type: none"> • After the meeting, it was discovered that there are term limits for the position of Chair, and that Chair Steve Yerxa could not be re-nominated • A poll was taken by email with the resultant nominations: <ul style="list-style-type: none"> o Vice-Chair Bob Wells was nominated for Chair o Margaret Moir was nominated to replace Mr. Wells as Vice-Chair o The nomination for John McIver as Secretary stood as made at the meeting • The Board has delegated the authority to appoint the officers of the ICOC to the Chairs of the Board and the Board Finance Committee <ul style="list-style-type: none"> o Chairman Kleiter recommended acceptance of the ICOC recommendations at this level, with discussion at the next Board meeting when Chairman of the Board Krider will be available <ul style="list-style-type: none"> ■ Action to be taken by the Board and Board Finance Chair—as delegated to them—at the Board meeting | <p>MOTION: By Director Bailey, seconded by CEO Covert and carried to accept the nominations by the ICOC for Officers and to recommend that the Board and Board Finance Committee Chair appoint the following nominees at the Board meeting: Bob Wells – Chair; Margaret Moir – Vice-Chair; John McIver - Secretary. All in favor. None opposed.</p> | <p>Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.</p> | <p align="center">Y</p> |


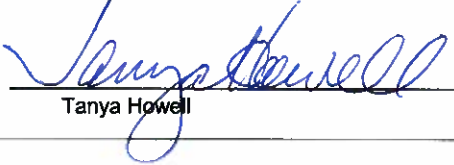
BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, SEPTEMBER 30, 2008

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| <p>VACANCY ON THE ICOC</p> | <p>Member Ed Lehman sent a letter to Acting Chair Steve Yerxa, notifying him of his resignation from the ICOC.</p> <ul style="list-style-type: none"> • Resignation in effect creates two vacancies <ul style="list-style-type: none"> o Vacancy in number, as it reduces membership from required nine members down to eight o Vacancy of required seat by a member of a Senior Citizens' organization • Current member Bill Bonner meets the criteria of active participation in a Senior Citizens' organization <ul style="list-style-type: none"> o Management recommends appointing Mr. Bonner to fill the required specialty seat <ul style="list-style-type: none"> ■ If approved, will allow recruitment for an At Large vacancy with the potential for more applicants • Date for deadline of application receipt to be set at approximately 30 calendar days from initial date of posting (ie, if posted the day after final approval by the Board, deadline would be Tuesday, November 18, 2008) <ul style="list-style-type: none"> o Allows time for applications to be reviewed prior to the December 2nd Board Finance Committee meeting • Informational notes <ul style="list-style-type: none"> o ICOC are moving to semi-annual meetings, with a mid-year meeting currently set for April 21, 2009 o At the next meeting, the ICOC will have an opportunity to tour the site at PMC West | <p>MOTION: By Director Bailey, seconded by Director Rivera and carried to recommend the appointment of Bill Bonner to fill the vacant seat required of a member of a Senior Citizens' organization and to open the application process for the filling of an At Large seat, with deadline for receipt of applications to be set for Tuesday, November 18, 2008. All in favor. None opposed.</p> | <p>Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.</p> <ul style="list-style-type: none"> • Secretary to the Finance Committee Tanya Howell will ensure that the notice of vacancy and deadlines are posted following final approval by the Board. • Applications received timely from qualified applicants will be reviewed at the December 2, 2008 Board Finance Committee meeting. | <p>N</p> |
| <p>LEGAL SERVICES STRATEGIC PLAN</p> | <p>Utilizing the attached presentation (<i>Attachment 2</i>), General Counsel Janine Sarti outlined the strategic plan for the Legal Services Department.</p> <ul style="list-style-type: none"> • Meets once a week with the Risk Manager who handles issues with BETA • Board is developing discipline regarding use of in-house counsel • Legal Fees Cost Comparison <ul style="list-style-type: none"> o Charts continued usages of outside counsel by various factions (ie, Board, Medical Staff, for real estate transactions, etc.) vs. prior to having in-house counsel <ul style="list-style-type: none"> ■ Too soon for determination of cost savings vs. Salary/Benefits costs for Department o Current contract for most outside counsel services is with Fulbright <ul style="list-style-type: none"> ■ Retainer at \$2K/month ■ Some items also bear extra charges | <p><i>Information only</i></p> | <p>Forwarded to the October 20, 2008, Board of Directors meeting as information.</p> <ul style="list-style-type: none"> • Chairman Kleiter requested that a report of total costs, including what we're paying for the department, be brought back to the Committee. Bob Hemker to assist | <p>Y</p> |

