

**POSTED**  
**Wednesday**  
**July 22, 2009**

**BOARD OF DIRECTORS MEETING**  
 (SPECIAL BOARD MEETING FOLLOWED BY  
 REGULARLY SCHEDULED FINANCE COMMITTEE MEETING)

**PALOMAR  
 POMERADO  
 HEALTH**

Tuesday, July 28, 2009  
 5:30 p.m. (Catered dinner for Board & invited guests only)  
 6:00 p.m.

Palomar Medical Center  
 555 East Valley Parkway  
 Escondido, CA  
 Graybill Auditorium

**MISSION AND VISION**

*"THE MISSION OF PALOMAR POMERADO HEALTH IS TO HEAL,  
 COMFORT AND PROMOTE HEALTH IN THE COMMUNITIES WE SERVE."*

*"THE VISION OF PPH IS TO BE THE HEALTH SYSTEM OF CHOICE FOR PATIENTS, PHYSICIANS AND EMPLOYEES,  
 RECOGNIZED NATIONALLY FOR THE HIGHEST QUALITY OF CLINICAL CARE AND ACCESS TO COMPREHENSIVE SERVICES."*

**SPECIAL BOARD MEETING AGENDA**

	<u>Time</u>	<u>Page</u>	<u>Target</u>
❖ <b>CALL TO ORDER</b> .....			<b>6:00 p.m.</b>
➤ Opening Ceremony			
• Pledge of Allegiance.....	2		6:02 p.m.
➤ Public Comments.....	5		6:07 p.m.
<i>(5 minutes allowed/speaker, with a cumulative total of 15 minutes/group; for details &amp; policy see Request for Public Comment Notice)</i>			
1. * Review/Approval: The Critical Tie Between Quality of Care & the Future Financing of Healthcare – Session 3 (Addendum A).....	60	AG3	7:07 p.m.
❖ <b>ADJOURNMENT TO FINANCE COMMITTEE MEETING</b> .....			<b>7:07 p.m.</b>
➤ <b>BREAK</b> .....	13		7:20 p.m.

**FINANCE COMMITTEE MEETING AGENDA**

❖ <b>CALL TO ORDER</b> .....			<b>7:20 p.m.</b>
➤ Public Comments.....	5		7:25 p.m.
<i>(5 minutes allowed/speaker, with a cumulative total of 15 minutes/group; for details &amp; policy see Request for Public Comment Notice)</i>			
❖ <b>ADJOURNMENT TO CLOSED SESSION</b> .....			<b>7:25 p.m.</b>
~ pursuant to California Government Code §54954.5(h) <b>REPORT INVOLVING TRADE SECRET</b> Discussion Will Concern Proposed New Service Estimated Date of Public Disclosure: December 14, 2009 ~Anticipated Action	30		7:55 p.m.
❖ <b>RESUMPTION OF OPEN SESSION</b> .....			<b>7:55 p.m.</b>
➤ Action Resulting from Closed Session Discussion, if any.....	5		8:00 p.m.
➤ Information Item(s)			
• Pomerado Outpatient Pavilion (POP) Building Update.....	5		8:05 p.m.
1. * Approval: Minutes – Tuesday, June 30, 2009 (Addendum B).....	5	AG4	8:10 p.m.
2. * Approval: General Obligation Bonds – Tax Levy 2009-2010 (Addendum C).....	5	AG5	8:15 p.m.
3. * Approval: Establishment of Appropriations Limit for FY2010 (Addendum D).....	5	AG6	8:20 p.m.
4. * Approval: Policy – Annual Adoption of Statement of Investment (Addendum E).....	5	AG7	8:25 p.m.
5. * Review/Approval: Independent Contractor Agreement.....	5	AG8-10	8:30 p.m.
• Aria Anvar, BS, MD, MBA – Electronic Medical Record Project Management			

\* Asterisks indicate anticipated action. Action is not limited to those designated items.

*"In observance of the ADA (American with Disabilities Act), please notify us at 760-740-6383  
 48 hours prior to the meeting so that we may provide reasonable accommodations"*

**AG1**

- |    |   |    |              |                  |
|----|---|----|--------------|------------------|
| 6. | * Review/Approval: Physician Recruitment Agreement .....                        | 5  | .....AG11-13 | 8:35 p.m.        |
|    | • R. Ghafar Nafes, MD, and Graybill Medical Group, LLC – Family Practice        |    |              |                  |
| 7. | * Review/Approval: Medical Director Agreement .....                             | 5  | .....AG14-16 | 8:40 p.m.        |
|    | • Robert Stein, MD – Cardiology Services  |    |              |                  |
| 8. | * Review/Approval: Palomar Pomerado Imaging, LLC ( <i>Addendum F</i> ).....     | 20 | .....AG17    | 9:00 p.m.        |
| 9. | * Approval: June 2009 & YTD FY2009 Financial Report ( <i>Addendum G</i> ) ..... | 20 | .....AG18    | 9:20 p.m.        |
|    | ❖ <b>FINAL ADJOURNMENT</b> .....  |    |              | <b>9:20 p.m.</b> |

## The Critical Tie Between Quality of Care and the Future Financing of Healthcare Session 3

**TO:** Board of Directors

**MEETING DATE:** Tuesday, July 28, 2009

**BY:** Opal Reinbold, Chief Quality Officer  
Bob Hemker, CFO

**Background:** As a part of our ongoing engagement/education efforts with our Board members, the Board Quality Review and Finance Committees began holding meetings jointly during 2008. Sessions held July 29, 2008, and January 27, 2009, discussed the key quality/finance issues from an industry perspective that are and may present challenges to PPH. Opal Reinbold, Chief Quality Officer, and Bob Hemker, Chief Financial Officer, presented these overviews, with input from key staff.

At this session, Ms. Reinbold and Mr. Hemker will provide updates on industry issues, as well as action plans and impacts specific to PPH.

**Budget Impact:**

**Staff Recommendation:** Staff recommendations are imbedded in the presentation (*Addendum A*).

**Committee Questions:**

**COMMITTEE RECOMMENDATION:**

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**

**Minutes**  
**Finance Committee – Tuesday, June 30, 2009**

**TO:** Board Finance Committee

**MEETING DATE:** Tuesday, July 28, 2009

**FROM:** Tanya Howell, Secretary

**BY:** Bob Hemker, CFO

**Background:** The minutes of the Board Finance Committee meeting held on Tuesday, June 30, 2009, are respectfully submitted for approval (*Addendum B*).

**Budget Impact:** N/A

**Staff Recommendation:** Staff recommends approval of the Tuesday, June 30, 2009, Board Finance Committee minutes.

**Committee Questions:**

**COMMITTEE RECOMMENDATION:**

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**

## General Obligation Bonds – Tax Levy 2009-2010

**TO:** Board Finance Committee

**DATE:** Tuesday, July 28, 2009

**FROM:** Bob Hemker, CFO

**Background:** In July 2005, the first tranche of General Obligation (“GO”) Bonds was issued. The Series was priced in a negotiated sale on June 22, 2005, for \$80 million PAR in Bonds. The Bond transaction closed on July 7, 2005.

In December 2007, the second tranche of GO Bonds was issued. The Series was priced in a negotiated sale on December 4, 2007, for \$241.08 million PAR in Bonds. The Bond transaction closed on December 20, 2007.

In March 2009, the third tranche of GO Bonds was issued. The Series was priced in a negotiated sale on March 11, 2009, for \$110 million PAR in Bonds. The Bond transaction closed on March 18, 2009.

On an annual basis, PPH has requested that the County of San Diego levy and collect the taxes necessary to pay the debt service on the GO Bonds. PPH calculates the tax amount to levy based upon the debt service amortization and the assessed value of the District. The assessed value is provided by the County. The County then puts the required tax onto the tax roll, collects the taxes, and remits the collected amounts to the Paying Agent, Wells Fargo, on a monthly basis. The Paying Agent makes the required principal and interest payments on a semi-annual basis.

The resolution included in Addendum C will authorize the County of San Diego to levy and collect the required *ad valorem* taxes for the 2009-2010 tax roll in the amount of \$17.75/\$100,000 of assessed value.

**Budget Impact:** N/A

**Staff Recommendation:** Management recommends that the Board approve the resolution authorizing the County of San Diego to levy and collect the required *ad valorem* taxes for the 2009-2010 tax roll in the amount of \$17.75/\$100,000 of assessed value.

**Committee Questions:**

### COMMITTEE RECOMMENDATION:

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**

**Approval: Establishment of Appropriations Limit for Fiscal Year 2010**

**TO:** Board Finance Committee

**MEETING DATE:** Tuesday, July 28, 2009

**FROM:** Robert A. Hemker, CFO

**BACKGROUND:** The Board of Directors of Palomar Pomerado Health annually adopts the Appropriations Limit for the District, pursuant to Article XIII B of the California Constitution. This action requests approval of the County's Appropriations Limit for Fiscal Year 2010 (*Addendum D*). This limit applies only to unrestricted appropriations and is not related to any appropriations that are restricted for the General Obligation Bonds.

The Appropriations Limit is calculated to be \$63,107,370 for Fiscal Year 2010. The District is substantially under that limit and is expected to receive approximately \$ 14,000,000 in unrestricted property tax revenues in Fiscal Year 2010.

**BUDGET IMPACT:** None

**STAFF RECOMMENDATION:** Approval of the Appropriations Limit for Palomar Pomerado Health for Fiscal Year 2010.

**COMMITTEE QUESTIONS:**

**COMMITTEE RECOMMENDATION:**

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**

# Board Policy

## Annual Adoption of Statement of Investment

**TO:** Board Finance Committee

**MEETING DATE:** Tuesday, January 22, 2008

**FROM:** Bob Hemker, CFO

**Background:** In concert with the Legal Office, the Board Policy for Annual Adoption of Statement of Investment has been reviewed, and no changes were deemed necessary. The attached Policy is brought forth for ratification and annual re-adoption only (*Addendum E*).

**Budget Impact:** N/A

**Staff Recommendations:** Staff recommends re-adoption of the Policy as previously approved by the Board.

**Committee Questions:**

**COMMITTEE RECOMMENDATION:**

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**

**PALOMAR POMERADO HEALTH  
PHYSICIAN INDEPENDENT CONTRACTOR AGREEMENT  
INFORMATION SYSTEMS SERVICES**

**TO:** Board Finance Committee

**MEETING DATE:** Tuesday, July 28, 2009

**FROM:** Ben Kanter, MD, CMIO

**BACKGROUND:** Palomar Pomerado Health (PPH) requires the active involvement of physicians in many aspects of Information Systems programs. Currently, PPH employs a CMIO (Benjamin Kanter, MD) who is solely responsible for the relationship between the medical staff and information systems. As part of the Computerized Provider Order Entry project (aka CPOE), a half-time physician is required to complete the order set build.

Aria Anvar, BS, MD, MBA, is a Hospitalist, currently on active staff at both PMC and Pomerado. From 1988-1993 he was an Information Systems Specialist for Unisys Corporation, where he led information systems implementation, database consolidation, and quality improvement projects. In addition, he has received training as a national Baldrige examiner.

Dr. Anvar has an abiding interest in improving the Quality and Safety of patient care delivery, and an intimate knowledge of PPH's infrastructure and IT systems. His knowledge of information systems and the Quality/Safety/Baldrige work at Unisys make him a unique asset for PPH.

**BUDGET IMPACT:** After discussion with many different sites across the U.S., a fair market value was established for the mean value hourly reimbursement for such work. We have contracted for 20 hours of work/week, which is budgeted within the CPOE project.

**STAFF RECOMMENDATION:** Approval.

**COMMITTEE QUESTIONS:**

**COMMITTEE RECOMMENDATION:**

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**



## PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	<b>TITLE</b>	Independent Contractor Agreement – Dr. Aria Anvar
9.1	<b>AGREEMENT DATE</b>	August 1st, 2009
	<b>PARTIES</b>	Aria Anvar MD and PPH
Sec.1	<b>PURPOSE</b>	To assist the CMIO in the implementation of Computerized Physician Order Entry and any other required work on the Cerner Roadmap projects.
1.1	<b>SCOPE OF SERVICES</b>	Dr. Anvar's primary responsibility will be to lead the computerized order set build team. The work is expected to last more than a year during which time his time is not to exceed 20 hours/week. He will continue to work as a Hospitalist physician during this period.
	<b>PROCUREMENT METHOD</b>	<input type="checkbox"/> Request For Proposal <input type="checkbox"/> Discretionary
9.1	<b>TERM</b>	1 year
9.1	<b>RENEWAL</b>	No automatic renewal
9.2	<b>TERMINATION</b>	30 day notice by either party without cause
2.1	<b>COMPENSATION METHODOLOGY</b>	Hourly rate - itemized
	<b>BUDGETED</b>	x YES – IMPACT: None
	<b>EXCLUSIVITY</b>	x No
	<b>JUSTIFICATION</b>	Medical and IT subject matter expert required to assist in the planning and design of the electronic record. Fee is standard for this process and is based upon analysis from similar projects across the U.S.
	<b>AGREEMENT NOTICED</b>	x No <b>Methodology &amp; Response:</b>
	<b>ALTERNATIVES/IMPACT</b>	n/a
	<b>Duties</b>	<input type="checkbox"/> Provision for Staff Education <input type="checkbox"/> Provision for Medical Staff Education <input type="checkbox"/> Provision for participation in Quality Improvement <input type="checkbox"/> Provision for participation in budget process development
	<b>COMMENTS</b>	Renewal of contract backdated to reflect expiration of contract from prior year.
	<b>APPROVALS REQUIRED</b>	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Committee Finance <input checked="" type="checkbox"/> BOD

## **INDEPENDENT CONTRACTOR AGREEMENT**

This Independent Contractor Agreement ("Agreement") is entered into by and between Aria Anvar MD ("Contractor"), with a principal place of business at 2562 Abedul, Carlsbad, California 92009, and Palomar Pomerado Health, a local healthcare district organized pursuant to Division 23 of the California Health and Safety Code ("PPH"), with a principal place of business at 15255 Innovation Drive, San Diego, California 92128.

WHEREAS, Contractor is a medical doctor with necessary privileges to practice medicine at PPH's medical facilities. Contractor has occasion to use various computer programs approved by PPH and in use at PPH facilities. Contractor has agreed to serve as a consultant regarding implementation and performance of computer-based programs to be used at PPH medical facilities from the perspective of a trained medical practitioner.

WHEREAS, PPH desires to engage Contractor to provide such services;

NOW, THEREFORE, in consideration of the promises, and of the mutual covenants hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree as follows:

### **1. DUTIES OF CONTRACTOR**

#### **1.1 Scope of Services:**

1.1.1 Contractor shall provide consulting services on an as-needed basis as agreed to between Contractor and PPH. Contractor will assist the CMIO with the implementation of Computerized Physician Order Entry and other "EHR Roadmap" projects as deemed required. Aside from officially scheduled meetings or work, Contractor shall not engage in any billable activities under this Agreement without the prior permission of PPH. PPH may limit the number of hours worked under this Agreement to 20 hours per week.

1.1.2 Contractor shall provide services in compliance with all applicable laws, regulations, and standards of care, as well as all PPH policies, procedures, rules and regulations.

**1.2 Local, State and Federal Taxes:** If Contractor is required to pay any federal, state or local sales, use, property or value added taxes based on the services provided under this Agreement, the taxes shall be separately billed to PPH. Contractor shall pay any interest or penalties incurred due to late payment or nonpayment of such taxes by PPH. In addition, Contractor shall pay all income taxes, Workers Compensation, and FICA (Social Security and Medicare taxes) incurred while performing under this Agreement. PPH shall not:

## Physician Recruitment Agreement

**TO:** Board Finance Committee

**MEETING DATE:** Tuesday, July 21, 2009

**FROM:** Lisa Hudson, Director, Physician & Business Development

**Background:** The PPH community lacks an adequate number of primary care physicians as verified by Medical Development Specialists, a national consulting firm that specializes in physician manpower studies. PPH has an established physician recruitment program and had allocated resources to attract additional Family Practice physicians to relocate to Inland North San Diego County. R. Ghafar Nafes, M.D., and Graybill Medical Group, Inc., have signed the PPH Physician Recruitment Agreement in order for Dr. Nafes to join Graybill and establish a practice in their Escondido office. He intends to begin practicing in September of 2009.

**Budget Impact:** None

**Staff Recommendation:** Approval of the Physician Recruitment Agreement with Dr. Nafes and Graybill Medical Group and recommend approval by the full Board of Directors.

**Committee Questions:**

### COMMITTEE RECOMMENDATION:

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**

## PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	<b>TITLE</b>	Physician Recruitment Agreement—Family Practice
	<b>AGREEMENT DATE</b>	July 9, 2009 Start date September 1, 2009
	<b>PARTIES</b>	1) PPH 2) R. Ghafar Nafes, M.D. 3) Graybill Medical Group, Inc.
Recitals	<b>PURPOSE</b>	Provide recruitment assistance to enable Dr. Nafes to establish a practice within Graybill Medical Group
Article 4	<b>SCOPE OF SERVICES</b>	Dr. Nafes will establish a full-time family practice in Graybill's Escondido office and will participate in government-funded programs.
2.1; 2.2; 6.2; 6.4; 6.5	<b>TERM</b>	1 year of income assistance; two year repayment/forgiveness period
Recruitment procedure D.2	<b>RENEWAL</b>	None available
Article 8; 9.17	<b>TERMINATION</b>	Contract stipulates conditions for termination
Article 2	<b>COMPENSATION METHODOLOGY</b>	For monthly income guarantee physician will submit monthly report of expenses and collections. For relocation and start-up cost assistance physician will submit receipts.
	<b>BUDGETED</b>	<input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b> – <b>IMPACT:</b> None
5.1; 9.19	<b>EXCLUSIVITY</b>	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES</b> – <b>EXPLAIN:</b> Government prohibits hospitals from requiring physician to exclusively have privileges or make referrals only to their hospital. The contract does include a non-compete clause.
	<b>PHYSICIAN MANPOWER STUDY</b>	Medical Development Specialists, a national consulting firm who performed our Physician Manpower Study, completed an analysis which confirmed there is a justifiable community need for this recruitment
	<b>EXTERNAL FINANCIAL VERIFICATION</b>	<input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b> <b>Methodology:</b> Medical Development Specialists (MDS) developed a pro forma for the practice to establish the contract value to cover income guarantee and cash flow needs. MDS also provided the market comparison to establish an appropriate income guarantee.
	<b>LEGAL COUNSEL REVIEW</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b> No exceptions to the standard agreement. Legal Counsel has approved this contract.
	<b>APPROVALS REQUIRED</b>	<input checked="" type="checkbox"/> CPO <input checked="" type="checkbox"/> General Counsel <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Finance Committee on July 21, 2009 <input checked="" type="checkbox"/> BOD

**PRACTICE RECRUITMENT AGREEMENT  
BETWEEN PALOMAR POMERADO HEALTH,  
GRAYBILL MEDICAL GROUP, INC.,  
AND  
R. GHAFAR NAFES, M.D.**

This is an Agreement dated June 15, 2009 (“**Agreement**”) between Palomar Pomerado Health, a California health district organized under Section 23 of the Health and Safety Code (“**PPH**”), Graybill Medical Group, Inc. (“**Group**”), and R. Ghafar Nafes, M.D. (“**Physician**”) (collectively the “**parties**”).

PPH owns and operates Palomar Medical Center, an acute-care hospital located in Escondido, California, and Pomerado Hospital, an acute-care hospital in Poway, California (collectively “**PPH**”). The service area of PPH includes, but is not limited to, north San Diego County and other surrounding communities (“**Service Area**”).

PPH has determined that a portion of its Service Area has substantial unmet medical needs, evidenced by a population that is rapidly expanding and that is in need of services in Physician’s medical specialty. PPH has further determined that under available benchmark criteria, the number of physicians in its Service Area practicing in Physician’s medical specialty is insufficient to serve current and potential patients in need of such services.

PPH’s Service Area has not proven sufficiently appealing on its own to attract and retain a suitable number of physicians in Physician’s specialty. The Board of Directors of PPH has determined that it is within PPH’s mission to recruit a physician in Physician’s specialty who is willing to locate a medical practice in PPH’s service area, join the medical staff of PPH and an appropriate physician group, provide a reasonable amount of charity care, and serve the medical needs of the community.

Group is a professional corporation comprised of licensed medical doctors who provide medical care in the Service Area. Group seeks to cooperate with PPH in recruiting a qualified physician to join Group and provide medical care in the Service Area.

Physician is a medical doctor specializing in Family Medicine who has not previously practiced that specialty in the Service Area. Physician is willing to join Group and establish a medical practice in Escondido, California, on the terms and conditions set forth below, and PPH is willing to provide assistance to Physician and make certain advances to Group for the benefit of Physician to help establish such a practice:

Therefore, the parties agree as follows:

**PALOMAR POMERADO HEALTH/PALOMAR MEDICAL CENTER**  
**Medical Director for Diagnostic Cardiology Services**

**TO:** Board Finance Committee

**MEETING DATE:** Tuesday, July 28, 2009

**FROM:** Gerald Bracht, Chief Administrative Officer  
Paul Patchen, Director Cardiovascular Services

**BACKGROUND:** Robert Stein M.D. has been the Medical Director for Diagnostic Cardiology services at Palomar Medical Center for a number of years. He is a well-trained physician and member of the active medical staff. This Agreement represents a new term – from July 1, 2009 through July 1, 2010. The current Agreement expired on June 30, 2009.

The Medical Director has been supportive of operational efforts to maintain staff competency, involved in the operating and capital budgeting process, and assisted in the expansion of services.

**BUDGET IMPACT:** Budgeted

**STAFF RECOMMENDATION:** Approval

**COMMITTEE QUESTIONS:**

**COMMITTEE RECOMMENDATION:**

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**

## PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	<b>TITLE</b>	Cardiology Medical Director Agreement
	<b>AGREEMENT DATE</b>	July 1, 2009
	<b>PARTIES</b>	Robert Stein, M.D. and Palomar Medical Center
	<b>PURPOSE</b>	To provide Medical Director services at Palomar Medical Center.
	<b>SCOPE OF SERVICES</b>	Perform Medical Director services and functions as required by State, by JCAHO, Hospital Bylaws and Medical Staff Executive Committee.
	<b>PROCUREMENT METHOD</b>	<input type="checkbox"/> Request For Proposal <input checked="" type="checkbox"/> Discretionary
§4.1	<b>TERM</b>	July 1, 2009 through June 30, 2010
	<b>RENEWAL</b>	
§4.2	<b>TERMINATION</b>	As described under §4.2
§3.1	<b>COMPENSATION METHODOLOGY</b>	Monthly installments on or before the fifteenth day of each month, with respect to the preceding calendar month
	<b>BUDGETED</b>	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO – IMPACT:
	<b>EXCLUSIVITY</b>	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES – EXPLAIN:
	<b>JUSTIFICATION</b>	Regulatory required for Cardiology services.
	<b>AGREEMENT NOTICED</b>	<input checked="" type="checkbox"/> YES <input type="checkbox"/> No <b>Methodology &amp; Response:</b> Medical staff solicited for comment.
	<b>ALTERNATIVES/IMPACT</b>	N/A
	<b>Duties</b>	<input checked="" type="checkbox"/> Provision for Staff Education <input checked="" type="checkbox"/> Provision for Medical Staff Education <input checked="" type="checkbox"/> Provision for participation in Quality Improvement <input checked="" type="checkbox"/> Provision for participation in budget process development
	<b>COMMENTS</b>	Legal review completed.
	<b>APPROVALS REQUIRED</b>	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Finance Committee <input checked="" type="checkbox"/> BOD

**CONTRACT AMENDMENT #1  
BETWEEN  
PALOMAR POMERADO HEALTH  
AND  
ROBERT STEIN, M.D.**

This Amendment is made by and between **PALOMAR POMERADO HEALTH**, a local healthcare district organized under Division 23 of the California Health and Safety Code, and **Robert Stein, M.D.**, on this the day of **July 1, 2009**. ("Effective Date")

In consideration of the mutual promises of the parties, the receipt and sufficiency of which are hereby acknowledged, the **Cardiology Services Medical Director Agreement** between the parties ("Agreement"), dated **July 1, 2008**, is hereby amended as follows:

**4. TERM AND TERMINATION**

**4.1 Term.** This Agreement shall commence on July 1, 2009 and shall continue until June 30, 2010, unless sooner terminated as otherwise provided in this Agreement.

All other terms of the Agreement remain in full force and effect. In the event of a conflict, the provisions, terms and conditions of this Amendment shall prevail.

The parties have executed this Amendment on the date set forth below.

**ROBERT STEIN, M.D.**

By:                     *Robert Stein*                      
\_\_\_\_\_

Date:                     7/17/09                      
\_\_\_\_\_

**PALOMAR POMERADO HEALTH**

By: \_\_\_\_\_  
Robert A. Hemker  
Chief Financial Officer

Date: \_\_\_\_\_



## Palomar Pomerado Imaging, LLC

**TO:** Board Finance Committee

**MEETING DATE:** Tuesday, July 28, 2009

**FROM:** Gerald Bracht – Chief Administrative Officer  
Bob Hemker – Chief Financial Officer

**Background:** With the dissolution of the imaging services joint ventures with Valley Radiology, PPH no longer has the ability to provide outpatient (OP) imaging service in free standing centers. During negotiations with North County Radiology for the Professional Services Agreement, the parties acknowledged their interest in coming together to jointly engage in the provision of OP imaging services in the communities in free standing centers. Following the transition of the Professional Services Agreement on January 1, 2009, the parties entered into discussions to provide OP imaging services in freestanding centers. Recognizing the multiple possible venues for the provision of OP imaging services, agreement was reached to develop an entity and structure to provide management and oversight for the various businesses the parties may agree to enter into. This new entity would be known as Palomar Pomerado Imaging, LLC, and the parties would share equally in ownership and provide flexibility investing or divesting in OP imaging businesses over time (*See Addendum F*).

**Budget Impact:** \$10,000 initial investment (budgeted)

**Staff Recommendation:** Approval

**Committee Questions:**

### COMMITTEE RECOMMENDATION:

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**

## June 2009 & YTD FY2009 Financial Report

**TO:** Board Finance Committee

**MEETING DATE:** Tuesday, July 28, 2009

**FROM:** Robert Hemker, CFO

**Background:** As the June 2009 financial close has been extended to assure all FY2009 business transactions are recorded in the pre-audit financial statements, the preliminary statistical indicators for June 2009 and YTD FY2009 are being submitted for the Committee's approval (*Addendum G*).

Consistent with prior year year-end closings, financial statements may not be available. If available, financial information will be presented at the meeting.

**Budget Impact:** N/A

**Staff Recommendation:** Recommendation will be provided at the meeting.

**Committee Questions:**

### COMMITTEE RECOMMENDATION:

**Motion:**

**Individual Action:**

**Information:**

**Required Time:**

# ADDENDUM A

**The Critical Tie Between Quality of  
Care and the Future Financing of  
Healthcare  
Session 3**

**July 28, 2009**

# Presentation Outline

## Update – Next Steps

- **Connecting the Dots – where are we today?**  
Introduction.....Opal Reinbold, Bob Hemker
- **Clinical Documentation Improvement**  
Project Results.....Opal Reinbold
- **Core Measures Update** .....Debbie Barnes
- **Plan of Action – Present on Admission (POA/HA)**.....Debbie Barnes
- **RAC Audits – Update/Results**.....Bob Hemker
- **What is coming down the pike?**.....Bob Hemker, Opal Reinbold
- **Questions and Answers**



*"These new regulations will fundamentally  
change the way we get around them."*

# Clinical Documentation Improvement (“CDI”) Update



# Critical Success Factors

CDI program success is reliant on the following critical success factors





# CDI Implementation Review

## *Classroom Training*

The classroom training component of CDI is the most rigorous part of the implementation. Classroom lecture includes the core team of all documentation nurse reviewers and the inpatient coders. Key activities include:

- Classroom education:

- The classroom lecture component has been completed. Greater than 40 hours of didactic lecture on documentation principles was provided.
- Coders and clinical documentation specialists (CDS) nurse reviewers were in attendance. In addition, select members of the management team attended the classroom sessions as their schedule allowed.

- Feedback received from the CDI team at PPH has been extremely positive:

- “great information”
- “as a coder this has been a great review for me”

- Interaction between the coders and the CDS nurse reviewers was excellent. An appreciation and understanding of each others role in CDI was expressed by both the coders and the documentation reviewers.

# CDI Implementation Review

Practice allows for application of the documentation strategies learned in class to both concurrent and retrospective coded charts. Key activities include:

- Application of CDI documentation principles through intensive chart review.
- Case presentation. Each CDS presents their cases to the group describing their approach to identifying all documentation opportunities, describing the all evidence which supports the opportunity and any potential inquiry opportunities.
- Development of CDS floor assignments based upon their all expertise.
- Introducing the CDS staff to the unit managers and staff while on the patient care areas. This gave them the opportunity to develop new relationships and clarify their role and responsibilities as it relates to CDI.
- Interaction with physicians. The CDS staff began to interact with the medical staff through introducing themselves, describing their role and how they can best support the medical staff.
- Role playing. There were several sessions with the FTI physicians for the CDS staff to “practice” verbal communications and inquiry techniques.

# CDI Implementation Review *Process*

A standardized process provides day to day guidance of expectations, roles and responsibilities of each CDI team member at PPH. Key activities include:

- Development of a customized process for the coders and CDS nurse reviewers which outlines their roles and responsibilities.
- Development of a CDI task force where the CDS nurse reviewers and the coders continue to interact and provide each other with valuable education and feedback regarding documentation and process issues. PPH leadership provides oversight.
- Practice using the CDI tool suite (classroom tools, operational database)

# CDI Implementation Review

## *Medical Staff Education*

- ◆ Medical staff education has been well received.
- ◆ Physician advisor education has been completed.
- ◆ Follow up reinforcement education is planned for the fall once the October changes have occurred.
- ◆ Over 200 PPH physicians attended training over a 4 week period to include the following specialties:

Family Practice

Hospitalists

Internal Medicine

OB GYN

Rehab

Pediatrics

Occupational Medicine

Pathology

Cardiology

Hematology/Oncology

Nephrology

Urology

Surgery

Orthopedics

Trauma

Emergency Medicine

Wound Care

# CDI Implementation Review

## *Performance Tracking*

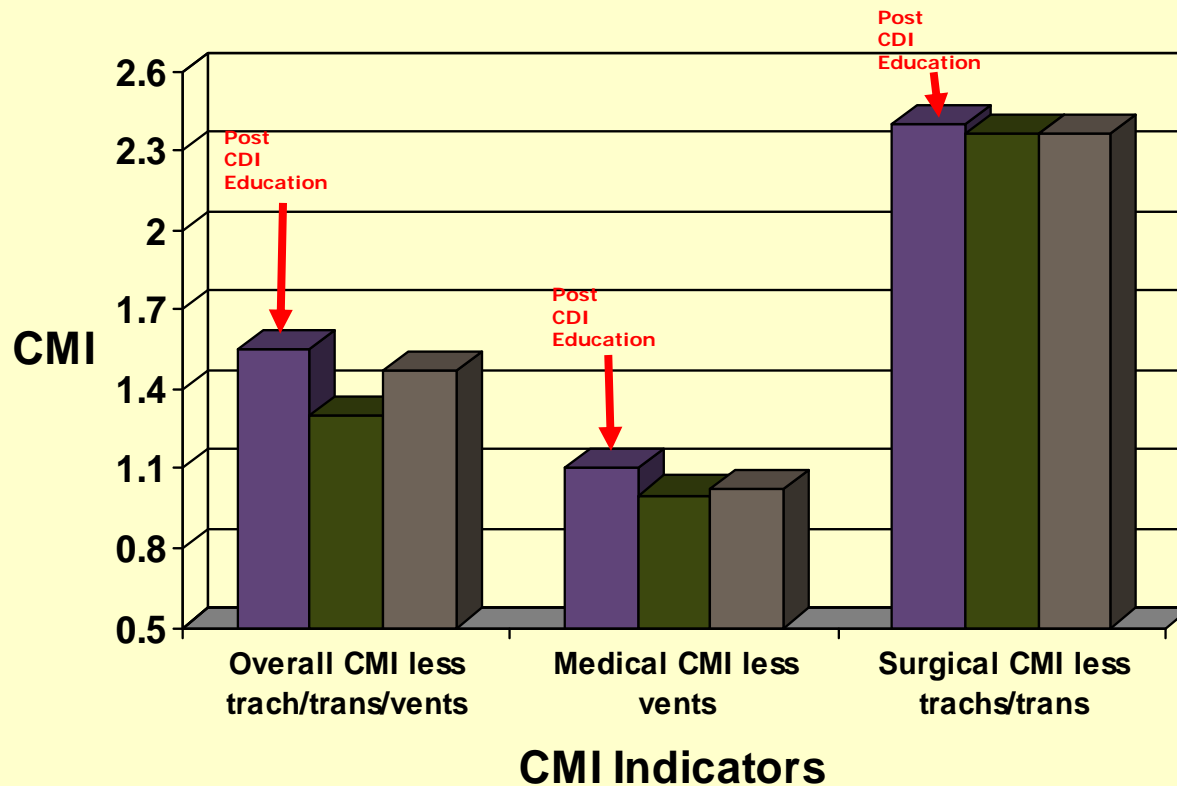
- ✦ Close monitoring of the new CDI process at PPH is essential. Monthly CMI reports for each hospital will be generated and analyzed.
- ✦ Comparisons will be made between “pre CDI education” and “post CDI education” timeframes. The assumption being that post CDI education, we would expect to see some of the documentation “gaps” improve as demonstrated through changes to key CMI metrics. These improvements come from 3 sources:
  - ✦ Medical staff adopting some documentation pattern changes due to extensive education and concurrent interaction with the CDS on the patient care units.
  - ✦ Coders applying knowledge from class as they code the charts
  - ✦ CDS nurse reviewers interacting with the medical staff and coders to ensure that the documentation reflects the acuity of the patients cared for at PPH.
- ✦ Key metrics include; Overall CMI less trachs, transplants and vents, Medical CMI less vents and surgical CMI less trachs and transplants, Medical and Surgical MCC (major co morbidity/complication) and CC (co morbidity / complication) capture rates.
- ✦ CDI performance is evaluated based on the current month statistics to an established baseline period (March 08-Feb 09) and established MedPAR 80<sup>th</sup> percentile benchmarks.

# CDI Implementation Review

## Performance Tracking

Palomar

### Key CMI Indicator Comparison



**Official Kick-off:  
May 4, 2009**

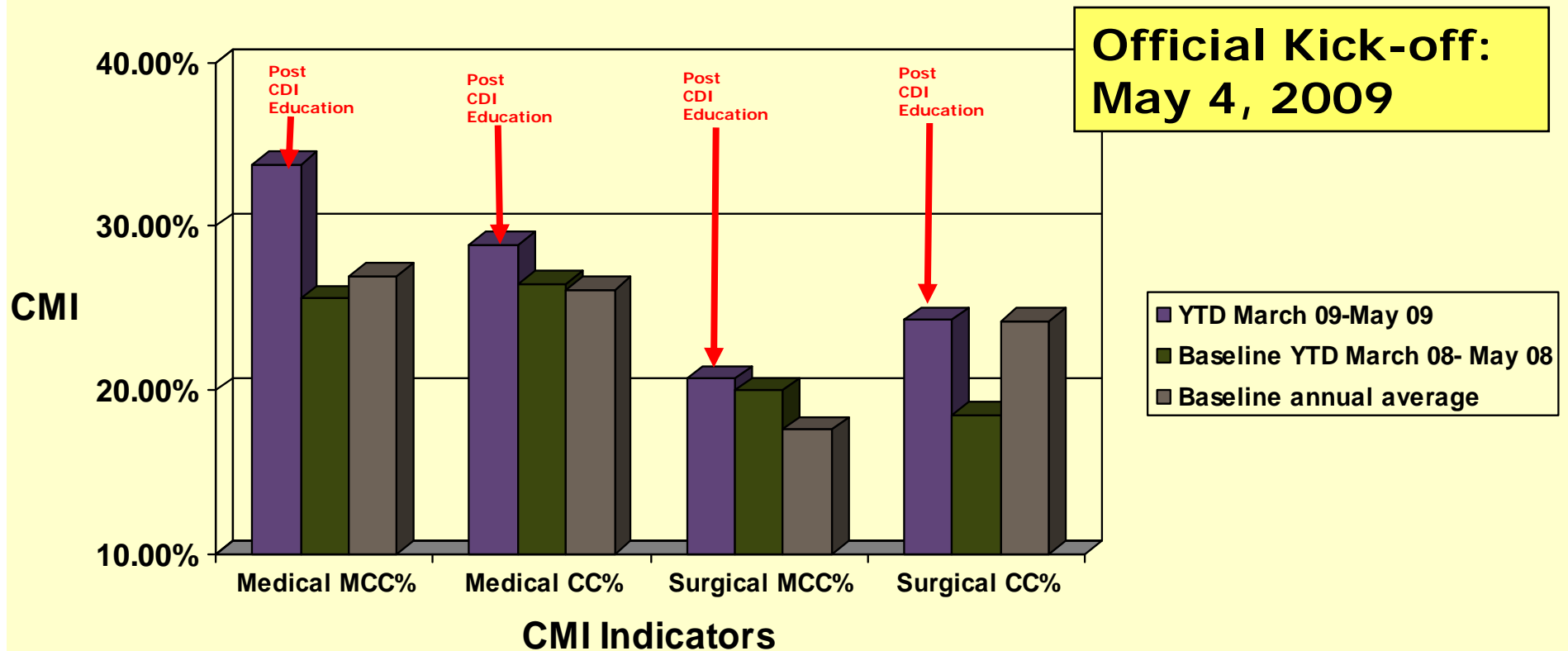
■ YTD March 09-May 09  
■ Baseline YTD March 08- May 08  
■ Baseline annual average

# CDI Implementation Review

## *Performance Tracking*

Palomar

### Key CMI Indicator Comparison

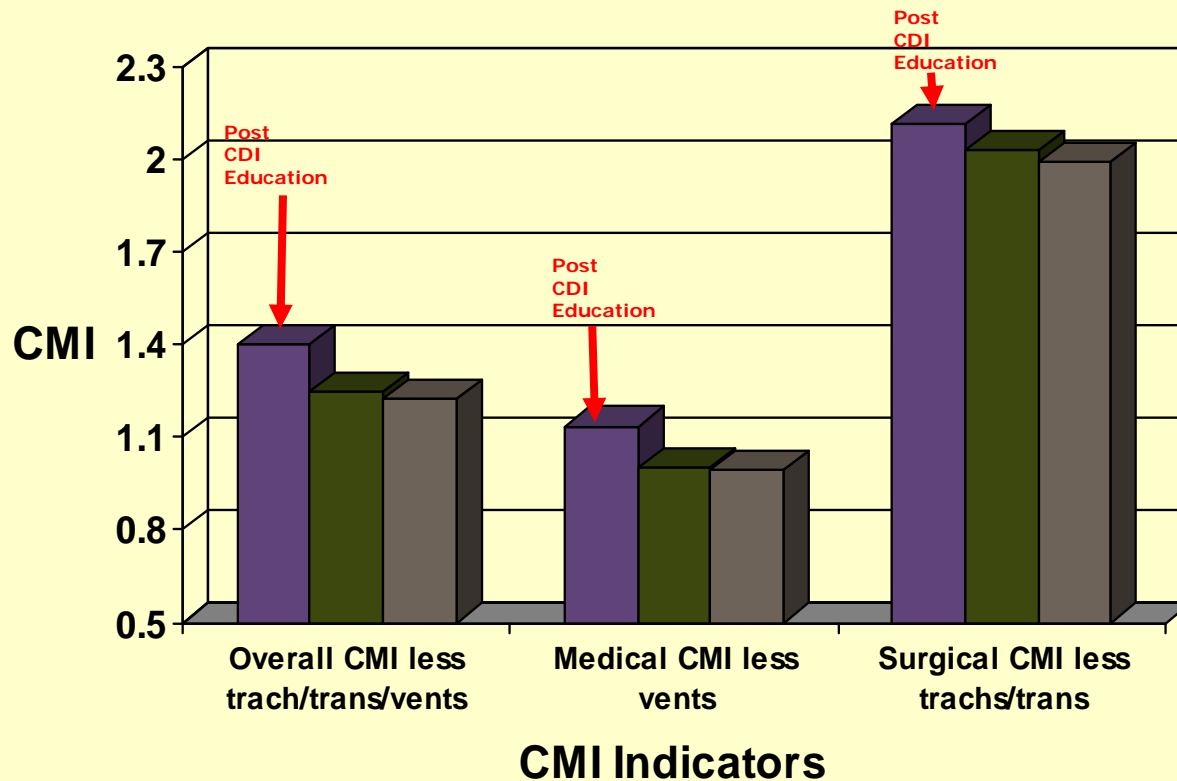


# CDI Implementation Review

## *Performance Tracking*

Pomerado

### Key CMI Indicator Comparison



**Official Kick-off:  
May 4, 2009**

■ YTD March 09-May 09  
■ Baseline YTD March 08- May 08  
■ Baseline annual average

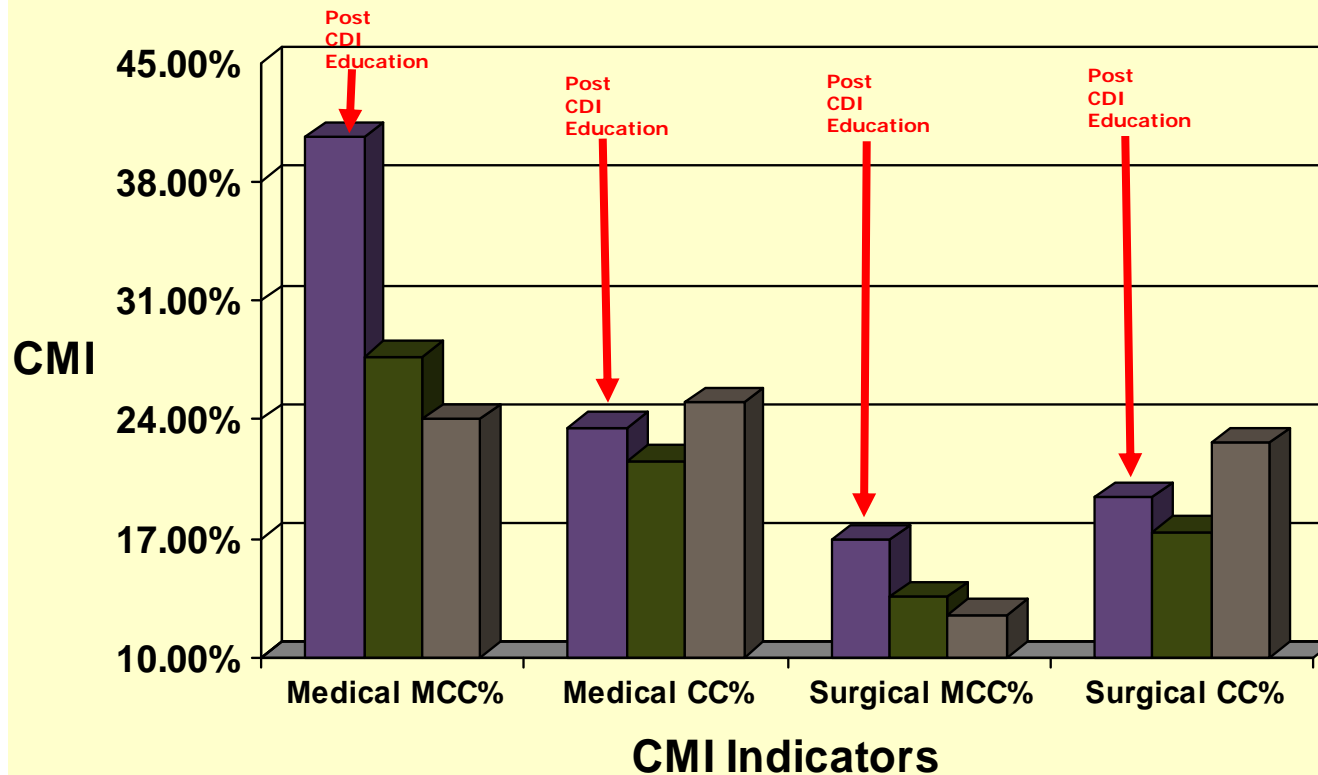


# CDI Implementation Review

## Performance Tracking

Pomerado

### Key CMI Indicator Comparison



**Official Kick-off:  
May 4, 2009**

■ YTD March 09-May 09  
■ Baseline YTD March 08- May 08  
■ Baseline annual average

# CDI Implementation Review

## *Performance Tracking*

### ✦ CDI successes at Palomar and Pomerado:

- ✦ Medical CMI less vents improvement: This is primarily due to a more specific principal diagnosis that reflects the true severity of illness of the patient.

