

**BOARD FINANCE COMMITTEE MEETING  
ATTENDANCE ROSTER & MEETING MINUTES  
CALENDAR YEAR 2009**

	MEETING DATES:										
	1/27/09	2/24/09	3/31/09	4/28/09	5/26/09	6/30/09	7/28/09	8/25/09	9/29/09	10/27/09	12/8/09
<b>MEMBERS</b>											
NANCY BASSETT, R.N.	P	P									
TED KLEITER – CHAIR	P	P									
MARCELO RIVERA, M.D.	P	E									
MICHAEL COVERT, FACHE	P	P									
FRANK MARTIN, M.D.	P	P									
JOHN LILLEY, M.D.	P	P									
<i>BRUCE KRIDER – ALTERNATE</i>		P									
<i>– 2<sup>ND</sup> ALTERNATE</i>											
<i>– 3<sup>RD</sup> ALTERNATE</i>											
<i>– 4<sup>TH</sup> ALTERNATE</i>											
<b>STAFF ATTENDEES</b>											
BOB HEMKER	P	P									
GERALD BRACHT	P	P									
DAVID TAM	P	P									
TANYA HOWELL – SECRETARY	P	P									
<b>INVITED GUESTS</b>	<b>SEE TEXT OF MINUTES FOR NAMES OF GUEST PRESENTERS</b>										

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, FEBRUARY 24, 2009**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
<b>MEETING LOCATION</b>	Conference Room, 1 <sup>st</sup> Floor, 456 E. Grand Avenue, Escondido, CA			
<b>MEETING CALLED TO ORDER</b>	6:04 by Chair Ted Kleiter.			
<b>ESTABLISHMENT OF QUORUM</b>	See roster			
<b>PUBLIC COMMENTS</b>	There were no public comments			
<b>INFORMATION ITEM(S)</b>	<ul style="list-style-type: none"> <li>• None</li> </ul>			
<b>MINUTES – JANUARY 27, 2009</b>	<p>Bob Hemker stated that the distributed with the packet incorrectly stated that Director Greer had made/seconded motions when she did not. The minutes have been corrected to reflect the actual member who made or seconded those motions.</p>	<p><b>MOTION:</b> By Director Bassett seconded by Director Kleiter and carried to approve the minutes of the January 27, 2009, Board Finance Committee meeting with the corrections as noted. All in favor. None opposed.</p>		
<b>DEPARTMENT CHAIR SERVICES AGREEMENTS</b>				
<b>DR. KATHLEEN M. FLORES-DAHMS</b>	<ul style="list-style-type: none"> <li>• Department Chair, Department of Radiology – Pomerado Hospital</li> <li>• Annual renewal of stipend agreement</li> <li>• Standard agreement</li> </ul>	<p><b>MOTION:</b> By Director Bassett seconded by Michael Covert and carried to recommend approval of the one-year <b>[January 1, 2009 to December 31, 2009]</b> Department Chair Service Agreements with Kathleen M. Flores-Dahms, M.D., as Department Chair for the Department of Radiology at POM; and with Donald J. Ponec, M.D., as Department Chair for the Department of Radiology at PMC. All in favor. None opposed.</p>	<p>Forwarded to the March 9, 2009, Board of Directors meeting with a recommendation for approval.</p>	<p align="center">Y</p>
<b>DR. DONALD J. PONEC</b>	<ul style="list-style-type: none"> <li>• Department Chair, Department of Radiology – Palomar Medical Center</li> <li>• Annual renewal of stipend agreement</li> <li>• Standard agreement</li> </ul>			
<b>ISSUANCE OF GO BONDS, ELECTION OF 2004, SERIES 2009A</b>	<p>Bob Hemker stated that, based on advice of bond counsel, there are no further actionable items with regard to the current bond issue. He made a presentation regarding where we stand in going to market with the bonds (<i>Attachment 1</i>).</p> <ul style="list-style-type: none"> <li>• We will be issuing \$110M in GO Bonds at a fixed interest rate, which is the traditional approach             <ul style="list-style-type: none"> <li>o In October 2008, a decision was made to pull back from taking the GO Bonds to market in 2008</li> <li>o Authority to issue has already been given, under the same constraints as given in the past</li> <li>o Amount will allow us to maintain the targeted tax levy of \$17.75/\$100K of assessed value                 <ul style="list-style-type: none"> <li>■ County assessed value still appears to be holding</li> <li>■ Continue to monitor assessed value growth, which holds</li> </ul> </li> </ul> </li> </ul>	<p><b>Information only</b></p>	<p>Forwarded to the March 9, 2009, Board of Directors meeting as information</p>	<p align="center">Y</p>