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| | <ul style="list-style-type: none"> • Department is still in need of a contract lawyer and a compliance person <ul style="list-style-type: none"> o RAC audits must go through legal for the appeals process <ul style="list-style-type: none"> ■ Anticipating between 1500-2000 appeals per year ■ May investigate hiring another attorney or a paralegal to cover those • Legal costs for issuance of bond monies have historically been several hundred thousand dollars per issue <ul style="list-style-type: none"> o Now internal review by Mrs. Sarti • Average size of legal services departments at facilities/districts of similar size to PPH is between 6&8 attorneys at an average cost of one-half of 1% of gross charges | | Janine Sarti in making those calculations | |
| FINANCIAL REPORT AUGUST 2008 & YTD 2009 | <p>Bob Hemker provided a summary review of the August 2008 & YTD FY2009 financial report, utilizing portions of the presentation distributed as Addendum E in the agenda packet.</p> <ul style="list-style-type: none"> • Key Variances (<i>Pages 11-12</i>) <ul style="list-style-type: none"> o Net revenues are about \$350K positive to budget o Salaries & Wages show a positive variance to budget of \$950K <ul style="list-style-type: none"> ■ Offset in part by the negative \$740K in Contract Labor ■ Due in part to the nursing graduate new-hires <ul style="list-style-type: none"> ▲ Budgeted specifically for additional expenses to be incurred during preceptorships - should continue for 8-16 weeks ▲ Should drop off in November/December when trained ▲ Would pick back up with January new-hires, then drop off again on the same cycle o Supplies are positive \$84K to budget <ul style="list-style-type: none"> ■ Implantables are still negative, with technology continuing to be a challenge ■ Pharmaceutical vendor of choice just changed <ul style="list-style-type: none"> ▲ Rate is about 70% better ▲ Should see significant improvement • Cash Collections (<i>Page 50</i>) <ul style="list-style-type: none"> o In excess of \$10M on hold from Medi-Cal due to the State budget delay <ul style="list-style-type: none"> ■ Just under \$8M came in yesterday, so still short over \$2M ■ \$39.2M for month of September o Medicare processing delays are about \$1M | <p>MOTION: By Director Rivera, seconded by Director Bailey and carried to recommend approval of the August 2008 & YTD FY2009 Financial Report as presented. All in favor. None opposed.</p> | Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval. | Y |

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| | <ul style="list-style-type: none"> o Also about \$1M short of anticipated funding for Section 1011 undocumented monies <ul style="list-style-type: none"> ■ Used to get \$500K per quarter ■ Government has cut back on those fundings <ul style="list-style-type: none"> ▲ They are doing more document review regarding identity issues o YTD we are just under \$100M through against a \$108M flat line budget <ul style="list-style-type: none"> ■ New monies are just now catching up with the cycle o Very encouraged by the redesign of PFS and charge capture issues in the Revenue Optimization Committee (ROC) • Discussion regarding spending authority limits for Administration <ul style="list-style-type: none"> o With all the construction going on, do we need to increase limit? <ul style="list-style-type: none"> ■ If lack of approvals causes a delay, it can be expensive ■ Bob Hemker & David Tam reviewed the topic based on recommendations by DPR <ul style="list-style-type: none"> ▲ Rarely is anything sitting over 24 hours due to the signing authorities already afforded to Bob Hemker and Michael Covert ▲ Potential for adding David Tam as a signatory o Consensus that it should be discussed at the Facilities and Grounds Committee meeting on Monday of next week <ul style="list-style-type: none"> ■ If recommended there, bring topic forward to Finance Committee | | | |
| ADJOURNMENT | The meeting was adjourned at 8:49 p.m. | | | |
| SIGNATURES: | <ul style="list-style-type: none"> • COMMITTEE CHAIR  _____ Ted Kleiter • COMMITTEE SECRETARY  _____ Tanya Howell | | | |

ATTACHMENT 1

PALOMAR
POMERADO
HEALTH
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Palomar Pomerado Health