- ✦ Medical / Surgical MCC% and CC% capture improvement from baseline comparisons. The ability to obtain clarity for these co morbid / complication conditions supports the acuity of the patients treated at both Palomar and Pomerado.

### ✦ CDI areas of continued focus at Palomar and Pomerado:

- ✦ Surgical MCC% and CC%. Documentation of co morbid conditions by the surgeon historically has been difficult as the surgeons focus is not necessarily on the stable medical conditions the patients may have. Through intensive education and sharing mortality data with the surgeons this will increase their awareness of the importance of documenting these medical co morbid conditions.

- ✦ Continued one on one concurrent interaction with the medical staff to reinforce the documentation principles.

- ✦ Analysis and intervention by the physician advisor for those physicians that appear to be not as cooperative ; not responding to queries.

# CDI Implementation Review

## Performance Tracking



### Performance Indicators Traditional Medicare

Palomar Medical Center

	Current Year												Baseline Compare	YTD Average	Benchmark	
	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10				
<b>Overall Case Mix Performance Indicators</b>																
Overall CMI Excluding Trachs, Trnsplts, & Vents	1.5335	1.4847	1.6265											1.4717	1.5464	1.6072
Cases	320	368	334											3,965	1,022	
Medical CMI Excluding Vents	1.0613	1.0827	1.1705											1.0238	1.1039	1.0684
Cases	210	249	214											2,638	673	
Surgical CMI Excluding Trachs & Trnsplts	2.4351	2.3260	2.4397											2.3622	2.3995	
Cases	110	119	120											1,327	349	
<b>Medical Regular CC/MCC Capture Rate</b>																
Percentage with MCC	31.5%	31.7%	38.5%											27.0%	33.8%	35.9%
Percentage with CC	27.9%	30.4%	28.0%											26.1%	28.9%	28.8%
Percentage without CC/MCC	40.6%	37.8%	33.5%											46.9%	37.3%	46.4%
<b>Surgical Regular CC/MCC Capture Rate</b>																
Percentage with MCC	19.0%	20.4%	22.4%											17.6%	20.7%	27.5%
Percentage with CC	23.8%	25.7%	23.3%											24.2%	24.3%	28.3%
Percentage without CC/MCC	57.1%	54.0%	54.3%											58.1%	55.1%	58.4%

# CDI Implementation Review

## Performance Tracking



### Performance Indicators Traditional Medicare

Pomerado Hospital

	Current Year												Baseline Compare	YTD Average	Benchmark
	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10			
<b>Overall Case Mix Performance Indicators</b>															
Overall CMI Excluding Trachs, Trnsplts, & Vents Cases	1.3050	1.4476	1.4287										1.2218	1.3970	1.4510
	146	171	151										2,048	468	
Medical CMI Excluding Vents Cases	1.0747	1.1367	1.1906										0.9913	1.1361	1.0294
	105	121	117										1,579	343	
Surgical CMI Excluding Trachs & Trnsplts Cases	1.8948	2.1999	2.2482										1.9981	2.1130	
	41	50	34										469	125	
Medical Regular CC/MCC Capture Rate															
Percentage with MCC	37.2%	39.5%	44.9%										24.0%	40.6%	32.3%
Percentage with CC	26.6%	22.8%	21.5%										25.0%	23.5%	30.5%
Percentage without CC/MCC	36.2%	37.7%	33.6%										51.0%	35.9%	50.2%
Surgical Regular CC/MCC Capture Rate															
Percentage with MCC	9.8%	22.0%	18.2%										12.5%	16.9%	24.5%
Percentage with CC	12.2%	28.0%	15.2%										22.6%	19.4%	32.8%
Percentage without CC/MCC	78.0%	50.0%	66.7%										64.9%	63.7%	60.6%

# CDI Implementation Review

## Performance Tracking

- ✦ CDI “go live” date for both Palomar and Pomerado was March 09. Go live is defined as the time that the performance tracking comparison was started as CDI education had begun.
- ✦ For Palomar and Pomerado, YTD Overall CMI less Trachs/Trans/Vents for March/April/May 09 compared to the baseline annual average for Overall CMI less Trachs/Trans/Vents demonstrates improvements. These improvements are based on; education of the team had begun, CDS reviews were starting to interact/communicate with the medical staff, medical staff education and awareness building session had started and coders were applying

<b>Pomerado</b>		Base Year												Total
	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	1.2218	
Overall CMI Excluding Trachs, Transplants, & Vents	1.2114	1.2437	1.2934	1.1596	1.1996	1.2126	1.2346	1.2243	1.1839	1.1900	1.1871	1.3287	1.2218	
Total Medicare Cases Excluding Trachs, Transplants, & Vents	202	170	186	157	192	169	153	154	175	168	170	152	2048	
		Current Year												Total
	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	1.3970	
Overall CMI Excluding Trachs, Transplants, & Vents	1.3050	1.4476	1.4287										1.3970	
Total Medicare Cases Excluding Trachs, Transplants, & Vents	146	171	151										468	
Baseline CMI Apr-1917 - Mar-2008	1.2218	1.2218	1.2218										1.2218	
Difference from Baseline	0.0832	0.2257	0.2069										0.1752	
Financial Impact assuming Base Rate of \$6,329	\$76,843	\$244,312	\$197,728										\$518,883	
<b>Palomar</b>		Base Year												Total
	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	1.4717	
Overall CMI Excluding Trachs, Transplants, & Vents	1.3925	1.5474	1.3942	1.4273	1.4901	1.4783	1.4144	1.4618	1.4570	1.5785	1.4981	1.5567	1.4717	
Total Medicare Cases Excluding Trachs, Transplants, & Vents	362	347	345	341	351	359	323	369	304	281	298	285	3965	
		Current Year												Total
	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	1.5464	
Overall CMI Excluding Trachs, Transplants, & Vents	1.5335	1.4847	1.6255										1.5464	
Total Medicare Cases Excluding Trachs, Transplants, & Vents	329	366	334										1022	
Baseline CMI Jul-1919 - Mar-2008	1.4717	1.4717	1.4717										1.4717	
Difference from Baseline	0.0618	0.0130	0.1548										0.0746	
Financial Impact assuming Base Rate of \$7,146	\$141,381	\$34,209	\$369,567										\$545,157	

# CDI Implementation Review

## *Next Steps*

As we transition from FTI onsite support to off site support and follow up, the following activities will occur:

- ✦ Continue task force. Task force supports the ongoing education and teaming of the CDS nurse reviewers and the coders.
- ✦ Strict adherence to the standardized process.
- ✦ Analyze productivity reports from the operational database. Adjust CDS assignments as indicated
- ✦ Prepare and analyze monthly dashboard . Select reports will be e mailed to FTI project leader for analysis with feedback to leadership.
- ✦ Schedule onsite follow up for October. Education updates and continued medical staff education will be conducted as CMS final rule takes effect.

# **Core Measures**

## **HQID Premier/CMS National Pay for Performance Demonstration Project**

- **Achievements**

- PMC was named a top performer for CABG
- PMC/POM – Met Goals for AMI, CHF and Hip and Knee
- PMC/POM were noted for most improved for Pneumonia

- **Additional Re-imbursement for Performance**

- PMC - \$44, 856
- POM - \$22, 354

# Core Measures

- **Next Steps**

- Continuous monitoring with monthly submission of data
- Increase communication to physician and nursing focus on under achieving indicators
- Maximize utilization of the EHR



# **Present On Admission Hospital Acquired Conditions (POA/HA) Plan of Action**

- **Interdisciplinary Committee**
  - Chairs: Quality Manager & CNS for Medical/Surgery/Telemetry Units Pomerado
    - Health Information Services
    - Peri-operative Services
    - Unit CNS PMC & Pomerado representing IMC, Critical Care and ED
    - System CNS for Geriatrics and Wound
    - Nursing Education
    - Diabetes Health

# POA/HAC

- **Action Steps**

- Metrics established
- Monitored in the Balanced Score Card
- High risk conditions identified
  - Pressure Ulcers
  - Falls with injury (fractures, head injury)
  - Urinary Tract Infections
  - Vascular Catheter Associated Infections

# POA/HAC

- **Action Steps**

- Create trigger to notify Physician
  - Physician advisory team to provide input as to most effective method of notification
- Develop & Implement Education Plan
- Validate VHA Baseline Data

# Recovery Audit Contractor “RAC”

- RAC Audits
  - Automated review begins 07/01/09. CDI Impact
  - Complex review begins 01/01/10. Currently HealthDataInsights performing trending analysis of historical data. RAC RN to review.
  - Possible Financial Impact
    - \$5 Million may be reviewed
    - Findings required to be reported to Palmetto (FI)
      - Extrapolation
      - Focused Review
- Top 5 Areas of Interest for RAC
  - SNF 3 Day Qualifying Stay
    - VitalCare Contract internal facilities (PCCC, VP)
    - Case Management – outside skilled facilities
  - 1 & 2 Day Stays
    - Tracked/reported at ROC
  - CDI
    - Back pain
    - Chest pain
    - Major Joint Replacement (ARU)

***FY10 Goal: Managed Care, Compliance, Internal Audit collaborative efforts – Fix it on the front end & limit back end reviews***

# The new political & operational reality

- One party control
- Obama “big think”
- Crisis urgency
- Long honeymoon
- Pragmatists in charge
- Many priorities
- Top priority: healthcare
- Senate holds more cards
- Kennedy factor
- Deficit dynamics
- Reform challenges





**It's all about the money!**

# Health Care Spending Disparities Stir a Fight

By ROBERT PEAR

Published: June 8, 2009

WASHINGTON — [President Obama](#) recently summoned aides to the Oval Office to discuss a magazine article investigating why the border town of McAllen, Tex., was the country's most expensive place for health care. The article became required reading in the White House, with Mr. Obama even citing it at a meeting last week with two dozen Democratic senators.

 [Enlarge This Image](#)



Brendan Smialowski/Getty Images

Senators Max Baucus, left, and Christopher J. Dodd with Nancy-Ann DeParle of the White House Office of Health Reform.

“He came into the meeting with that article having affected his thinking dramatically,” said Senator [Ron Wyden](#), Democrat of Oregon. “He, in effect, took that article and put it in front of a big group of senators and said, ‘This is what we’ve got to fix.’”

As part of the larger effort to overhaul health care, lawmakers are trying to address the problem that intrigues Mr. Obama so much — the huge geographic variations in [Medicare](#) spending per beneficiary. Two decades of research suggests that the higher spending does not produce better results for patients but may be evidence of inefficiency.


Members of Congress are seriously considering proposals to [rein in the growth of health spending by taking tens of](#)


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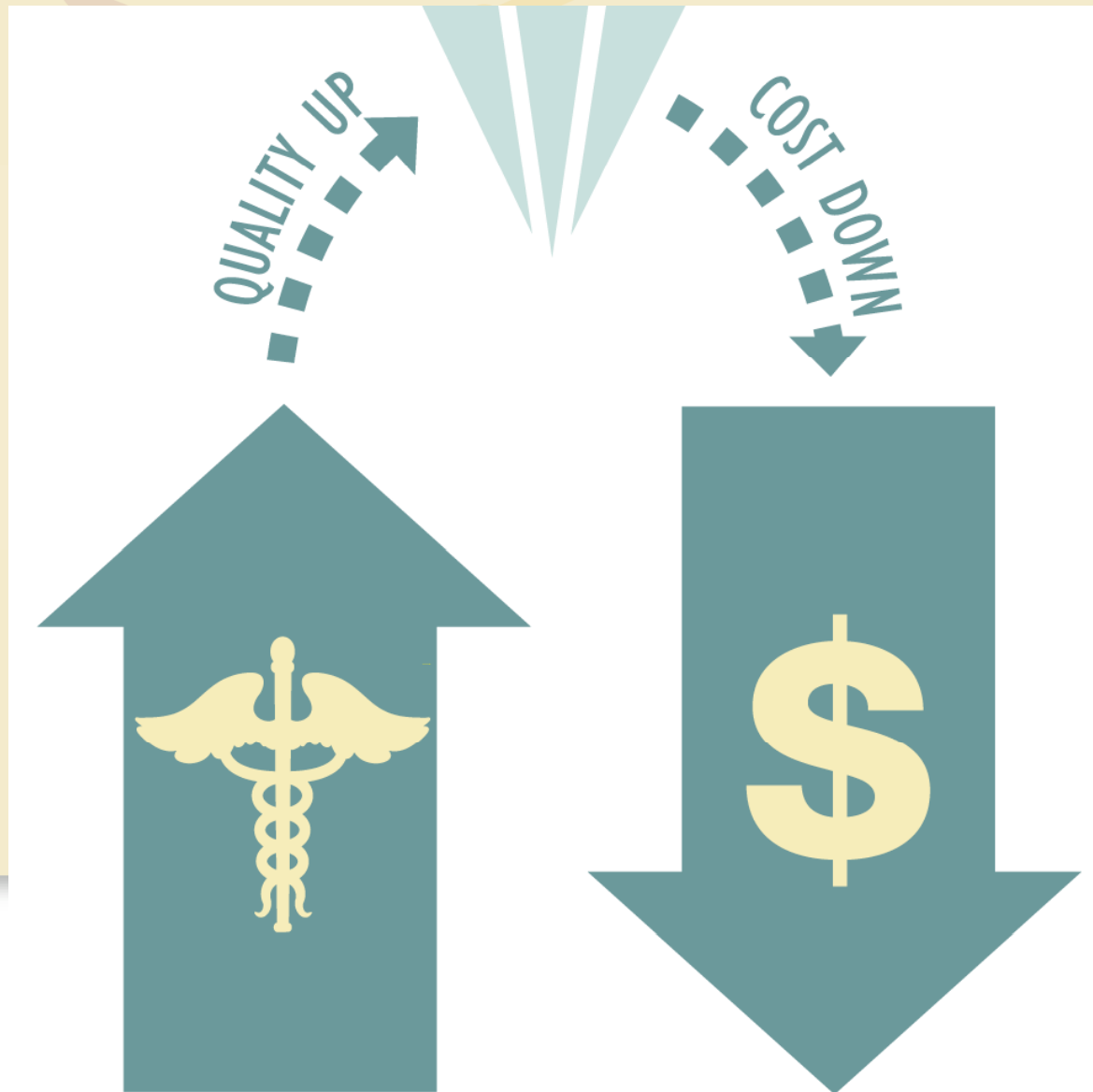
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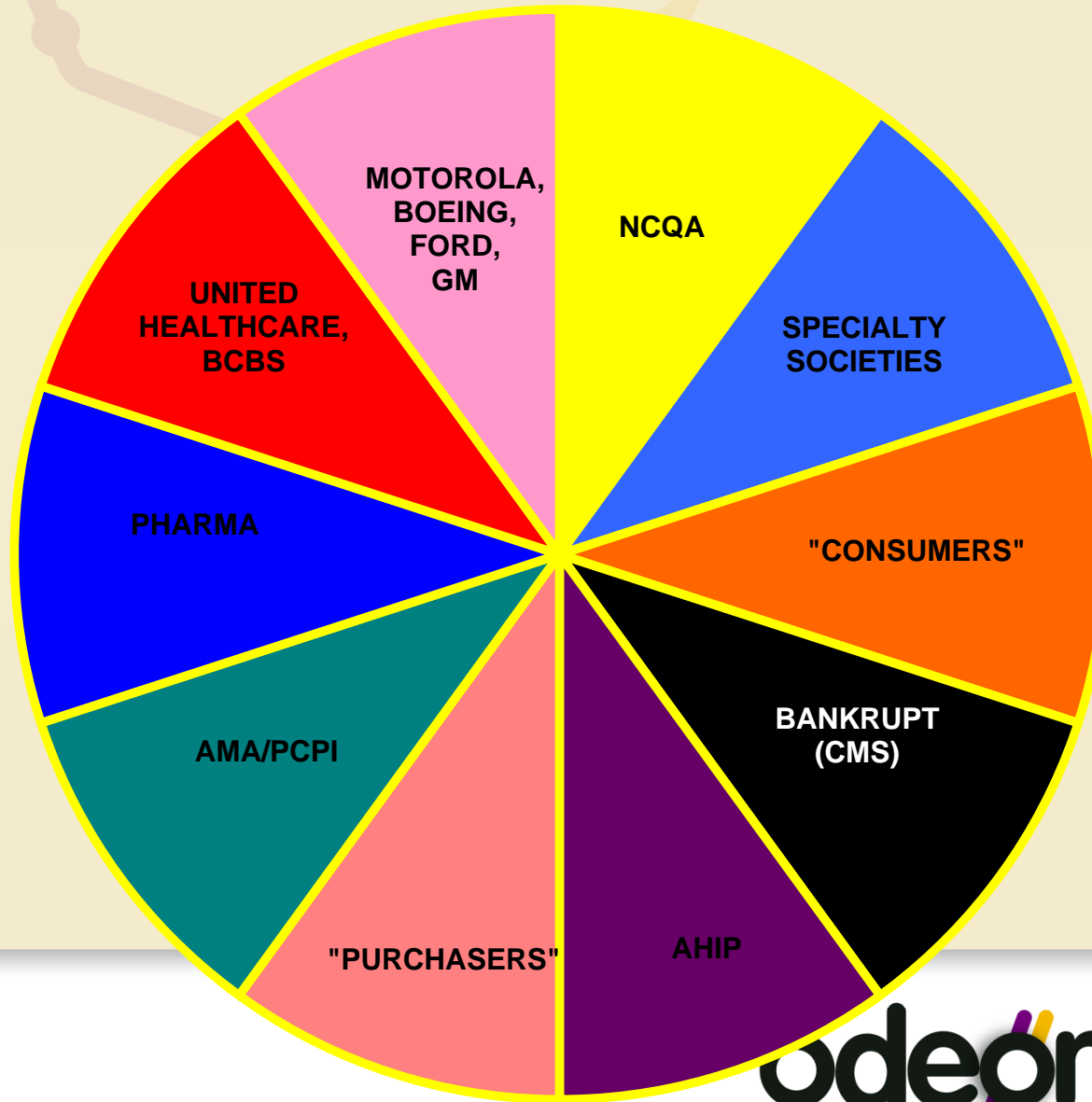
are Data Strategy



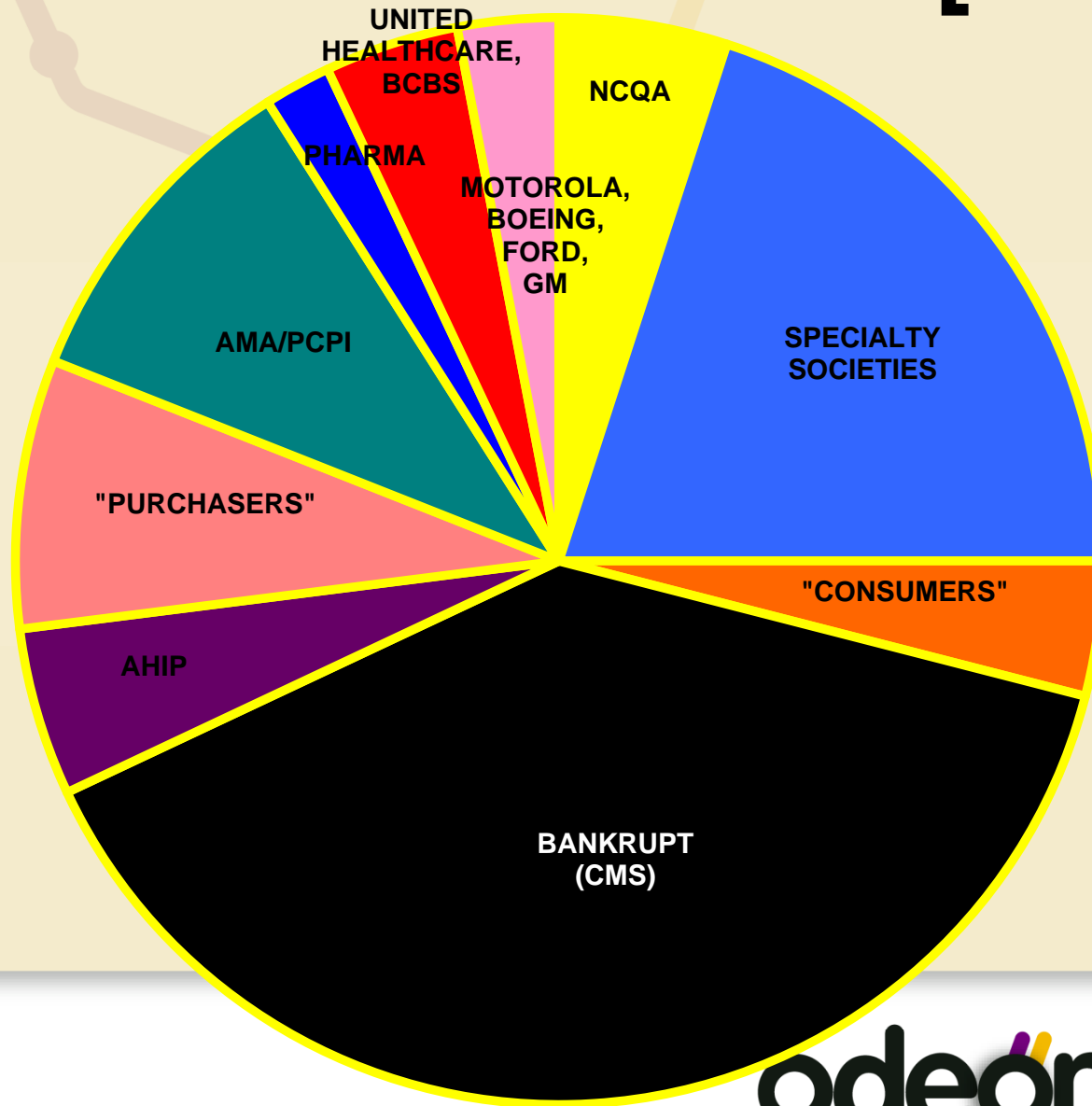
# U.S. Health Care: Objective



# Wheel of P4P Fortune



# Wheel of P4P Fortune [Actual]

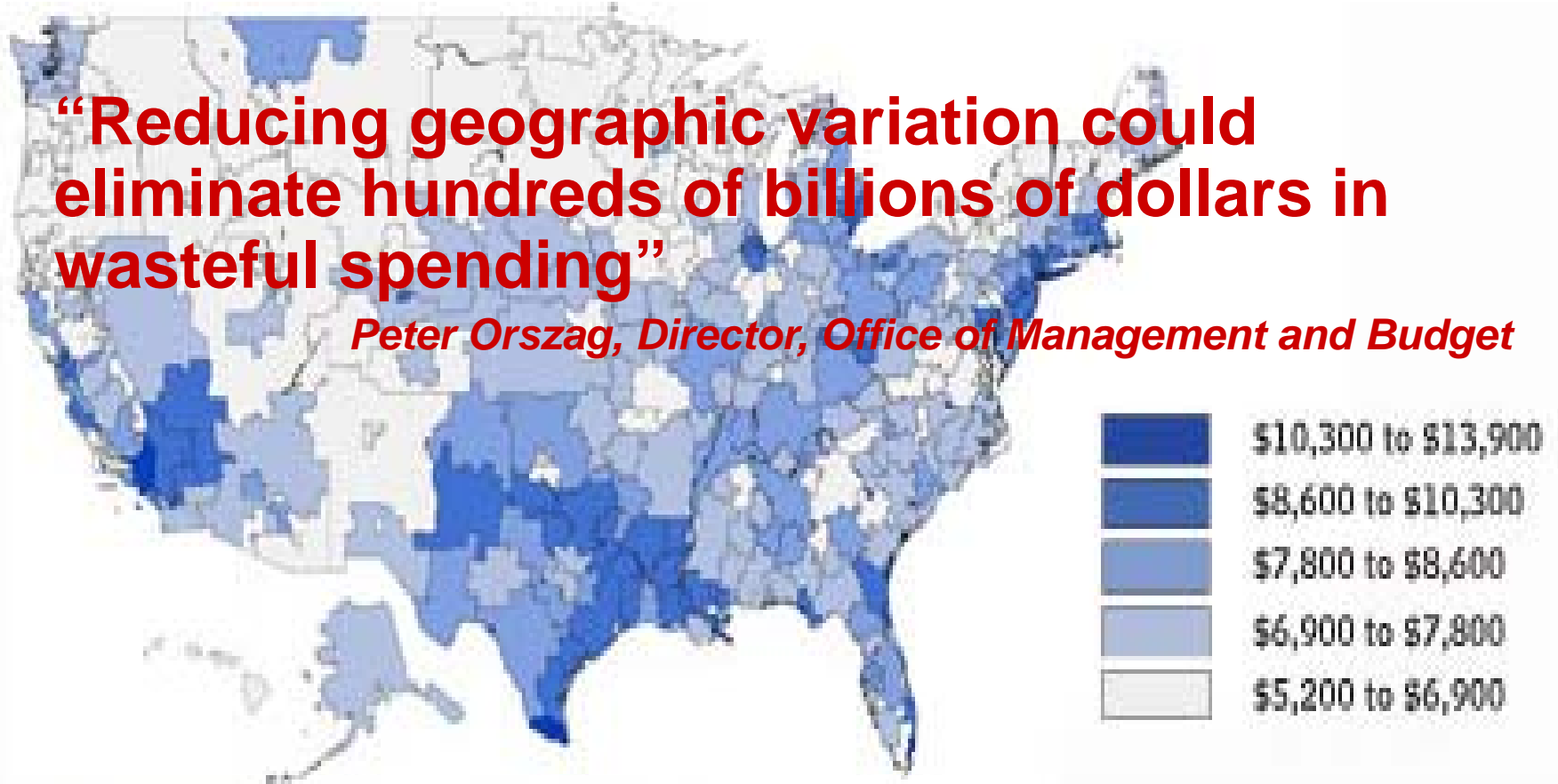


# Federal policy target #1: Utilization, quality and costs vary with no medical rationale

Medicare Spending per Beneficiary, by Hospital Referral Region, 2005

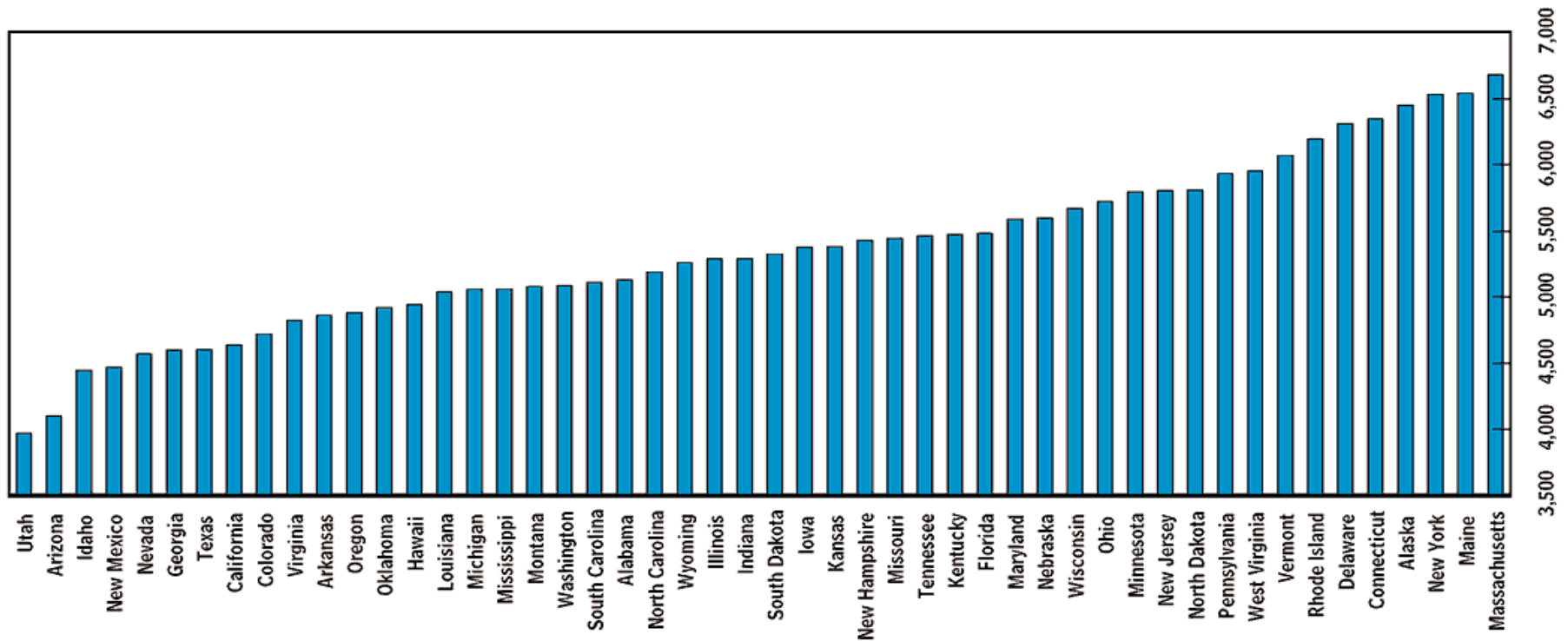
**“Reducing geographic variation could eliminate hundreds of billions of dollars in wasteful spending”**

*Peter Orszag, Director, Office of Management and Budget*



Source: Congressional Budget Office based on data from the Centers for Medicare and Medicaid Services.

# Medicare cost variation by state, 2004



**Medicare spending would fall 29% if spending in medium and high spending regions were the same as that in low spending regions**

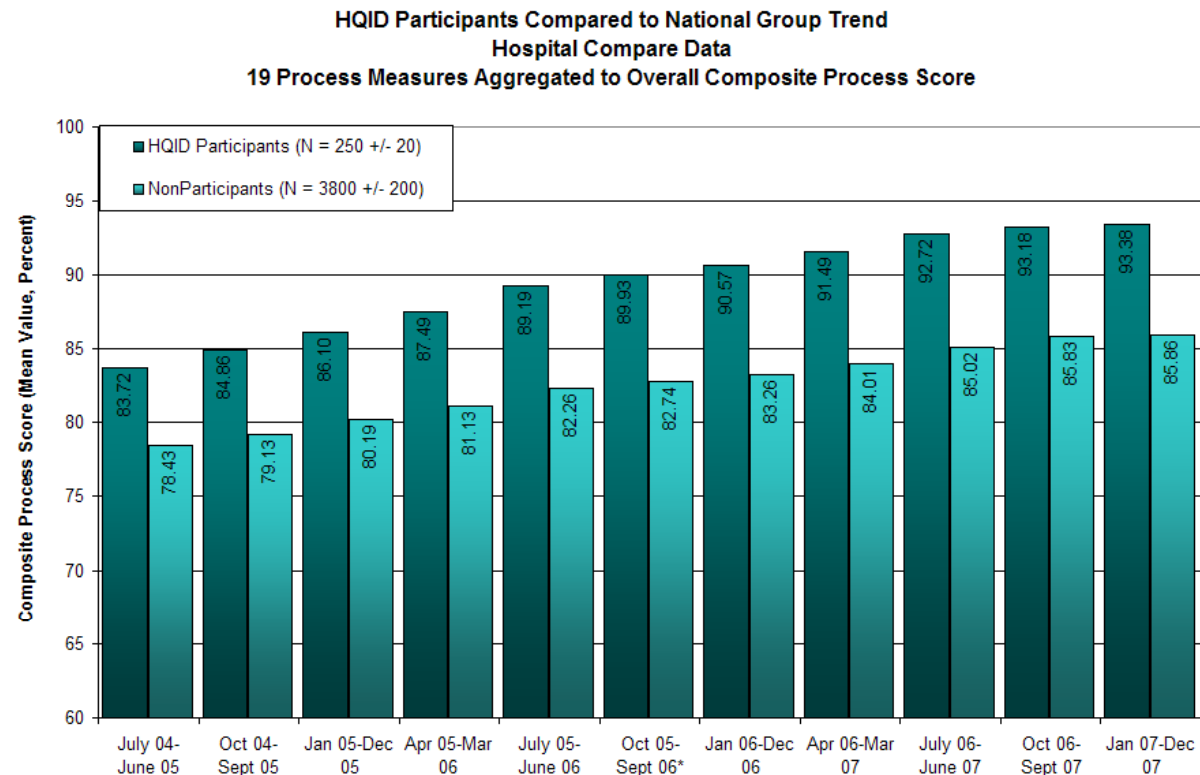
Source: Congressional Budget Office based on data from the Centers for Medicare and Medicaid Services

# Pay for value, not volume

## National Leaders in Quality Performance

- HQID participants avg. 6.8% higher than Non-Participants
- Avg. improvement for HQID participants = 9.7%
- Avg. improvement for Non-participants = 7.4%
- New England Journal of Medicine publication by Lindenauer et al. (February 2007) found that hospitals engaged in P4P achieved quality scores 2.6 to 4.1 percentage points above other hospitals due solely to the impact of P4P incentives.

HQID hospitals have higher quality ratings than national hospitals overall



\*Beginning with Oct 05-Sept 06 the influenza vaccination measure became unsuppressed and the number of process measures increased from 18 to 19

A composite of 19 measures shared in common between HQID and Hospital Compare shows P4P hospitals performing above the nation as a whole

# Pride or Prejudice, Payers driving transparency

- May 21 ad to promote the *Hospital Compare* Web site
- CMS ads in 58 major dailies
- Featured hospitals in each market and their performance on two measures (clinical process measure and HCAHPS measure)

## Compare the Quality of Your Local Hospitals

Visit [www.hospitalcompare.hhs.gov](http://www.hospitalcompare.hhs.gov)

Here is a sample of what you'll see

Hospital Name	Percentage of people who received antibiotics 1 hour before surgery	Percentage of people who always received help when they wanted it
Arundel Medical Center	84%	83%
Baltimore Washington Medical Center	68%	57%
Blue Cross Hospital	84%	50%
Christ Hospital Center	74%	43%
Protein Square Hospital Center	94%	51%
Good Samaritan Hospital	91%	47%
Greater Baltimore Medical Center	88%	47%
Harbor Hospital Center	95%	55%
Harford Memorial Hospital	88%	41%
Howard County General Hospital	84%	47%
Johns Hopkins Bayview Medical Center	98%	51%
Maryland General Hospital	67%	60%
Maryland Medical Center Inc.	94%	44%
Northwest Hospital Center	80%	57%
St. Agnes Hospital	90%	55%
Shaw Hospital of Baltimore	12%	44%
The Johns Hopkins Hospital	95%	58%
Union Memorial Hospital	95%	42%
University of Maryland Medical Center	91%	51%
Upper Chesapeake Medical Center	89%	66%
Maryland State Average	88%	55%

These and other hospitals are demonstrating their commitment to quality improvement by submitting information to Hospital Compare. Information in this ad was collected between July 2005 and June 2007. Check the website regularly for all the most current data available.



"The more information I have to make a choice, the better."  
Daisy, 72

This chart shows two ways hospital quality is measured. Getting an antibiotic at the right time before surgery reduces your risk of infection. And, knowing you will get help quickly from hospital staff may make you stay more comfortable. Hospitals that give recommended care and good service may help you avoid other health problems. When choosing a hospital, discuss quality and patient experience information with your doctor.

More hospitals. More information. This is just a sample of hospitals in your area and only two of the quality measures you'll see on Hospital Compare. Visit [www.hospitalcompare.hhs.gov](http://www.hospitalcompare.hhs.gov) to see more. Or, call 1-800-MEDICARE (1-800-633-4227). TTY users should call 1-877-485-2048.



*My Health.  
My Medicare.*

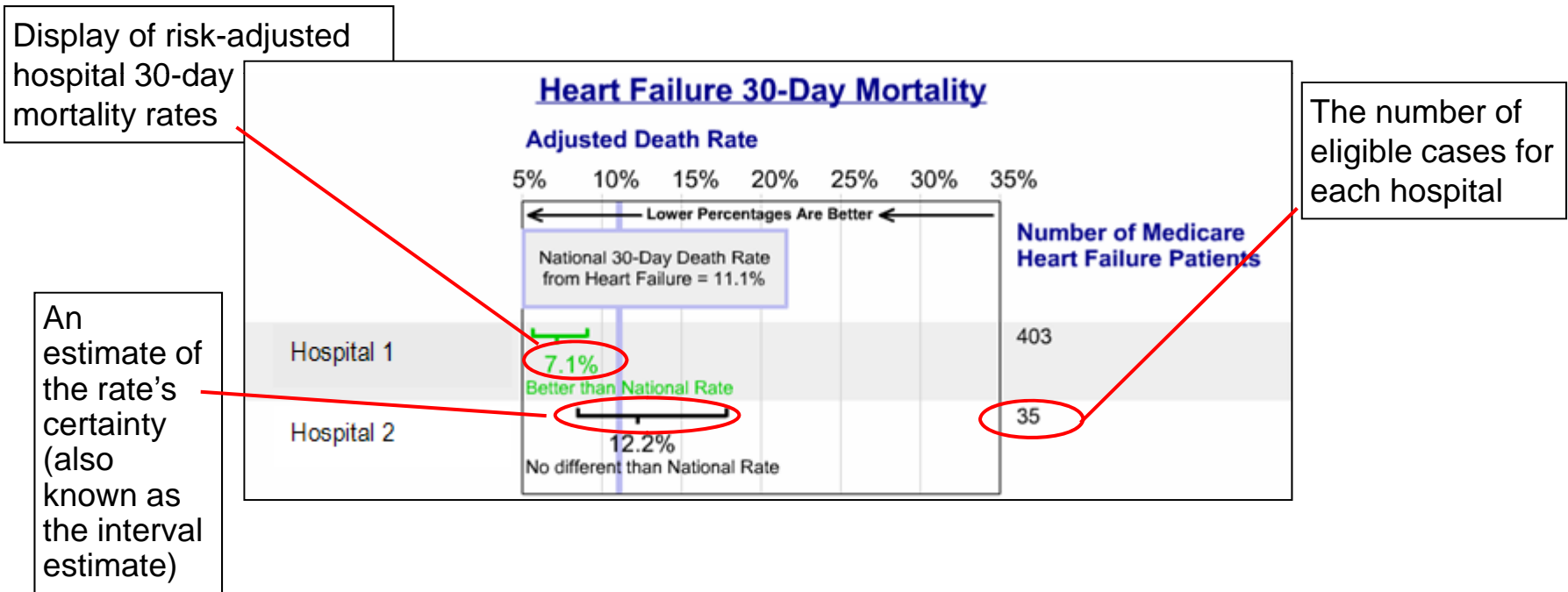
The Hospital Compare website was created by the Federal Government's Centers for Medicare & Medicaid Services with the collaboration of the Hospital Quality Alliance (HQA). The HQA represents associations for consumers, hospitals, doctors and nurses, employers, accrediting organizations, and federal agencies to promote reporting on hospital quality of care.