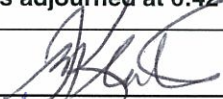

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, FEBRUARY 24, 2009**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
	<ul style="list-style-type: none"> <li>us on levy</li> <li>o We may be able to insure the bonds                             <ul style="list-style-type: none"> <li>■ Assured &amp; Brookshire Hathaway are both AAA-rated bond insurers                                     <ul style="list-style-type: none"> <li>▲ We have had direct conversations with Assured</li> <li>▲ Brookshire Hathaway has not traditionally taken part in the hospital bond market</li> </ul> </li> <li>■ Costs and interest rate savings are the drivers on insurance decisions</li> <li>■ Will test the market to see if insurance makes sense</li> </ul> </li> <li>o Pricing now looks like it will be in the 6% range                             <ul style="list-style-type: none"> <li>■ If bonds went out uninsured, would be at about 7%</li> </ul> </li> <li>o The Preliminary Offering Statement (POS) will go out either tomorrow or Thursday                             <ul style="list-style-type: none"> <li>■ Held pending rating agency outcomes</li> </ul> </li> <li>o Two types of bonds could be used                             <ul style="list-style-type: none"> <li>■ Current interest bonds pay every 6 months</li> <li>■ Capital Appreciation Bonds (CABS) don't pay out until a specified date in the future                                     <ul style="list-style-type: none"> <li>▲ Similar to balloon payments</li> <li>▲ Allows management of cash levy and payments</li> </ul> </li> <li>■ Intent is to use CABS</li> </ul> </li> <li>o Co-manager Merrill Lynch will be used only for this issue, as previously approved by the Board</li> <li>• Citi is our conduit to get paper out into the market, so an update on their liquidity status was included in the presentation</li> <li>• Question and answer                             <ul style="list-style-type: none"> <li>o Wasn't there something in the stimulus package for government bonds?                                     <ul style="list-style-type: none"> <li>■ Moody's today put out a release on the stimulus package and how it would affect districts</li> <li>■ Mr. Hemker will distribute the information to the Committee and the Board after he has had an opportunity to review it</li> </ul> </li> <li>o After this issue, there will be about \$65M left in GO Bonds</li> <li>o Muni market has improved                                     <ul style="list-style-type: none"> <li>■ There has been some leveling of buyers from institutional back to retail</li> </ul> </li> <li>o Auction Rate Securities (ARS) are still very favorable for us                                     <ul style="list-style-type: none"> <li>■ Have been holding firm with the same numbers as the past several weeks</li> </ul> </li> </ul> </li> </ul>			