Issuance of GO Bonds Series 2008A and
Conversion of 2006 Auction Rate Securities

September 30, 2008

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Market Update

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Historical Week On Wall Street



| Monday | Tuesday | Wednesday | Thursday | Friday |
|--|---|---|---|---|
| <ul style="list-style-type: none"> Bank of America announces buyout of ML LEH files for Bankruptcy AIG downgraded | <ul style="list-style-type: none"> Reserve Primary Fund "breaks the buck" Government seizes control of AIG with \$85 billion bailout | <ul style="list-style-type: none"> Investors rushed to Treasuries driving 3-month yields to near zero SEC rolls out rules to crack down on short-selling | <ul style="list-style-type: none"> Investors pull out nearly \$80 billion from MMFs Global central banks join to unfreeze credit markets Treasury and Federal Reserve explore plan to take over bad debts | <ul style="list-style-type: none"> Equity markets soar on news of government Bailout Plan Treasury and Fed bolster Money Market Funds with a Guaranty Program |

| Weekend |
|--|
| <ul style="list-style-type: none"> Treasury announces \$700 billion bailout plan; seeks swift Congressional approval GS and MS receive approval to become bank holding companies |

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Volatility Accelerates Flight To Quality

- Short-term Treasury yields dropped to near zero as Money Market Funds and other investors fled to safety.



- Gold prices also increased dramatically as another alternative safe haven for investors.

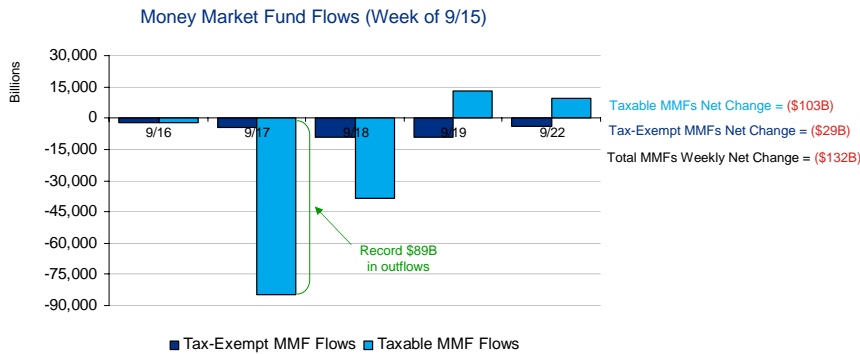


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Massive Money Market Redemptions Have Drained Liquidity

- Money Funds had net outflows of \$132 billion last week.
 - On Wednesday, investors pulled a record \$89 billion out of Money Market Funds.
- By the end of the week, news of the Treasury Department's Guaranty Program calmed the money markets somewhat.
 - Taxable money market funds (total 1,263) saw some net inflows on Friday and Monday
 - On the other hand, tax-exempt money market funds continued to suffer net redemptions



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What Has to Happen for Muni Market to Improve?

- Fear needs to subside and confidence restored.
- Retail buyer interest continues to be strong.
- Cash from Auction Rate Buybacks (estimated at \$40 billion) in Oct-Nov redirected towards short and long-term municipals.
- Retail needs to channel money into the Municipal Bond Funds – the traditional aggregators in the municipal market.
- Broker-Dealers need to re-commit capital to improve liquidity in marketplace.
- New Issue volume and/or secondary market portfolio unwinding (e.g., market supply) needs to recede.
- Crossover buyers need to return to the market, lured by relative upside and cheapness of municipals.

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Current Strategy and Financings