PREMIER BREAKTHROUGHS

Transforming Healthcare Together®

# CMS publicly reporting risk-standardized, 30-day mortality measures for AMI, HF and PN

- The August 20, 2008 posting of mortality measures to *Hospital Compare* is the second annual posting for AMI and HF mortality and the first public reporting for PN mortality.
- All three measures will be refreshed annually, and hospital-specific reports will be distributed to all participating hospitals for each annual preview period.



- CMS is contemplating additional changes for displaying 30-day mortality measures.

Source: CMS Presentation Barry Straube 6/4/2008; Quality Net <http://www.qualitynet.org/dcs/ContentServer?cid=1163010398556&pagename=QnetPublic%2FPPage%2FQnetTier2&c=Page; Hospital Compare; Booz Allen Analysis>



# Reform Financing & hospitals

- Aligning payment incentives/evidence to drive/create payment reductions
  - Bundled payment, \$17B (Obama budget)
  - Value Based Purchasing, \$12B
  - Reduced readmissions, \$8B
  - Increased EBM (quality measures, CER)
  - Attacking “fraud & abuse”
  - Transparency
  - Productivity adjustments for Medicare providers -- \$110 billion
  - Reduce DSH payments -- \$106 billion
- Revenue raisers impacting hospitals
  - MedPAC recommendations (SNF, IRF, HHA, LTCH)
  - Reform hospital GME
  - Modified requirement for non-profit hospitals
    - Minimum level of charitable care/impose excise tax on those who fall short

# Policy “hows”: Improve quality and reduce waste

*“Let's invest in mechanisms that look at who's doing a better job controlling costs while producing good quality outcomes in various states and let's reimburse on the basis of improved quality, as opposed to simply how many procedures you're doing.” – President Obama*

1. Align payment incentives – pay for value/evidence
2. Remove payment silos that impede care coordination
3. Pay less for new, but minimally improved, technology
4. Encourage primary care
5. Harness HIT to improve efficiency
6. Cover the uninsured
7. Attack waste and fraud
8. Encourage health and prevention

# New Healthcare Reform Environment

***“We need to pay on the basis of higher quality and better outcomes.” – Senate Finance Committee Chairman Baucus***

- **Focus on cutting costs foremost; linked to economic recovery**
  - \$600B in tax increases; \$400B in provider cuts
  - Only way to expand coverage!
- **Budget resolution permits “reconciliation”**
- **Reforms organized in three “buckets”**
  - Delivery system reform
  - Coverage and access
  - “Pay fors”/Financing
- **Divisive issues:**
  - Public plan
  - Employer mandate
  - Cost and deficit
- **ARRA reforms being implemented (comparative effectiveness, HIT...)**

## Proposed Inpatient rule - \$1B cut

- FY 2010 proposed update to the IPPS market-basket (price inflation index for hospitals) will be -0.5% (2.6% - 2.1%)
- -0.5% = \$586 million decrease in operating payments
- \$393 million decrease in capital payments
- 4 new quality measures; one retired
- No new Hospital Acquired Conditions (HACs)

# Fraud and Abuse *Gotcha*: Recovery Audit Contractor (RAC) expansion schedule

## Region A

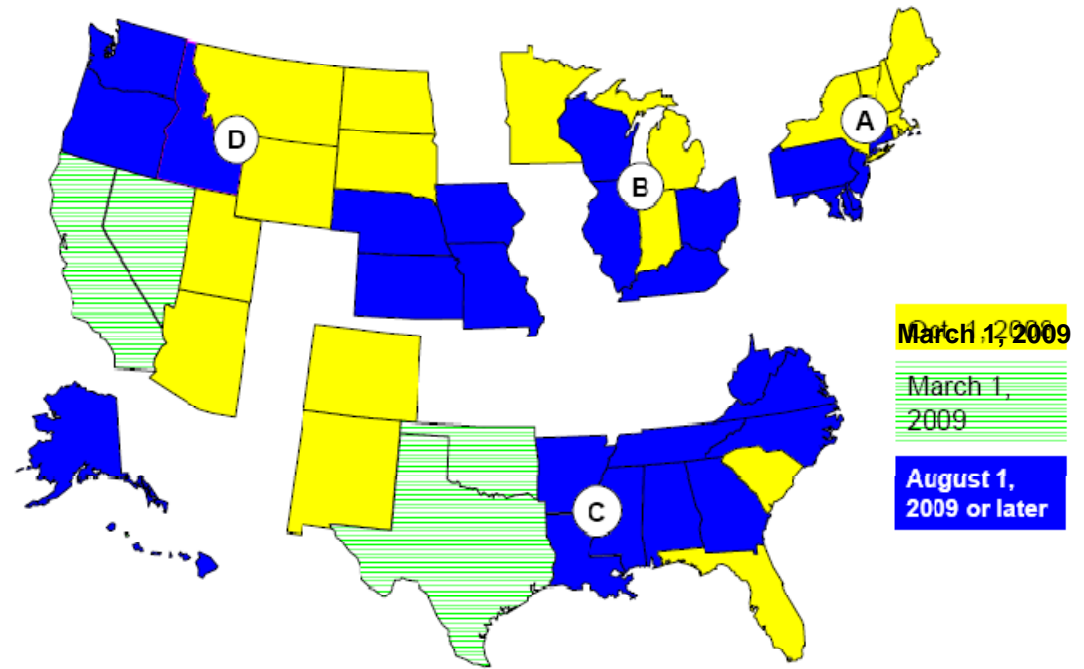
Connecticut	New Hampshire
Delaware	New Jersey
District of Columbia	New York
Maine	Pennsylvania
Maryland	Rhode Island
Massachusetts	Vermont

## Region B

Illinois	Minnesota
Indiana	Ohio
Kentucky	Wisconsin
Michigan	

## Region C

Alabama	North Carolina
Arkansas	Oklahoma
Colorado	South Carolina
Florida	Tennessee
Georgia	Texas
Louisiana	Virginia
Mississippi	West Virginia
New Mexico	



## Region D

Alaska	Kansas	Oregon
Arizona	Missouri	South Dakota
California	Montana	Utah
Hawaii	Nebraska	Washington
Idaho	Nevada	Wyoming
Iowa	North Dakota	

2009 and 2010

# Where is this headed?

1. **Comprehensive reform**
2. **Medicare reforms**
3. **Crash and burn**

# Predictions

- **Implementation over time, leaving future flexibility**
- **Hospital payment reforms**
  - Value-based purchasing/hospital P4P
  - Voluntary Accountable Care Organizations
  - Readmissions penalties
  - Pilots of different models
- **Fixing the physician payment system**
  - Shift payment to primary care/move to P4P
- **Insurance market reforms – individual mandate, employer mandate ?**
- **Other reforms: follow-on biologics, HHS negotiation for drug discounts, 340b, Medicare Part C (MA) cuts**
- **Provider cuts (DME, HHA, IRF, LTCH...)**
- **Comparative effectiveness research organization**
- **Taxes on high incomes, alcohol, soft drinks, others...**
- **Transparency: Physician Payment Sunshine Act, costs...**

# Bundling payment for acute and post acute care

- **FY 2015:** bundled payment of acute inpatient hospital services *and* post-acute care services (including HHA, SNF, IRF and LTCH services) occurring or initiated within 30 days of the acute hospital discharge
- **Physician services** excluded from bundle
- Three-stage process:
  - **FY 2015**, bundling applied to conditions in top 20 percent of post-acute care spending identified by Secretary
  - **FY 2017**, bundling applied to conditions in the next 30 percent of post-acute care spending
  - **FY 2019**, bundling applied to conditions in the remaining 50 percent of post-acute care spending
- **Bundled payment amount** = inpatient MS-DRG + post-acute care costs in that MS-DRG + expected 30-day readmissions + adjustments for efficiencies
- Bundled **payment to** one entity so long as hospital involved



# Value Based Purchasing

- **Measures** selected from Medicare pay-for-reporting program
- **FY 2012**, data collection year
- **Funding**: reduce all Medicare MS-DRGs (not DSH, IME, outliers) by 2% in FY2013, 3% in FY2014, 4% in FY2015, and 5% in FY2016 and beyond.
- Hospitals **scored** with a single, composite performance score.
- **Reward** for higher of quality improvement or quality attainment.
- Top 25% **earn back** withheld money; 26th to 75th percentile receive payment based on a sliding scale, and bottom 25th percentile receive no VBP payment.
- **Unused incentive funds** returned to the Medicare Trust Fund.
- **Test** VBP models for non-qualifying CAHs and small hospitals

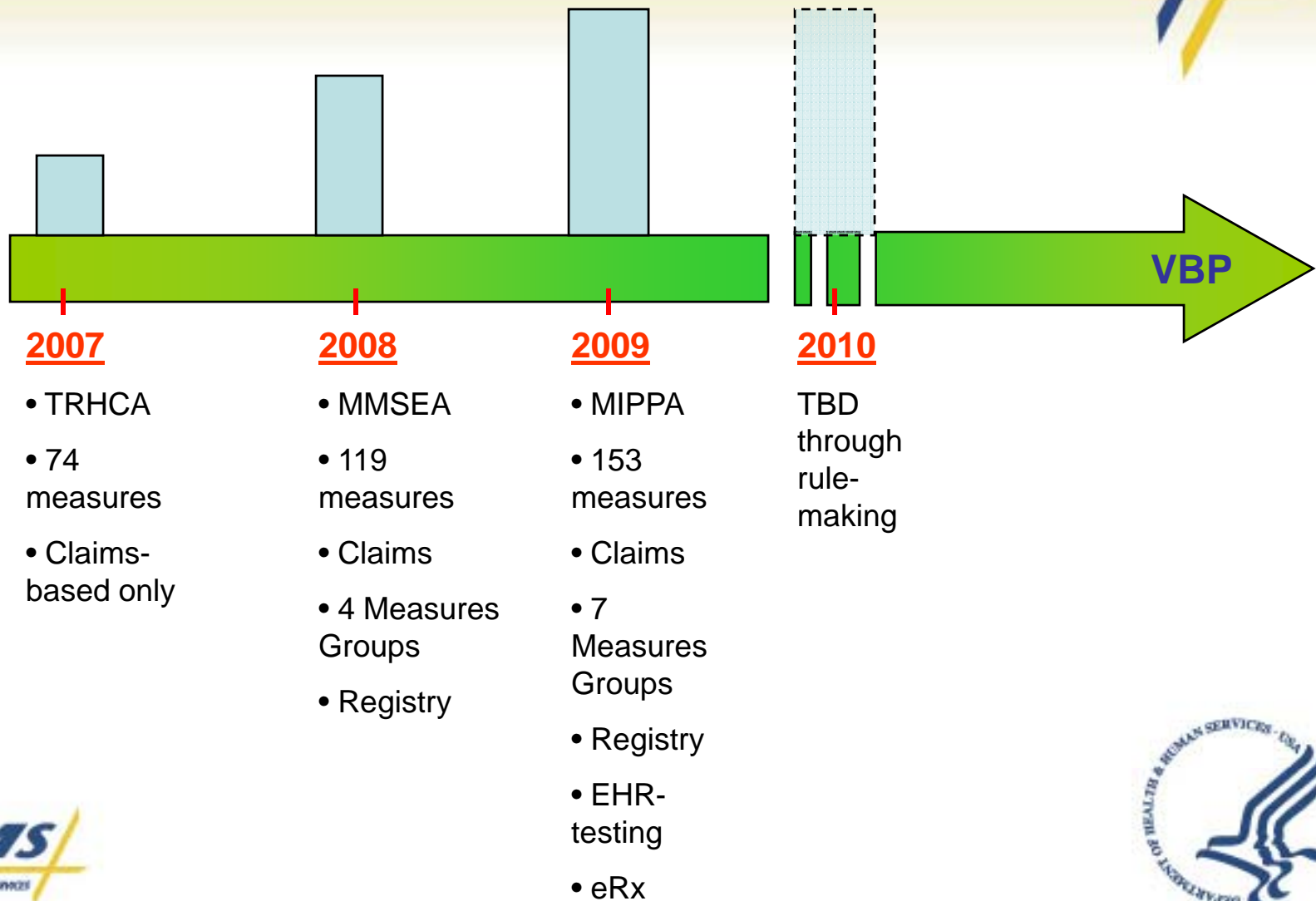
# Accountable care organizations (ACOs)

- **2012**, qualifying providers (such as individual physician practices, physician group practices, hospital-physician joint ventures and hospitals employing physicians) could voluntarily form ACOs
- **Qualification** requirements include:
  - minimum two-year participation;
  - Provide primary care to at least 5,000 Medicare beneficiaries
  - Have contracts with core group of specialists
  - Able to undertake joint decision-making; and
  - Can institute and report quality and cost measures and coordinate care
- Must meet **quality measures** to receive incentive payment: (1) clinical processes and outcomes; (2) patient perspectives on care; and (3) utilization and costs
- **Paid** past FFS per-beneficiary spending + national growth rate
- **Savings > 2% shared** 50/50 with Government with possible cap
- **Beneficiaries** assigned to ACO physicians from whom they received most primary care in previous year – beneficiaries still free to seek care elsewhere

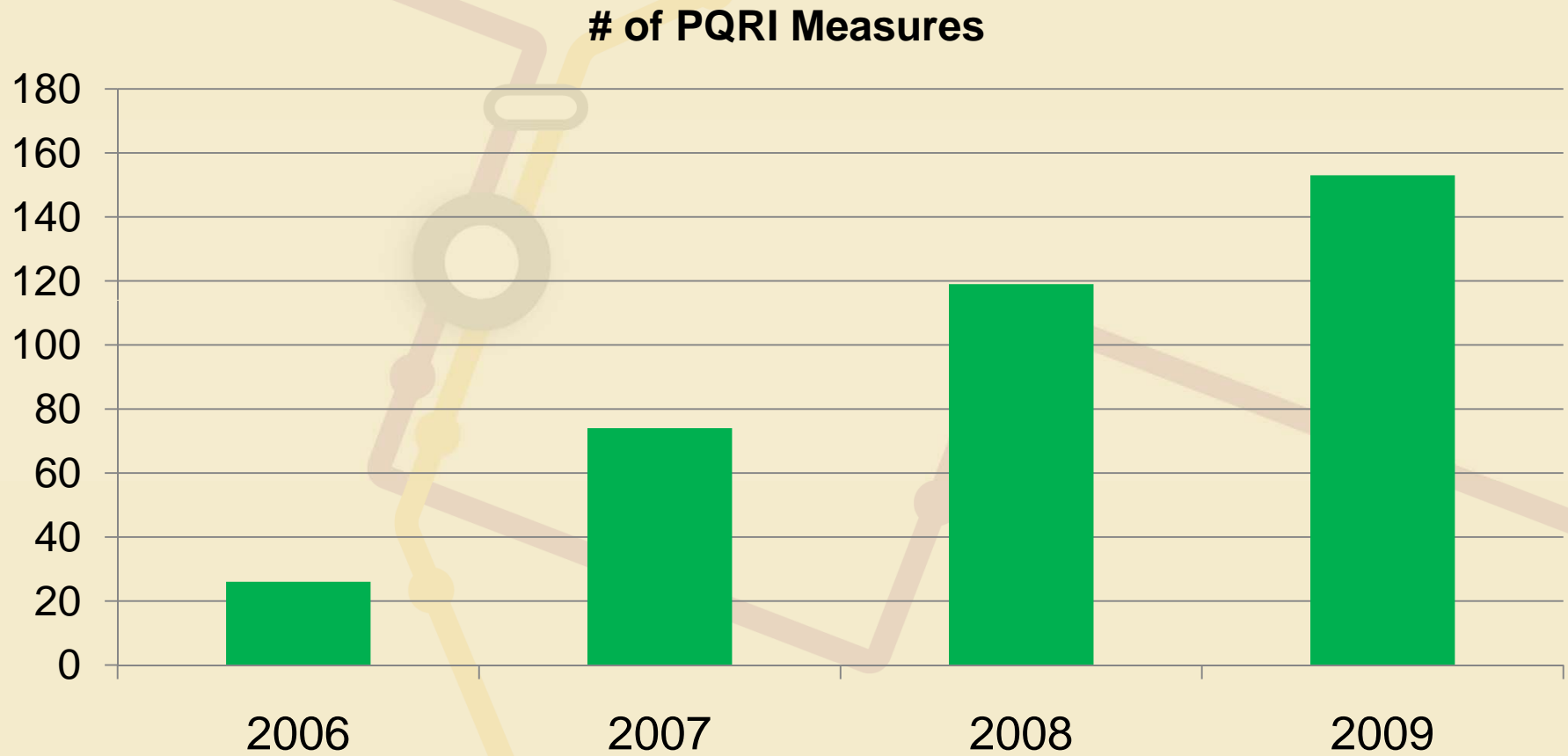
# Readmissions

- **2010**, CMS calculates national and hospital-specific readmission rates of PPS hospitals for 8 high volume conditions selected by the Secretary
- **2011**, CMS provides data to hospitals on their risk-adjusted readmission rates, excluding not “potentially preventable” readmissions, related to national average
- All hospital readmissions counted, even to a different hospital
- **FY 2013**, hospitals with readmission rates  $> 75^{\text{th}}$  percentile for selected conditions subject to 20% payment withhold for the selected MS-DRGs based on prior year’s performance.
  - Hospital receives full payment if patient not readmitted within 30 days for “preventable” readmission
  - Withheld money returned to Medicare Trust Fund If patient readmitted

# Towards Value-Based Purchasing



# Measures Multiplying



## 2009 PQRI Measures Groups

- 7 measures groups:
  - Diabetes Mellitus
  - Chronic Kidney Disease
  - Preventive Care
  - Coronary Artery Bypass Graft (CABG) (new-registry only)
  - Rheumatoid Arthritis (new)
  - Perioperative Care (new)
  - Back Pain\* (new) - reportable only as a measures group, not as individual measures

ESRD measures group removed for 2009

# Question and Answers

# Exhibits





# THE NEW YORKER

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JUNE 14, 2009

## THE POLITICAL SCENE

James Surowiecki and Ryan Lizza discuss the issues surrounding health-care reform, as well as Atul Gawande's influential article on health-care costs.



## BLOGS

**Laura Secor** reports on Iran's stolen election.

**Steve Coll** thinks about sports and wine in Madrid.

**Hendrik Hertzberg** watches a special outtake from "Saturday Night Live."

**Sasha Frere-Jones** learns about "purple"—the next phase of dubstep.

**George Packer** offers more thoughts on Obama's Cairo speech.

ANNALS OF MEDICINE

## THE COST CONUNDRUM

*What a Texas town can teach us about health care.*

by Atul Gawande

JUNE 1, 2009

**I**t is spring in McAllen, Texas. The morning sun is warm. The streets are lined with palm trees and pickup trucks. McAllen is in Hidalgo County, which has the lowest household income in the country, but it's a border town, and a thriving foreign-trade zone has kept the unemployment rate below ten per cent. McAllen calls itself the Square Dance Capital of the World. "Lonesome Dove" was set around here.

McAllen has another distinction, too: it is one of the most expensive health-care markets in the country. Only Miami—which has much higher labor and living costs—

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\*\*DETAILS

## Health Plan May Mean Payment Cuts

By SHERYL GAY STOLBERG and ROBERT PEAR  
Published: June 13, 2009

WASHINGTON — The White House said Saturday that [President Obama](#) intended to pay for his health care overhaul partly by cutting more than \$200 billion in expected reimbursements to hospitals over the next decade — a proposal that is likely to provoke a backlash from struggling medical institutions around the country.

### Related

[Following the Money in the Health Care Debate](#) (June 14, 2009)

[The Caucus: The Saturday Word: Invested in Health](#) (June 13, 2009)

[Times Topics: Health Care Reform](#)

Mr. Obama has insisted that his plan will not add to the federal deficit. He had already set aside in his budget what he calls a \$635 billion “down payment” toward the overall 10-year cost of the overhaul, expected to top \$1 trillion. But Republicans and some Democratic legislators have been pressing him to provide details on how he would cover the rest. On Saturday, he

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Monday, June 15, 2009

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2 of 10  
**Hospital Industry  
Bristles at Cuts**

3 of 10  
**Obama to Propose Health Cost  
Cuts**

JUNE 15, 2009

## Hospital Industry Bristles at Cuts

*After Proposing \$313 Billion Health-Spending Reduction, Obama Must Win Support*

Article

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By JANET ADAMY and JONATHAN D. ROCKOFF

Hospitals and other medical-industry groups are pushing back against President Barack Obama's proposal to cut \$313 billion in government health spending as the White House intensifies its effort to revamp the nation's health system.

Mr. Obama will seek to build doctors' support for a health overhaul in a speech Monday to the influential American Medical Association in Chicago. He will make the case for controlling costs and expanding coverage, and he plans to detail more of what he wants to see in a government-run plan that would compete with private insurance companies, an administration official said Sunday.



Mr. Obama is pressing Congress to pass legislation to overhaul the country's

th Care Data Strategy

# Transparency bandwagon

## Consumer Reports

- **Launched:** 2008
- **Description:** A web tool based on the Dartmouth Atlas of Health Care data on end-of-life care of patients with severe chronic illnesses
- **Scope of Services:** 2,857 hospitals nationwide are scored on a 100-point scale based on how they aggressively they treat patients with nine serious conditions in the last two years of life
- **Outputs:** A tool that compares hospitals on the aggressiveness of their treatment



## Data Advantage

- **Launched:** 2008
- **Description:** A web-based “value index”
- **Scope of Services:** Measures the relative value of care provided by U.S. hospitals; includes more than 1,500 general acute-care hospitals in America’s 100 largest cities, serving approximately 180 million consumers
- **Outputs:** Free comparisons of hospitals by metropolitan area (in-depth reports cost \$795); a list of national “best kept secrets”- lesser-known hospitals that offer high value in their markets; a list of the 100 highest-value nationally



# “The American Recovery and Reinvestment Act” 2009 - \$19B to incentivize HIT in Stimulus

- **Hospitals incentives:**
  - \$2 million base amount & potential for \$MMs more depending on inpatient discharges, Medicare share and charity care
  - \$11.6 million maximum
  - FY 2011 earliest payment year
  - Penalty (reduction in market-basket update) for non-qualifying hospitals starting in 2015
- **Physician incentives:**
  - Maximum of \$44,000 in Medicare incentives
  - Up to \$63,750 with Medicaid incentives over 5 years
  - 2011 earliest payment year, with phased-out payments through 2015;
  - Penalties for non adopters
  - “Hospital-based professionals” ineligible
- **“Meaningful use” TBD**

# CHIP

- President Obama signed H.R. 2 (PL 111-3) on 2/4
  - Provides \$32.8 B to continue coverage to currently enrolled and expand coverage to additional 4.1 million children
  - Reauthorizes program for 4 ½ years
  - Gives states option of waiving 5-year waiting period for covering children and pregnant women who are legal immigrants
  - Funding for outreach to safety-net providers and other community-based organizations
  - Finances reauthorization through a 62-cent increase in federal tax on tobacco

# 990° of sunshine: Form 990 & Schedule H



Internal Revenue Service  
United States Department of the Treasury

- New reporting requirements in Schedule H include:
  - Charity care and other community benefits
    - Charity care at cost
    - Unreimbursed costs of Medicaid and other means-tested programs
    - Cost of community health improvement and community benefit operations
    - Health professions education and research
    - Cash and in-kind contributions.
  - Income and bad debt
    - Reporting of aggregate bad debt expense
    - Estimate and rationale of how much attributable to those qualifying for charity care
    - Estimate of Medicare shortfalls hospitals believe should constitute community benefit.
  - Community building
- When do hospitals need to submit Schedule H?
  - Optional for tax year 2008 (except for reporting of “facility” information)
  - Required for tax year 2009

# Hospitals' efforts to improve quality



Commonwealth Fund study: ***hospitals more reliably delivered evidence-based treatments*** to patients with heart attack, heart failure, and pneumonia in 2006 than in 2004 and hospital standardized mortality ratios improved by 19% from 2000-2002 to 2004-2006.



Joint Commission Study: tested performance on 15 individual measures of quality in 3,000 hospitals- found that ***hospitals consistently improved care*** for patients suffering from heart attacks, heart failure and pneumonia. Improvements on individual measures went from 1.1% to 42.8% from 2002-2006.



Centers for Medicare & Medicaid Services/Premier HQID project: ***raised overall quality by an average of 15.8% over three years*** based on delivery of 30 nationally standardized and widely accepted care measures to patients in five clinical areas.



JAMA study: incidence of central-line associated ***bloodstream infections caused by MRSA declined by nearly 50%*** among intensive-care-unit patients from 1997 to 2007.





# BOUNCE...



## Mission Statement

The mission of the National Quality Forum is to improve the quality of American healthcare by setting national priorities and goals for performance improvement, endorsing national consensus standards for measuring and publicly reporting on performance, and promoting the attainment of national goals through education and outreach programs.

# P4P – Premier, Inc.

Premier has been at the forefront of P4P Demonstration Projects:

## – Premier Hospital Quality Incentive Demonstration

The purpose of the demonstration is to improve the quality of inpatient care for Medicare beneficiaries by giving financial incentives to almost 300 hospitals for high quality. Under this demonstration, CMS is collecting data on 34 quality measures relating to five clinical conditions. Hospital specific performance will be publicly reported on CMS's web site. Hospitals scoring in the top 10% for a given set of quality measures will receive a 2% bonus payment on top of the standard DRG payment for the relevant discharges. Those scoring in the next highest 10% will receive a 1% bonus. In the third year of the demonstration, those hospitals that do not meet a predetermined threshold score on quality measures will be subject to reductions in payment.

*\*<http://www.cms.hhs.gov>*





# BOUNCE...



The American Medical Association (AMA)-convened Physician Consortium for Performance Improvement® (PCPI) is committed to enhancing quality of care and patient safety by taking the lead in the development, testing, and maintenance of evidence-based clinical performance measures and measurement resources for physicians.

The PCPI is comprised of over 100 national medical specialty and state medical societies; the Council of Medical Specialty Societies; American Board of Medical Specialties and its member-boards; experts in methodology and data collection; the Agency for Healthcare Research and Quality; and Centers for Medicare & Medicaid Services.

# Follow the Bouncing Acronym...



The mission of this effort, named the AQQA – a broad based collaborative of physicians, consumers, purchasers, health insurance plans and others – is to:

*improve health care quality and patient safety through a collaborative process in which key stakeholders agree on a strategy for measuring performance at the physician or group level; collecting and aggregating data in the least burdensome way; and reporting meaningful information to consumers, physicians and other stakeholders to inform choices and improve outcomes.*

# Case Study – by the Numbers

- Payment is determined by Global TaxID (also TIN – tax identification number) for Physician Group, not by individual Provider/National Provider Identifier (NPI)

<b>Example: Small Practice</b>			<b>Example: Large Practice</b>		
Net patient billings	\$	10,000,000	Net patient billings	\$	120,000,000
Medicare % of billings	x	23%	Medicare % of billings	x	34%
CMS Incentive	x	2.0%	CMS Incentive	x	2.0%
<b>PQRI Payment</b>		<b>\$ 46,000</b>	<b>PQRI Payment</b>		<b>\$ 816,000</b>
<hr/>					
Net patient billings	\$	10,000,000	Net patient billings	\$	120,000,000
Medicare % of billings	x	23%	Medicare % of billings	x	34%
CMS Incentive	x	4.0%	CMS Incentive	x	4.0%
<b>PQRI+e-Rx Payment</b>		<b>\$ 92,000</b>	<b>PQRI+e-Rx Payment</b>		<b>\$ 1,632,000</b>

# Example of AMA/PCPI Workgroup

## **Stroke and Stroke Rehabilitation Work Group**

Joseph Drozda, Jr., MD (Co-Chair)  
Robert Holloway, MD, MPH (Co-Chair)  
David Seidenwurm, MD (Co-Chair)

Chris Alexander, III, MD, FACP  
Konrad C. Nau, MD  
John Barr, MD  
Sam J. W. Romeo, MD, MBA  
Oscar Benavente, MD, FRCPC  
Eric Russell, MD FACP  
Christopher Bever, Jr., MD, MBA  
Marilyn Rymer, MD  
Thomas Bleck, MD FCCM

Ajay Sharma, MD  
Ronald Gabel, MD  
John Schneider, MD PhD  
Judith Hinchey, MD  
Timothy Shephard, PhD  
Irene Katzan, MD  
Michael A. Sloan, MD, MS  
Rahul K. Khare, MD  
William D. Smucker, MD, CMD

Michael Lev, MD  
Patrick Turski, MD FACP  
John McMahon, MD  
Linda Williams, MD  
Mark Morasch, MD, FACS  
Richard Zorowitz, MD  
Suresh Mukherji, MD

## **American Academy of Neurology Staff**

Sarah Tonn, MPH

## **American College of Radiology Staff**

Sandra H. Bjork, RN, JD

## **American Heart Association/American Stroke Association Staff**

Penelope Solis, JD

## **Health Plan Representative**

Andrea Gelzer, MD, MS FACP

## **American Medical Association**

Karen S. Kmetik, PhD  
Mark Antman, DDS, MBA  
Beth Tapper, MA  
Samantha Tierney, MPH

## **Facilitators**

Timothy F. Kresowik, MD  
Rebecca A. Kresowik

## **2009 PQRI Measures/Codes Downloadable Resources**

[http://www.cms.hhs.gov/PQRI/15\\_Measures\\_Codes.asp#TopOfPage](http://www.cms.hhs.gov/PQRI/15_Measures_Codes.asp#TopOfPage)

- **2009 PQRI Measures List**: measure developer, reporting method
- **Reporting Individual Measures via Claims**
  - “2009 PQRI Measures Specifications Manual for Claims and Registry and Release Notes”
  - “2009 PQRI Implementation Guide”
- **Reporting Measures Groups**
  - “2009 PQRI Measures Groups Specifications Manual”
  - “2009 PQRI Getting Started in Reporting of Measures Groups”

## CDI Physician Education Session Attendees

### April 14<sup>th</sup> CDI Kick-off

Aria Anvar	Family Practice
Sandhya Bhalla-Regev, M.D.	Internal Medicine
Duane Buringrud, M.D.	OBGyn
Julie Chuan, M.D.	Family Practice
Colette Eastman, M.D.	OBGyn
Keyvan Esmaeili, M.D.	Rehab
Daniel Harrison, M.D.	Peds
Donald Herip, M.D.	Occupational Med
Richard Just, M.D.	Hematology/Oncology
Jerry Kolins, M.D.	Pathology
Dennis Leahy, M.D.	Cardiology
Marv Levenson, M.D.	Administrative Med
John Lilley, M.D.	Nephrology
Glenn Panzer, M.D.	Family Practice
Sabiha Pasha, M.D.	Internal Med
Paul Polishuk, M.D.	Surgery, Urology
Jamie Rivas, M.D.	Emergency Med
Marcelo Rivera, M.D.	Internal Medicine
Dean Tasher, M.D.	Internal Med
Farah Zeeda, M.D.	Internal Medicine

### PMC - Department of Ortho - April 14, 2009

Bradley Chesler, M.D.	Joan Meyer, D.P.M.
Brad Cohen, M.D.	Kevin Owsley, M.D.
Keyvan Esmaeili, M.D.	Jeffrey Schiffman, M.D.
Serge Kaska, M.D.	Jeffrey Smith, M.D.
Thomas Knutson, M.D.	Larry Williams, M.D.
Philip Larkins, D.P.M.	Duane Buringrud, M.D.
Joseph Mann, III, M.D.	

### PMC - Department of Surgery – April 14, 2009

Riaz Bokhari, M.D.	Nicole Mulder, M.D.
Anatoly Bulkin, M.D.	Paul Polishuk, M.D.
Gregory Campbell, M.D.	Robert Reichman, M.D.
Edward Greer, Jr., M.D.	George Riffle, II, M.D.
Antoine Hallak, M.D.	John Steele, M.D.
Thomas Jones, M.D.	Vrijesh Tantuwaya, M.D.
Yale Kadesky, M.D.	Thomas Velky, Jr., M.D.
Stephen Kaminski, M.D.	Jonathan Wilensky, M.D.
Steve Laverson, M.D.	Mark Mofid, M.D.
Joshua Greenstein, M.D.	Nephrology



POM - Emergency Department – April 15, 2009

Peter Berkman, M.D.	Damon London, M.D.
Kevin Daly, M.D.	Keri London, M.D.
Stephen Dunphy, M.D.	Steven Mannis, M.D.
Russell Engevik, M.D.	Thomas Moats, M.D.
John Fredericks, M.D.	Mario Quintero, M.D.
Michele Grad, M.D.	Jaime Rivas, M.D.
David Lee, M.D.	Ghazala Sharieff, M.D.
John Liboon, M.D.	Jack Wilson, M.D.

POM - Primary Care Division – April 16, 2009

Alan Conrad, M.D.	Craig Burrows, M.D.
Sabiha Pasha, M.D.	Gilbert Ho., M.D.
Alan Larson, M.D.	Rod Serry, M.D.
Marcelo Rivera, M.D.	Gregory Hirsch, M.D.

POM - OB-GYN – April 27, 2009

Colette Eastman, D.O.  
Karen Kohatsu, M.D.  
Helen Chang, M.D.

PMC – MEC – April 27, 2009

Duane Buringrud, M.D.	Craig Burrows, M.D.
Richard Engel, M.D.	Daniel Harrison, M.D.
Jerry Kolins, M.D.	Marvin Levenson, M.D.
John Lilley, M.D.	Peter Lucas, M.D.
Lachlan Macleary, Jr., M.D.	Joseph Mann, M.D.
Norman Pincock, M.D.	Donald Ponec, M.D.
Jaime Rivas, M.D.	Jeffrey Rosenberg, M.D.
James Schultz, Jr. M.D.	Jerome Sinsky, M.D.
John Steele, M.D.	Steve Kuriyama, M.D.

1:1 - April 28, 2009

Anatoly Bulkin, M.D.

POM - Executive Committee – April 28, 2009

Roger Acheatel, M.D.	Jerry Kolins, M.D.
Duane Buringrud, M.D.	George Kung, M.D.
Alan Conrad, M.D.	Lachlan Macleary, Jr., M.D.
Colette Eastman, D.O.	Franklin Martin, M.D.
Nabil Fatayerji, M.D.	John Martin, M.D.
Kathleem Flores-Dahms, M.D.	Paul Neustein, M.D.
Edward Gurrola, II, M.D.	Jamie Rivas, M.D.

Benjamin Kanter, M.D.

Department of Surgery – April 28, 2009

Paul Neustein, M.D.  
William Winternitz, Jr., M.D.

POM - Hospitalists – April 28, 2009

Aria Anvar, M.D.  
Arsenio Jimenez, Jr., M.D.  
Dean Tasher, M.D.

Jayanthi Magesh, M.D.  
Sabiha Pasha, M.D.

Cardiology – April 29, 2009

Roger Acheatel, M.D.  
John Detwiler, M.D.  
Jim Leahy, M.D. (?)  
Robert Stein, M.D.

Hamed Bayat, M.D.  
Jeff Gorwit, M.D.  
Rod Serry, M.D.

1:1 Spine – 4/29/09

McKinley, M.D.

1:1 – 4/30/09

Schiffman, M.D.

PMC – Hospitalists – April 30, 2009

Nick Huang, M.D.  
Farah Zeeda, M.D.  
Bob Belsher, M.D.  
Maribeth Chong, M.D.

Jim Schultz, M.D.  
Rong Zou, M.D.  
Afshin Nahavandi, M.D. (?)  
Aria Anvar, M.D.

2 other M.D.s attended – unable to read signatures

PMC - Department of Medicine – May 5, 2009

Merle Albin, M.D.  
Frank Bender, M.D.  
Cheryl Boyd, M.D.  
Craig Burrows, M.D.  
Larry Chiang, M.D.  
John Detwiler, M.D.  
Ronald Feldman, M.D.  
Theodore Greer, M.D.  
Jeffrey Gorwit, M.D.  
Daniel Harrison, M.D.  
Gregory Hirsch, M.D.  
Teresa Jones, D.O.  
Kipuk Kansagara, M.D.

Timothy Bailey, M.D.  
Sandhya Bhalla-Regev, M.D.  
David Buccigrossi, M.D.  
Stephen Capon, M.D.  
Irinel Chiriac, M.D.  
Robert Felder, M.D.  
Juan Carlos Franco, M.D.  
Denise Gomez, M.D.  
Joshua Greenstein, M.D.  
Daniel Hernandez, M.D.  
Arsenio Jimenez, Jr., M.D.  
Mark Kadden, M.D.  
Shafi Khalid, M.D.

Christopher Khoury, M.D.  
James Kringel, M.D.  
Lara Le, M.D.  
Wayne Levin, M.D.  
Mikhail Malek, M.D.  
Kimberly Maxon, M.D.  
Douglas Moir, M.D.  
Michael Mottet, M.D.  
Bhavesh Patel, D.O.  
Samuel Poniachik, M.D.  
H. Rinderknecht, M.D.  
Farris Sandhu, M.D.  
Andrew Schiffman, M.D.  
Rod Serry, M.D.  
Mark Shapiro, M.D.  
Pritam Singh, M.D.  
Adina Smarandache, M.D.  
Cynthia Sorrell, M.D.  
Robert Stein, M.D.  
Dan Tong, M.D.  
Jerry Tseng, M.D.  
Felisa Velesrubio, M.D.  
Carol Young, M.D.  
Steven Zgliniec, M.D.  
Julie Chuan, M.D.

Kenneth Khoury, M.D.  
Joel Lamon, M.D.  
Emmet Lee, M.D.  
John Lilley, M.D.  
Richard Mallo, M.D.  
Brian Meyerhoff, M.D.  
George Moore, M.D.  
Michael Newhouse, M.D.  
Norman Pincock, M.D.  
Bhuvana Ramanathan, M.D.  
George Rodriguez, M.D.  
Keith Sato, M.D.  
Joseph Schwarz, M.D.  
Leila Shabanian, M.D.  
Stephen Signer, M.D.  
Matthew Sitzer, M.D.  
Richard Smith, M.D.  
Robert Stein, M.D.  
Jeffrey Stork, M.D.  
Nicole Tremain, M.D.  
Chandrasekhar Varma, M.D.  
David Winn, M.D.  
Maram Zakko, M.D.  
Cherif Girgis, M.D.  
Luis Esquenazi, M.D.

5/21/09

Yasser Farrag, M.D.