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, FEBRUARY 24, 2009**

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	<ul style="list-style-type: none"> <li>▲ FSA insurance helps on that</li> <li>■ Effective cost of capital for the last 1.5 years is under 4.6%</li> <li>■ Up about 160 basis points from pre-collapse days</li> </ul>			
<p><b>JANUARY 2009 AND YTD FY2009 FINANCIAL REPORT</b></p>	<p>Utilizing the presentation contained in the agenda packet, Bob Hemker briefly reviewed the financials, stating that he was just going to be drawing attention to certain pages</p> <ul style="list-style-type: none"> <li>• Admissions are up about 1.5% year on year (YoY)</li> <li>• Up almost 5% on outpatient registrations</li> <li>• Case mix index is up significantly YoY</li> <li>• Hitting targeted budget</li> <li>• Bottom bottom mark-to-market unrealized paper loss on investment income</li> <li>• OEBITDA is holding at 10.3%</li> <li>• Net income margin is on budget</li> <li>• Pg 9 – YTD Contract Labor and SWB are right on target                             <ul style="list-style-type: none"> <li>o We are absorbing the inflationary side of SWB</li> </ul> </li> <li>• Pg 12 – Negative variance in YTD investment income is the result of January activity</li> <li>• Pg 14 – Supplies                             <ul style="list-style-type: none"> <li>o Negative variance can be attributed to outpatient cardiology</li> <li>o Benefit in Pharmaceutical, which have a positive variance of \$175K</li> </ul> </li> <li>• Pg 17 – Operations show continued stability                             <ul style="list-style-type: none"> <li>o No radical month-to-month changes</li> <li>o Constancy of OEBITDA margin</li> </ul> </li> <li>• Pg 18 – Volume stats are off a little                             <ul style="list-style-type: none"> <li>■ Holding revenue</li> </ul> </li> <li>• Pg 20 – \$10M change in net income                             <ul style="list-style-type: none"> <li>o Revenue strength is also up</li> </ul> </li> <li>• Pgs 45-47                             <ul style="list-style-type: none"> <li>o Case Mix Index shows continued steady growth with change year-on-year</li> <li>o DRGs are on the medicine side (e.g., orthopedics, trauma, trachs, head injuries)</li> <li>o More volatility in the Case Mix Index for Medicare</li> </ul> </li> <li>• Question and answer                             <ul style="list-style-type: none"> <li>o Are we seeing flu season?                                     <ul style="list-style-type: none"> <li>■ According to CDC, there are over 20 states that have</li> </ul> </li> </ul> </li> </ul>	<p><b>MOTION:</b> By Director Bassett seconded by Director Krider and carried to recommend approval of the Financial Report for January 2009 and YTD FY2009. All in favor. None opposed.</p>	<p>Forwarded to the March 9, 2009, Board of Directors meeting with a recommendation for approval.</p>	<p align="center">Y</p>

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	<p>now reported flu epidemics</p> <ul style="list-style-type: none"> <li>▲ Believe we could see a late flu season this year, possibly as late as march</li> <li>○ Why do we include interest on investments on the Balanced Scorecard (BSC) if we have no control over it                             <ul style="list-style-type: none"> <li>■ It is what we put into OEBITDA</li> <li>■ Calculate net income before non operating income + depreciation</li> <li>■ Interest expense, not interest income</li> <li>■ We should look at the OEBITDA with out Property Tax to see if we're doing our job</li> <li>■ We point to OEBITDA w/property tax so we can compare to the external market, which is how we are compared by rating agencies</li> </ul> </li> </ul>			
<b>ADJOURNMENT</b>	<b>The meeting was adjourned at 6:42 p.m.</b>			
<p><b>SIGNATURES:</b></p> <ul style="list-style-type: none"> <li>• COMMITTEE CHAIR                        _____                      Ted Kleiter</li> <li>• COMMITTEE SECRETARY                        _____                      Tanya Howell</li> </ul>				

# ATTACHMENT 1

**PALOMAR POMERADO HEALTH**  
SPECIALIZING IN YOU

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Palomar Pomerado Health

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Issuance of GO Bonds Series 2009A