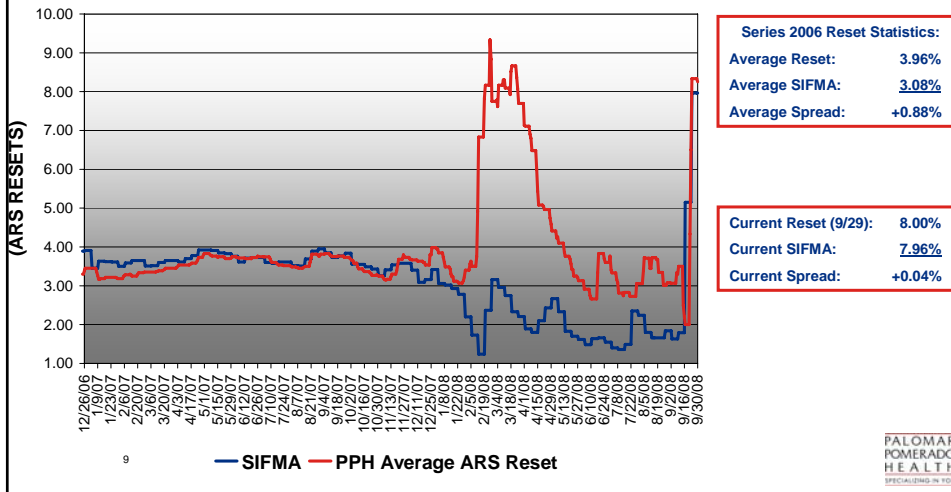
Executive Summary

- Volatile and uncertain markets combined with a continued deterioration of the credit markets has influenced the plan of finance
 - \$174.775 million of Series 2006 Auction Rate Securities (“ARS”) to be converted to traditional fixed rate bonds
 - Shifts the risk to the investors
 - Retention of FSA Insurance if still providing value
 - Secures committed funding - provides certainty of annual debt service
 - Provide PPH with most prudent restructuring option weighing internal and external credit concerns
 - Terminate Floating to Fixed interest rate swap
- Continue funding for Master Facility plan with General Obligations bonds
 - Issue \$110 million Series 2008A General Obligations bonds targeted to close in November
- Request Board approval to move forward with restructuring of Series 2006 ARS to fixed rate debt & Issuance of GO Bonds Series 2008A – Resolution and various Bond Documents

PPH ARS Rate Performance

Since inception in December 2006, PPH's Series 2006A-C ARS have averaged 3.96%, resetting 88 bps higher than the Securities Industry and Financial Markets Association (SIFMA) average.

Series 2006A-C Historical Performance



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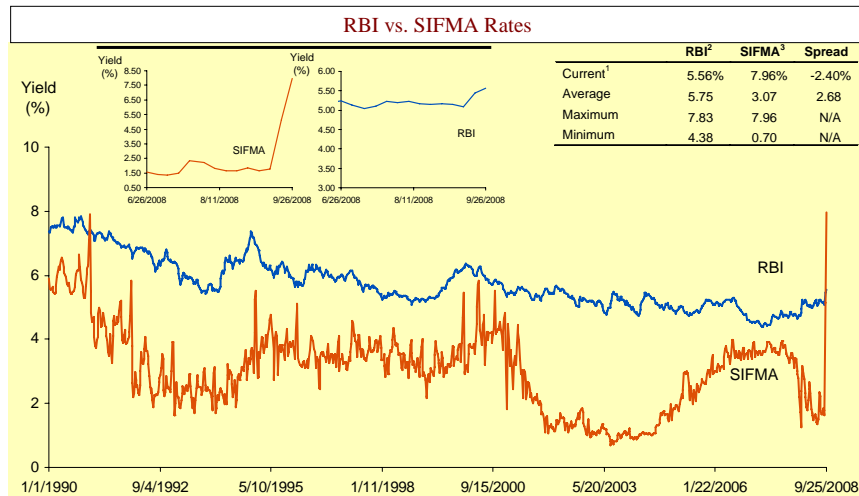
PPH ARS Interest Rate Resets – Historical Recap