Centre for Health Care - 6/16/09

Belinda Dure-Smith  
David Carty  
Larry Present  
Jerome Brodtkin  
Kamen Zakov  
Susan Krizek  
Dennis Mamaril  
Robert Zgliniec  
Marcelo Rivera  
Bill Joswig

# ADDENDUM B

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	P	P	P	P					
TED KLEITER – CHAIR	P	P	P	P	P	P					
MARCELO RIVERA, M.D.	P	E	P	E	P	P					
MICHAEL COVERT, FACHE	P	P	P	P	P	P					
FRANK MARTIN, M.D.	P	P	P	P	P	P					
JOHN LILLEY, M.D.	P	P	P	P	A	P					
BRUCE KRIDER – ALTERNATE		P	G	E		G					
LINDA GREER, R.N. – 2 <sup>ND</sup> ALTERNATE			G	P							
– 3 <sup>RD</sup> ALTERNATE											
– 4 <sup>TH</sup> ALTERNATE											
<b>STAFF ATTENDEES</b>											
BOB HEMKER	P	P	P	P	P	P					
GERALD BRACHT	P	P	P	P	P	P					
DAVID TAM	P	P	P	P	P	P					
TANYA HOWELL – SECRETARY	P	P	P	P	P	P					
<b>INVITED GUESTS</b>	<b>SEE TEXT OF MINUTES FOR NAMES OF GUEST PRESENTERS</b>										

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, JUNE 30, 2009**

**1. AGENDA ITEM**

• <b>DISCUSSION</b>	<b>CONCLUSION/ACTION</b>	<b>FOLLOW UP/RESPONSIBLE PARTY</b>	<b>FINAL?</b>
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**CALL TO ORDER**

- The meeting – held in the first floor conference room at 456 E. Grand Avenue, Escondido, CA—was called to order at 6:03 p.m. by Chair Ted Kleiter

**ESTABLISHMENT OF QUORUM**

- See roster

**PUBLIC COMMENTS**

- There were no public comments

**INFORMATION ITEM(S)**

<ul style="list-style-type: none"> <li>• Payor agreement with Blue Cross                             <ul style="list-style-type: none"> <li>o Today successfully renegotiated a multi-year agreement that met our expectations</li> <li>o Final language and signing will occur within the next few weeks</li> </ul> </li> <li>• CSUSM School of Nursing lease                             <ul style="list-style-type: none"> <li>o Current lease expires July 31<sup>st</sup></li> <li>o Are in the process of finalizing a negotiated agreement that will extend the lease for 2 years, with a 2-year option</li> <li>o The extra time will allow both parties to determine most appropriate use for the space</li> </ul> </li> <li>• Auction Rate Securities                             <ul style="list-style-type: none"> <li>o Recent resets have been very favorable</li> <li>o Calendar Year 2009 resets are averaging the same as resets prior to the February 11, 2008, market “blow-up”</li> <li>o Bob is working with Kaufman Hall and Citi to determine if there is a way to moderate both potential swap exposure and ARS resets                                     <ul style="list-style-type: none"> <li>▪ Reviewing whether bond holders appear to be treating bonds as long- or short-term instruments, as long-term rates are continuing to escalate</li> </ul> </li> <li>o Next instrument PPH will issue will be revenue bonds                                     <ul style="list-style-type: none"> <li>▪ Ties to current state of market and current state of the District’s creditworthiness   <ul style="list-style-type: none"> <li>▲ Creditworthiness is important as is shows the discipline of the organization to drive strategy and financial performance in controllable areas.</li> </ul> </li> <li>▪ Our good performance in FY2009 should help during rating reviews</li> <li>▪ Reviewing all options—which could include refunding of current ARS--and will report back to this Committee as discussions progress</li> <li>▪ Anticipate issuance in the October to December 2009 timeframe</li> </ul> </li> </ul> </li> <li>• Federal healthcare reform proposals                             <ul style="list-style-type: none"> <li>o California Hospital Association has performed a data analysis on potential impact to California hospitals                                     <ul style="list-style-type: none"> <li>▪ Impact will be significant in California</li> </ul> </li> </ul> </li> </ul>	<p align="center"><i>Information Only</i></p>		<p align="center">Y</p>
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**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, JUNE 30, 2009**

1. AGENDA ITEM			
DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
<ul style="list-style-type: none"> <li>▪ Only addresses reimbursements</li> <li>o House proposal would cost the district approximately \$78M overall over 10 years</li> <li>o President's plan would cost the district approximately \$100M overall over 10 years</li> <li>• State warrants on Medi-Cal payments                             <ul style="list-style-type: none"> <li>o Timeliness of the payments is the issue                                     <ul style="list-style-type: none"> <li>▪ Check was due on Monday, but the State delayed paying until Wednesday, which put the \$700-800K due into the FY2010 cash flow instead of FY2009, where it should have been received</li> </ul> </li> </ul> </li> </ul>			
1. MINUTES – TUESDAY, MAY 26, 2009			
<ul style="list-style-type: none"> <li>• No discussion</li> </ul>	<p><b>MOTION:</b> By Director Bassett, seconded by Dr. Martin and carried to approve the minutes of the May 26, 2009, Board Finance Committee meeting as presented. All in favor. None opposed.</p>		Y
2. INDEPENDENT CONTRACTOR AGREEMENT – DAVID GOLEMBESKI, M.D. – MEDICAL ADVISOR TO HOME HEALTH MATERNAL INFANT PROGRAM			
<ul style="list-style-type: none"> <li>• Bob Hemker presented the agreement on behalf of Elissa Hamilton, Director of Home Health                             <ul style="list-style-type: none"> <li>o Director Rivera inquired about the role the medical director would play in developing and enforcing quality initiatives and evidence-based guidelines</li> <li>o Mr. Hemker stated that the standard, Board-approved agreement template had been utilized                                     <ul style="list-style-type: none"> <li>– He suggested that the portion of the agreement that deals with quality be taken to the Board Quality Review Committee for review</li> <li>– Director Bassett stated that the role of medical staff had been addressed through that body in the past</li> </ul> </li> </ul> </li> </ul>	<p><b>MOTION:</b> By Director Rivera, seconded by Director Bassett and carried to recommend approval of the one-year <b>[July 1, 2009 through June 30, 2010]</b> Independent Contractor Agreement – David Golembeski, M.D. – Medical Advisor to Home Health Maternal Infant Program. All in favor. None opposed.</p>	<p>Agreement forwarded to the July 13, 2009, Board of Directors meeting with a recommendation for approval</p> <ul style="list-style-type: none"> <li>• Suggestion regarding quality requirements in the standard contractor agreement will be forwarded to the Board Quality Review Committee</li> </ul>	Y
3. DPR CONSTRUCTION MANAGEMENT CONTRACT			
<ul style="list-style-type: none"> <li>• Utilizing the attached presentation (<i>Attachment 1</i>) Dr. David Tam provided an update on the status of negotiations                             <ul style="list-style-type: none"> <li>o Have now received their initial proposal, based on a new methodology                                     <ul style="list-style-type: none"> <li>– New methodology developed by Bob Hemker, Dr. Tam and Mike Shanahan   <ol style="list-style-type: none"> <li>1) Moved from offering an incentive based on a percentage of savings to a fixed fee amount</li> </ol> </li> <li>– We are in the process of analyzing their numbers to confirm whether they are valid and representative of what we believe actual costs, timelines, etc., should be   <ol style="list-style-type: none"> <li>1) Process is almost to the point of returning to them for validation</li> </ol> </li> <li>– Would then potentially have our numbers ready to present at the Board meeting on July 13<sup>th</sup> <ol style="list-style-type: none"> <li>1) Might also be ready for review at Facilities &amp; Grounds Committee that same date</li> </ol> </li> </ul> </li> </ul> </li> </ul>	<p><i>Information only</i></p> <p><b>The Board Finance Committee concurred with the direction in which Management was taking the negotiations</b></p>	<p>Forwarded to the July 13, 2009, Board of Directors and Board Facilities &amp; Grounds Committee Review meetings as information</p>	N

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, JUNE 30, 2009**

**1. AGENDA ITEM**

• <b>DISCUSSION</b>	<b>CONCLUSION/ACTION</b>	<b>FOLLOW UP/RESPONSIBLE PARTY</b>	<b>FINAL?</b>
<ul style="list-style-type: none"> <li>2) Almost certain to be ready for presentation at next Finance Committee meeting in July if necessary                             <ul style="list-style-type: none"> <li>o Current proposed amount of contract is covered by current budgeted amount</li> <li>o Acronyms/terms in presentation:                                     <ul style="list-style-type: none"> <li>– CM = Construction Manager</li> <li>– VE = Value Engineering</li> <li>– General Requirement Costs = Labor and other costs for items that do not apply directly to construction</li> </ul> </li> </ul> </li> <li>• What are benefits of early completion?                             <ul style="list-style-type: none"> <li>o Could derive economic value (revenue) from the asset sooner</li> <li>o Potential cost savings and time value of funds</li> </ul> </li> <li>• Dr. Tam asked the Committee for consensus that they were following the appropriate path toward successful completion of the negotiations</li> </ul>			

**4. FORMATION OF A MEDICAL FOUNDATION 1206(i)**

<ul style="list-style-type: none"> <li>• Dr. Robert Trifunovic distributed an updated draft of the Letter of Intent (LOI) (<i>Attachment 2</i>) that had been distributed with the agenda packet and introduced guest Vicky Lister, the CEO of Centre for Health Care (CHC)                             <ul style="list-style-type: none"> <li>o Discussions between PPH and CHC are continuing regarding the probability of establishing a medical foundation model                                     <ul style="list-style-type: none"> <li>– Graybill has chosen not to continue discussions at this point</li> <li>– Proceeding onward with CHC still meets the intents, objectives and legal requirements</li> </ul> </li> <li>o Presented is a simple LOI, to enter into an exclusive arrangement for putting together the foundation model                                     <ul style="list-style-type: none"> <li>– The update can be found in §2   <ul style="list-style-type: none"> <li>1) Clarifies that the exclusivity of negotiations between PPH and CHC does not preclude PPH from entering into negotiations of the same nature with other groups</li> </ul> </li> <li>– The LOI allows us to go to ECG to get foundation underway with specifics regarding governance structure and how the physician corporation will be paid</li> </ul> </li> <li>o Paid VMG only to do a high-level valuation with a very rough plus/minus estimate                                     <ul style="list-style-type: none"> <li>– Allowed us to estimate where we stand, as well as where CHC will stand</li> </ul> </li> <li>o Foundation model's 40/10 rule requires that there be 40 physicians in 10 specialties, with 2/3 of the physicians working full time                                     <ul style="list-style-type: none"> <li>– CHC is very close to meeting those ratios</li> <li>– Formation of the foundation can move forward as long as there is a strategic plan in place to meet ratio requirements in the near future   <ul style="list-style-type: none"> <li>1) Can utilize outside recruitment or recruit other physicians within the community if they are interested and meet our requirements</li> </ul> </li> </ul> </li> </ul> </li> </ul>	<p><b>MOTION:</b> By Dr. Lilley, seconded by Dr. Martin and carried to recommend approval to finalize due diligence for the formation of a Medical Foundation 1206(i). All except Director Rivera in favor, as he abstained both from the discussion and the vote. None opposed.</p>	<p>Forwarded to the July 13, 2009, Board of Directors meeting with a recommendation for approval</p>	<p align="center"><b>N</b></p>
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**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, JUNE 30, 2009**

1. AGENDA ITEM			
• DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
<b>5. JOINT VENTURE AGREEMENT BETWEEN PPH AND NORTH COUNTY RADIOLOGY (NCR)</b>			
<ul style="list-style-type: none"> <li>o Pulled at request of staff</li> <li>o To be placed on Strategic Planning Committee agenda for discussion of structure, then will be returned through this Committee to the Board</li> </ul>	N/A		N
<b>6. MAY 2009 AND YTD FY2009 FINANCIAL REPORT</b>			
<ul style="list-style-type: none"> <li>• Utilizing the presentation included in the agenda packet as Addendum C, Bob Hemker presented the May 2009 and YTD FY2009 financial statements. Only select slides were presented for discussion.                             <ul style="list-style-type: none"> <li>o We are close to year-end as today is the last day of the fiscal year</li> <li>o Key Indicators (C-4)                                     <ul style="list-style-type: none"> <li>– May YTD operating income is in line with budget</li> <li>– Acute Admissions YTD show a negative variance of 5.7%</li> <li>– Acute Patient Days YTD are at 97% of budget</li> <li>– Total surgeries have a YTD negative variance of 4%   <ul style="list-style-type: none"> <li>1) Surgeries in June currently show a 9% positive variance</li> </ul> </li> <li>– Births YTD show a negative variance of 5%</li> <li>– Adjusted Discharges YTD are .3% above budget</li> <li>– ER to Admit Rate YTD is right on budget</li> <li>– Productivity YTD is also very close to budget (1.5% negative variance)</li> </ul> </li> <li>o Income statement (C-18)                                     <ul style="list-style-type: none"> <li>– Adjusted Discharges YTD are 128 above budget</li> <li>– Strength of net revenue is an extra \$124/adjusted discharge</li> <li>– Negative variance of \$2.7M at the bottom bottom line   <ul style="list-style-type: none"> <li>1) Driven by a negative variance in investment income</li> <li>2) Also experienced softening on property tax revenues</li> </ul> </li> <li>– Days cash on hand has grown year on year</li> <li>– OEBITDA margin percentage is down slightly due to the property tax softening</li> </ul> </li> <li>o Key Variances MTD (C-10 to C-12)                                     <ul style="list-style-type: none"> <li>– Net income from operations has a positive variance of almost \$100K</li> <li>– Combining of Contract Labor with Salaries &amp; Wages puts labor dollars within \$95K of budget   <ul style="list-style-type: none"> <li>1) Volume Variance is the driver   <ul style="list-style-type: none"> <li>a) Labor dollars would otherwise have a positive variance of \$180K</li> </ul> </li> </ul> </li> </ul> </li> <li>o Benefits showed a negative variance of \$1.4M                                     <ul style="list-style-type: none"> <li>– Group Health Insurance had a negative variance of \$1.2M   <ul style="list-style-type: none"> <li>1) Caused by a continued true-up of costs seen over the past few months</li> </ul> </li> <li>– Also due in part to retrospective rate structure</li> </ul> </li> <li>o Supplies showed a negative variance of \$250K</li> </ul> </li> </ul>	<p><b>MOTION:</b> By Director Bassett, seconded by Dr. Martin and carried to recommend approval of the Financial Report for May 2009 and YTD FY2009 as presented. All in favor. None opposed.</p>	<p>Forwarded to the July 13, 2009, Board of Directors meeting with a recommendation for approval.</p>	Y

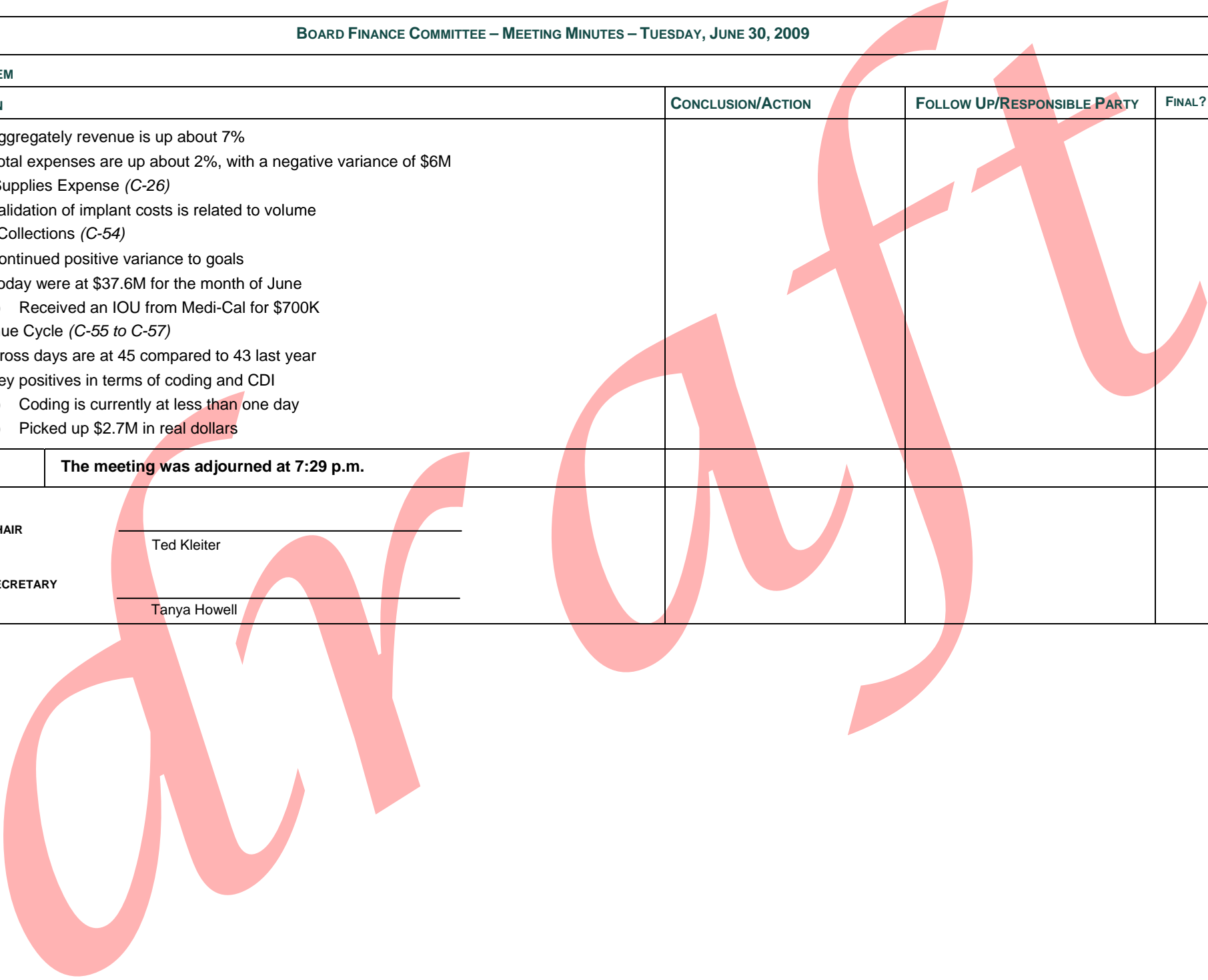
1. AGENDA ITEM

• DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/RESPONSIBLE PARTY	FINAL?
<ul style="list-style-type: none"> <li>– Prosthetics are still negative to budget, but to a lesser extent than in past months</li> <li>– June physical inventories are coming up, with probable adjustments to aggregated supply expense anticipated</li> <li>o Investment Income (Loss)                             <ul style="list-style-type: none"> <li>– Still utilizing LAIF, which provides a trailing index and short-term liquidity, but not as significant as in the past</li> </ul> </li> <li>o Key Variances YTD (C-13 to C-15)                             <ul style="list-style-type: none"> <li>– Net Income from Operations shows a positive \$476K variance</li> <li>– Net Patient Revenue has a positive variance of \$5.96M                                     <ol style="list-style-type: none"> <li>1) Based on the strength of the contract rate base</li> <li>2) \$1M positive variance in Revenue Cycle Management</li> </ol> </li> </ul> </li> <li>o Combined Salaries, Wages &amp; Benefits show a \$950K negative variance                             <ul style="list-style-type: none"> <li>– About \$660K is Volume related</li> <li>– About \$290K is a Rate &amp; Efficiency variance                                     <ol style="list-style-type: none"> <li>1) Severance packages are included in that negative variance and account for the majority of the variance</li> </ol> </li> </ul> </li> <li>o Professional Fees show a negative variance of \$101K                             <ul style="list-style-type: none"> <li>– Physician fee negative variances due to additional ER call coverage issues</li> <li>– Foundation (\$187K positive) &amp; Legal Fees (\$193K positive) both provided cost savings</li> </ul> </li> <li>o Negative variance of \$3.8M in Supplies                             <ul style="list-style-type: none"> <li>– Due to negative variance in the cost of implants related to additional outpatient procedures – offset by revenue</li> </ul> </li> <li>o Medi-Cal Eligibility Services had a negative variance of \$551K                             <ul style="list-style-type: none"> <li>– Will be offset on the revenue side as we got more people qualified</li> </ul> </li> <li>o \$400K negative variance in Property Tax Revenues                             <ul style="list-style-type: none"> <li>– There will be one final true-up in June</li> <li>– Property Tax Revenues county wide are down about 2.5%</li> <li>– Raw dollars are still up compared to last year</li> </ul> </li> <li>o YTD Income Statement (C-18)                             <ul style="list-style-type: none"> <li>– Total Net Patient Revenues are up almost 1.2% against budget</li> </ul> </li> <li>o Year on Year Income Statement (C-20)                             <ul style="list-style-type: none"> <li>– Admissions are down 4%</li> <li>– Patient Days are down 3.3%</li> <li>– Almost mirror image in aggregate volume</li> <li>– Operating Income is up \$15M</li> <li>– Less than a 1% change in Salaries, Wages &amp; Contract Labor</li> <li>– Negative variance of \$3.8M in Supplies is revenue related</li> </ul> </li> </ul>			

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, JUNE 30, 2009**

**1. AGENDA ITEM**

• <b>DISCUSSION</b>	<b>CONCLUSION/ACTION</b>	<b>FOLLOW UP/RESPONSIBLE PARTY</b>	<b>FINAL?</b>
<ul style="list-style-type: none"> <li>– Aggregately revenue is up about 7%</li> <li>– Total expenses are up about 2%, with a negative variance of \$6M</li> <li>o YTD Supplies Expense (C-26)                             <ul style="list-style-type: none"> <li>– Validation of implant costs is related to volume</li> </ul> </li> <li>o Cash Collections (C-54)                             <ul style="list-style-type: none"> <li>– Continued positive variance to goals</li> <li>– Today were at \$37.6M for the month of June                                     <ol style="list-style-type: none"> <li>1) Received an IOU from Medi-Cal for \$700K</li> </ol> </li> </ul> </li> <li>o Revenue Cycle (C-55 to C-57)                             <ul style="list-style-type: none"> <li>– Gross days are at 45 compared to 43 last year</li> <li>– Key positives in terms of coding and CDI                                     <ol style="list-style-type: none"> <li>1) Coding is currently at less than one day</li> <li>2) Picked up \$2.7M in real dollars</li> </ol> </li> </ul> </li> </ul>			
<b>ADJOURNMENT</b>	<b>The meeting was adjourned at 7:29 p.m.</b>		
<b>SIGNATURES:</b>			
• <b>COMMITTEE CHAIR</b>	_____		
	Ted Kleiter		
• <b>COMMITTEE SECRETARY</b>	_____		
	Tanya Howell		



# ATTACHMENT 1

## DPR Construction Manager Agreement - Update

PPH Board Finance Committee  
30 June 2009

PALOMAR  
POMERADO  
HEALTH  
SPECIALIZING IN YOU

## Background

- R&S as original CM, terminated in 2008
  - Scheduling Concerns
  - Issues regarding Cost Estimates
- DPR selected as new CM in June, 2008. Has been operating under several LOA's during transition and as CM agreement being negotiated.

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POMERADO  
HEALTH  
SPECIALIZING IN YOU

## Initial Approach to CMA

- Develop a Fully Inclusive Cost Estimate
- Utilize an Integrated Product Delivery (IPD) methodology to implement LEAN Construction techniques
- Identify Incentive levels as “percentage” of cost / schedule savings
- Fee, General Conditions (general requirement cost *and* reimbursable expenses), and Incentive Savings Payment

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POMERADO  
HEALTH  
SPECIALIZING IN YOU

## Challenges with Initial CMA approach

- Final Cost Estimate still in flux
  - Changes in Economy
  - Aggressive VE process
  - OSHPD associated changes
- Schedule issues
  - VE impacts
  - Prior CM unrealistic schedule
- Net result
  - Savings Incentives difficult to calculate / negotiate
  - Realization that Schedule optimization is critical
  - Time = Money
  - Negotiating incentives on dollar savings potentially meaningless and possibly counter-productive

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POMERADO  
HEALTH  
SPECIALIZING IN YOU

## Modified CMA approach

- Lump Sum Fee
- Combine under General Conditions
  - Reimbursable Expenses
  - General Requirement Costs
- No specific Incentive based upon percentage of savings
- Specified Completion Date

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HEALTH  
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## Benefits of Proposed Approach

- Incentivize early completion / occupancy
- Indirectly incentivizes cost savings (time = money)
- Can move forward with agreement without finalization of Final Cost Estimate
- Simplifies alignment of all parties – accelerate the construction process to save time and money while maintaining quality

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POMERADO  
HEALTH  
SPECIALIZING IN YOU

## Next steps

- Approve methodology
- Finalize negotiations with respect to dollar values for Fee / General Conditions
  - Review industry standards
  - Review of previous and upcoming expenses
  - Proposed figures by DPR covered in the current Budget / Cost Estimate
  - Present for approval at next Board Finance Committee / Full Board.
- Complete implementation of Facilities / Construction Re-engineering to align with optimal execution of the agreement and project



# ATTACHMENT 2

**LETTER OF INTENT**

THIS LETTER OF INTENT is made effective on the \_\_\_\_ day of \_\_\_\_, 2009 (the “effective date”), by and between Center for Healthcare (“CHC”) and Palomar Pomerado Health, a California healthcare district organized under Section 23 of the Health and Safety Code, (“PPH”).

WHEREAS, CHC is a multispecialty physician practice organization with 2 physician clinics located throughout the North County San Diego region; and

WHEREAS, PPH is a California health district which owns and operates two licensed acute care hospitals in Poway and Escondido, California, as well as numerous outpatient services throughout its district; and

WHEREAS, the parties have a longstanding and collaborative relationship for the provision of health care services to residents of PPH’s health district; and

WHEREAS, the parties believe that the reimbursement and competitive environments in the future will require greater services and economic, operational and strategic planning integration in order to provide accessible quality care at a reasonable price.

NOW, THEREFORE in consideration of the mutual promises contained herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

**AGREEMENT**

**1. Principal Terms.**

The parties hereby state their intent to enter into an agreement with one another upon the principle terms and conditions described on Exhibit “A” attached hereto. The parties agree to use their best efforts to consummate the transaction described on Exhibit “A” by December 31, 2009, subject to (i) each party’s due diligence, (ii) the successful negotiation, preparation, execution and delivery of definitive agreements, (iii) each parties legal counsels’ satisfactory review of potential legal and regulatory restrictions, and (iv) each parties board approval.

**2. Exclusive Negotiations.**

In consideration of, among other things, the execution of this Letter Agreement and the expenditure of extensive time, effort and expense by or on behalf of the parties in negotiating the definitive agreements and otherwise proceeding in accordance herewith, each party agrees that until the expiration of the term thereof, they will not directly or indirectly solicit, initiate or participate in any way in discussions or negotiations with or provide any information to any other person or entity concerning the issues described in Exhibit A. Each party agrees that to the extent any such discussions are presently occurring, they will terminate the discussions during the term of this agreement.

**Deleted:** any affiliation, merger, joint venture, business combination or similar transaction related to owning, operating or providing health services within PPH’s health district

**3. Confidentiality of Exchanged Information.**

During the negotiations concerning the agreement, the term of this Letter Agreement and at all times following the expiration of negotiations and this Letter Agreement, the parties will not disclose any information exchanged between them which is confidential and proprietary and not in the public domain, including but not limited to financial proposals, price lists, forecasts, studies, information concerning potential risk sharing arrangements, business plans, and other confidential information (“Confidential Information”). None of the parties shall photograph or photocopy the other parties’ Confidential Information without the consent of the other. In addition, nothing herein shall require or permit CHC or PPH to exchange price related information for patient care service rendered by them.

#### **4. Return of Information.**

Within ten (10) days following a written request therefore by either party, all Confidential Information thereof and all analysis, compilations, forecasts, studies, or other documents prepared by the other party based upon the Confidential Information will be returned to the requesting party.

#### **5. Remedies for Breach of Letter Agreement.**

If a party discloses another party’s Confidential Information or otherwise breaches this Letter of Intent, the other party may resort to any one or more of the following remedies, which are intended by the parties to be cumulative and in addition to any other rights and/or remedies that might exist at law or in equity:

- 5.1 Obtain an injunction or other equitable relief preventing the party from disclosing the Confidential Information or otherwise breaching this Letter Agreement, it being the understanding and agreement of the parties that any such disclosure or breach will cause immediate and irreparable harm and that damages at law arising from any such breach may be difficult to ascertain and not adequately compensate a party for harm suffered as a result of such disclosure or breach.
- 5.2 Obtain and/or seek such other legal and/or equitable relief to which the injured party may be entitled under applicable law.
- 5.3 In the event of any controversy, claim or action being filed or instituted between the parties to this Letter of Intent to enforce the terms and conditions of this Letter of Intent or arising from the breach of any provision hereof, the prevailing party will be entitled to receive from the other party all costs, damages and expenses, including reasonable attorney fees, incurred by the prevailing party, whether or not such controversy or claim is litigated or prosecuted to judgment. The prevailing party will be that party who was awarded judgment as a result of trial or arbitration, or who receives a payment of money from the other party in settlement of claims asserted by that party.

#### **6. Compliance with Laws.**

The parties intend this Letter Agreement be in strict compliance with applicable law, statutes, rules and regulations. If, in the opinion of any party’s legal counsel, laws, regulations, interpretations or rulings raise questions regarding the enforceability of this Letter of Intent, or if such matters adversely effect strict compliance with this Letter of Intent, or if any authority commences regulatory or enforcement action, the parties shall renegotiate any

terms of this Letter of Intent to cure the unenforceable term and secure such strict compliance.

**7. Costs.**

Each party will bear its own costs with respect to legal services, tax accounting advice, and other professional services related to the transactions contemplated hereby.

**8. Representations.**

Each party shall obtain their own legal counsel and shall rely exclusively upon their own legal counsel in evaluating the legal issues raised by way of the transaction contemplated herein.

**9. Scope of Agreement.**

This Letter of Intent is an outline of the basic provisions to be set forth in definitive agreements implementing the transactions described herein. Except for the agreement of the parties to use their best efforts to consummate the transaction and except for the provisions of paragraphs 3, 4, and 5 hereof (which are legally binding agreements of the parties), there is no legally binding or enforceable contract between the parties until such time as definitive agreements are prepared, reviewed and executed by the parties.

The parties have accepted and agreed to the terms of this Letter Agreement effective the date first above written.

**CENTER FOR HEALTHCARE**

**Dated:** \_\_\_\_\_, 2009

**By:** \_\_\_\_\_  
**Chief Executive Officer**

**PALOMAR POMERADO HEALTH**

**Dated:** \_\_\_\_\_, 2009

**By:** \_\_\_\_\_  
**Michael H. Covert**  
**President & Chief Executive Officer**

**LETTER OF INTENT**  
**EXHIBIT A**

The purpose of the Letter of Intent between CHC and PPH, dated \_\_\_ June, 2009, shall be to take such action as necessary towards the development of a nonprofit medical foundation structure under California Code 1206(l). The parties will discuss issues addressing economic, operational, and strategic planning integration.

This includes exploring the development of the structure, governance, and professional services agreements necessary to create the medical foundation.

# ADDENDUM C

RESOLUTION No. 08.10.09 (02) - 05

RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR POMERADO HEALTH CONCERNING THE LEVY AND COLLECTION OF TAXES BY THE BOARD OF SUPERVISORS OF THE COUNTY OF SAN DIEGO FOR FISCAL YEAR 2009-2010 TO PAY PRINCIPAL AND INTEREST ON GENERAL OBLIGATION BONDS AND AUTHORIZING THE TAKING OF ALL ACTIONS NECESSARY IN CONNECTION THEREWITH.

**WHEREAS**, as authorized by a ballot measure ("Measure BB"), approved by more than two-thirds of the votes cast on such ballot measure at an election held in Palomar Pomerado Health (the "District") on November 2, 2004, the Board of Directors of the District (the "Board of Directors") is authorized to issue \$496,000,000 aggregate principal amount of general obligation bonds for the purpose of financing a portion of the hospital and health care facilities projects as referenced and described in Measure BB;

**WHEREAS**, in accordance with the provisions of The Local Health Care District Law of the State of California (constituting Division 23 of the California Health and Safety Code) (the "Local Health Care District Law"), the District issued \$80,000,000 aggregate principal amount of such general obligation bonds, designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2005A" (the "Series 2005A Bonds") on July 7, 2005;

**WHEREAS**, in accordance with the provisions of The Local Health Care District Law of the State of California (constituting Division 23 of the California Health and Safety Code) (the "Local Health Care District Law"), the District issued \$241,083,318.80 aggregate principal amount of such general obligation bonds, designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A" (the "Series 2007A Bonds") on December 20, 2007;

**WHEREAS**, in accordance with the provisions of The Local Health Care District Law of the State of California (constituting Division 23 of the California Health and Safety Code) (the "Local Health Care District Law"), the District issued \$110,000,000 aggregate principal amount of such general obligation bonds, designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2009A" (the "Series 2009A Bonds") on March 18, 2009;

**WHEREAS**, as provided by the Local Health Care District Law, principal and interest on the Series 2005A, 2007A and 2009A Bonds as the same become due are payable from the levy and collection of *ad valorem* taxes within the District;

**WHEREAS**, pursuant to Section 32312 of the Local Health Care District Law, the Board of Supervisors of the County of San Diego (the "Board of Supervisors of the County") is required to levy and collect annually each year until the Series 2005A, 2007A and 2009A Bonds are paid a tax sufficient to pay the principal of and interest on such Series 2005A, 2007A and 2009A Bonds as the same becomes due and payable;

**WHEREAS**, in order to facilitate the levy and collection of such *ad valorem* taxes by the Board of Supervisors of the County as provided in Section 32312 of the Local Health Care District Law, the Board of Directors hereby notifies the Board of Supervisors of the County that principal and interest on the Bonds in the amount of \$12,970,725 will become due and payable during the fiscal year commencing July 1, 2009, and ending June 30, 2010;

**WHEREAS**, the Board of Directors has been advised that the total net secured assessed valuation of the District is now estimated at \$60,671,870,607 full value; and

**WHEREAS**, also in order to facilitate the levy and collection of such *ad valorem* taxes by the Board of Supervisors of the County as provided in Section 32312 of the Local Health Care District Law, a rate of taxation of .01775 on each one hundred dollars' valuation of taxable property (full value) within the District for the fiscal year commencing July 1, 2009, and ending June 30, 2010, is hereby established;

**NOW, THEREFORE, BE IT RESOLVED THAT:**

**Section 1. Recitals.** The foregoing recitals are true and correct, and this Board of Directors so finds and determines.

**Section 2. Further Authorization; Ratification of Actions.** The Chair of the Board of Directors, any member of the Board of Directors, the President and Chief Executive officer of the District or any designee of the President and Chief Executive Officer of the District or the Chief Financial Officer of the District or any designee of the Chief Financial Officer of the District (each, an "Authorized District Representative") is hereby authorized and directed, for and in the name of and on behalf of the District, to do any and all things and to execute and deliver any and all documents, instruments and certificates, and to enter into any and all agreements, which such Authorized District Representative may deem necessary or advisable in order to carry out, give effect to and comply with the terms and intent of this Resolution. All such actions heretofore taken by any such Authorized District Representative are hereby ratified, confirmed and approved.

**Section 3. Effective Date.** This Resolution shall take effect from the date of adoption hereof.

**PASSED AND ADOPTED** by the Board of Directors of Palomar Pomerado Health on the 10<sup>th</sup> day of August, 2009, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

DATED: August 10, 2009

BY:

\_\_\_\_\_  
Bruce G. Krider, MA  
Chair

ATTESTED:

\_\_\_\_\_  
Nancy L. Bassett, RN, MBA  
Secretary



STATE OF CALIFORNIA )  
 )ss  
COUNTY OF SAN DIEGO )

I, Nancy L. Bassett, RN, MBA, the Secretary of Palomar Pomerado Health (the "District"), do hereby certify that the foregoing is a true copy of a resolution adopted by the District on August 10, 2009, at the time and by the vote stated above, which resolution is on file in the office of the District.

DATED: August 10, 2009

---

Nancy L. Bassett, RN, MBA  
Secretary

# ADDENDUM D

RESOLUTION No. 08.10.09 (02) - 05

RESOLUTION OF THE BOARD OF DIRECTORS OF  
PALOMAR POMERADO HEALTH  
ESTABLISHING APPROPRIATIONS LIMIT OF THE DISTRICT  
FOR THE FISCAL YEAR JULY 1, 2009 - JUNE 30, 2010  
PURSUANT TO ARTICLE XIII(B) OF THE CALIFORNIA CONSTITUTION

---

**WHEREAS**, Government Code Section 7910 requires that each year the Board of Directors of this District shall, by resolution, establish the District's appropriations limit for the following fiscal year pursuant to Article XIII (B) of the California Constitution; and

**WHEREAS**, for not less than fifteen days prior to this meeting the documentation used in the determination of the appropriations limit, attached hereto as Exhibit "A", has been available to the public in accordance with Government Code 7910;

**NOW THEREFORE, IT IS HEREBY RESOLVED THAT:**

**Section 1.** The appropriations limit of Palomar Pomerado Health for the fiscal year July 1, 2009 - June 30, 2010, pursuant to Article XIII(B) of the California Constitution, is hereby established at \$63,107,370.

**Section 2.** This resolution shall take effect from the date of adoption thereof.

**PASSED AND ADOPTED** by the Board of Directors of Palomar Pomerado Health on the 10<sup>th</sup> day of August, 2009, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

BY:

---

Bruce Krider, MA  
Chair

ATTESTED:

---

Nancy L. Bassett, RN, MBA  
Secretary

EXHIBIT "A"  
 PALOMAR POMERADO HEALTH  
 APPROPRIATIONS LIMIT  
 2009/2010

---

2008/2009 APPROPRIATIONS LIMIT			\$51,058,826
PRICE FACTOR	0.62%		
-- OR --			
CHANGE IN LOCAL ASSESSMENT ROLL DUE TO NON-RESIDENTIAL NEW CONSTRUCTION	22.41%	=	1.2241
-- AND --			
POPULATION FACTOR	0.97%	=	1.0097
CALCULATION OF FACTOR FOR FY 2009/10	1.2241 x 1.0097	=	1.2360
	\$51,058,826 x 1.2360	=	\$63,107,370
2009/2010 APPROPRIATIONS LIMIT			\$63,107,370

**NARRATIVE ON THE RECENT HISTORY OF TAXATION**

Palomar Pomerado Health has two types of property taxes available as follows:

**SPECIAL ASSESSMENT FOR GENERAL OBLIGATION BONDS**

The taxes necessary to pay the interest and principal for the 1966 Series A and 1966 Series B Palomar Memorial Hospital General Obligation Bonds that were approved by a two thirds majority of the voters prior to 1978. These tax revenues were exempt from the provisions of Proposition No. 13 and they were restricted for this specific purpose. The final payment on these bonds was made on May 1, 1998.

The taxes necessary to pay the interest and principal for Election of 2004, Series 2005A, 2007A and 2009A, Palomar Pomerado Health General Obligation Bonds that were approved by a two thirds majority of the voters in November, 2004. These tax revenues are restricted for the specific purpose of the election campaign of 2004.

**OTHER PROPERTY TAXES**

A tax equal to 1% of the full cash value of property is levied each fiscal year by the county and distributed to governmental agencies within the county according to a formula mandated by the state legislature. (California Constitution Article XIII(A); Revenue and Taxation Code Section 97). The state legislature and the county place no restrictions on the tax monies granted to local government agencies, such as Palomar Pomerado Health. (Part 0.5, Division 1 of the Revenue and Taxation Code.) Since these tax revenues are unrestricted, it is not necessary to inform the public regarding the intended use of the funds.

The following is a schedule reflecting our total tax revenues by fiscal year for the past thirty-two years.

Fiscal Year	Total Received Cash Basis	Restricted for Bond Interest & Principal	Unrestricted	From Prior Year (Unrestricted)	
				Increase \$	(Decrease) %
1977/78	\$2,460,384	\$445,211	\$2,015,173	-----	-----
1978/79	1,513,554	518,736	994,818	(1,020,355)	-50.63%
1979/80	1,621,350	428,585	1,192,765	\$197,947	19.90%
1980/81	1,914,882	458,941	1,455,941	263,176	22.06%
1981/82	2,157,298	425,948	1,731,350	275,409	18.92%
1982/83	2,245,799	431,669	1,814,130	82,780	4.78%
1983/84	2,453,236	454,544	1,998,692	184,562	10.17%
1984/85	2,618,899	429,139	2,189,760	191,068	9.56%
1985/86	2,922,025	400,336	2,521,689	331,929	15.16%
1986/87	3,325,080	476,027	2,849,053	327,364	12.98%
1987/88	3,590,335	415,348	3,174,987	325,934	11.44%
1988/89	4,009,992	389,724	3,620,268	445,281	14.02%
1989/90	4,644,106	451,969	4,192,137	571,869	15.80%
1990/91	4,898,609	404,912	4,493,697	301,560	7.19%
1991/92	5,305,810	435,226	4,870,584	376,887	8.39%
1992/93	5,230,679	455,415	4,775,264	(95,320)	-1.96%
1993/94	5,405,901	429,917	4,975,984	200,720	4.20%
1994/95	5,589,446	422,427	5,167,019	191,035	3.84%
1995/96	5,604,306	452,813	5,151,493	(15,526)	-0.30%
1996/97	5,641,183	473,160	5,168,023	16,530	0.32%
1997/98	5,862,721	358,706	5,504,015	335,992	6.50%
1998/99	5,915,399	0	5,915,399	411,384	7.47%
1999/00	6,432,482	0	6,432,482	517,083	8.74%
2000/01	7,061,136	0	7,061,136	628,654	9.77%
2001/02	7,693,200	0	7,693,200	632,064	8.95%
2002/03	8,391,961	0	8,391,961	698,761	9.08%
2003/04	9,077,863	0	9,077,863	685,902	8.17%
2004/05	10,180,831	0	10,180,831	1,102,968	12.15%
2005/06	20,853,221	9,303,843	11,549,378	1,368,547	13.44%
2006/07	23,604,928	11,040,737	12,564,191	1,014,813	8.79%
2007/08	25,130,428	11,730,239	13,400,189	835,998	6.65%
2008/09	25,440,143	11,975,665	13,464,478	64,289	0.48%

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1985/86	2,922,025	400,336	2,521,689	331,929	15.16%
1986/87	3,325,080	476,027	2,849,053	327,364	12.98%
1987/88	3,590,335	415,348	3,174,987	325,934	11.44%
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2008/09	25,440,143	11,975,665	13,464,478	64,289	0.48%

**POSTED**  
7-9-09

PALOMAR  
POMERADO  
HEALTH

**PUBLIC NOTICE**


The Board of Directors of Palomar Pomerado Health will establish its Appropriations Limit for the 2009/2010 fiscal year at its regularly scheduled meeting, to be held at 6:30 p.m. on Monday, August 10, 2009, in the Graybill Auditorium of Palomar Medical Center, 555 East Valley Parkway, Escondido, California 92025. This Appropriations Limit is for the unrestricted appropriations and is in no way related to the appropriations for the General Obligation Bonds issued in 2005, 2007 and 2009. The documentation used in the determination of the Appropriations Limit is available to the public at the office of the President and Chief Executive Officer, 456 E. Grand Avenue, Escondido, California 92025.