February 24, 2009

PALOMAR POMERADO HEALTH

Presentation Contents

- Plan of Finance for 2009 G.O. Bonds
- Market Update
- Update on Citi

PALOMAR POMERADO HEALTH

Plan of Finance for 2009 G.O. Bonds

PALOMAR POMERADO HEALTH

Series 2009A General Obligation Bonds

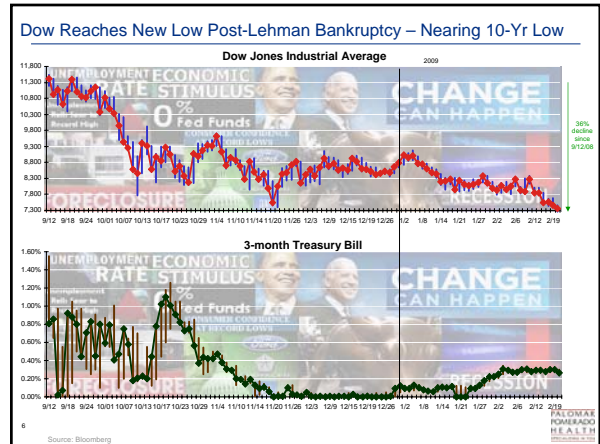
Up to \$110 million of Series 2009A General Obligation Bonds will be issued as traditional fixed rate bonds

- Insurance will be utilized if economical
- Bonds will be structured to minimize the impact on the tax payers
- Current bond structure anticipates use of Capital Appreciation Bonds
- Cost of Issuance expenses will be incurred and funded as part of issuance proceeds
- Co-Manager: Merrill Lynch
  - 15% of the total book
  - Each firm will conduct marketing outreach to their respective bond distribution salesforce for retail and institutional customers
    - Market conditions and the structure of the issue will impact bond sales results
- Preliminary Schedule:
  - Post POS: 2/25 or 2/26
  - Marketing: Week of March 2<sup>nd</sup>
  - Pricing: 3/10 – 3/11
  - Closing: 3/18

PALOMAR POMERADO HEALTH

Market Update

PALOMAR POMERADO HEALTH

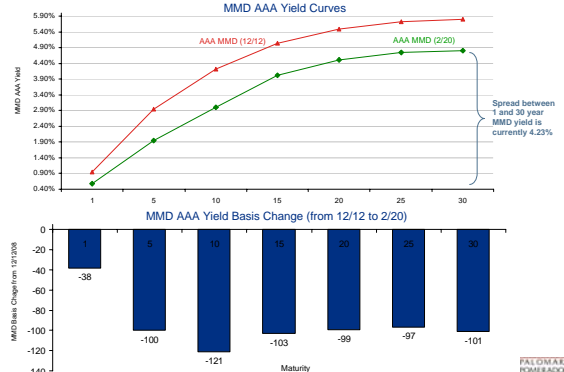


## The Municipal Bond Market Has Improved since December

- Fixed Rate Market Observations
  - Market has significantly improved since December driven by continued demand from retail buyers and a resurgence of demand from municipal bond fund.
  - Over the past 7 weeks, municipal bond funds have experienced \$3.7 billion in inflows after 15 weeks of outflows exceeding \$10.5 billion
  - Retail buyers have consistently participated in primary and secondary market sales since the Lehman bankruptcy
- The municipal yield curve is steep but yields have rebounded from December highs
- Despite the rally in interest rates, investors are increasingly focused on credit and there is a large disparity in credit spreads and market access for lower rated entities
  - Over 78% of municipal issuance volume in 2009 has been for issuers rated Aa3 or above.
- Credit matters now more than ever
  - Cash and liquidity are critical
  - Organizations with projects on the horizon are revisiting feasibility of complex strategies
  - Back to business basics

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## Muni Yield Curve is Steep but has Rebounded from December Highs

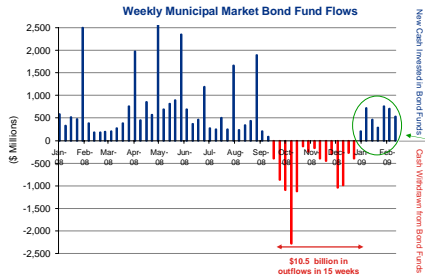


For illustration purposes only. Past performance may not indicate future results. Rates as of 2/20/09.  
Source: Thompson Municipal Market Pulse.