| Week of: | 2006 Series A | 2006 Series B | 2006 Series C | Combined Average Weekly Reset Rate | Combined 12 Week Rolling Average Reset Rate | 12 Week Rolling Average Reset Rate | 12 Week Rolling Average Reset Rate | 12 Week Rolling Average Reset Rate |
|----------|---------------|---------------|---------------|------------------------------------|---|------------------------------------|------------------------------------|------------------------------------|
| 2/4/08 | 3.75% | 3.50% | 3.25% | 3.50% | 3.56% | 3.58% | 3.54% | 3.57% |
| 2/11/08 | 4.50% | 7.00% | 9.00% | 6.83% | 3.83% | 3.67% | 3.80% | 4.00% |
| 2/18/08 | 10.00% | 10.00% | 10.00% | 10.00% | 4.35% | 4.19% | 4.33% | 4.53% |
| 2/25/08 | 8.00% | 8.50% | 6.74% | 7.75% | 4.69% | 4.55% | 4.74% | 4.78% |
| 3/3/08 | 8.10% | 8.00% | 8.40% | 8.17% | 5.07% | 4.92% | 5.11% | 5.17% |
| 3/10/08 | 8.50% | 8.00% | 7.77% | 8.09% | 5.45% | 5.33% | 5.48% | 5.53% |
| 3/17/08 | 8.00% | 9.77% | 8.22% | 8.66% | 5.84% | 5.67% | 5.97% | 5.87% |
| 3/24/08 | 7.11% | 8.88% | 7.09% | 7.69% | 6.16% | 5.93% | 6.38% | 6.15% |
| 3/31/08 | 7.11% | 7.20% | 7.03% | 7.11% | 6.46% | 6.23% | 6.69% | 6.45% |
| 4/7/08 | 6.48% | 6.88% | 6.08% | 6.48% | 6.73% | 6.49% | 7.01% | 6.69% |
| 4/14/08 | 5.00% | 5.24% | 5.00% | 5.08% | 6.90% | 6.65% | 7.19% | 6.85% |
| 4/21/08 | 4.91% | 4.98% | 5.00% | 4.96% | 7.03% | 6.79% | 7.33% | 6.97% |
| 4/28/08 | 4.25% | 4.50% | 4.48% | 4.41% | 7.10% | 6.83% | 7.41% | 7.07% |
| 5/5/08 | 3.70% | 4.60% | 4.00% | 4.10% | 6.88% | 6.76% | 7.21% | 6.65% |
| 5/12/08 | 3.70% | 3.89% | 3.70% | 3.76% | 6.36% | 6.24% | 6.70% | 6.13% |
| 5/19/08 | 3.50% | 3.50% | 3.25% | 3.42% | 6.00% | 5.86% | 6.29% | 5.84% |
| 5/23/08 | 3.00% | 3.39% | 3.00% | 3.13% | 5.58% | 5.44% | 5.90% | 5.39% |
| 6/2/08 | 2.99% | 2.75% | 3.00% | 2.91% | 5.14% | 4.98% | 5.47% | 4.99% |
| 6/9/08 | 2.50% | 2.49% | 2.99% | 2.66% | 4.64% | 4.52% | 4.86% | 4.55% |
| 6/16/08 | 2.50% | 4.50% | 4.50% | 3.83% | 4.32% | 4.14% | 4.49% | 4.34% |
| 6/23/08 | 2.50% | 4.09% | 4.21% | 3.60% | 4.03% | 3.75% | 4.23% | 4.10% |
| 6/30/08 | 3.00% | 3.00% | 3.99% | 3.33% | 3.77% | 3.46% | 3.91% | 3.93% |
| 7/7/08 | 2.50% | 2.75% | 3.19% | 2.81% | 3.58% | 3.25% | 3.70% | 3.78% |
| 7/14/08 | 2.30% | 3.00% | 3.19% | 2.83% | 3.40% | 3.04% | 3.54% | 3.63% |
| 7/21/08 | 2.00% | 3.00% | 3.18% | 2.73% | 3.26% | 2.85% | 3.41% | 3.52% |
| 7/28/08 | 3.00% | 2.99% | 3.18% | 3.06% | 3.17% | 2.79% | 3.28% | 3.45% |
| 8/4/08 | 4.00% | 3.99% | 3.15% | 3.71% | 3.17% | 2.82% | 3.29% | 3.40% |
| 8/11/08 | 3.19% | 3.99% | 3.99% | 3.72% | 3.19% | 2.79% | 3.33% | 3.46% |
| 8/18/08 | 3.04% | 3.99% | 3.00% | 3.34% | 3.21% | 2.79% | 3.38% | 3.46% |
| 8/25/08 | 3.01% | 3.04% | 3.00% | 3.02% | 3.22% | 2.80% | 3.40% | 3.46% |
| 9/1/08 | 3.19% | 3.00% | 3.00% | 3.06% | 3.25% | 2.85% | 3.45% | 3.46% |
| 9/8/08 | 4.00% | 2.90% | 3.60% | 3.50% | 3.23% | 2.98% | 3.31% | 3.39% |
| 9/15/08 | 1.00% | 2.00% | 3.00% | 2.00% | 3.09% | 2.85% | 3.14% | 3.29% |
| 9/22/08 | 8.00% | 8.50% | 8.50% | 8.33% | 3.51% | 3.27% | 3.60% | 3.66% |
| 9/29/08 | 8.00% | | | | | 3.73% | | |

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Interest Rates Have Continued to Increase

Along with increasing interest rates, credit spreads have widened out increase PPH's overall borrowing cost.