DATED: \_\_\_\_\_

7/8/09

PALOMAR POMERADO HEALTH  
A California Health Care District

BY: \_\_\_\_\_

  
Michael H. Covert  
President & CEO

# ADDENDUM E



SPECIALIZING IN YOU **Applicable to:**

**Affected Departments:**

### **I. PURPOSE:**

- A. This Statement of Investment Policy sets forth the investment guidelines for all Palomar Pomerado Health ("PPH ") investments purchased after March 1, 1996. The purpose of this policy is to ensure that PPH's funds are prudently invested according to the Board of Director's objectives to preserve capital, provide necessary liquidity and to achieve a market-average rate of return through economic cycles.
- B. PPH may invest any portion of surplus funds of its Treasury that is not required for the immediate needs of PPH ("Investable Funds"), subject to the requirements of the California Government Code and this policy. If the provisions of the Government Code are or become more restrictive than those contained herein, such provisions shall govern, and are deemed incorporated into this policy upon taking effect.
- C. Government Code Section 53600 et seq., authorizes local agencies to make investments in specified vehicles with money in a sinking fund of, or surplus money in, its treasury not required for the immediate needs of the agency.
- D. Palomar Pomerado Health is a "local agency" subject to the provision of Government Code Section 53600 et seq., which recommends that Palomar Pomerado Health Board of Directors to annually adopt a statement of its investment policy, and to consider any delegation of authority to make investments on its behalf of the Chief Financial Officer.
- E. The Board of Directors of Palomar Pomerado Health now desires to formally adopt this statement of investment policy, and to re-delegate to the Chief Financial Officer responsibility for all decisions regarding the sale or purchase of individual investments on behalf of PPH.
- F. The Palomar Pomerado Health Chief Financial Officer is delegated responsibility for all decisions regarding the sale or purchase of individual investments on behalf of Palomar Pomerado Health.

### **II. DEFINITIONS:**

- A. **Safety of Principal.** Safety of principal is the foremost objective of PPH. The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of securities. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- B. **Liquidity.** Liquidity is the second most important objective of PPH. Liquidity refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality especially when the need for unexpected funds occasionally occurs. The investment portfolio shall remain sufficiently liquid to enable PPH to meet all operating requirements that might be reasonably anticipated.
- C. **Yield.** Yield is the potential dollar earnings an investment can provide; it is sometimes described as the rate of return. Within the limits of safety and liquidity, PPH's portfolio growth shall exceed the rate of inflation in order to preserve capital.

### **III. TEXT / STANDARDS OF PRACTICE:**

- A. Delegation Of Authority To Chief Financial Officer; Procedures To Implement Investment Policy
1. Delegation of authority to Chief Financial Officer: The PPH Chief Financial Officer is delegated responsibility for all decisions regarding the sale or purchase of individual investments on behalf of PPH. This delegation shall be reviewed annually by the Board through the Finance Committee. Any re-delegation shall be recorded in the minutes of these meeting. No person may engage in an investment transaction except as provided under the terms of this policy and any other procedures established by the Chief Financial Officer. The Chief Financial Officer shall be responsible for all actions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.
- B. This policy will be reviewed and updated as required or at least every year.

### **IV. ADDENDUM:**

**V. DOCUMENT / PUBLICATION HISTORY: (template)**

<b>Revision Number</b>	<b>Effective Date</b>	<b>Document Owner at Publication</b>	<b>Description</b>
(this version) 0	11/14/2007	James Neal, Director of Corporate Integrity	Updated by the board review

**Authorized Promulgating Officers:** ( 10/16/2007 ) James Neal, Director of Corporate Integrity  
( 11/14/2007 ) Dr. Marcelo R Rivera, Director, PPH Board  
( unsigned ) Janine Sarti, General Counsel

**VI. CROSS-REFERENCE DOCUMENTS:(template)**

<b>Reference Type</b>	<b>Title</b>	<b>Notes</b>
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*Paper copies of this document may not be current and should not be relied on for official purposes. The current version is in Lucidoc at .*

*<http://www.lucidoc.com/cgi/doc-gw.pl?ref=pphealth:27092>*

# ADDENDUM F

THE MEMBERSHIP INTERESTS CREATED BY THIS AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAW. EXCEPT AS SPECIFICALLY OTHERWISE PROVIDED IN THIS AGREEMENT, THE INTERESTS MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT REGISTRATION UNDER SUCH ACTS OR AN OPINION OF COUNSEL THAT SUCH TRANSFER MAY BE LEGALLY EFFECTED WITHOUT SUCH REGISTRATION. ADDITIONAL RESTRICTIONS ON TRANSFER AND SALE ARE SET FORTH IN THIS AGREEMENT.

**OPERATING AGREEMENT**

**OF**

**Palomar Pomerado Imaging, LLC**

**(a Delaware Limited Liability Company)**

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## OPERATING AGREEMENT

OF

### PALOMAR POMERADO IMAGING, LLC (a Delaware Limited Liability Company)

THIS OPERATING AGREEMENT (“Agreement”) is entered into and shall be effective as of the \_\_\_\_ day of \_\_\_\_\_, 2009 (the “Effective Date”), by and among each person named as a Member on Exhibit A attached hereto (as such Exhibit may change from time to time) and all other persons who may hereafter become Members under the terms of this Agreement.

#### WITNESSETH:

WHEREAS, the Company was formed on \_\_\_\_\_, 2009 as a limited liability company under and pursuant to the Delaware Limited Liability Company Act; and

WHEREAS, the Members of Company recognize the interrelationships and comprehensive value afforded by the delivery of integrated technical and professional imaging services, and the comprehensive delivery of those services to the community served by Palomar Pomerado Health; and

WHEREAS, the Members desire to set forth herein their respective relationships, rights, obligations and agreements with respect to the Company and the governance thereof.

NOW, THEREFORE, in consideration of the mutual promises, covenants and undertakings hereinafter contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement hereby agree as follows:

#### 1. DEFINITIONS.

As used herein the following terms have the following meanings:

1.1. “**Act**” means the Delaware Limited Liability Company Act, 6 De. C. § 18-101, *et seq.*, as amended from time to time.

1.2. “**Adjusted Capital Contribution**” shall mean the Capital Contribution (as defined below) of a Member reduced, but not below zero, by cash distributions to such Member and tax losses allocated to such Member. A substitute Member shall succeed to the Adjusted Capital Contribution of his predecessor.

1.3. “**Affiliate**” means, with respect to any Person, (i) any person directly or indirectly controlling, controlled by or under common control with such Person; (ii) any person owning or controlling ten percent (10%) or more of the outstanding voting securities of such Person; (iii) any officer, director, member or partner of such Person; and (iv) any company in which such Person is an officer, director, member or partner.

1.4. “**Agreement**” means this Operating Agreement of Palomar Pomerado Imaging, LLC, including all Exhibits hereto, as such Agreement or Exhibits may be amended from time to time pursuant to Section 16.2 hereof.



1.5. **“Appraised Price”** means the fair market value price of a Member’s Units, as determined by an independent third party appraiser Approved by the Members who has experience performing health care valuations of companies similar to the Company. The fees and expenses of such appraiser shall be paid by the Company. If the Members cannot agree upon the selection of the independent third party appraiser, each class of Member shall select an independent third party appraiser, and the average of the Appraised Prices as determined by the independent third party appraisers shall be the Appraised Price if such appraisals are within 15% of one another. If the appraisals are not within 15% of one another, the appraisers shall select an additional independent third party appraiser, and the average of the two closest appraisals shall be the Appraised Price. Each class of Member shall bear the costs of the independent third party appraiser it selects. Each class of Member whose appraisal is not utilized in determining the Appraised Price shall share equally in paying the costs of the additional third party appraisers. The amount determined as the Appraised Price using this process shall be final and binding.

1.6. **“Approval of the Governing Board,” “Approved by the Governing Board”** and similar expressions mean approval given by not less than a majority of the total number of Governors.

1.7. **“Approval of the Members”** or **“Approved by the Members”** means the approval of the holders of each of (i) a majority of the Class A Units, and (ii) a majority of the Class B Units.

1.8. **“Capital Account”** means, as to each Member, an account which is increased by his Capital Contribution and allocations of Net Profit and items thereof to him and decreased by distributions and allocations of Net Loss and items thereof to him and otherwise maintained in accordance with the Code and Treasury Regulation Section 1.704-1(b) as determined necessary by the Managing Member so that such allocations in Article 5 of this Agreement are respected for federal income tax purposes.

1.9. **“Capital Contribution”** means of, or in respect of, any Member, the amount of all cash, notes, and the fair market value of other property, tangible or intangible, contributed by such Member to the capital of the Company.

1.10. **“Cash Available for Distribution”** means all cash funds of the Company on hand or in bank accounts beneficially owned by the Company, other than proceeds received from the sale of Units on or after the date hereof, less the sum of the following to the extent paid or set aside, in such amounts and for such time periods as the Managing Member deems appropriate, by the Company:

- (a) All regularly scheduled principal and interest payments on indebtedness of the Company and all other sums paid to lenders;
- (b) All cash expenditures incurred incidental to the operation of the Company’s business pursuant to the Company’s operating and capital budgets; and
- (c) The Reserve.

1.11. **“Certificate of Formation”** means the Certificate of Formation of the Company filed with the Delaware Secretary of State, as amended or restated from time to time.

1.12. “**Change of Control**” means, with respect to a Person that as a result of a single transaction or a series of related transactions, either (i) there is a change in the ownership of more than 50% of the equity of such Person or (ii) third parties obtain the right to elect or appoint a majority of such Person’s governing board.

1.13. “**Class A Governors**” means the members of the Governing Board elected or appointed from time to time by the Class A Members holding a majority of the Class A Units, the number of which shall be determined pursuant to Section 12.1.

1.14. “**Class A Member**” means Imaging Services Associates, LLC or any affiliate which holds any Units.

1.15. “**Class B Governors**” means Palomar Pomerado Health or any affiliate which holds any Units.

1.16. “**Class B Member**” means Palomar Pomerado Health.

1.17. “**Code**” means the Internal Revenue Code of 1986, as amended from time to time. All references herein to Sections of the Code shall include any provision or any corresponding provisions of succeeding law.

1.18. “**Company**” means Palomar Pomerado Imaging, LLC, a Delaware limited liability company, the business and affairs of which are governed by this Agreement.

1.19. “**Competing Business**” means any medical imaging services of either Palomar Pomerado Health or North County Radiology Medical Group within the then current Palomar Pomerado Health district boundaries except those identified in Exhibit 1.19.

1.20. “**Confidential Information**” has the meaning set forth in Section 16.19.

1.21. “**Covered Persons**” has the meaning set forth in Section 12.8.

1.22. “**EBITDA**” means, with respect to any fiscal period, the sum of consolidated (i) net income before interest expense and taxes for such period (excluding extraordinary gains and losses and, to the extent not extraordinary, gains from the sale or other disposition of capital assets), plus (ii) depreciation and amortization expense for such period, all as determined by the Class A Member in good faith in accordance with GAAP.

1.23. “**Effective Date**” has the meaning set forth in the first paragraph of this Agreement.

1.24. “**Equipment**” means Imaging Business Units of Palomar Pomerado Imaging, LLC.

1.25. “**Fiscal Year**” means (a) the period commencing on the Effective Date and ending on December 31, (b) any subsequent twelve (12) month period commencing on January 1 and ending on December 31 or (c) any portion of the period described in clause (b) for which the Company is required to allocate Net Profits, Net Losses and other items of Company income, gain, loss or deduction pursuant to Article 5 hereof.

1.26. **“Formula Value”** means the positive difference, if any, of the market value multiples, times the trailing three (3) year EBITDA times Trailing EBITDA minus the Company’s long-term debt, including the current portion of long-term debt outstanding.

1.27. **“GAAP”** means generally accepted accounting principles, as determined by the Managing Member, applied on a consistent basis.

1.28. **“Governing Board”** has the meaning set forth in Section 12.1.

1.29. **“Governors”** means the Class A Governors and the Class B Governors.

1.30. **“Hospital”** means Palomar Pomerado Health.

1.31. **“Managing Member”** means the governing board or any replacement managing member of the Company Approved by the Governing Board in accordance herewith.

1.32. **“Member”** means any Class A Member or Class B Member or Substituted Member as set forth on Exhibit 1.32 as amended from time to time (but excludes any Person who ceases to be a Member of the Company pursuant to this Agreement), and **“Members”** means all such Persons collectively.

1.33. **“Membership Interest”** shall mean a Member’s entire ownership interest in the Company, including the Member’s interest in Distributions, Net Profits and Net Losses, and the Member’s right to vote on or participate in governance or management of the Company, pursuant to the terms set forth herein.

1.34. **“Imaging Services Associates, LLC”** means Imaging Services Associates, LLC, a California limited liability company.

1.35. **“Net Profits”** and **“Net Losses”** means, for each Fiscal Year, an amount equal to the Company’s taxable income or loss for such Fiscal Year, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

(i) any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Net Profits or Net Losses shall be added to such taxable income or loss;

(ii) any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Net Profits or Net Losses shall be subtracted from such taxable income or loss;

(iii) if the book value of property is adjusted pursuant to Treasury Regulation Sections 1.704-1(b)(2)(iv)(f) or (e), such adjustment shall be taken into account as gain or loss from the disposition of an asset and, in lieu of depreciation as calculated for federal income tax purposes, subsequently such deductions shall be computed in accordance with Treasury Regulation Sections 1.704-1(b)(2)(iv)(g)(3) or

1.704-3(d)(2), as the case may be, and subsequent calculations of gain or loss resulting from the disposition of an asset for federal income tax purposes shall be computed by reference to its book value as reflected in Members' Capital Accounts rather than its adjusted tax basis;

(iv) to the extent an adjustment to the tax basis of any Company asset pursuant to Code Section 734(b) of Code Section 743(b) is required pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Member's interest in the Company, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decrease the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Net Profits and Net Losses; and

(v) any items which are specially allocated pursuant to Section 5.2 hereof shall not be taken into account in computing Net Profits or Net Losses.

The amount of items of Company income, gain, loss or deduction available to be specially allocated pursuant to Sections 5.1(b), 5.3, 5.4 and 5.6 shall be determined by applying rules analogous to those set forth in paragraphs (i) through (iv).

1.36 **"North County Radiology"** means North County Radiology Medical Group, a Professional Corporation.

1.37. **"Person"** means any individual, partnership, corporation, trust, limited liability company, association, joint venture, investment fund, joint stock company, organization, business, trust or any other entity or organization, including a government or any department, agency or political subdivision thereof.

1.38 **"Professional Services Agreement"** means the agreement between Palomar Pomerado Health and North County Radiology for the delivery of professional imaging services, dated December 11, 2008.

1.39. **"Purposes"** has the meaning set forth in Section 3.1.

1.40. **"Regulations"** means, except as expressly provided to the contrary herein, the regulations promulgated by the United States Department of the Treasury pursuant to and in respect of provisions of the Code. Unless otherwise provided herein and subject to applicable transition rules, if any, all references to sections of the Regulations shall include any corresponding provision or provisions of succeeding, substitute, proposed, or final Regulations the effective dates of which are applicable to the Company.

1.41. **"Reserve"** means a cash reserve equal to sixty (60) days of the Company's operating expenses plus sixty (60) days of the Company's debt service payments, or such other amount as determined by the Managing Member, in its reasonable discretion.

1.42. **"Sharing Percentage"** means, as to a Member, the percentage obtained by dividing the number of Units then owned by such Member by the total number of Units then owned by all Members. The Members hereby agree that their Sharing Percentages shall constitute their "interests in the Company profits" for purposes of determining their

respective shares of the Company's "excess non-recourse liabilities" (within the meaning of Section 1.752-3(a)(3) of the Regulations).

1.43. "**Site**" shall mean the locations of Imaging Business Units under the control or ownership of Company.

1.44. "**Substituted Member**" means any Person admitted to the Company as a Member pursuant to Section 13.2.

1.45. "**Trailing EBITDA**" means EBITDA for the most recently ended Fiscal Year.

1.46. "**Transfer**" means any involuntary or voluntary sale, lease, pledge, assignment, grant of a security interest, subcontract, dividend, merger, consolidation, gift or other disposition, direct or indirect, including a direct or indirect Change of Control of the direct or indirect owner of a Member, by operation of law or otherwise. A change in ownership of North County Radiology., or Imaging Services Associates, LLC or their respective successors, including a Change of Control, or a sale by North County Radiology or Imaging Services Associates, LLC or their successors of all or substantially all of their assets shall not be treated as a Transfer of the Class A Member's Units.

1.47. "**Units**" means all of the issued and outstanding Member Interests in the Company. "**Unit**" means any one of the Units. "**Class A Units**" or "**Class B Units**" means Units held by Class A Members and Class B Members, respectively. Units of one Class acquired by Members of another Class shall automatically become Units of the other Class already held by the acquiring Member.

1.48. Imaging Business Unit means any medical imaging service.

The definitions in this Article 1 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes," and "including" shall be deemed to be followed by the phrase "without limitation." All references to Articles and Sections shall be deemed references to Articles and Sections of this Agreement, unless the context shall otherwise require. All references herein to Exhibits shall be deemed to be references to the Exhibit(s) attached to this Agreement. The terms "this Agreement," "hereof," "hereunder" and similar expressions refer to this Agreement as a whole and not to any particular Article or Section or other portion hereof and include any agreement supplemental hereto. The conjunction "or" shall be understood in its inclusive sense (and/or).

## **2. ORGANIZATION**

2.1. **Formation.** The Company was formed pursuant to the Act by causing the Certificate of Formation to be filed with the Delaware Secretary of State. By execution of this Agreement, each of the Members hereby adopts and ratifies the Certificate of Formation. Except as stated in this Agreement, the Act and the Certificate of Formation shall govern the rights and liabilities of the Members.

2.2. **Name.** The name of the Company is “Palomar Pomerado Imaging, LLC.” The business of the Company shall be conducted under that name or such other name or names as may be approved by the Governing Board from time to time.

2.3. **Principal Office.** The principal place of business of the Company shall be at such place or places as determined by the Governing Board from time to time.

2.4. **Term.** The Company was formed on \_\_\_\_\_, 2009, the date the Certificate of Formation was filed with the Delaware Secretary of State, and shall continue until the date on which the Company is dissolved pursuant to Article 14 and thereafter, to the extent provided for by applicable law, until wound up and terminated pursuant to Article 15 hereof.

2.5. **Registered Agent and Office.** The Company’s registered office within the State of Delaware and its registered agent as such address shall be as determined by the Governing Board from time to time.

2.6. **No State Law Partnership.** The Members intend that the Company not be a partnership or joint venture and that no Member be a partner or joint venturer of any other Member as a result of being Members, for any purposes other than federal and state tax purposes, and this Agreement shall not be construed to suggest otherwise.

### **3. PURPOSES AND POWERS OF THE COMPANY; NATURE OF THE BUSINESS OF THE COMPANY**

3.1. **Purposes.** The purposes of the Company are (i) to own, lease, and/or operate the Imaging Business Units, provide certain employees, provide the Site and provide certain other healthcare related services and businesses; (ii) to acquire (through asset acquisition, stock acquisition, lease or otherwise) and develop other property, both real and personal, in connection with the foregoing; (iii) to enter into, from time to time, such financial arrangements as may be necessary, appropriate or advisable, including, without limitation, borrowing money and issuing evidences of indebtedness and securing the same by mortgage, deed of trust, security interest or other encumbrance upon one or more or all of the Company’s assets; (iv) to sell, assign, lease, exchange or otherwise dispose of, or refinance or additionally finance, one or more or all of the Company’s assets; and (v) generally to engage in such other business and activities and to do any and all other acts and things in furtherance of the purposes of the Company as set forth in clauses (i) through (iv) of this Section 3.1 (subject to the provisions of this Agreement) (collectively, the “Purposes”). It is intended the Company will operate under a business unit model as exemplified in Exhibit 3.1.

3.2. **Powers.** The Company shall have any and all powers which are necessary or desirable to carry out the purposes and business of the Company, to the extent the same may be legally exercised by limited liability companies under the Act. Subject to the limitations contained in this Agreement and in the Act, the purposes of the Company may be accomplished by the Governing Board or, to the extent specifically set forth herein or delegated by the Governing Board, to the Managing Member.

#### 4. CAPITAL CONTRIBUTIONS, LOANS AND CAPITAL ACCOUNTS

4.1. **Ownership Interests.** As of the Effective Date, the Company has outstanding the Units set forth on Exhibit A, which Units are held by the persons identified thereon. Units issued after the date hereof shall be issued in accordance with Section 10.1 and at such price as is determined by the Governing Board. Exhibit A shall be amended to reflect all issuances and transfers of Units.

4.2. **Additional Contributions.** No Member shall be required to make any additional Capital Contributions to the Company, unless agreed to by a majority of the Members.

4.2.1 **Capital Contributions.** Each Member shall contribute to the capital of the Company as the Member's Capital Contribution the amount of Ten Thousand Dollars (\$10,000.00). By vote agreement of Members owning 51% or greater, Members will make capital contributions as required from time to time.

4.2.2 **Failure to Make Capital Contribution.** If a Member fails to make additional or subsequent Capital Contributions within 30 days after the effective date of this Agreement, or any subsequent Vote of Members requiring a Capital Contribution, that Member's Membership Interest shall be adjusted proportionately according to the percentage of total contribution made by such Member.

4.3. **No Interest or Right to Withdraw.** No Member shall have the right to demand the return of, or otherwise withdraw, his contribution or to receive any specific property of the Company except as specifically provided in this Agreement. No Member shall have the right to demand and receive property other than cash in return for his contributions. No interest shall be paid on Capital Contributions or on balances in the Capital Accounts.

4.4. **Capital Accounts.** The Company will maintain a Capital Account for each Member.

4.5. **Effect of Transfer of Units.** Upon the Transfer by any Member of any or all of its interest in the Units, or any fraction thereof, pursuant to the provisions of this Agreement, the proportionate amount of its respective Capital Account balance, shall be transferred to the transferee of such Unit; provided, however, that no Transfer of any Unit shall, in and of itself, relieve the transferor of any of its obligations to the Company.

4.6. **No Negative Capital Account Make-up.** Notwithstanding any other provision in this Agreement or any inference from any provision in this Agreement, no Member shall have an obligation to the Company, to the other Members or to third parties to restore a negative Capital Account balance during the existence of the Company or upon the dissolution or termination of the Company.

4.7. **No Third Party Beneficiaries.** The foregoing provisions of this Article 4 are not intended to be for the benefit of any creditor or other Person to which any debts, liabilities or obligations are owed by the Company or the Members (or that otherwise has any claim against the Company or the Members), and no creditor or other Person shall obtain any right under any of the foregoing provisions or shall by reason of any of the

foregoing provisions make any claim in respect of any debt, liability or obligation (or otherwise) against the Company or any of the Members.

4.8. **Authority to Borrow.** The Company may from time to time borrow such amounts from such Persons (including the Members pursuant to Section 4.9 below) on such security and payable on such terms as may be Approved by the Members. Unless otherwise unanimously approved by the Members, the obligations of the Company to repay any such loans shall be limited to the assets of the Company, all such loans shall be nonrecourse to the Members and the Members shall have no individual liability under such loans.

4.9. **Loans from Members.** No Member shall make any loan to the Company or advance money on behalf of the Company without the prior Approval of the Members. The amount of any approved loan or advance shall not increase the Capital Account of the lending Member nor entitle the lending Member to any increase in such Member's Units. The amount of any such loan or advance shall be a debt due from the Company to such lending Member, payable upon such terms and conditions and bearing interest at such rates as shall be agreed upon by the lending Member and Approved by the Members. Except as otherwise provided in this Agreement, no Member shall be under any obligation to make any loans to the Company or advance any monies on behalf of the Company.

## 5. ALLOCATION OF INCOME AND LOSS

### 5.1. **Allocation of Net Profit and Net Loss.**

(a) Except as otherwise set forth herein, all Net Profit or Net Loss of the Company, except those arising on the Company's liquidation or the sale of all or substantially all of its assets, and all items of income, gain, deduction and loss entering into the determination of such Net Profit or Net Loss shall be allocated among the Members in accordance with their Sharing Percentage.

(b) Upon the Company's liquidation, or sale of all, or substantially all of its assets, all items of gain, income, deduction and loss will be specifically allocated among the Members so as to cause each Member's ending Capital Account balance, as a percentage of all Capital Accounts balance, to equal his Sharing Percentage.

5.2. **Curative Allocations.** If any special allocation of gain, income, loss or deduction is made pursuant to Treasury Regulation Sections 1.704-1(b) or 1.704-2 (the "Regulatory Allocations") with respect to one or more Members, then gross income, gain, loss and deduction shall be allocated by the Managing Member to the extent permitted by Treasury Regulation Section 1.704-1 and Code Section 704 and related provisions, in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Member's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if no Regulatory Allocations were made.

5.3. **Code Section 704(c) Allocations.** Income, gain, loss and deduction as computed for income tax purposes with respect to Company property subject to Code Section 704(c) and/or Treasury Regulation Sections 1.704-1(b)(2)(iv)(f) shall be allocated in accordance with said Code Section and/or Treasury Regulation Sections 1.704-1(b)(4)(i), as the case may be, using any reasonable method permitted or Treasury Regulation Sections



1.704-3 that is selected by the Managing Member. Allocations made pursuant to this paragraph shall not affect the Capital Account of the Members.

5.4. **Allocations in Case of Transfers.** Except as provided below, Net Profit, Net Loss, and items of income, gain, deduction and loss allocable to any Member whose Units have been transferred, in whole or in part, during any Fiscal Year shall be allocated among the persons who were the holders of such Units during such year in proportion to their respective holding periods, without separate determination of the results of Company operations during such periods. Net Profit, Net Loss, and items of income, gain, deduction and loss, attributable to a sale or other disposition of all or any portion of the assets of the Company shall be allocated to those Members who were Members at the time of the occurrence of the disposition giving rise to such Net Profit, Net Loss and items of income, gain and loss.

5.5. **Interpretation.** The provisions of this Article 5 are intended to comply with Treasury Regulation Sections 1.704-1(b), 1.704-2 and 1.704-3 and any successor regulations and shall be defined and interpreted consistently with this intention and the Managing Member shall make such special allocations determined necessary by the Managing Member for the allocations of income and loss to be respected for federal income tax purposes pursuant to Treasury Regulation Section 1.704-1(b) and 1.704-2 (i.e., loss limitations, qualified income offset, minimum gain charge-backs, and non-recourse deductions)

5.6. **Allocations Relating to Taxable Issuance of Company Interests.** Any income, gain, loss or deduction realized as a direct or indirect result of the issuance of an interest in the Company to a Member (the "Issuance Items") shall be allocated among the Members so that, to the extent possible, the net amount of such Issuance Items, together with all other allocations under this Agreement to each Member, shall be equal to the net amount that would have been allocated to each such Member if the Issuance Items had not been realized.

5.7. **Modification.** The Managing Member may modify the provisions of this Article 5 or any other provisions of this Agreement without the consent of the Members if, after consultation with counsel to the Company, the Managing Member determines that such modification is necessary to (a) cause the allocations contained in this Article 5 to have substantial economic effect or otherwise be respected for federal income tax purposes under Section 704 of the Code; (b) cause the allocation of Net Profits and Net Losses or items thereof under Section 5.1 to conform, in accordance with the requirements of Section 704 of the Code, to the distributions provided in Section 6.1; or (c) cause the provisions of the Agreement to comply with any applicable legislation, regulation or rule enacted or promulgated after the date of this Agreement, which change is necessary to enable the Company to carry out its purposes in the manner contemplated by this Agreement. Any such amendment shall be so as to cause the least significant deviation from the provisions of this Agreement as originally set forth.

## 6. DISTRIBUTIONS

6.1. **Distribution of Cash Available for Distribution.** The Managing Member shall determine in its reasonable judgment the Company's Cash Available for Distribution. Except as provided in Article 15, the Company shall distribute quarterly its Cash Available for Distribution to the Members, *pro rata* in accordance with their respective Sharing

Percentages, unless the distribution of a smaller amount is required under the Act or Approved by the Governing Board. In addition, the Company shall, to the extent it has cash available, make a distribution to the Members on or before April 1 of each year in an amount equal to the federal income tax that would be due and payable by the Members with respect to the Company's taxable income for the preceding year, with such tax calculated at the highest marginal federal income tax rate for individuals reduced by the aggregate of the cash distributions previously made to the Members with respect to the tax year for which the taxable income has been calculated. Notwithstanding the foregoing, nothing in this Agreement shall be construed as requiring the Company to make distributions in contravention of any limitation in Delaware law on the payment of distributions.

6.2. **Compensation or Reimbursement Not a Distribution.** Authorized amounts payable as compensation or reimbursement to any Person other than in its capacity as a Member in the Company, such as for professional services rendered, goods purchased or money borrowed, shall not be treated as a distribution for purposes of this Article 6.

6.3. **Consequences of Distributions.** Upon the determination to distribute funds in any manner expressly provided in this Agreement, made in good faith, no Covered Person (as defined in Article 12) shall incur any liability on account of such distribution, even though such distribution may have resulted in the Company retaining insufficient funds for the operation of its business which insufficiency resulted in loss to the Company or necessitated the borrowing of funds by the Company.

6.4 **Withholding.** The Company may withhold distributions or portions thereof if it is required to do so by any applicable rule, regulation, or law, and each Member hereby authorizes the Company to withhold from or pay on behalf of or with respect to such Member any amount of federal, state, local or foreign taxes that the Managing Member reasonably determines that the Company is required to withhold or pay with respect to any amount distributable or allocable to such Member pursuant to this Agreement. Any amount paid on behalf of or with respect to a Member pursuant to this Section 6.4 shall be treated as having been distributed to such Member as an advance against the next Distributions that would otherwise be made to such Member, and such amount shall be satisfied by offset from such next Distributions. Each Member will furnish the Managing Member with such information as may reasonably be requested by the Managing Member from time to time to determine whether withholding is required, and each Member will promptly notify the Managing Member if such Member determines at any time that it is subject to withholding.

## 7. **BOOKS OF ACCOUNT, TAX COMPLIANCE AND FISCAL YEAR**

7.1. **Books and Records.** The Managing Member shall keep books of account and records relative to the Company's business. The books shall be prepared in accordance with GAAP using the accrual method of accounting. The Company's books and records shall at all times be maintained at the principal business office of the Company or its accountants (and, to the extent required by the Act, at the registered office of the Company) and shall be available for inspection by the Members or their duly authorized representatives during reasonable business hours.

7.2. **Determination of Net Profit and Net Loss; Financial Statements.** All items of Company income, expense, gain, loss, deduction and credit shall be determined with respect to, and allocated in accordance with, this Agreement for each Member for each Fiscal Year, except as otherwise required by the Code and/or the Regulations. Within thirty (30) days after the end of each month, and within ninety (90) days after the end of each Fiscal Year, or as soon thereafter as is practicable, the Managing Member shall cause to be prepared, at Company expense, unaudited financial statements of the Company for the preceding month or Fiscal Year, as applicable, including, without limitation, a balance sheet, profit and loss statement and statement of cash flows, prepared in accordance with the terms of this Agreement and GAAP consistently applied with prior periods. These financial statements shall be available for inspection and copying during ordinary business hours at the reasonable request of any Member.

7.3. **Tax Returns and Information.** The Members intend for the Company to be treated as a partnership for tax purposes, but not for any other purposes. The Tax Matters Member shall, at Company expense, prepare or cause to be prepared all federal, state and local income and other tax returns which the Company is required to file and shall furnish such returns to the Members, together with a copy of each Member's Schedule K-1 and any other information which any Member may reasonably request relating to such returns, within ninety (90) days after the end of each Fiscal Year of the Company.

7.4. **Tax Audits.** The Managing Member shall be the "tax matters member" of the Company under Section 6231(a)(7) of the Code (the "Tax Matters Member"). The Tax Matters Member shall represent the Company in all administrative and judicial proceedings involving federal income tax matters as the "Tax Matters Member." In connection therewith, the powers of the Tax Matters Member shall include, but are not limited to, the power to:

(a) appoint an attorney-in-fact to represent the Company in such proceeding;

(b) engage in any activities enumerated in Subchapter C of Chapter 63 of the Internal Revenue Code;

(c) employ attorneys, accountants, appraisers, consultants, and such other persons as deemed appropriate;

(d) make any and all elections for federal, state, and local tax purposes, including, without limitation, any election if permitted by applicable law: (i) to adjust the basis of Company assets pursuant to Code Sections 754, 734(b) and 743(b), or comparable provisions of state or local law; and (ii) to extend the statute of limitations for assessment of tax deficiencies against Members with respect to adjustments to the Company's federal, state or local tax returns; and

(e) represent the Company and Members before taxing authorities or courts of competent jurisdiction in tax matters affecting the Company and Members in their capacity as Members, and to execute any agreements or other documents relating to or affecting such tax matters including agreements or other documents that bind the Members with respect to such tax matters or otherwise affect the rights of the Company or Members.

The Tax Matters Member shall provide all Members affected by a Company-level proceeding before the Internal Revenue Service with such notice of the proceeding as is required by the Code. The preceding sentence shall be deemed to be satisfied by mailing such notice to each Member's last known address. The Company shall indemnify and reimburse the Tax Matters Member for all expenses, including legal and accounting fees, claims, liabilities, losses and damages incurred in connection with any administrative or judicial proceeding with respect to the tax liability of the Members and against any and all loss, liability, cost or expense, including judgments, fines, amounts paid in settlement and attorneys fees and expenses, incurred by the Tax Matters Member in any civil, criminal or investigative proceeding in which the Tax Matters Member is involved or threatened to be involved solely by virtue of being Tax Matters Member, except such loss, liability, cost or expense arising by virtue of the Tax Matters Member's gross negligence, fraud, malfeasance, breach of fiduciary duty or intentional misconduct. The payment of all such expenses shall be made before any distributions are made to any Member. No Member, nor any other Person, shall have any obligation to provide funds for such purpose.

7.5. **Fiscal Year.** The Company's fiscal year shall be the Fiscal Year.

## 8. **POWERS OF MANAGING MEMBER**

8.1. **Appointment, Rights and Powers of Managing Member.** The Members hereby designate, pursuant to Section 1.31, the Governing Board, as the Managing Member. The Governing Board may appoint a replacement Managing Member by unanimous approval of the Governing Board. The Managing Member shall possess all of the rights and powers delegated to the Managing Member from time to time by the Governing Board. Subject to the direction and control of the Governing Board described herein, the Managing Member shall have the authority to bind the Company as an agent in the ordinary course of business. The Managing Member shall be reimbursed for all direct out-of-pocket expenses incurred by it in performing its duties hereunder, excluding any corporate overhead expenses of the Managing Member and its Affiliates.

8.2. **Right to Rely on Managing Member.** No Person or governmental body dealing with the Company shall be required to inquire into, or to obtain any other documentation as to, the authority of the Managing Member to take any action permitted by this Agreement. Furthermore, any Person or governmental body dealing with the Company may rely upon a certificate signed by the Managing Member as to the following:

- (a) the identity of the Managing Member or any Member;
- (b) the existence or nonexistence of any fact or facts that constitute a condition precedent to acts by the Managing Member or which are in any other manner germane to the affairs of the Company;
- (c) the Persons who are authorized to execute and deliver any instrument or document of the Company; or
- (d) any act or failure to act by the Company on any other matter whatsoever involving the Company or any Member.

8.3. **Appointment as Attorney-in-Fact.** Each Member hereby makes, constitutes and appoints the Managing Member, and any officer thereof, with full power of substitution

and resubstitution, his agent and attorney-in-fact to file for record, and to sign, execute, certify, acknowledge, and file for record any other instruments, approved in accordance with the terms of this Agreement, which may be required of the Company or of the Members by law, including, but not limited to, amendments to or cancellations of this Agreement or of the Certificate. Subject to the terms of this Agreement, each Member authorizes such attorney-in-fact to take any further action which such attorney-in-fact shall consider necessary or advisable in connection with the foregoing, hereby giving such attorney-in-fact full power and authority to act to the same extent as if such Member were himself personally present, and hereby ratifying and confirming all that such attorney-in-fact shall lawfully do or cause to be done by virtue hereof.

8.4. **Effect of Power of Attorney.** The power of attorney granted pursuant to Section 8.3 of this Agreement:

(a) is a special power of attorney coupled with an interest, is irrevocable, and shall survive the death, dissolution, insanity, or incapacity of the granting Member;

(b) may be exercised by such attorney-in-fact for each Member by listing all of the Members executing any agreement, certificate, instrument or document with the single signature of such attorney-in-fact as attorney-in-fact for all of them; and

(c) shall survive the delivery of an assignment by a Member of the whole or a portion of his interest in the Company, except that where the purchaser, transferee or assignee thereof is to be admitted as a Substituted Member, the power of attorney shall survive the delivery of such assignment for the sole purpose of enabling such attorney-in-fact to execute, acknowledge and file any agreement, certificate, instrument, or document necessary to effect such substitution.

8.5 **Officers.** The Company may have a President, Chief Financial Officer, and Secretary elected from time to time by the Managing Member. Unless otherwise directed by a Managing Member, the person holding each such office shall have the powers and duties equivalent to those of an officer of a Delaware corporation having the same title, including the following: The President shall have the authority and responsibility to manage the day-to-day ordinary business activities of the Company and enter into contracts and obligations on behalf of the Company in the normal course of the Company's business without prior approval of the Members, unless approval of the Members is required by the terms of this Agreement. The President, if there is one, shall attend any and preside over meetings of Members called pursuant to Section \_\_\_\_ and the Secretary, if there is one, shall attend and maintain minutes of such meetings. A Majority of the Members may provide for additional officers of the Company and for their election, and may alter the powers, duties and compensation of the President and of all other officers.

## 9. RIGHTS AND STATUS OF MEMBERS

9.1. **General.** Except to the extent expressly otherwise provided in this Agreement, the Members shall not take part in the management or control of the Company business, have voting rights or sign for or bind the Company, such powers being vested exclusively in the Governing Board and the Managing Member as provided for herein.

9.2. **Limitation of Liability.** No Member shall, solely by reason of its status as a Member of the Company, have any personal liability whatsoever, whether to the Company or any creditor of the Company, for the debts of the Company or any of its losses beyond the amount of the Member's Capital Contribution to the Company. In the event that any Member shall, by reason of its conduct within the scope of this Agreement, be subject to personal liability to a third party by being a Member of the Company, then such Member shall be entitled to the same rights of indemnification by the Company as that afforded to the Covered Persons under Section 12.8 of this Agreement.

## 10. **ADMISSION AND WITHDRAWAL OF MEMBERS AND CERTAIN TRANSFERS OF COMPANY INTERESTS**

10.1. **Required Transfer of Member's Interest.** Under the circumstances described in this Section 10.1 below, a Member may be required to transfer such Member's Unit(s).

10.1.1 **Termination of Professional Service Agreement.** If the Professional Service Agreement is ended for any reason (as such term is defined in the Professional Service Agreement) by the Class B Member, the Class A Member shall be required to sell all outstanding units held by the Class A member for an amount equal to the fair market value of the Units, as determined by the Class A Member and the Class B Member or, if they are unable to agree on the fair market value of the Units, for the Appraised Price, which shall be determined by the Formula Value for the period ending on the date the Service Agreement is terminated will continue. Such purchase shall close within twelve (12) months after the date the purchase price is determined. Closing will be determined at the discretion of the Class B Member. At the time the sale occurs, the Class A Member will relinquish its Governing Member rights and obligations, and will tender to the Class B Member its share in the voting rights and governance of the Company. The Class A Member hereby agrees and consents to transfer its Units as provided herein. Notwithstanding anything contained herein to the contrary, the Managing Member may, upon the unanimous approval of the Members, in lieu of affecting the purchase rights set forth in this Section, elect to dissolve the Company pursuant to Section 14.1(a) in the event of the occurrence of any event set forth in this Section.

10.1.2 **Threatened Loss of Class B Member's Tax-Exempt Status.** If the Class B Member reasonably believes that the Company's structure, including but not limited to any provisions of this Agreement, or any actual or proposed action or failure to act by the Company is reasonably likely to jeopardize the Class B Member's tax-exempt status (each, a "Tax Event"), the Class B Member shall provide the Company and the other Members notice of the Tax Event. If the Tax Event is related to the Company's structure, the Members shall have ninety (90) days in which to use their commercially reasonable efforts to restructure the Company in an effort to prevent the loss of the Class B Member's tax-exempt status, while maintaining the material financial rights of the Members. If the Tax Event relates to an action or failure to act by the Company, the Governing Board shall have thirty (30) days in which to use its commercially reasonable efforts to reach a unanimous decision as to the Company's action or failure to act. If the Members cannot agree on the restructuring or the Governing Board cannot agree on the Company's action or failure to act within the negotiation periods described above, upon the Class B Member's presentation of an opinion of counsel setting forth a description of the Tax Event and an opinion that such counsel reasonably believes that the Tax Event may jeopardize the Class

B Member's tax-exempt status, the Class B Member shall have the right to require the Company to dissolve and cease as an entity pursuant to Sections 14 and 15.