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## Net Inflows into Municipal Bond Funds Bolstering Demand

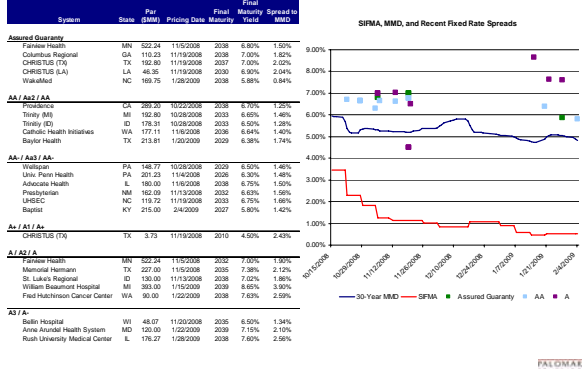
- Funds experienced net outflows of \$10.5 billion Wednesday, October 1<sup>st</sup> through Wednesday, December 30<sup>th</sup>.
- Starting in 2009, funds had inflows of \$208 million on January 7<sup>th</sup>, \$727 million on January 14<sup>th</sup>, \$470 million on January 21<sup>st</sup>, \$289 million on January 28<sup>th</sup>, \$758 million on February 4<sup>th</sup>, \$711 million on February 11<sup>th</sup>, and \$539 million on February 18<sup>th</sup>.



Source: AMG Data Services

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## Selected Recent Tax-Exempt Health Care Offerings



Note: Transaction information not adjusted for state or specific issuer trading differentials. Revenue bond issues only, no healthcare G.D. bonds recently in the market.

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## Update on Citi

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## Citi's Capital Position and Liquidity Are Strong

Citi is one of the strongest banks in the world. Our senior management has taken necessary steps to assure our continued market leadership.

- Over the past 15 months, Citigroup Inc. has added over \$115 billion in new capital: \$50 billion through public and private offerings and \$65 billion from the U.S. government's various guarantee programs.
- As of December 31, 2008, Citigroup Inc. had a deposit base of approximately \$774 billion that was diversified across products and regions, with almost two thirds of it outside the U.S.
- Citigroup Inc.'s Tier 1 capital ratio as of December 31, 2008 is expected to be approximately 11.8%, nearly 2 times the recommended ratio for a well-capitalized company (6%).
- Citigroup Inc. has significantly reduced its risky, legacy assets by over \$100 billion, or more than 20%, while putting the company in a very strong capital position. Citigroup Inc. has almost doubled its loan loss reserves in the last 12 months to over \$29 billion.

RATINGS				Key Financial Positions <sup>(1)</sup>	
	Fitch	Moody's	S&P	Total Capital	\$16.4 Billion
Citibank NA	A+	Aa3	A+	Equity Capital	\$6.3 Billion
Citigroup Inc.	A+	A2	A	Net Capital	\$2.5 Billion
				Excess Net Capital	\$1.6 Billion

<sup>(1)</sup> As of 12/31/2008

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## Smith Barney Joint Venture with Morgan Stanley

Morgan Stanley Smith Barney joint venture creates the largest global wealth management firm by financial advisors and top 3 firm by client assets.

- Morgan Stanley and Citi combining retail brokerage forces to create an industry-leading global wealth manager
  - Morgan Stanley will own 51% and Citi will own 49% of the Joint Venture
  - In addition to 49% of the Joint Venture, Citi to receive cash consideration of \$2.7 billion
- The combination creates an industry-leading global wealth manager with over 1,000 branches in the United States and over 20,000 financial advisors

	Morgan Stanley Global Wealth Management	Citi Smith Barney	Combined Pro-forma
Net Revenues	\$6.4 billion	\$8.5 billion	\$14.9 billion
Pre-tax Profit	\$1.1 billion	\$1.7 billion	\$2.8 billion
Client Assets	\$707 billion	\$1,034 billion	\$1,741 billion
Financial Advisors	8,426	~ 11,960	~ 20,390
Offices	465	541	1,006
Headquarters	New York	New York	New York

13 Source: Citi Presentation to Investors, January 13, 2009.