¹ Reflects market conditions as of September 29, 2008

² The Revenue Bond Index (RBI) is based on 30-year bonds issued by 25 different revenue bond issuers for a variety of purposes including housing, transportation, hospitals and pollution control. The RBI is widely used as a benchmark for long-term revenue bonds

³ The Securities Industry and Financial Markets Association (SIFMA) Index is calculated by taking the weighted-average of the clearing rates for 250 of high-grade tax-exempt short-term issues with weekly resets. The SIFMA Index is a widely used proxy for high-grade weekly bonds

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Conversion of Series 2006 ARS

\$174.775 million of Series 2006 Auction Rate Securities ("ARS") will be converted to traditional fixed rate bonds

- FSA Insurance will be retained
 - Currently providing 20-40 basis points of benefit
 - No additional fee
- Bond structure/amortization will match the existing structure
- Bonds will be sold at either a premium or a discount
- The Series 2006 floating to fixed interest rate swap will be terminated
- The existing Debt Service Reserve Fund will need to be increased
- Cost of Issuance expenses will be incurred
- Bonds will be sold based on the rating of FSA (currently Aaa/AAA/AAA) with the underlying rating of PPH (currently A3)

Termination of the Series 2006 Interest Rate Swap

- PPH executed a floating to fixed interest rate swap in November 2006
- When the swap was executed, the fixed swap rate of 3.478% (3.218% plus 0.26% auction agent fee) was approximately 75 basis points below the traditional insured fixed rate
 - Including basis risk from inception through February 11th
 - PPH had a net benefit of approximately 31 basis points, or \$558,000 annually on \$180 million of debt when compared to traditional fixed rate bonds
 - Incorporating the basis risk from inception through the market dislocation to date
 - PPH is paying an additional 61 basis points, or \$1.1 million annually on \$180 million of debt when compared to traditional fixed rate bonds
- Current swap rates are lower than when PPH executed in November 2006
 - The mark to market as of September 26th, 2008 on the swap is (\$8.4 million)

NOTE: Synthetic fixed rates assuming PPH pays a fixed rate and receives 56% of LIBOR + 0.23% on 21-year average life. Includes 0.26% for variable rate bonds fees which are estimates and subject to change over the life of the transaction and may impact total debt service costs. When comparing to traditional fixed rates bonds it is assumed that the traditional fixed rate bonds were issued as AAA insured on November 17th, 2006. For illustration purposes only, past performance may not indicate future results.

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Series 2008 General Obligation Bonds

\$110 million of Series 2008A General Obligation Bonds will be issued as traditional fixed rate bonds

- Insurance will be utilized if economical
 - Currently only FSA and Assured Guaranty may provide value
- Bonds will be structured to minimize the impact on the tax payers
- Bonds will be structured as Capital Appreciation Bonds
- Bonds will be sold at either a premium or a discount
- Cost of Issuance expenses will be incurred and funded as part of issuance proceeds
- Bonds will be sold on the rating of the District, currently (Aa3/AA-/A+)

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Steps to Execution

- **September 2008**

- Finance Committee: Review of current conditions, review financing strategy, review and recommend approval of associated Resolutions and Bond related documents and instruments

- **October 2008**

- Update Rating agencies
- Finalize Preliminary Official Statement
- Board meeting for final approval
- Audit Committee meeting for approval
- JPA meeting for approval
- Mail Preliminary Official Statement

- **November 2008**

- Marketing of bonds
- Investor conference call
- Price bonds
- Finalize documents
- Close financing (Targeted: November 20, 2008)

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Resolutions, Documents & Agreements

- **GENERAL OBLIGATION BONDS**

- GO Bond Resolution
- Second Supplemental Paying Agent Agreement
- Preliminary Official Statement (POS)
- Appendix A to Preliminary Official Statement
- Appendix C to Preliminary Official Statement
- Continuing Disclosure Undertaking
- Bond Purchase Agreement

- **CONVERSION OF 2006 CoP – ARS TO FIXED RATE BONDS:**

- Conversion Resolution
- Second Supplemental Trust Agreement
- Preliminary Remarketing Agreement
- Appendix A to Preliminary Remarketing Agreement
- Remarketing Agreement

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Board Authorization results in:

- Authorize the issuance of General Obligation Bonds, Election of 2004, Series 2008A, closing November 20, 2008, not to exceed \$110 million Par
- Authorize the conversion of the 2006 CoP – Auction Rate Securities to fixed rate bonds / CoPs
- Authorize the termination of the SWAP transaction for the 2006 ARS
- Authorize the issuance of the G.O. bonds and the fixed rate conversion bonds / CoPs through a negotiated sale and utilize the previously established Joint Exercise of Powers Authority.
- Approve the Resolutions and requisite documents and agreements to consummate the GO Bond Issuance and the conversion of the 2006 ARS

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ATTACHMENT 2



Legal Services Department Strategic Plan

Janine Sarti
General Counsel
September, 2008

Legal Services Department Vision Statement

- To have an unwavering focus on quality, cost and access to legal services.