**10.3. Restriction on Ownership.** Each Class A Member and Class B Member agrees that, while it is a Member, it shall not, directly or indirectly, own an interest in, lease, manage, joint venture with or be employed by a Competing Business that is located in the Palomar Pomerado Health district as depicted in Exhibit 10.3. Upon a violation of this Section 10.3 by the Class A Member, the Class B Member shall have the right, but not the obligation, to purchase any or all of the Units of such Class A Member at a purchase price equal to the lesser of (A) the Formula Value as of the date of such breach times the Class A Member's Sharing Percentage and (B) 10% of the Class A Member's Adjusted Capital Contribution as of the date of breach, by providing written notice thereof to the Class A Member within sixty (60) days of the date on which the Class B Member becomes aware of such breach.

Each Member agrees that the restrictions contained in this Section 10.3 are reasonable and necessary to protect the legitimate interests of the Company and the Class B Member and that any violation of this provision would result in damages to the Company which cannot be compensated by money alone. Each Member agrees that the Company and/or Class B Member will be entitled to injunctive relief without proving actual damages or posting any bond. If a court shall hold that the duration and/or scope (geographic or otherwise) of the agreement contained in this Section 10.3 is unreasonable, then, to the extent permitted by law, the court may prescribe a duration and/or scope (geographic or otherwise) that is reasonable and judicially enforceable. The parties agree to accept such determination, subject to their rights of appeal, which the parties hereto agree shall be substituted in place of any and every offensive part of this Section 10.3, and as so modified, this Section 10.3 shall be as fully enforceable as if set forth herein by the parties in the modified form.

**10.4. Payment of Purchase Price for Member's Interest.** If the interest of a Member in the Company is being purchased pursuant to Section 10.2 or 10.3, the purchase price for the interest shall be determined as set forth above and payable in the manner hereinafter set forth:

10.4.1 All obligations, if any, of the selling Member to the Company shall become immediately due and payable upon purchase of the interest. To the extent not previously taken into account pursuant to this Section 10.4, the purchase price shall be reduced by the amount of any such obligations and the purchaser, if other than the Company, shall pay to the Company an amount equal to any such reduction in the purchase price.

10.4.2 No payment other than those specifically provided for herein shall be due or payable with respect to the interest of the Member whose interest in the Company is being purchased. Any debt due by the Company to the Member shall be payable according to its terms.

10.4.3 The closing of the purchase of the interest in the Company pursuant to this Section 10.4 shall be held at the principal office of the Company on the later of (i) 30 days following the giving of written notice to the Member of the election to purchase such interest or (ii) 15 days following the date the purchase price is determined (or such earlier date as mutually agreed to by the Company and the selling Member). At the closing, the

purchaser shall pay, upon the terms specified hereinabove, the purchase price of such Member's interest in the Company to the Member after receiving executed copies of appropriate releases and satisfactions.

10.4.4 In the case of any purchase made pursuant to Section 10.2 or Section 10.3, the purchase price may, at the election of the purchaser, be paid by delivery of a promissory note. The note shall be payable in equal monthly installments of principal and interest over the Applicable Term (as defined below) with interest accruing on the unpaid balance at the lesser of the prime rate or LIBOR (each as published in The Wall Street Journal on the date of such purchase). The first such installment shall be paid to such Member on the first day of the month after thirty (30) days have expired since the Member's interest was acquired under such sections, with subsequent installments paid on the first day of each successive month thereafter until paid in full. The purchaser may pre-pay in whole or in part the amount owed without penalty. Such loan shall be subordinate to the purchaser's senior lenders. The note shall be nonrecourse and secured by the Units purchased. The "Applicable Term" shall be not greater than:

(a) sixty (60) months for purchases made pursuant to Section 10.2.1(b)(i) or Section 10.3; and

(b) thirty six (36) months for purchases made pursuant to Section 10.2.1(b)(ii), Section 10.2.1(b)(iii), Section 10.2.1(c) or Section 10.2.2.

## 11. MEETINGS AND MEANS OF VOTING.

11.1. **Meetings of the Members.** Meetings of the Members may be called by either (a) the Class A Member or (b) the Class B Member. The notice of a meeting shall state the nature of the business to be transacted at such meeting, and actions taken at any such meeting shall be limited to those matters specified in the notice of the meeting. Notice of any meeting shall be given to all Members not less than five (5) and not more than thirty (30) days prior to the date of the meeting. A waiver of notice signed by a Member entitled to notice, whether before, at or after the meeting, shall be the equivalent of notice. The presence of any Member at a meeting shall constitute a waiver of notice of the meeting with respect to such Member. Members must vote in person at such meeting. All meetings shall be held in the Class B Member district, unless another location is Approved by the Members.

Except as otherwise expressly provided in this Agreement or required by the express provisions of the Act, the requisite vote of the Members on any matter for which the vote of the Members is required hereunder or by law shall be by Approval of the Members, which vote shall control all decisions for which the vote of the Members is required hereunder or by law. Each Member's voting rights shall be the same as that Member's Sharing Percentage at the time of the vote. A quorum shall consist of those Members whose vote is necessary to constitute Approval of the Members pursuant to the terms set forth herein. The Members may, at their election, participate in any regular or special meeting by means of conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other. A Member's participation in a meeting pursuant to the preceding sentence shall constitute presence in person at such meeting for all purposes of this Agreement.

### 11.2. **Reserved.**



11.3. **Conduct of Meeting.** Each meeting of the Members shall be conducted by the Chairman of the Governing Board (who shall be designated by a majority of the Governors) or by an individual appointed by the Chairman of the Governing Board. The meeting shall be conducted pursuant to such reasonable rules as may be adopted by the Governing Board. Minutes shall be taken by a person appointed by the Chairman of the Governing Board and all minutes shall be Approved by the Governing Board.

11.4. **Action Without a Meeting.** Notwithstanding anything to the contrary in this Agreement, any action that may be taken at a meeting of the Members may be taken without a meeting if a written consent setting forth the action so taken is executed by the Members whose approval would be needed to take such action at a meeting, which consent may be executed in multiple counterparts. In the event any action is taken pursuant to this Section 11.4, the Company shall give written notice of the action taken without a meeting to each Member promptly after the Company shall have been notified of such action. For purposes of obtaining a vote of the Members under this Agreement, the Governing Board may require a written response of the Members within a specified time, but not less than 15 days nor more than 45 days, and provide that failure to respond in such time shall constitute a vote which is consistent with the Governing Board's recommendation, if made, with respect to the proposal.

11.5. **Closing of Transfer Record; Record Date.** For the purpose of determining the Members entitled to notice of or to vote at any meeting of Members, any reconvening thereof, or to act by consent, the Governing Board may provide that the transfer record shall be closed for at least ten (10) days immediately preceding such meeting (or such shorter time as may be reasonable in light of the period of the notice) or the first solicitation of consents in writing. If the transfer record is not closed and if no record date is fixed for determining the Members entitled to notice of or to vote at a meeting of Members or by consent, the date on which the notice of the meeting is mailed or a copy of the first written consent is received by the Governing Board shall be the record date for such determination.

## 12. GOVERNING BOARD.

### 12.1. **Governing Board.**

(a) Effective for all purposes on the date of this Agreement, the Members shall form a Governing Board of the Company consisting of six (6) members (the "Governing Board") by appointing thereto the Class A Governors and the Class B Governors, as applicable. The Class A Member(s) shall be entitled to elect or appoint three (3) Class A Governors. The Class B Member(s) shall be entitled to elect or appoint three (3) Class B Governors.

(b) The Governing Board shall be created and operate to consider all matters pertaining to the business of the Company. Each individual selected to serve on the Governing Board shall serve for a term of one (1) year and thereafter until his successor is appointed or elected, unless he sooner resigns or is removed. A member of the Governing Board may be removed with or without cause, only by the Members who had the right to vote for his initial appointment. The unexpired term of a member of the Governing Board who resigns or is removed shall be filled by an individual appointed by those Members who had the right to vote on such Governing Board member's initial appointment to the Governing Board. The Chairman of the

Governing Board shall be selected annually from the members of the Governing Board.

12.2. **Powers of the Governing Board.** In addition to the powers granted to any Governing Board under the Act and the powers granted to the Governing Board pursuant to other provisions of this Agreement, the Governing Board shall have the exclusive right and power to manage the business and the affairs of the Company with all powers necessary, advisable, or convenient to manage, control, administer and operate the business and affairs of the Company for the purposes herein stated, to make all decisions affecting such business and affairs, and to do all things which are necessary or desirable in the conduct of the business and affairs of the Company. The rights and powers of the Governing Board shall include, without limitation, the power to borrow money and, if security is required therefore, to mortgage or subject to any other security device, any portion of the Company assets, to obtain replacements of any mortgage, security deed or other security device, and to prepay, in whole or in part, refinance, increase, modify, consolidate, or extend any mortgage, security deed or other device, all of the foregoing at such terms and in such amount as it deems to be in the best interest of the Company. All Members are aware of the Class B Member's tax-exempt status, and each Member hereby agrees that any decision of the Governing Board to forego taking any action which would be inconsistent with the tax-exempt status of the Class B Member, or any decision of the Governing Board to take an action which furthers the charitable purpose of the Class B Member over any profit-making motives of the Company, shall not cause a Governing Board member or the Class B Member to breach the duty of loyalty or to breach any other fiduciary duty which either a member of the Governing Board or the Class B Member may owe to the Company, notwithstanding that any such decision may or may not be in the best interests of the Company.

12.3. **Manner of Exercise of Governing Board's Authority.** All responsibilities granted to the Governing Board under this Agreement shall be exercised by the Governing Board as a body, and no member of the Governing Board, acting alone, shall have the authority to act on behalf of the Governing Board. Except as provided herein, all Governing Board action shall require the Approval of the Governing Board.

Notwithstanding anything contained herein to the contrary, the following actions shall require unanimous approval of the Governing Board:

- (a) dissolution of the Company;
- (b) continuing the business of the Company after the occurrence of an event which would otherwise cause dissolution;
- (c) extending the term of the Company;
- (d) a sale or transfer of all or substantially all of the Company's assets or ownership interests, or a merger or consolidation of the Company with another entity; and
- (e) any material change in the business of the Company.

12.4. **Meetings of the Governing Board.** The Governing Board shall hold regular meetings on a quarterly basis or on such other periodic basis as the Governing

Board shall determine from time to time. Special meetings of the Governing Board may be called by any member of the Governing Board by requesting such a meeting through the Chairman of the Governing Board, upon not less than five (5) business days written or telephonic notice to the members of the Governing Board, such notice specifying all matters to come before the Governing Board for action at such meeting. Meetings may be held at any place in the Class B Member district. The presence of any member of the Governing Board at a meeting shall constitute a waiver of notice of the meeting with respect to such member. The members of the Governing Board may, at their election, participate in any regular or special meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. A member of the Governing Board's participation in a meeting pursuant to the preceding sentence shall constitute presence in person at such meeting for all purposes of this Agreement. Minutes shall be taken by a person appointed by the Chairman of the Governing Board and all minutes shall be Approved by the Governing Board.

12.5. **Quorum.** A quorum of the Governing Board shall consist of those Governors whose vote is necessary to constitute approval of a given action, as applicable, pursuant to the terms set forth herein.

12.6. **Reserved.**

12.7. **Action Without a Meeting.** Notwithstanding anything to the contrary in this Agreement, any action that may be taken at a meeting of the Governors may be taken without a meeting by the consent of the Governors. Such consent shall be in writing, shall set forth the action so taken and shall be signed by the number of Governors whose vote would be necessary to authorize such action at a meeting of the Governing Board. The consent may be executed in multiple counterparts.

12.8. **Liability of Covered Persons for Actions.**

(a) Notwithstanding any provision of this Agreement, common law or the Act, no member of the Governing Board, the Managing Member, the Class A or Class B Member, the principal officer of the Company or the Tax Matters Member (the "Covered Persons") shall be liable to the Members or to the Company for any loss suffered which arises out of an act or omission of such Person, if, in good faith, it was determined by such Persons that such act or omission was in the best interests of the Company and such act or omission did not constitute gross negligence or fraud. A Covered Person shall be indemnified by the Company against any and all claims, demands and losses incurred by such Covered Person by reason of the fact that such Covered Person was serving in any position set forth in the preceding sentence if such Covered Person (i) conducted itself in good faith; (ii) derived no improper personal benefit; and (iii) reasonably believed (A) in the case of conduct in its official capacity with the Company, that its conduct was in its best interests and (B) in all other cases, that its conduct was at least not opposed to its best interests; and (iv) in the case of any criminal proceeding, had no reasonable cause to believe its conduct was unlawful; provided, the right to indemnification and payment of expenses shall exist unless and until it is determined in a final disposition that such indemnification and/or expense payment was not required hereunder, in which case the indemnitee shall repay all such indemnified and reimbursed amounts. The payment of any amounts for indemnification shall be made before any Distributions

are made by the Company. No Member shall have any obligation to provide funds for any indemnification obligation hereunder.

(b) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article 12 shall not be exclusive of any other right which any Person may have or hereafter acquire under any applicable law, provision of the Certificate of Formation, provision of this Agreement, vote of Members or otherwise.

(c) The Company may maintain insurance, at its expense, to protect itself and any Member, the Governing Board, Governing Board committees, officer, employee or agent of the Company against any expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under Delaware law.

(d) Any amendment, repeal or modification of any provision of this Section 12.8 shall not adversely affect any right or protection of a Member, the Governing Board, Governing Board committee, officer, employee or agent of the Company existing at the time of such amendment, repeal or modification.

### 13. TRANSFER OF RIGHTS

13.1. **Transfers by Members.** Except as otherwise set forth in this Article 13, a Member may not Transfer all or any part of its Units without the Approval of the Governing Board. If a Member receives the required approval, a Member may transfer its interest in the Company if the following conditions are satisfied:

(a) the Member and its transferee execute, acknowledge and deliver to the Company such instruments of transfer and assignment with respect to such transaction as are in form and substance Approved by the Governing Board;

(b) unless waived by Approval of the Governing Board, the Member delivers to the Company an opinion of counsel Approved by the Governing Board, covering such securities and tax laws and other aspects of the proposed Transfer as the Governing Board may reasonably request; and

(c) the Member pays the Company a transfer fee that is sufficient to pay all reasonable expenses of the Company in connection with such transaction.

Any Member who thereafter Transfers all or any portion of its Units shall promptly notify the Company of such Transfer and shall furnish to the Company the name and address of the transferee and such other information as may be required under Section 6050K of the Code and the Regulations thereunder.

In the event a court of competent jurisdiction holds this restriction on Transfer to be unenforceable, the Company shall have a right of first refusal to purchase Units with respect to any proposed Transfer thereof by a Member which may be exercised by the Company by giving written notice thereof to the Member during the period of ninety (90) days immediately following the date that a court of competent jurisdiction determines such restriction to be unenforceable. The purchase price pursuant to the right of first refusal shall be an amount equal to the lesser of (a) the Formula Value of the Units held by such

Member as of the date of such Transfer, multiplied by the Sharing Percentage represented by the Units which are the subject of the proposed Transfer, and (b) the amount offered by the third party to acquire such Units. In the event the third party offer includes consideration, other than cash, the value of the consideration will be determined by the Governing Board in good faith. The purchase price may be paid, at the option of the Company, on the same terms and conditions as set forth in the third party offer or by delivery of twenty percent (20%) of the purchase price in cash at closing and the balance by the delivery of a non-recourse promissory note secured by the interest purchased (the "Note"). The Note will be payable in forty-eight (48) equal monthly installments of principal and interest and will bear interest at the prime rate (as published in *The Wall Street Journal*). The Company may prepay the Note in whole or in part without penalty. The closing shall occur at the Company's principal place of business as soon as reasonably practicable and in any event within thirty (30) days following exercise of such right of first refusal. Any Transfer in violation of this provision shall be void.

13.2. **Substituted Member**. No Person taking or acquiring, by whatever means, the Units of any Member, other than pursuant to any Transfer pursuant to Section 13.1, shall be admitted as a Substituted Member without the Approval of the Governing Board, which Approval of the Governing Board may be unreasonably withheld, and unless such Person:

(a) elects to become a Substituted Member by delivering notice of such election to the Company;

(b) executes, acknowledges and delivers to the Company such other instruments as the Governing Board may deem necessary or advisable to effect the admission of such Person as a Substituted Member, including, without limitation, the written acceptance and adoption by such Person of the provisions of this Agreement; and

(c) pays a Transfer fee to the Company in an amount sufficient to cover all reasonable expenses connected with the admission of such Person as a Substituted Member.

13.3. **Basis Adjustment**. Upon the Transfer of all or any portion of the Units owned by a Member, at the request of the transferee of such Units, the Tax Matters Member may, in its sole discretion, cause the Company to elect, pursuant to Section 754 of the Code or the corresponding provisions of subsequent law, to adjust the basis of the Company's assets as provided by Sections 734 and 743 of the Code.

13.4. **Transfer Procedures**. The Managing Member shall establish a transfer procedure consistent with this Article 13 to ensure that all conditions precedent to the admission of a Substituted Member have been complied with, and shall, upon the written request of any Member, deliver to such Member a copy thereof.

13.5. **Invalid Transfer**. No Transfer of any Unit that is in violation of this Article 13 shall be valid or effective, and the Company shall not recognize any improper Transfer for the purposes of making allocations, payments of profits, return of capital contributions or other distributions with respect to such Unit. The Company may enforce the provisions of this Article 13 either directly or indirectly or through its agents by entering an appropriate stop transfer order on its books or otherwise refusing to register or transfer or

permit the registration or transfer on its books of any proposed Transfers not in accordance with this Article 13.

13.6. **Additional Requirements for Admission to Company.** No Person shall be admitted as a Member if such admission would have the effect of causing the Company to be reclassified for federal income tax purposes as an association (taxable as a corporation under the Code), would violate any Medicare or other healthcare law, rule or regulation, or would violate applicable exemptions from securities registration and securities disclosure provisions under federal and state securities laws.

13.7. **Amendment to Exhibit A.** The Governing Board shall direct that Exhibit A attached hereto be amended from time to time to reflect the admission of any Substituted Member, the termination of any Member's interest in the Company or the modification of any other information set forth in Exhibit A.

## 14. DISSOLUTION

14.1. **Causes.** Each Member expressly waives any right which he or it might otherwise have to dissolve the Company except as set forth in this Article 14. The Company shall be dissolved upon the first to occur of the following:

- (a) the unanimous approval of the Governing Board and the unanimous approval of the Members;
- (b) the dissolution of the Company by judicial decree; and
- (c) the occurrence of any other event causing dissolution of the Company under the Act.

Nothing contained in this Section 14.1 is intended to grant to any Member the right to dissolve the Company at will (by retirement, resignation, withdrawal or otherwise), or to exonerate any Member from liability to the Company and the remaining Members if it dissolves the Company at will. Any dissolution at will of the Company, including dissolution caused under Section 14.1(b), shall be in contravention of this Agreement for purposes of the Act. The Company shall not be dissolved by the replacement of the Governing Board or the Managing Member.

14.2. **Reconstitution.** If the Company is dissolved as a result of an event described in Section 14.1(b) or 14.1(c), the Company may be reconstituted and its business continued if, within ninety (90) days after the date of dissolution, upon unanimous approval of the Governing Board. If the Company is reconstituted, an amendment to this Agreement shall be executed, and if and to the extent required by the Act, a Certificate of Amendment to the Certificate of Formation shall be filed with the Delaware Secretary of State.

## 15. WINDING UP AND TERMINATION

15.1. **Sale of Assets.** Unless otherwise Approved by the Members, at the time of liquidation, any property owned by the Company shall be sold for cash, and each Member shall have the right to bid competitively for any such asset being sold. Any cash received from the sale of the Company's assets shall be used first to pay the Company's debts to creditors other than the Members; provided, however, for this purpose, a Member which is

owed money for goods or services provided to the Company or is entitled to indemnification pursuant to Article 12 shall be deemed an unrelated creditor. Any cash remaining after payments to creditors, other than the Members, shall be used to repay other debts to Members. Once all Member debt is repaid, the remaining cash received from the sale of the Company's assets shall be distributed to the Members in proportion to their positive Capital Account balances (after giving effect to adjustments to Capital Accounts through the date of distribution).

**15.2. Distributions in Accordance with Capital Accounts.** In the event the Company is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made in all cases, in accordance with the Members' positive Capital Account balances determined after all adjustments to the Members' Capital Accounts for the taxable year. Such distribution shall be made within the time periods required by Treasury Regulation Section 1.704-1(b). In the discretion of the Managing Member, a pro rata portion of the distributions that would otherwise be made to the Members may be:

(a) distributed to a trust established for the benefit of the Members for the purpose of liquidating Company assets, collecting amounts owed to the Company, and paying any contingent or unforeseen liabilities in connection with the Company or of the Class A Member arising out of or in connection with the Company. The assets of any such trust shall be distributed to the Members from time to time, in the reasonable discretion of the Managing Member, in the same proportions as the amount distributed to such trust by the Company would otherwise have been distributed the Members under this Agreement; and

(b) withheld to provide a reasonable reserve for Company liabilities (contingent or otherwise) and to reflect the unrealized portion of any installment obligations owed to the Company, provided that such withheld amounts shall be distributed to the Members as soon as practicable in the same proportions as such amounts would otherwise have been distributed to the Members under this Article XV.

**15.3. Deemed Contribution and Distribution.** Notwithstanding any other provisions of this Article 15, in the event the Company is liquidated within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g) but the Company is not required to be dissolved and wound up pursuant to Section 14.1, the assets of the Company shall not be liquidated, the Company's liabilities shall not be discharged, and the Company's affairs shall not be wound up. Instead, solely for federal income tax purposes, the Company shall be deemed to have contributed the assets and liabilities of the Company in kind to a new Company in exchange for an interest in the new Company. Immediately thereafter, the Company shall be deemed to have distributed interests in the new Company to the Members in proportion to their respective interests in the Company.

## **16. MISCELLANEOUS**

**16.1. Notices.** All notices, requests and demands given pursuant to this Agreement shall be in writing and shall be deemed effective (a) on the date of delivery when personally delivered or delivered by overnight courier, telegram or facsimile (with receipt confirmed), or (b) three (3) business days after mailing if mailed by first-class United States mail, registered or certified with return receipt requested, with postage prepaid, to the

Member at the Member's address set forth in the business records of the Company or such other address as may be designated from time to time in writing by a Member to the Company and all other Members. For purposes of notice, the addresses of the Members in the business records of the Company shall be as stated under their names on the attached Exhibit A until changed by the Members in a written notice to the Company and its other Members.

16.2. **Amendments.** Except as otherwise expressly provided in Section 13.7, or in this Section 16.2, amendments or modifications may be made to this Agreement only by setting forth such amendments or modifications in a document Approved by the Members, and any alleged amendment or modification herein which is not so documented shall not be effective as to any Member. The Governing Board may amend any provision of this Agreement and, through the Managing Member, execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith to reflect:

(a) a change in the location of the principal place of business of the Company, or a change in the registered office or the registered agent of the Company;

(b) qualification of the Company as a limited liability company under the laws of any state or that is necessary or advisable in the opinion of the Governing Board to ensure that the Company will not be treated as an association taxable as a corporation for federal income tax purposes, provided, in either case, such action shall not adversely affect any Member;

(c) a change (i) that is of an inconsequential nature and does not adversely affect the Members in any material respect; (ii) that is necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or contained in any federal or state statute, compliance with which the Governing Board deems to be in the best interest of the Company and the Members and which does not materially affect the interest of any Member in the capital, profits or losses of, or distributions or allocations of the Company, or a Member's rights of voting or approval as to the business of, or the right to appoint to boards or committees of the Company; or (iii) that is required or contemplated by this Agreement; or

16.3 **Reserved.**

16.4. **Exhibits.** Each Exhibit to this Agreement is incorporated herein for all purposes.

16.5. **Entire Agreement.** This Agreement supersedes all previous operating agreements, and constitutes the entire agreement of whatsoever kind or nature existing between or among the Members respecting the subject matter contained herein and no Member shall be entitled to benefits other than those specified herein. As between or among the Members, no oral statements not specifically incorporated herein shall be of any force and effect. This Agreement may be executed in two or more counterparts, each and all of which shall be deemed an original and all of which together shall constitute but one and the same instrument.



16.6. **Divisions and Headings.** The divisions of this Agreement into sections and subsections and the use of captions and headings in connection therewith are solely for convenience and shall have no legal effect in construing the provisions of this Agreement.

16.7. **Gender and Number.** Whenever the context of this Agreement requires, the gender of all words herein shall include the masculine, feminine and neuter, and the number of all words herein shall include the singular and plural.

16.8. **Severability.** In the event any provision of this Agreement is held to be invalid, illegal or unenforceable for any reason and in any respect, such invalidity, illegality, or unenforceability shall in no event affect, prejudice or disturb the validity of the remainder of this Agreement, which shall be and remain in full force and effect, enforceable in accordance with its terms. The Members further agree that, if any provision contained herein is, to any extent, held invalid or unenforceable in any respect under the laws governing this Agreement, they will take any reasonable actions necessary to render the remaining provisions of this Agreement valid and enforceable to the fullest extent permitted by law and, to the extent reasonably necessary, will amend or otherwise modify this Agreement to replace any provision contained herein that is held invalid or unenforceable with a valid and enforceable provision giving effect to the intent of the parties.

16.9. **Governing Law.** This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without regard to its principles of conflicts of laws.

16.10. **Benefit/Assignment.** Subject to provisions herein to the contrary, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives, successors and assigns; provided, however, that nothing contained herein shall negate or diminish the restrictions set forth in Articles 10 or 13 hereof. This Agreement is intended solely for the benefit of the parties hereto and is not intended to, and shall not, create any enforceable third party beneficiary rights.

16.11. **Waiver.** Failure by any party to enforce any of the provisions hereof for any length of time shall not be deemed a waiver of its rights set forth in this Agreement. Such a waiver may be made only by an instrument in writing signed by the party sought to be charged with the waiver. No waiver of any condition or covenant of this Agreement shall be deemed to imply or constitute a further waiver of the same or any other condition or covenant, and nothing contained in this Agreement shall be construed to be a waiver on the part of the parties of any right or remedy at law or in equity or otherwise.

16.12. **Attorneys' Fees.** In the event a party elects to incur legal expenses to enforce, defend or interpret any provision of this Agreement by judicial proceedings, the prevailing party will be entitled to recover such legal expenses, including, without limitation, reasonable attorneys' fees, costs and necessary disbursements at all court levels, in addition to any other relief to which such party shall be entitled.

16.13. **Time.** Time is of the essence with respect to all provisions of this Agreement.

16.14. **Business Day.** Should any due date hereunder fall on a Saturday, Sunday or legal holiday, then such due date shall be deemed timely if given on the first business day following such Saturday, Sunday or legal holiday.

16.15. **Reserved.**

16.16. **Construction.** This Agreement has been negotiated at arms length and each Member has been given the opportunity to be represented by independent legal counsel, and to the extent a Member has deemed it necessary to do so, the Member has consulted with independent counsel. Accordingly, any rule of law or legal decision that would require interpretation of any ambiguities in this Agreement against the party drafting it is not applicable and is waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the intent of the parties and the purposes of this Agreement.

16.17. **Waiver of Partition.** Notwithstanding any statute or principle of law to the contrary, each Member hereby agrees that, during the term of the Company, it shall have no right (and hereby waives any right that it might otherwise have had) to cause any Company asset to be partitioned and/or distributed in kind.

16.18. **Additional Documents.** Each Member agrees to perform all further acts and execute, acknowledge and deliver any documents that may be reasonably necessary, appropriate or desirable to carry out the provisions of this Agreement.

16.19. **Confidentiality.** Each Member will hold in confidence, and not use to the detriment of the other Members or the Company, and will cause its representatives to hold in confidence, and not use to the detriment of the other Members or the Company, any confidential or proprietary information it receives regarding the Company, any other Member or any of the Affiliates thereof (the "Confidential Information"). Failure to mark information as confidential or proprietary will not adversely affect its status as Confidential Information. Each Member shall not, at any time, discuss or disclose any of the Confidential Information to any third party or take any action that could compromise the confidentiality of the Confidential Information without the written consent of the Company or the other Member to which such Confidential Information relates, as applicable. The obligations of the Members hereunder will not apply to the extent that (i) any such information was already known to such Member or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such Member, or (ii) the disclosure of such information is required by applicable law; provided, however, that prior to disclosing such Confidential Information, a Member must notify the Company or other Member to which such Confidential Information relates, as applicable, which notice will include the basis upon which such Member believes the information is required to be disclosed. In the event a Member ceases to be a member of the Company for any reason, the restrictions on such Member's use of the Confidential Information as provided herein will continue in effect and, upon the request of the Company or other Member to which the Confidential Information relates, such Member will promptly return to the Company and/or such other Member any Confidential Information with respect to the Company or such other Member that it has in its possession. The Members acknowledge and agree that any aggrieved party would be damaged irreparably in the event of a breach of this Section 16.19 and that any such breach could not be adequately compensated by monetary damages. Accordingly, each Member agrees that, in addition to any other right or remedy to which the Company or any aggrieved Member may be entitled, at law or in equity, the Company or any aggrieved Member will be entitled to enforce this Section 16.19 by temporary, preliminary and permanent injunctive relief to prevent breaches or threatened breaches of this Section 16.19, without posting any bond or other undertaking. Notwithstanding the foregoing, the Class B Member shall have the right to

use any technical or business expertise obtained during the course of its ownership hereunder in connection with its management of any other Imaging Business Units.

**IN WITNESS WHEREOF**, the Members have executed this Operating Agreement as of the date first above written.

**MEMBERS:**

**CLASS A MEMBER:**

**IMAGING SERVICES ASSOCIATES, LLC**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**CLASS B MEMBER:**

**PALOMAR POMERADO HEALTH**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT 1.19**  
**Competing Business**  
**North County Radiology - Imaging Services Associates, LLC**  
**Exceptions**

Regents MRI  
4130 La Jolla Village Drive, Suite 101  
La Jolla, CA 92037

Regents Imaging  
3909 Waring Rd. Suite #C  
Oceanside, CA 92056

Advanced MRI & CT of Escondido  
255 N. Elm Street #102  
Escondido, CA 92025

Interventional and PET CT Center  
902 Sycamore Avenue  
Vista, CA 92081

TCMC Wellness Center Medical Office  
6260 El Camino Real  
Carlsbad, CA 92009

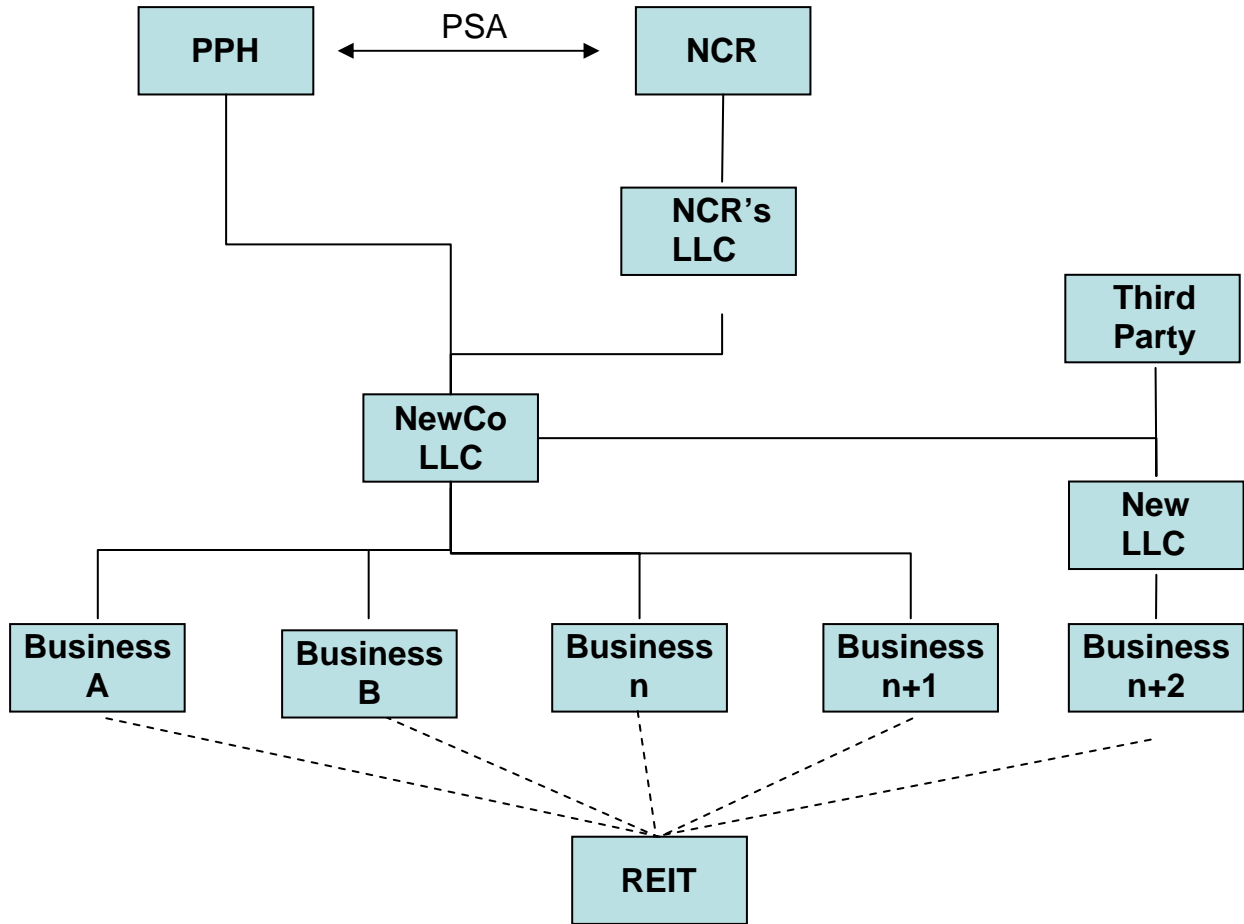
Interventional Pain Management – SDCVI  
488 E. Valley Parkway #214  
Escondido, CA 92025

PADNet Sites  
Office-based Physiological Testing for Peripheral Arterial Disease

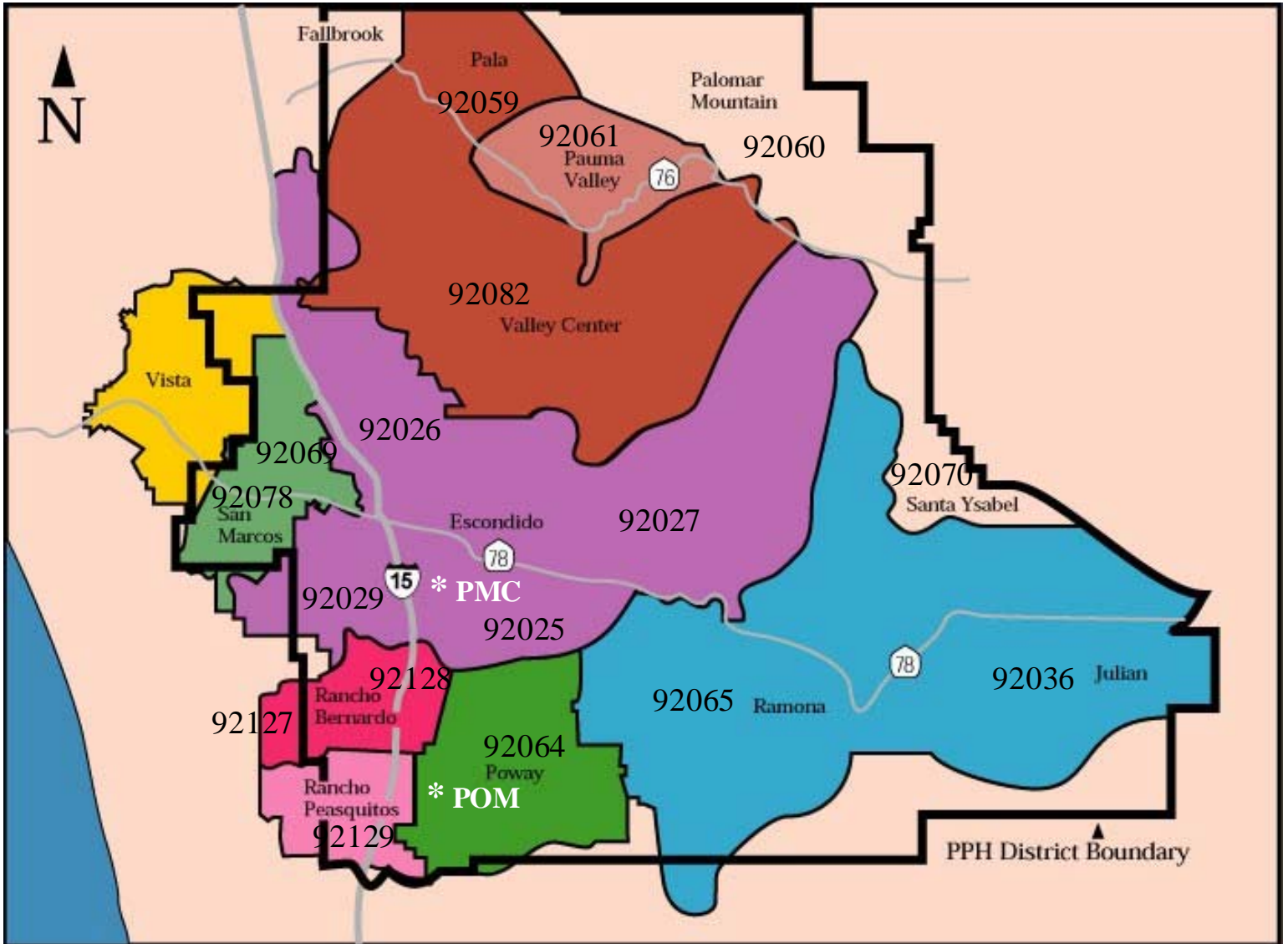
**EXHIBIT 1.32**  
**MEMBERS' OWNERSHIP INTERESTS**

	# of Units	Capital Contribution
<b>CLASS A MEMBERS</b>	50	
Imaging Services Associates, LLC		
<b>CLASS B MEMBERS</b>	50	
Palomar Pomerado Health 15255 Innovation Drive San Diego, California 92128 Attention: Legal Department Fax No.: (858) 675-5225		
with a copy of any notice given hereunder to:		
Palomar Pomerado Health 456 East Grand Ave Escondido, California 92125 Attention: Office of the CFO Fax No.: _____		

EXHIBIT 3.1  
Example Business Unit Model



**EXHIBIT 10.3**  
**Palomar Pomerado Health District**  
**Map**





**EXHIBIT 1.19**  
**Competing Business**  
**North County Radiology - Imaging Services Associates, LLC**  
**Exceptions**

Regents MRI  
4130 La Jolla Village Drive, Suite 101  
La Jolla, CA 92037

Regents Imaging  
3909 Waring Rd. Suite #C  
Oceanside, CA 92056

Advanced MRI & CT of Escondido  
255 N. Elm Street #102  
Escondido, CA 92025

Interventional and PET CT Center  
902 Sycamore Avenue  
Vista, CA 92081

TCMC Wellness Center Medical Office  
6260 El Camino Real  
Carlsbad, CA 92009

Interventional Pain Management – SDCVI  
488 E. Valley Parkway #214  
Escondido, CA 92025

PADNet Sites  
Office-based Physiological Testing for Peripheral Arterial Disease

# North County Radiology Joint Venture

July 14, 2009

Gerald Bracht - CAO  
Bob Hemker - CFO



PALOMAR  
POMERADO  
HEALTH  
SPECIALIZING IN YOU

# PPH – NCR

## Joint Venture Considerations

- Align objectives of the parties
- Sharing of upside and downside risk
- Expertise of the parties
- Link JV to Imaging Services PSA
- Single entity for management and oversight of portfolio businesses
- Flexibility investing and divesting
- Provide access for third parties
- Ease of administration



PALOMAR  
POMERADO  
HEALTH  
SPECIALIZING IN YOU

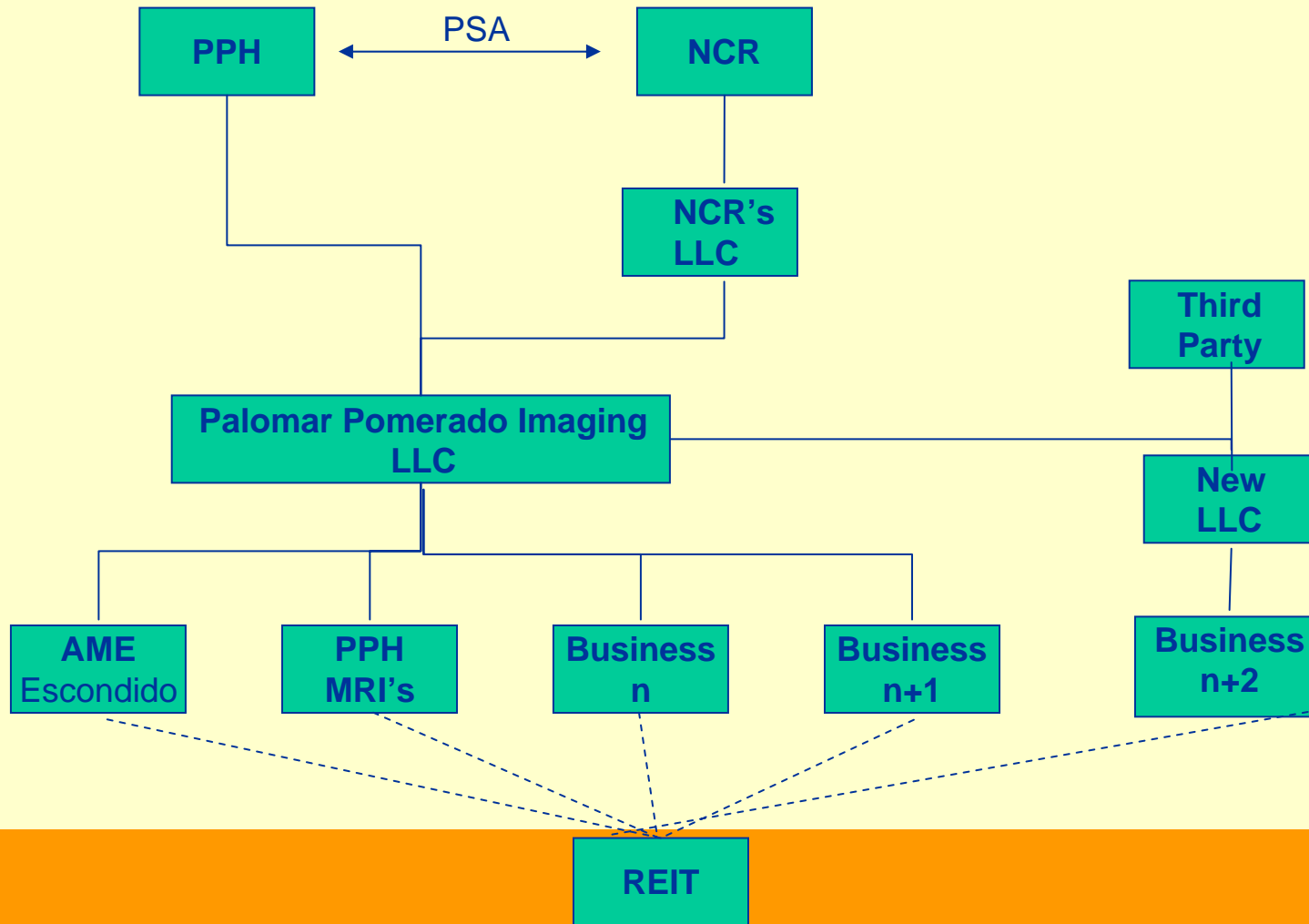
# PPH & NCR Joint Venture Business Unit Opportunities

- AME Imaging Center Escondido
  - ✓ 1.5T MRI
  - ✓ 4 slice CT (replace with 16 slice Philips PET/CT through Alliance Imaging)
  - ✓ Ultrasound
  - ✓ Mammography (not presently available)
  - ✓ Plain Film (not presently available)
  - ✓ Stereo taxis (not presently available)
- PMC MRI
- POM MRI
- POP Women's Center
  - ✓ Mammography
  - ✓ Ultrasound
- CHC Plain Film
- POP Imaging Center
- Vascular Institute
- PMC West OP Imaging
- Satellite Facilities (Ramona, Rancho Penasquitos, San Marcos)
- Medical Group Participation



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**Imaging Services  
Joint Venture Structure  
February 2009**



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# Questions?



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**ADD F-44**

# ADDENDUM G

# Financial Statement Graphs

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## *Statistical Indicators*

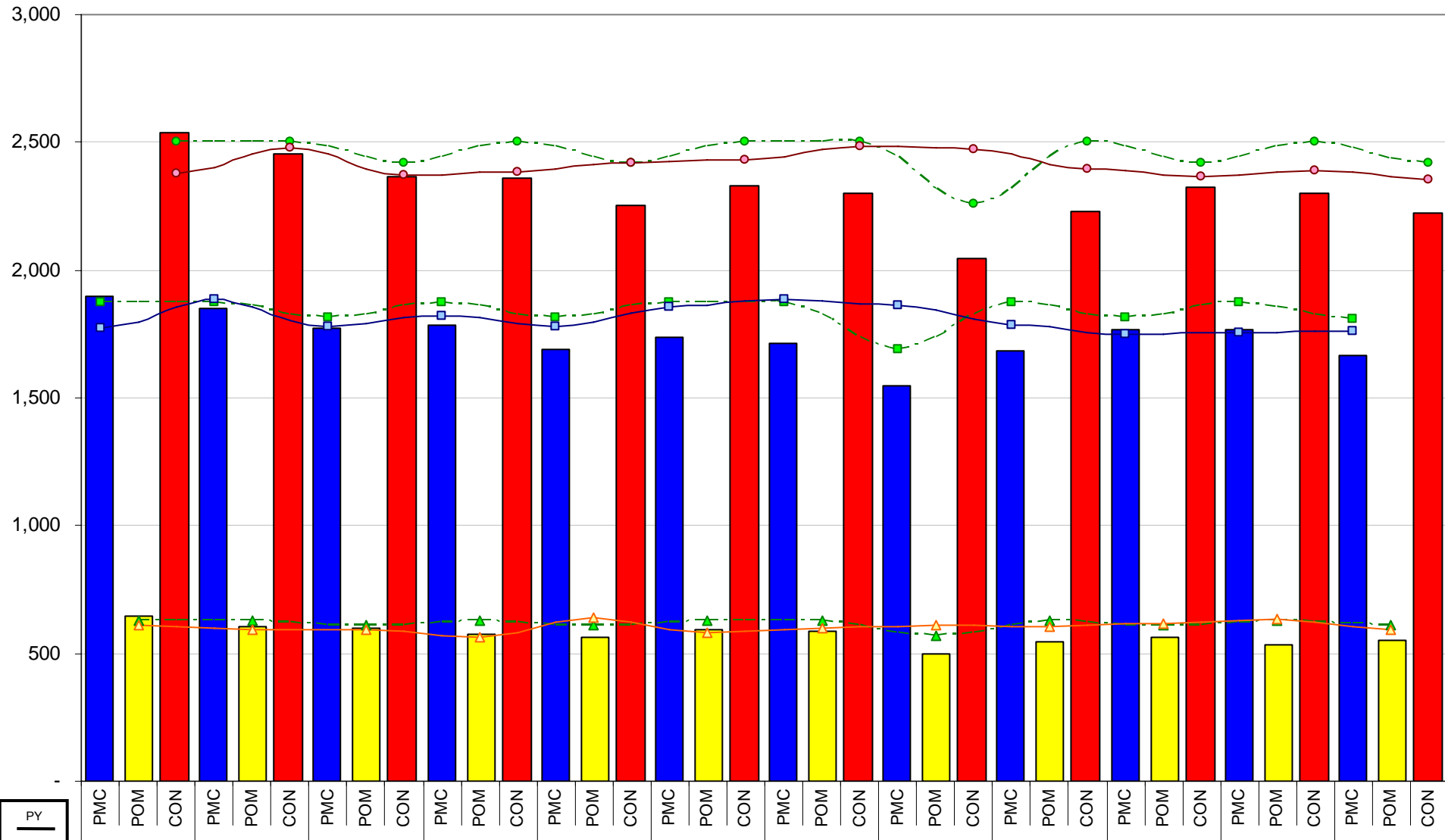


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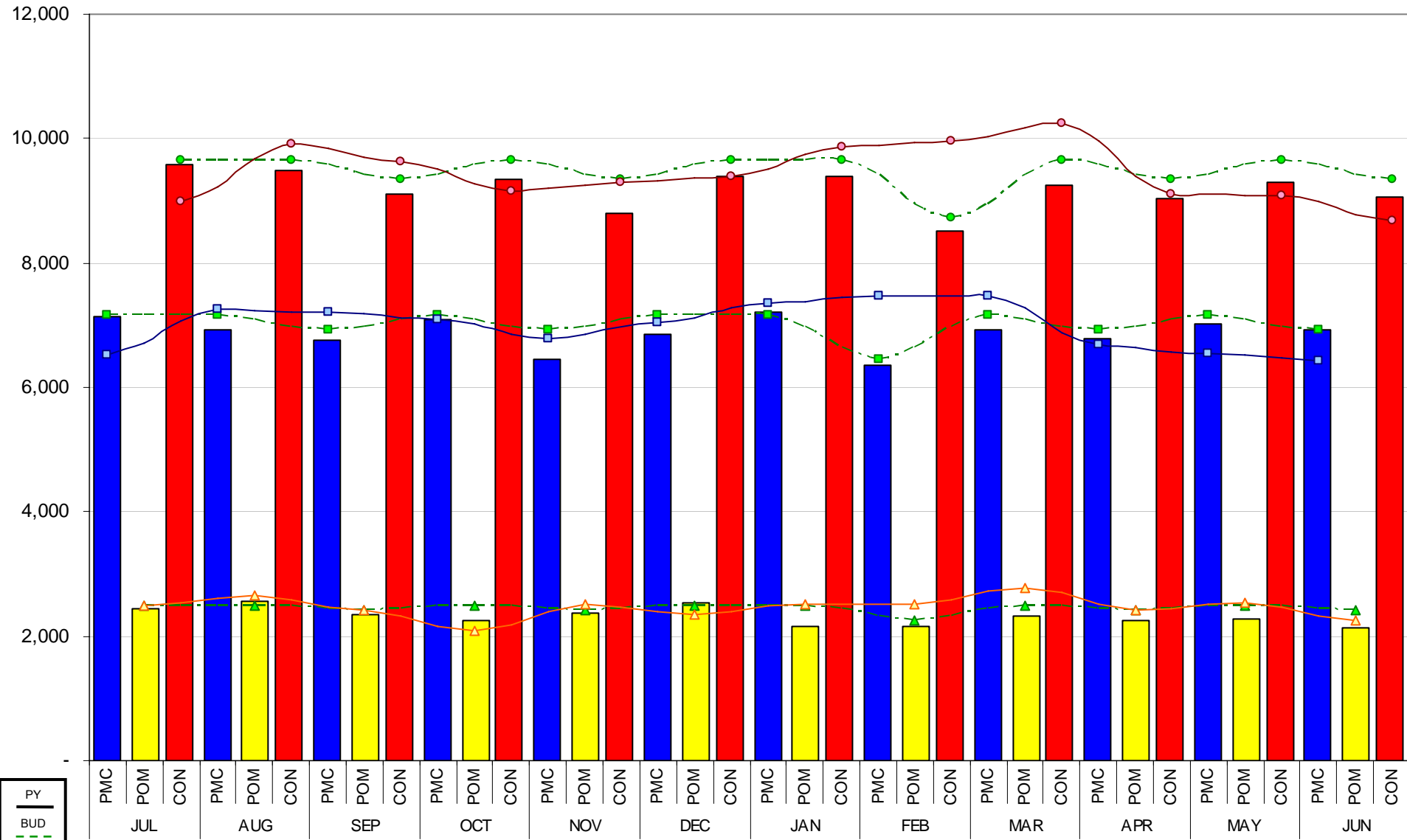
Statistical Indicators  
Admissions - Acute



PY  
BUD

	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	1,895	1,848	1,771	1,782	1,687	1,738	1,715	1,545	1,684	1,766	1,767	1,668	20,866	22,057
<b>POM</b>	645	606	596	575	566	592	584	500	546	561	534	554	6,859	7,397
<b>CON</b>	2,540	2,454	2,367	2,357	2,253	2,330	2,299	2,045	2,230	2,327	2,301	2,222	27,725	29,454

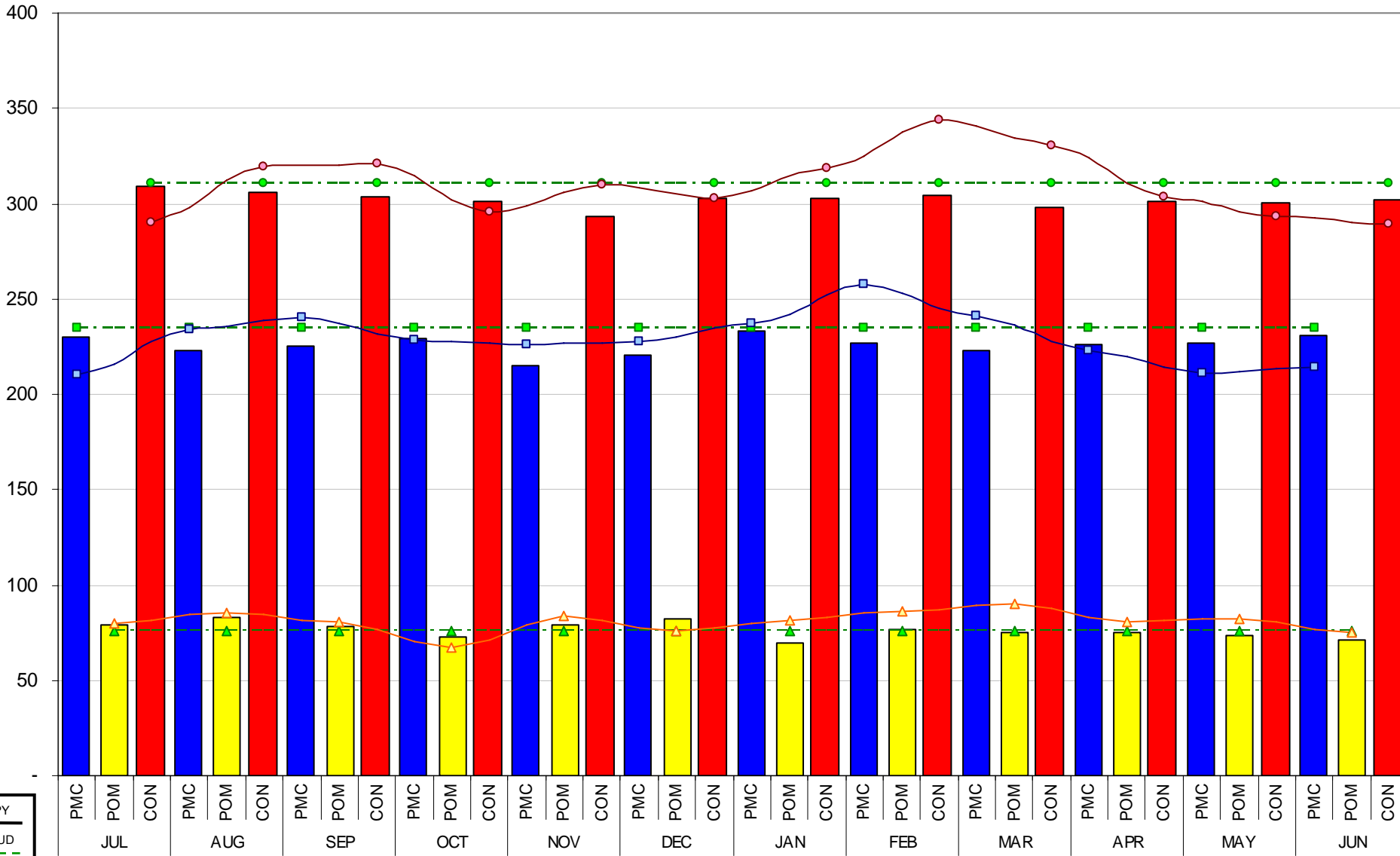
Statistical Indicators  
Patient Days – Acute



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	7,138	6,920	6,757	7,101	6,440	6,848	7,217	6,360	6,923	6,781	7,026	6,917	82,428	84,233
<b>POM</b>	2,449	2,571	2,341	2,244	2,362	2,549	2,164	2,152	2,319	2,246	2,282	2,140	27,819	29,423
<b>CON</b>	9,587	9,491	9,098	9,345	8,802	9,397	9,381	8,512	9,242	9,027	9,308	9,057	110,247	113,656

Statistical Indicators

Average Daily Census – Acute

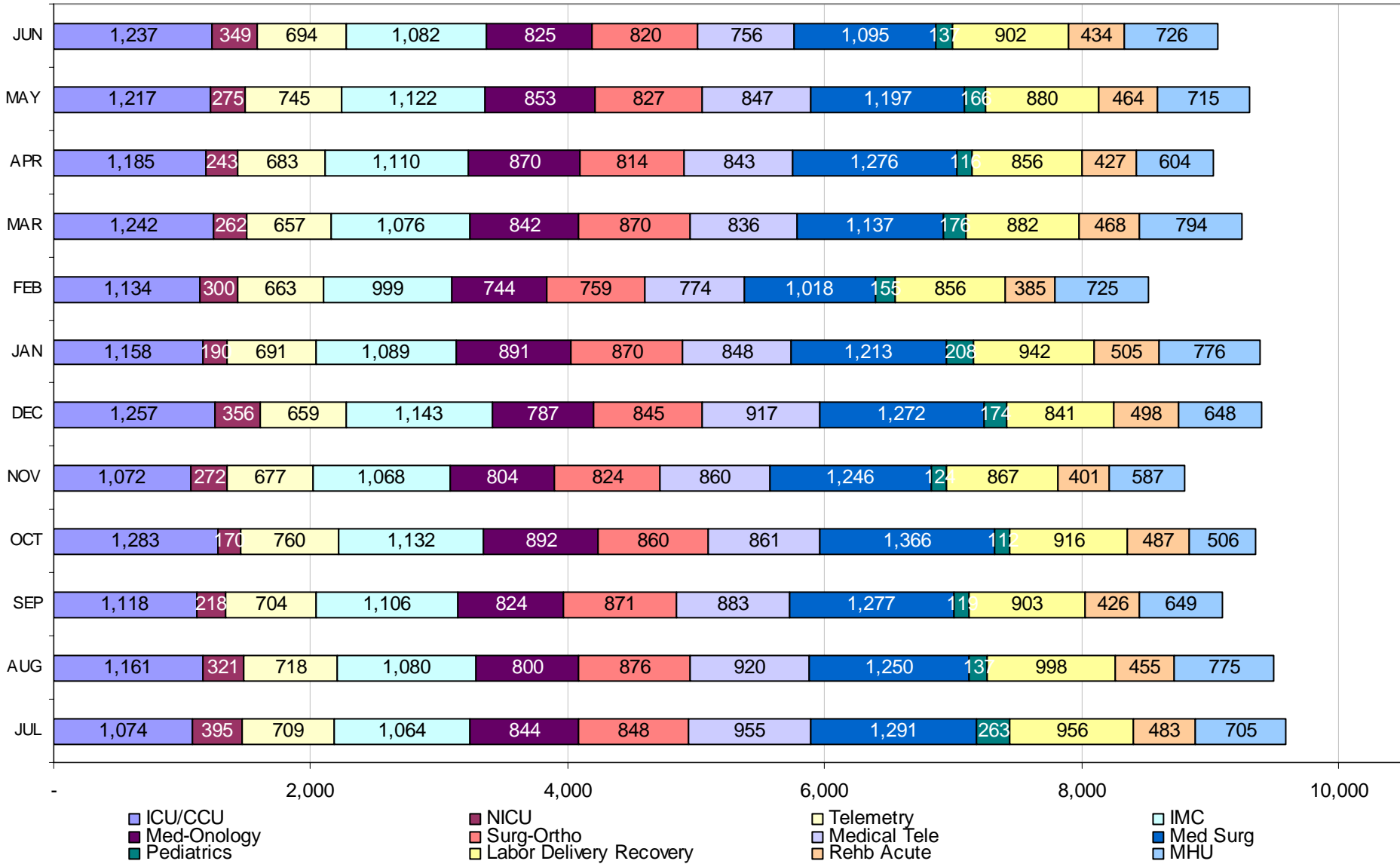


Legend:  
 PY (Actual Performance)  
 BUD (Budget)  
 - - - - - (Dashed line)  
 - - - - - (Solid line)

	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	230	223	225	229	215	221	233	227	223	226	227	231	226	231
<b>POM</b>	79	83	78	72	79	82	70	77	75	75	74	71	76	81
<b>CON</b>	309	306	303	301	293	303	303	304	298	301	300	302	302	312

Statistical Indicators

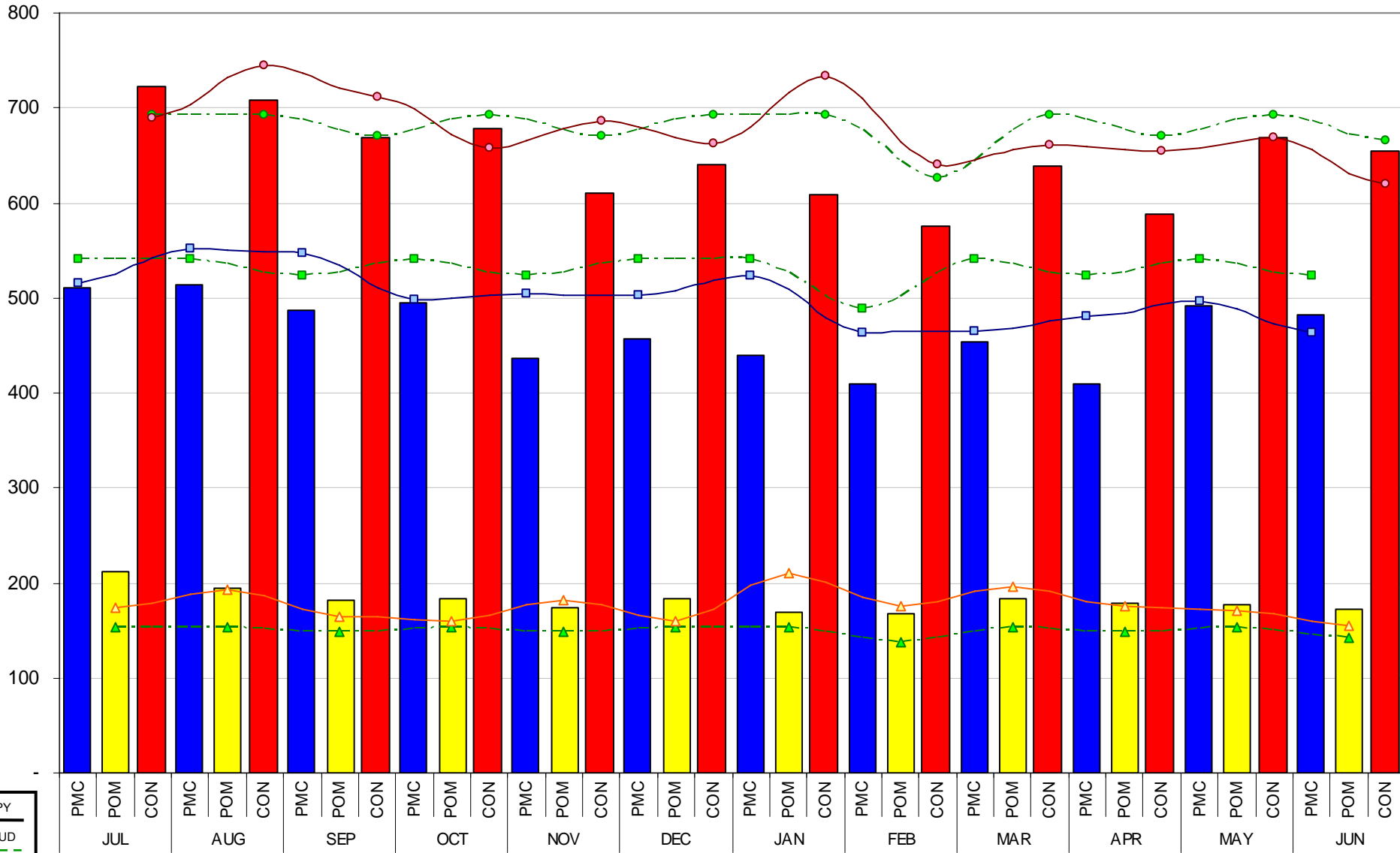
Patient Days



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	7,138	6,920	6,757	7,101	6,440	6,848	7,217	6,360	6,923	6,781	7,026	6,917	82,428	84,233
<b>POM</b>	2,449	2,571	2,341	2,244	2,362	2,549	2,164	2,152	2,319	2,246	2,282	2,140	27,819	29,423
<b>CON</b>	9,587	9,491	9,098	9,345	8,802	9,397	9,381	8,512	9,242	9,027	9,308	9,057	110,247	113,656

Statistical Indicators

Surgeries (Inpatient only)



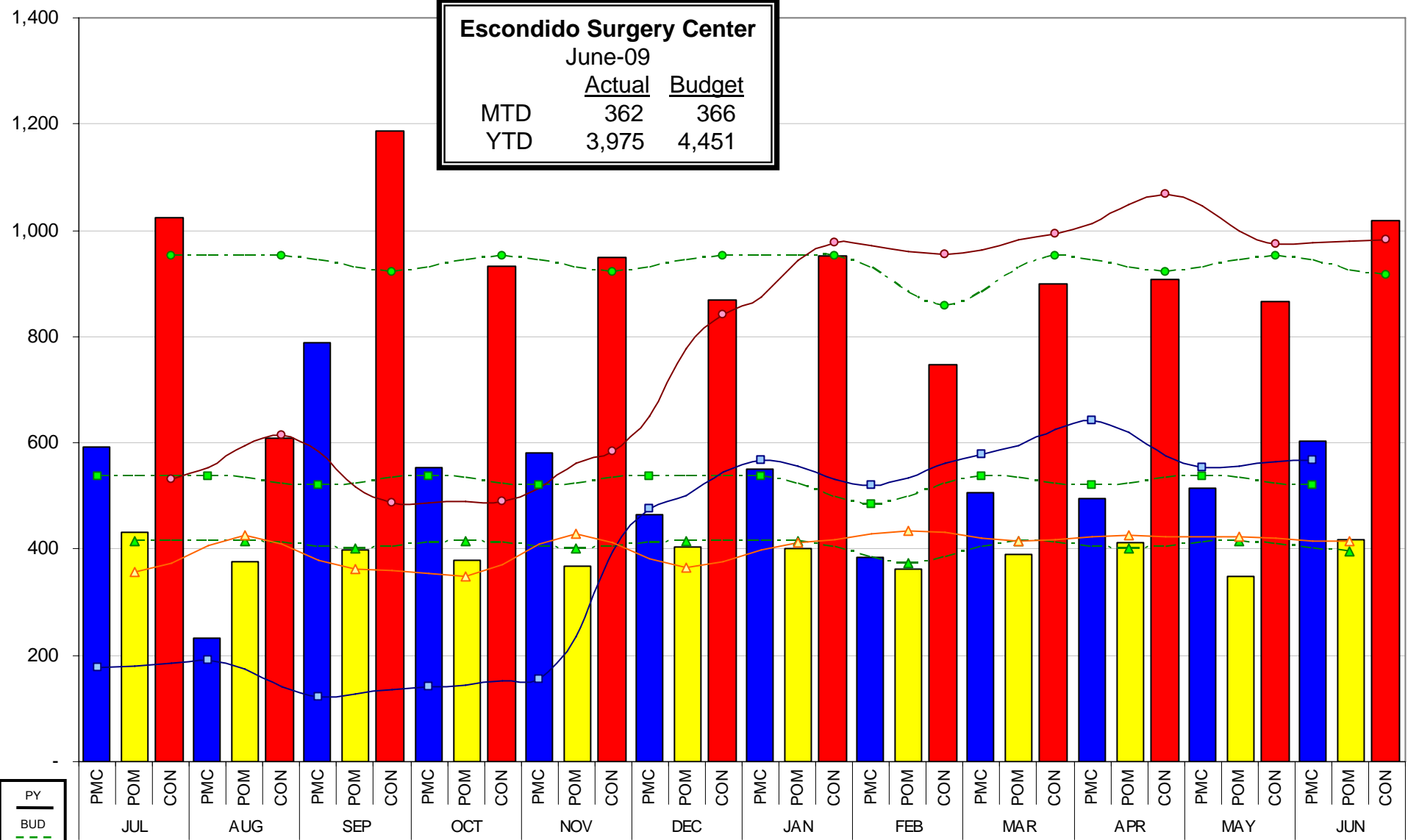
PY	(Blue Bar)
BUD	(Yellow Bar)

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
<b>PMC</b>	510	514	487	495	436	457	439	409	454	409	491	483	5,584	6,360
<b>POM</b>	212	195	182	184	174	184	169	167	184	179	177	172	2,179	1,795
<b>CON</b>	722	709	669	679	610	641	608	576	638	588	668	655	7,763	8,155

Statistical Indicators

Surgeries (Outpatient only)

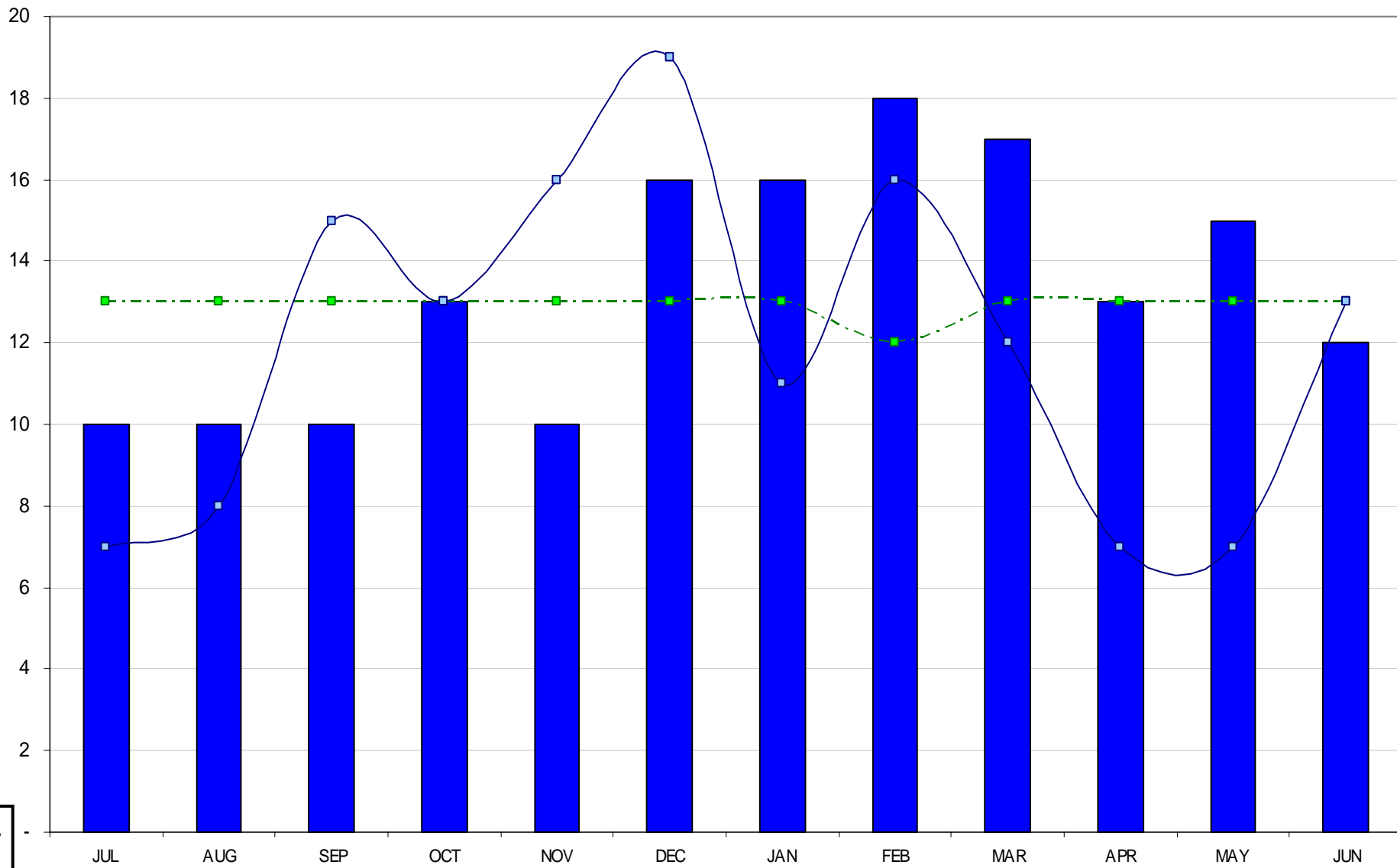
<b>Escondido Surgery Center</b>		
June-09		
	<u>Actual</u>	<u>Budget</u>
MTD	362	366
YTD	3,975	4,451



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	591	232	788	553	580	466	550	384	507	494	515	602	6,262	6,324
<b>POM</b>	432	376	399	380	368	404	401	363	391	413	350	417	4,694	4,878
<b>CON</b>	1,023	608	1,187	933	948	870	951	747	898	907	865	1,019	10,956	11,202

Statistical Indicators

Surgeries – CVS (PMC only)



PY  
BUD

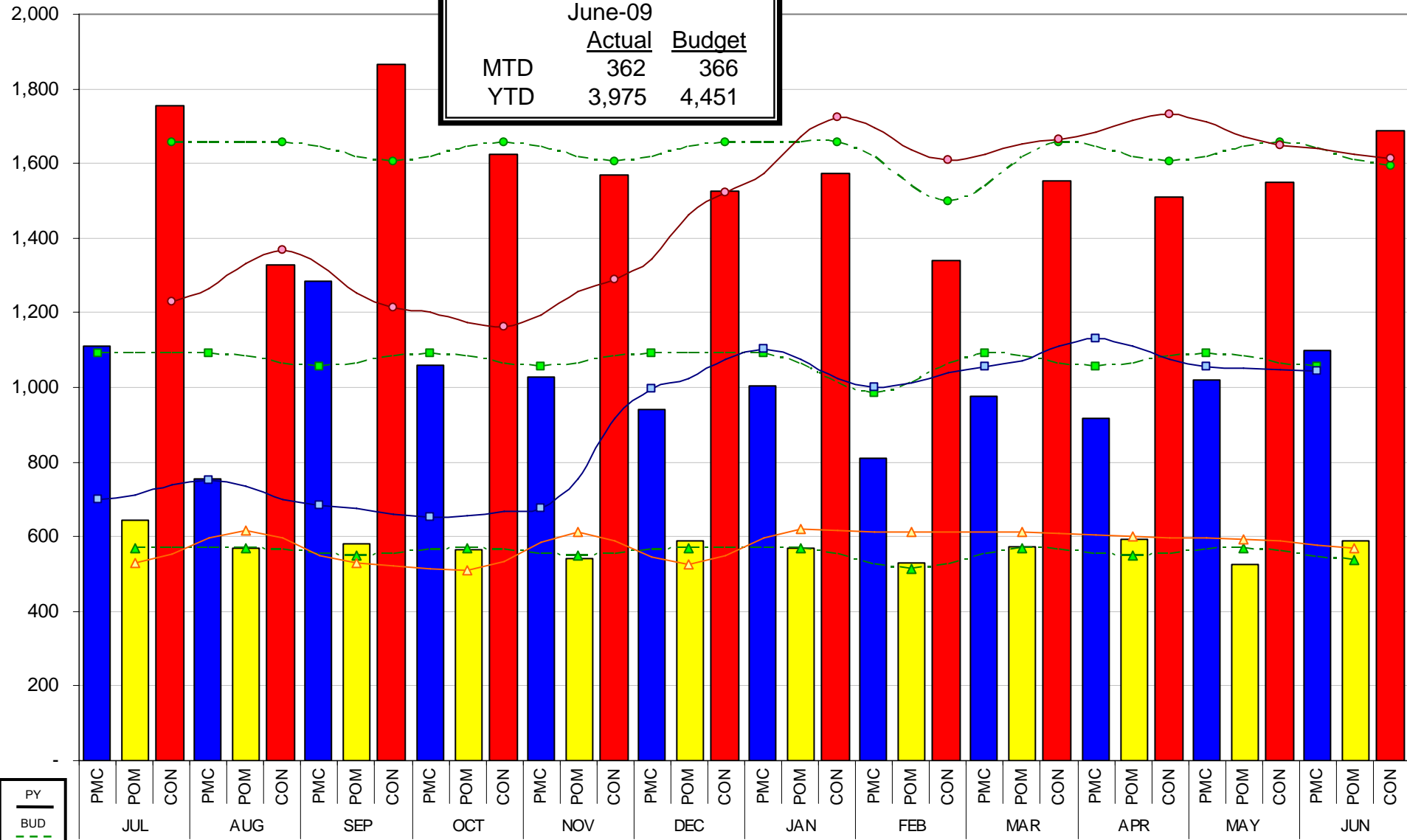
	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	10	10	10	13	10	16	16	18	17	13	15	12	160	155
<b>POM</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>CON</b>	10	10	10	13	10	16	16	18	17	13	15	12	160	155



Statistical Indicators

Total Surgeries

**Escondido Surgery Center**  
June-09  
Actual Budget  
MTD 362 366  
YTD 3,975 4,451

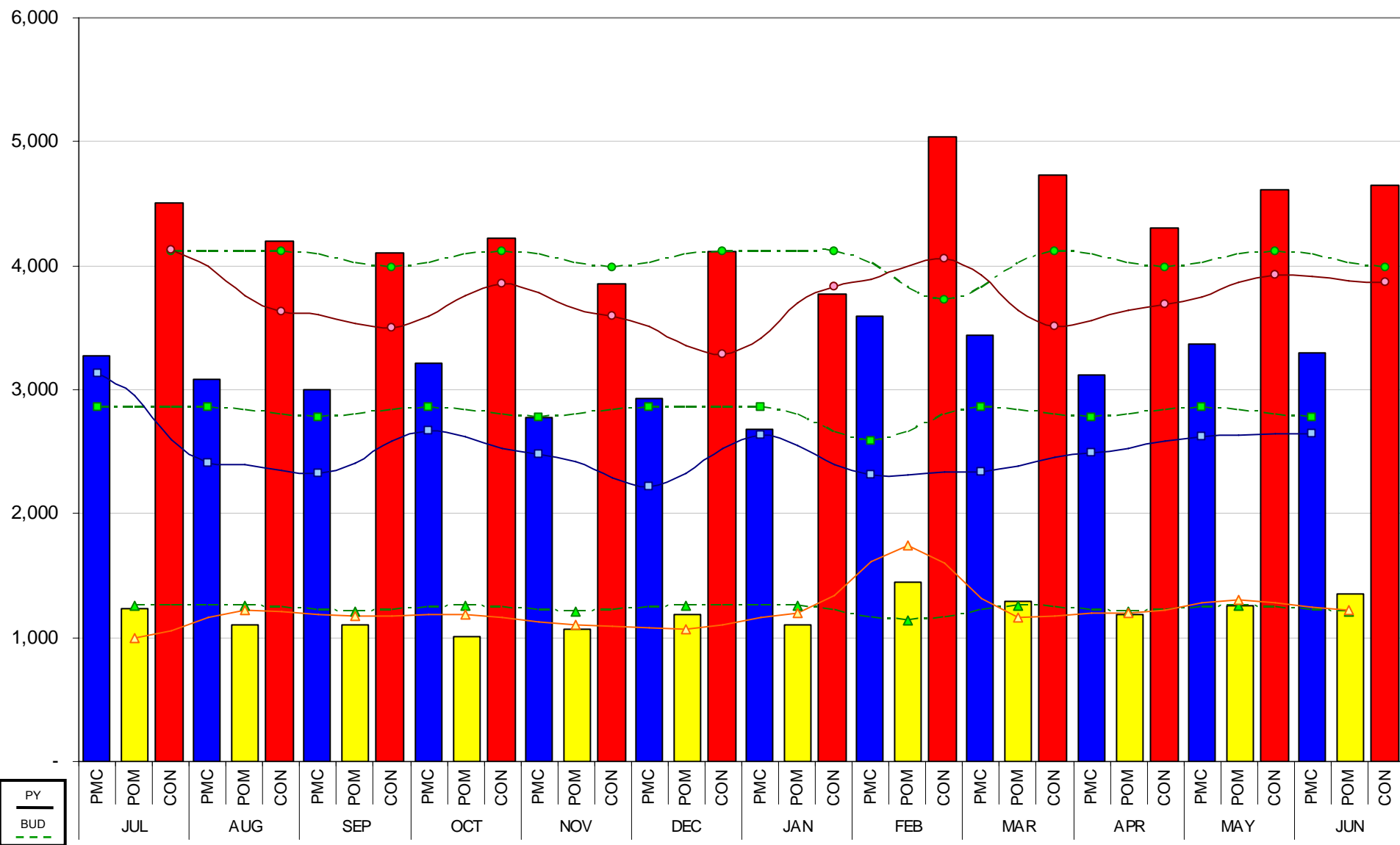


**PY**  
—  
**BUD**  
- - -

	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	1,111	756	1,285	1,061	1,026	939	1,005	811	978	916	1,021	1,097	12,006	12,839
<b>POM</b>	644	571	581	564	542	588	570	530	575	592	527	589	6,873	6,673
<b>CON</b>	1,755	1,327	1,866	1,625	1,568	1,527	1,575	1,341	1,553	1,508	1,548	1,686	18,879	19,512