Legal Services Department Mission Statement

We believe:

- our customers are our most valued assets.
- the relationships we develop are integral to our work.
- honesty and integrity are the cornerstones of this department.

We promise:

- quality legal advice that is responsive to your needs and sets the standard of excellence for legal services;
- to demonstrate respect and compassion to all persons;
- to work with you as part of a team to achieve our mutual goals of quality care, creating healthy communities, and being a leader in the professions we serve.

Trusted Advisor

- Knows the law
- Excellent communicator
- Has a confident style with high emotional intelligence
- Sound knowledge of the business and strategy
- Has excellent judgment
- Willing to put skin in the game
- Has a strong work ethic and sense of urgency
.....Every minute of every day

Legal Services Department Goals

Reduce reliance on outside legal counsel

- Cost savings
- Improved service and response time to legal issues

Create, develop and implement a successful contract management process

- Improve communication and process
- Eliminate unnecessary payments
- Assure compliance with regulations and policies

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Legal Services Department Goals (continued)

Review and enhance Best Governance Practices

- Ensure compliance with good governance and ethical practices.

Develop guide book for specific recurring legal issues

- Brown Act, HIPAA, witness preparation
- Reduce liability and increase awareness of issues
- Reduce outside counsel legal fees

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Legal Services Department Goals (continued)

Improve process for response to public records requests

- Ensure an organized and timely response to requests

Develop a Legal Department webpage on PPH Intranet

- Provide informational updates to customers
- Increase awareness of educational opportunities
- Access to Legal Department forms

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Legal Services Department Goals (continued)

Develop policies and agreement templates regarding physician relationships

- Reduce liability through education on legal matters
- Ensure compliance with state and federal laws

Raise Medical Staff awareness of Legal Department and available resources

- Reduce outside legal counsel fees
- Provide timely response to legal questions

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Legal Services Department Goals (continued)

Create and organize a repository for key organizational documents

- Provide clear understanding of PPH entities
- Provide unified resource and location

Develop Intellectual Property portfolio

- Protect the ideas and creations of PPH
- Reduce outside counsel fees

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Legal Services Department Goals (continued)

Develop Legal Department customer satisfaction survey

- Increase awareness of improved delivery of legal services
- Opportunity for customers to provide input

Develop Independent Contractor guide and checklist

- Assure compliance with IRS regulations
- Reduce PPH risk and liability
- Clarify contractual requirements

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Legal Services Department Goals (continued)

Develop Legal Department operations manual

- Concise resource for day-to-day legal operations
- Maintain continuity of Legal Department workflow

Identify volunteer and professional development opportunities

- Enhance community awareness of PPH
- Demonstrate involvement in CBISA standards

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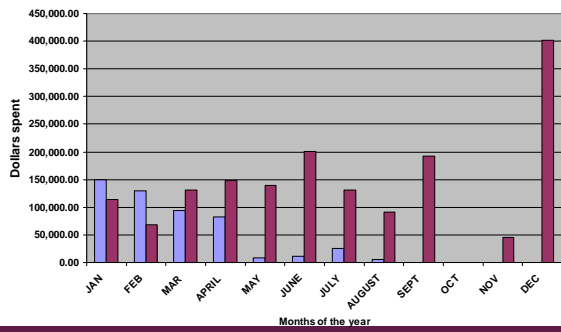
Legal Services Department Day-to-Day Responsibilities

- Major Transactions
- Litigation
- General Legal Advice and Counsel regarding matters such as the Brown Act, RAC Audits, peer review, district law, human resources and eminent domain
- Governance
- Compliance
- Contracts
- Community outreach

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Legal Fees Cost Comparison

2007 - 2008



■ 2008 - In House ■ 2007 - Outside Counsel

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Legal Services Department Team

- Janine Sarti – General Counsel
- Kate Philbin – Asst. General Counsel
- Michele Gilmore – Executive Assistant

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Legal Services Department Strategic Plan

- QUESTIONS?

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