Statistical Indicators

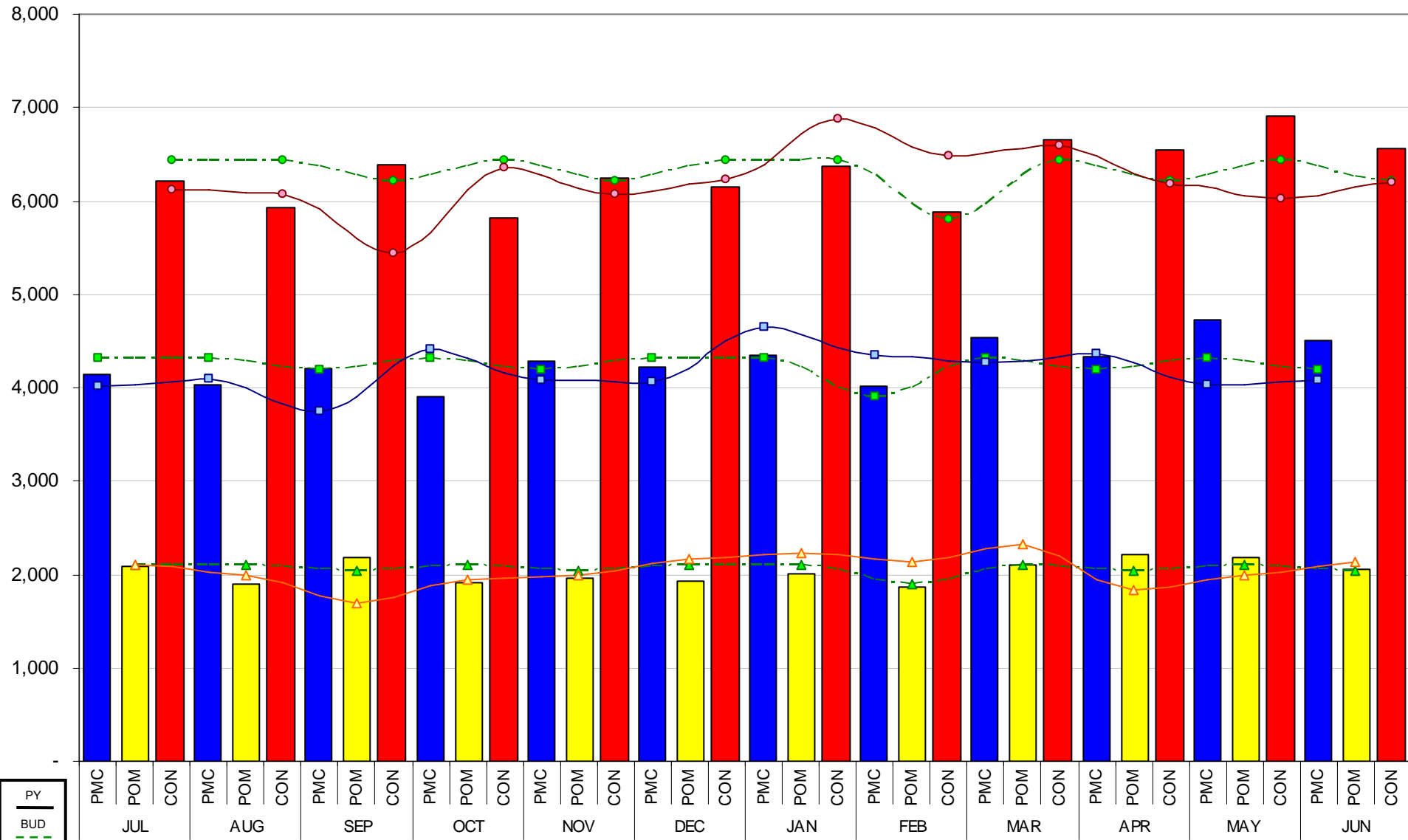
Outpatient Registrations (*excludes Lab*)



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	3,276	3,085	2,998	3,214	2,780	2,924	2,675	3,598	3,433	3,114	3,365	3,300	37,762	33,706
<b>POM</b>	1,231	1,108	1,101	1,013	1,069	1,190	1,100	1,441	1,298	1,189	1,253	1,349	14,342	14,786
<b>CON</b>	4,507	4,193	4,099	4,227	3,849	4,114	3,775	5,039	4,731	4,303	4,618	4,649	52,104	48,492

Statistical Indicators

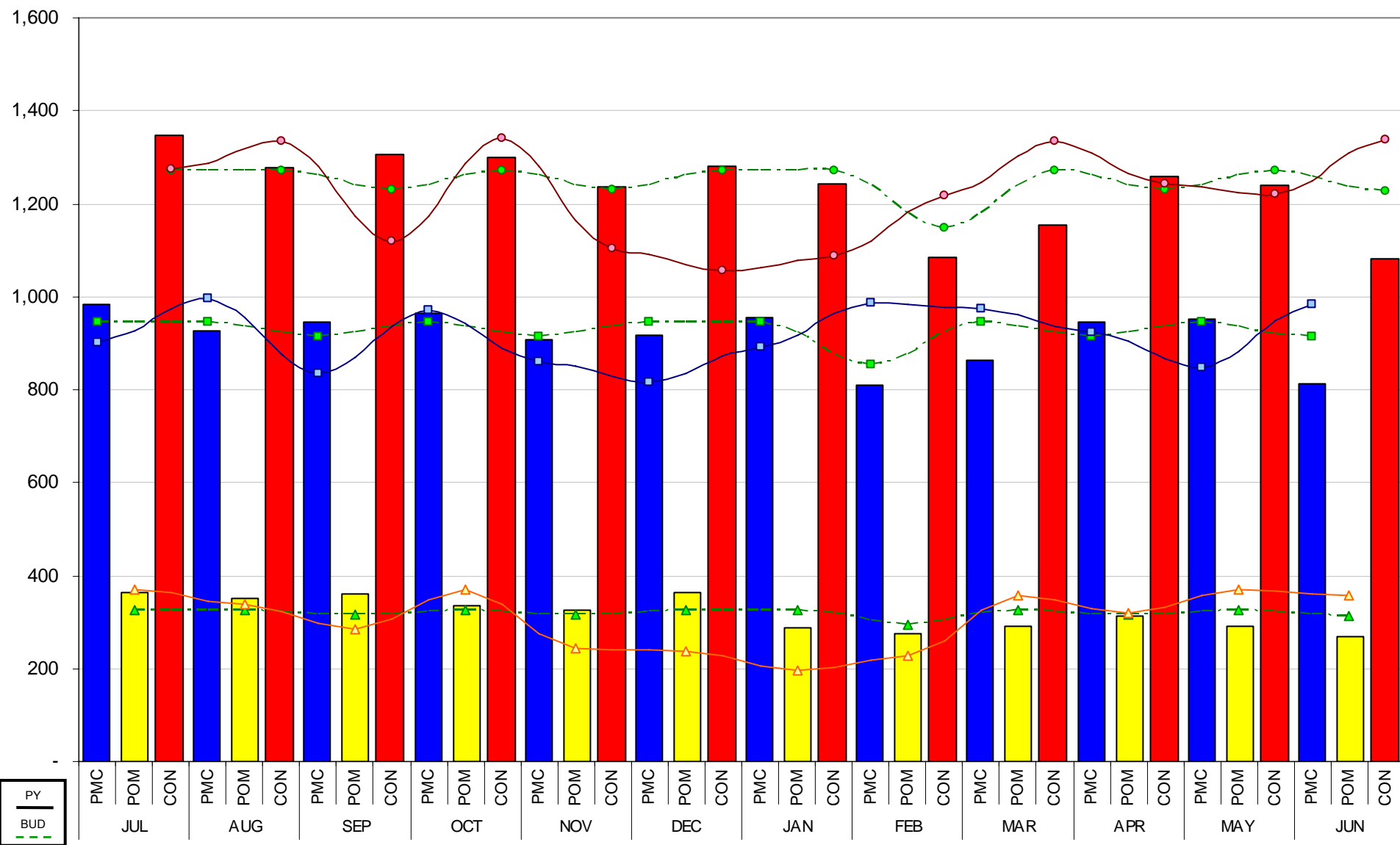
ER Visits (includes Trauma, Outpatient only)



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	4,137	4,032	4,199	3,910	4,291	4,215	4,350	4,010	4,542	4,332	4,725	4,506	51,249	50,888
POM	2,081	1,895	2,184	1,906	1,956	1,929	2,014	1,871	2,109	2,211	2,182	2,055	24,393	24,781
CON	6,218	5,927	6,383	5,816	6,247	6,144	6,364	5,881	6,651	6,543	6,907	6,561	75,642	75,669
CON/DAY	201	191	213	188	208	198	205	210	215	218	223	219	207	207

Statistical Indicators

ER Admissions (includes Trauma, Inpatient only)

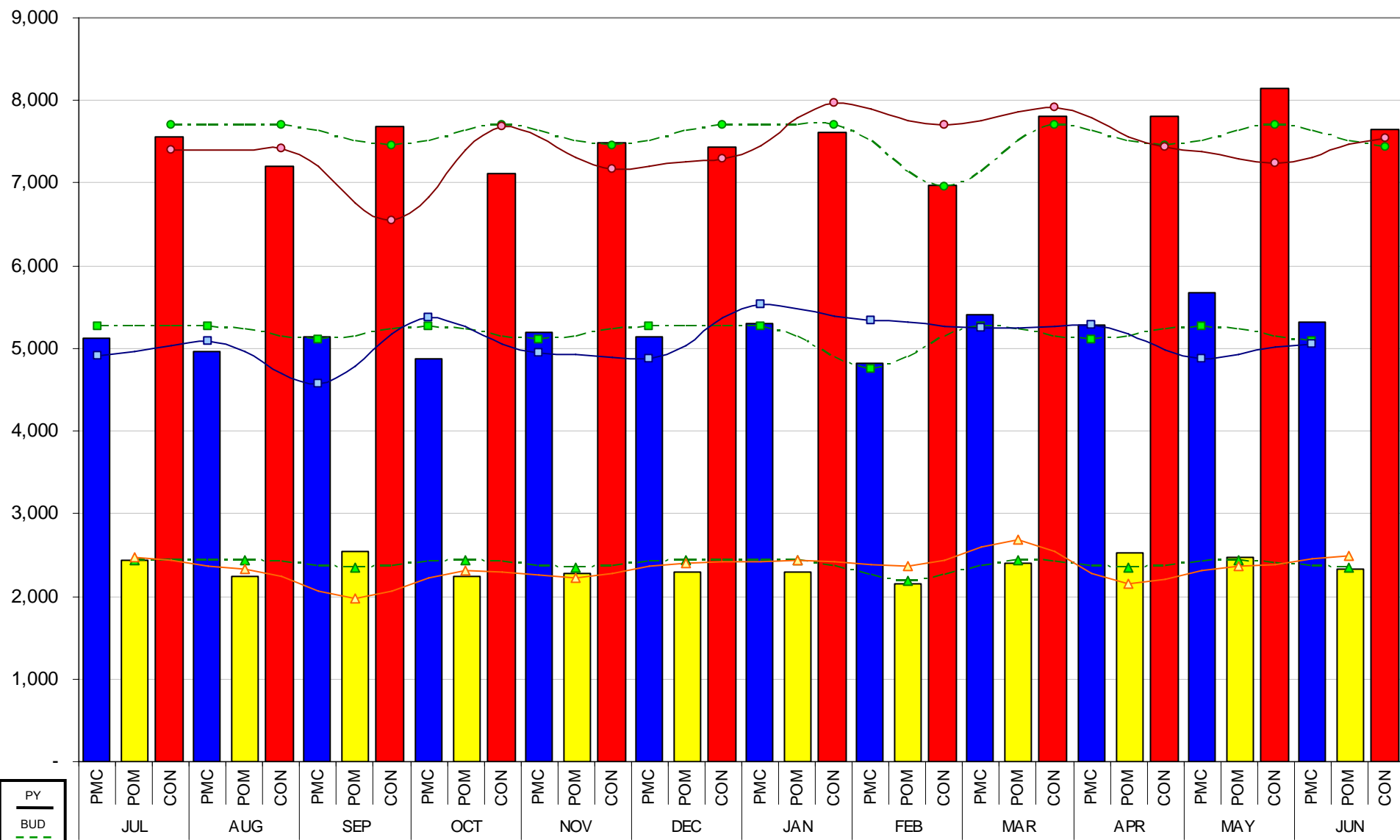


PY  
BUD

	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	982	925	945	964	908	918	955	811	863	944	951	813	10,979	11,123
<b>POM</b>	364	351	360	336	327	364	289	274	292	313	290	269	3,829	3,834
<b>CON</b>	1,346	1,276	1,305	1,300	1,235	1,282	1,244	1,085	1,155	1,257	1,241	1,082	14,808	14,957

Statistical Indicators

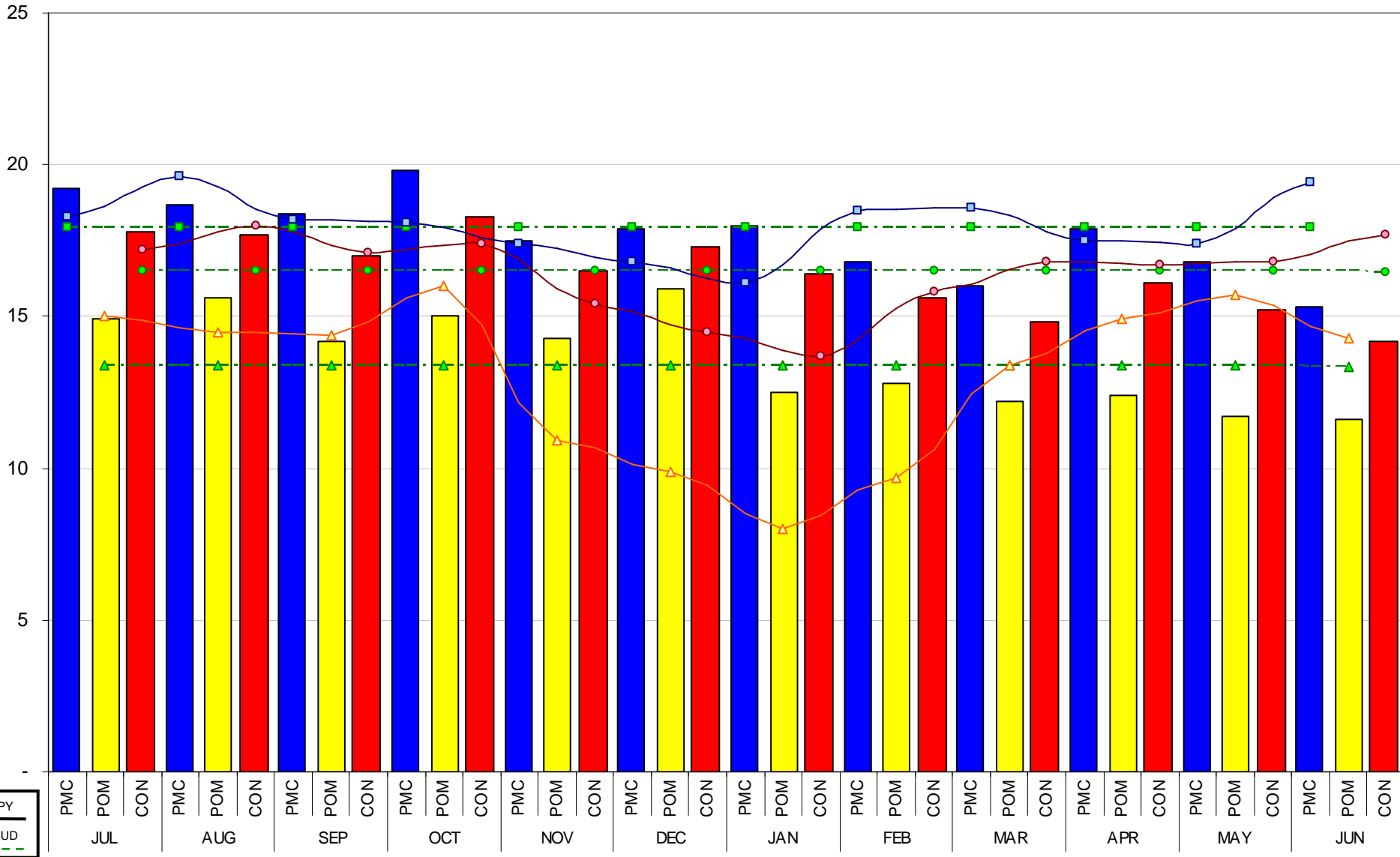
Total ER Visits (includes Trauma & Admissions)



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	5,119	4,957	5,144	4,874	5,199	5,133	5,305	4,821	5,405	5,276	5,676	5,319	62,228	62,011
<b>POM</b>	2,445	2,246	2,544	2,242	2,283	2,293	2,303	2,145	2,401	2,524	2,472	2,324	28,222	28,615
<b>CON</b>	7,564	7,203	7,688	7,116	7,482	7,426	7,608	6,966	7,806	7,800	8,148	7,643	90,450	90,626

Statistical Indicators

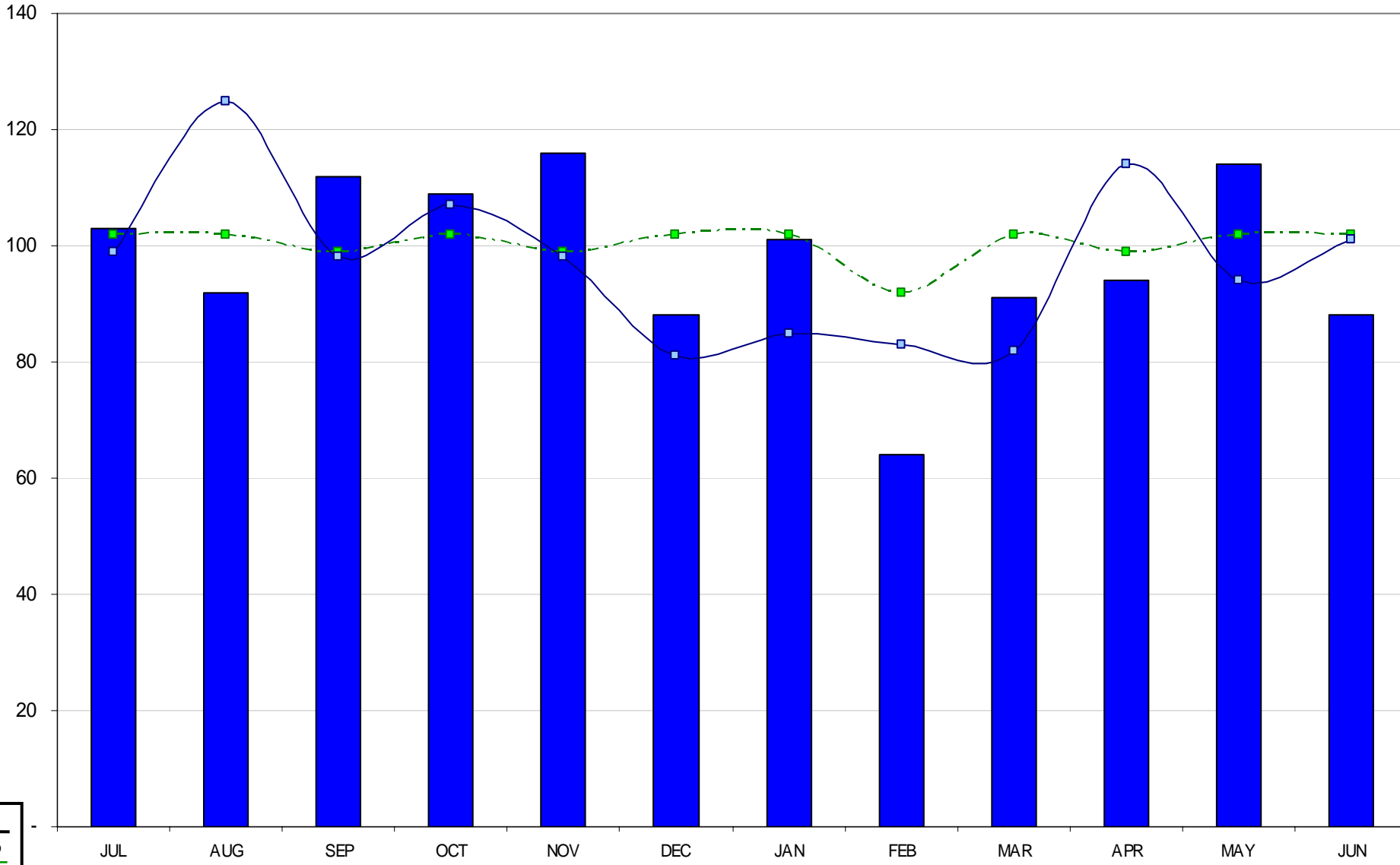
ER Conversion (ER Admits as % of ER Visits)



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	19.2	18.7	18.4	19.8	17.5	17.9	18.0	16.8	16.0	17.9	16.8	15.3	17.6	17.9
<b>POM</b>	14.9	15.6	14.2	15.0	14.3	15.9	12.5	12.8	12.2	12.4	11.7	11.6	13.6	13.4
<b>CON</b>	17.8	17.7	17.0	18.3	16.5	17.3	16.4	15.6	14.8	16.1	15.2	14.2	16.4	16.5

Statistical Indicators

Trauma Cases (PMC only)

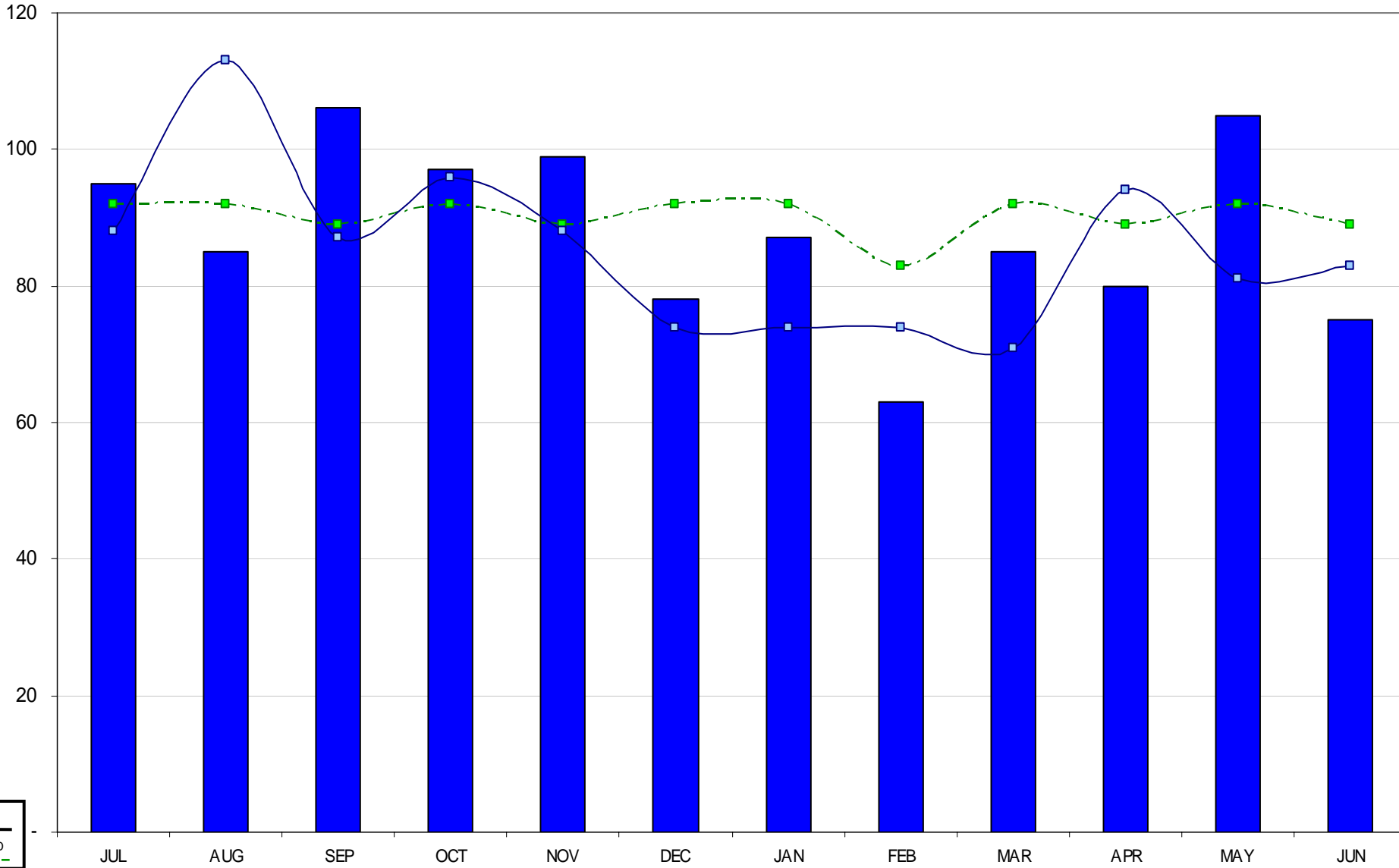


PY  
BUD

	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	103	92	112	109	116	88	101	64	91	94	114	88	1,172	1,205
<b>POM</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>CON</b>	103	92	112	109	116	88	101	64	91	94	114	88	1,172	1,205

Statistical Indicators

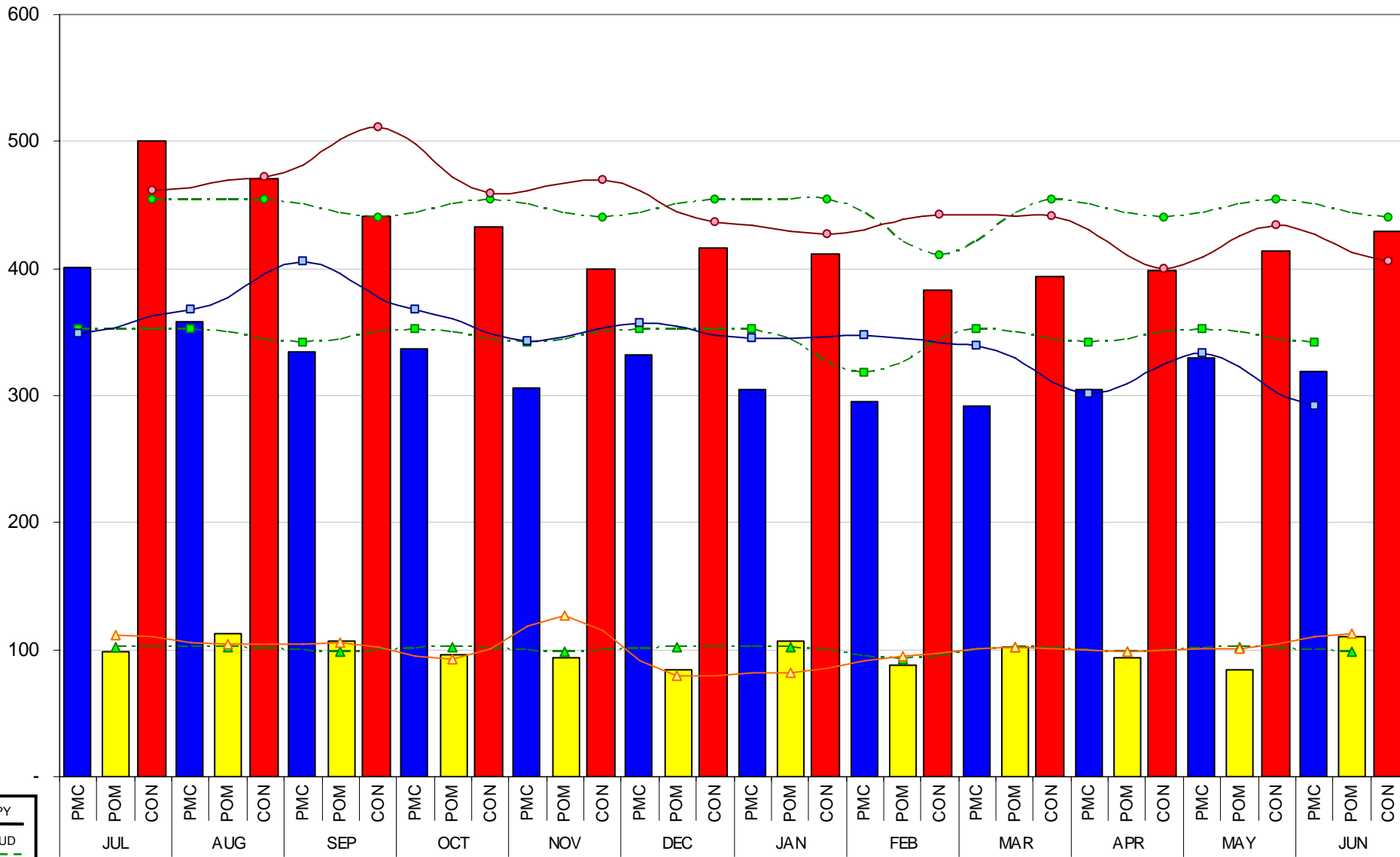
Trauma Admissions (PMC only)



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	95	85	106	97	99	78	87	63	85	80	105	75	1,055	1,083
<b>POM</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>CON</b>	95	85	106	97	99	78	87	63	85	80	105	75	1,055	1,083



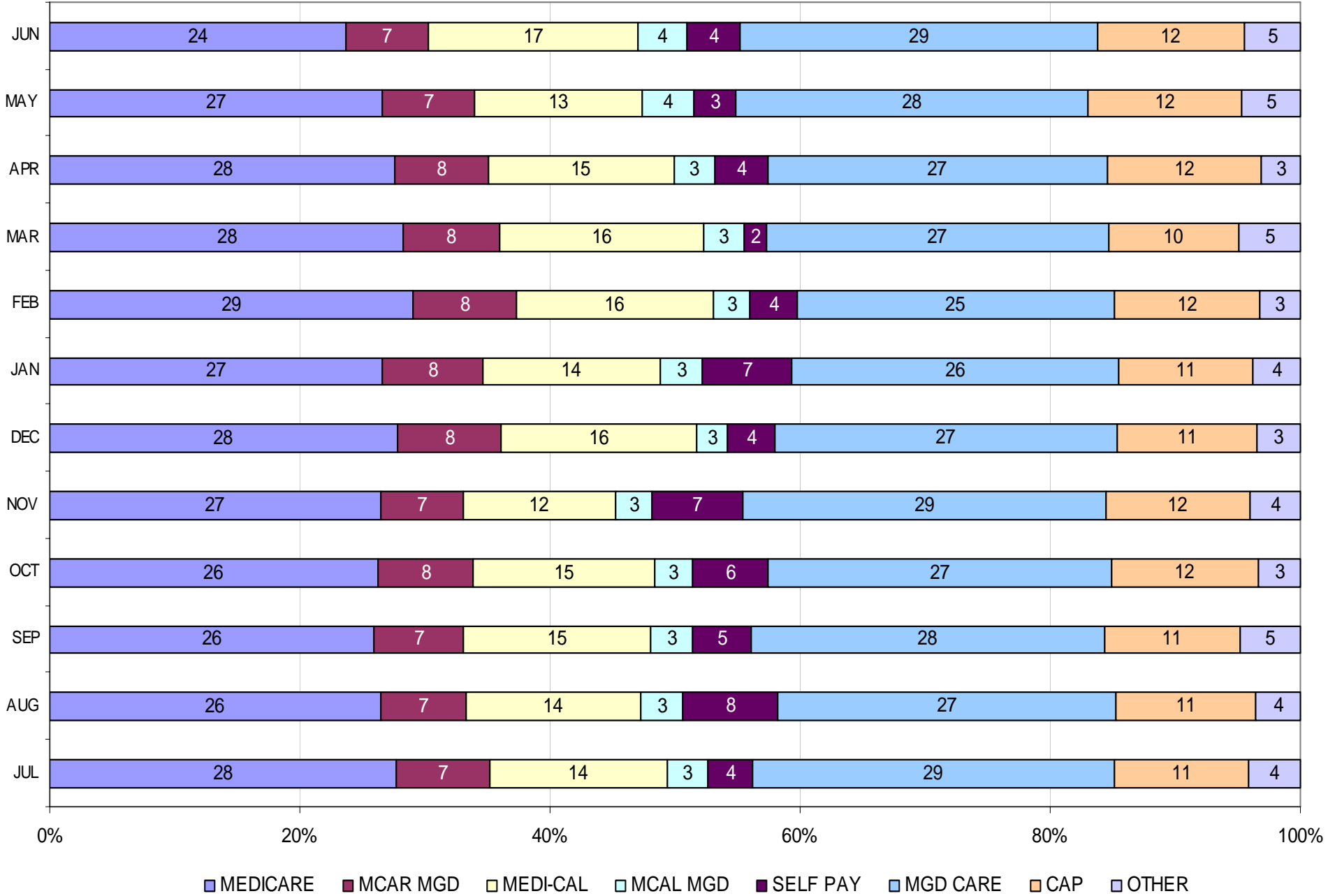
Statistical Indicators  
Deliveries



PY  
BUD

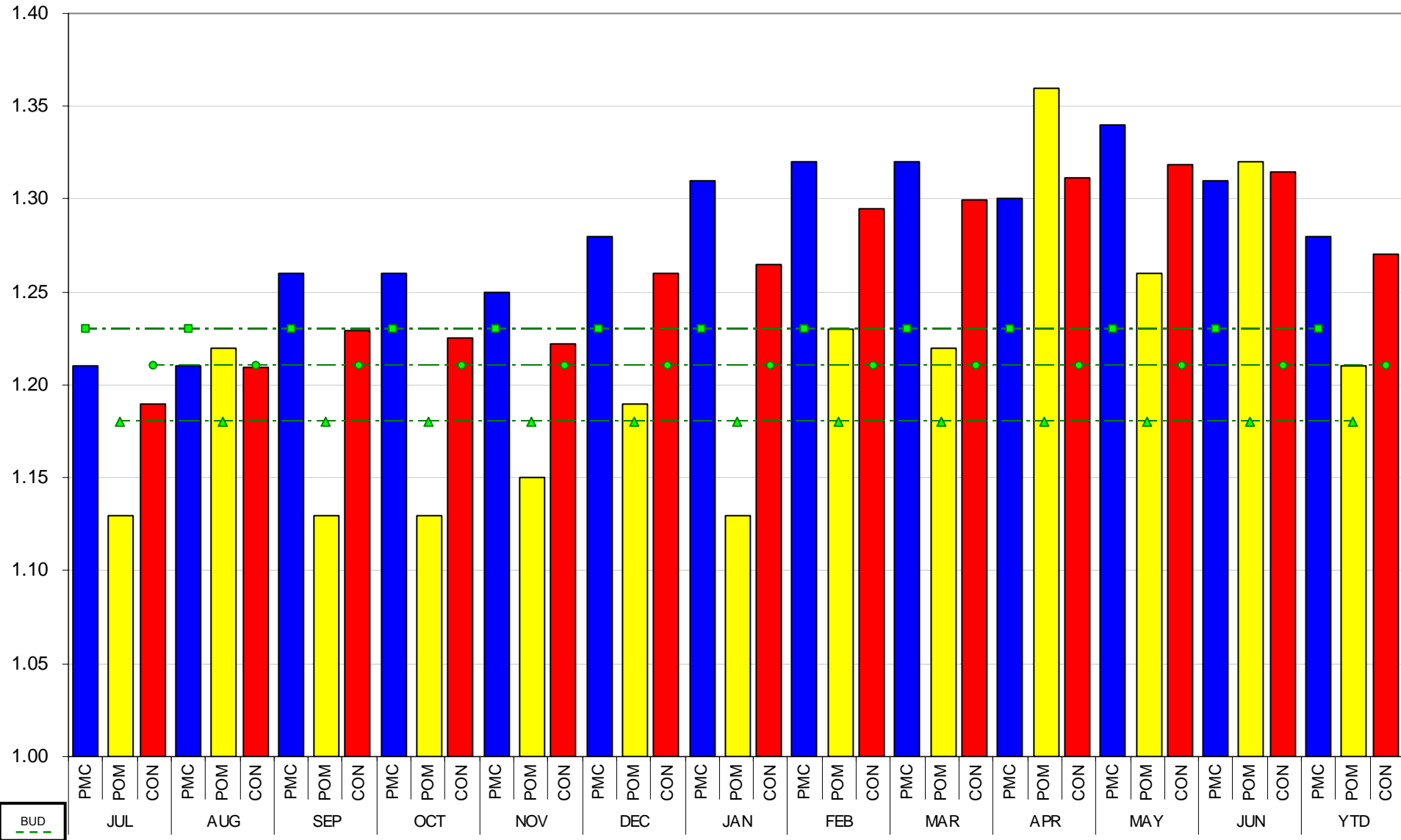
	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>	<u>B-YTD</u>
<b>PMC</b>	401	358	334	337	306	332	305	295	292	305	330	319	3,914	4,145
<b>POM</b>	99	113	107	96	94	84	107	88	102	94	84	110	1,178	1,202
<b>CON</b>	500	471	441	433	400	416	412	383	394	399	414	429	5,092	5,347

**Payor Mix  
Based on Gross Revenue**



Case Mix Index

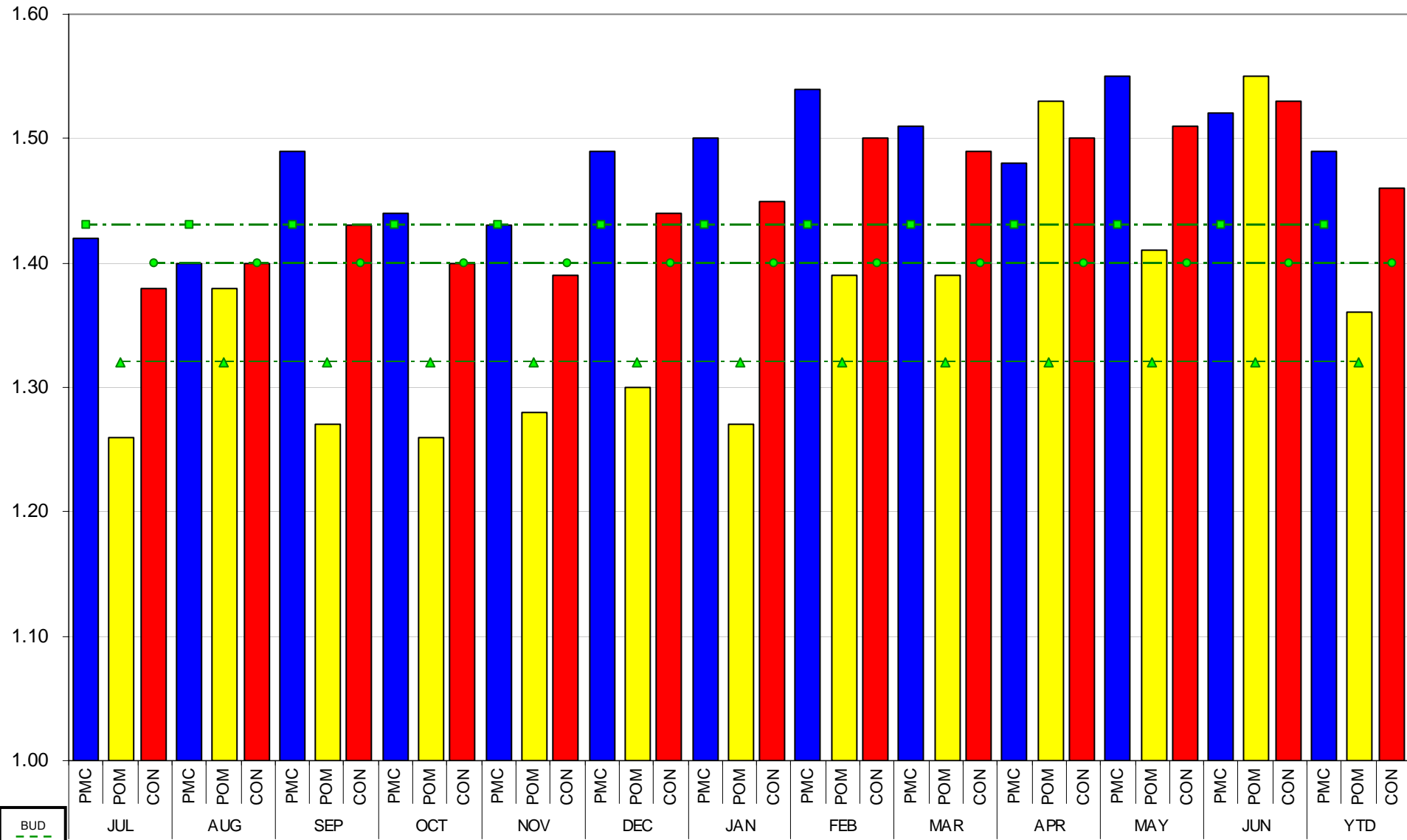
ADD G-20



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>
<b>PMC</b>	1.21	1.21	1.26	1.26	1.25	1.28	1.31	1.32	1.32	1.30	1.34	1.31	1.28
<b>POM</b>	1.13	1.22	1.13	1.13	1.15	1.19	1.13	1.23	1.22	1.36	1.26	1.32	1.21
<b>CON</b>	1.19	1.21	1.23	1.23	1.22	1.26	1.27	1.29	1.30	1.31	1.32	1.31	1.27

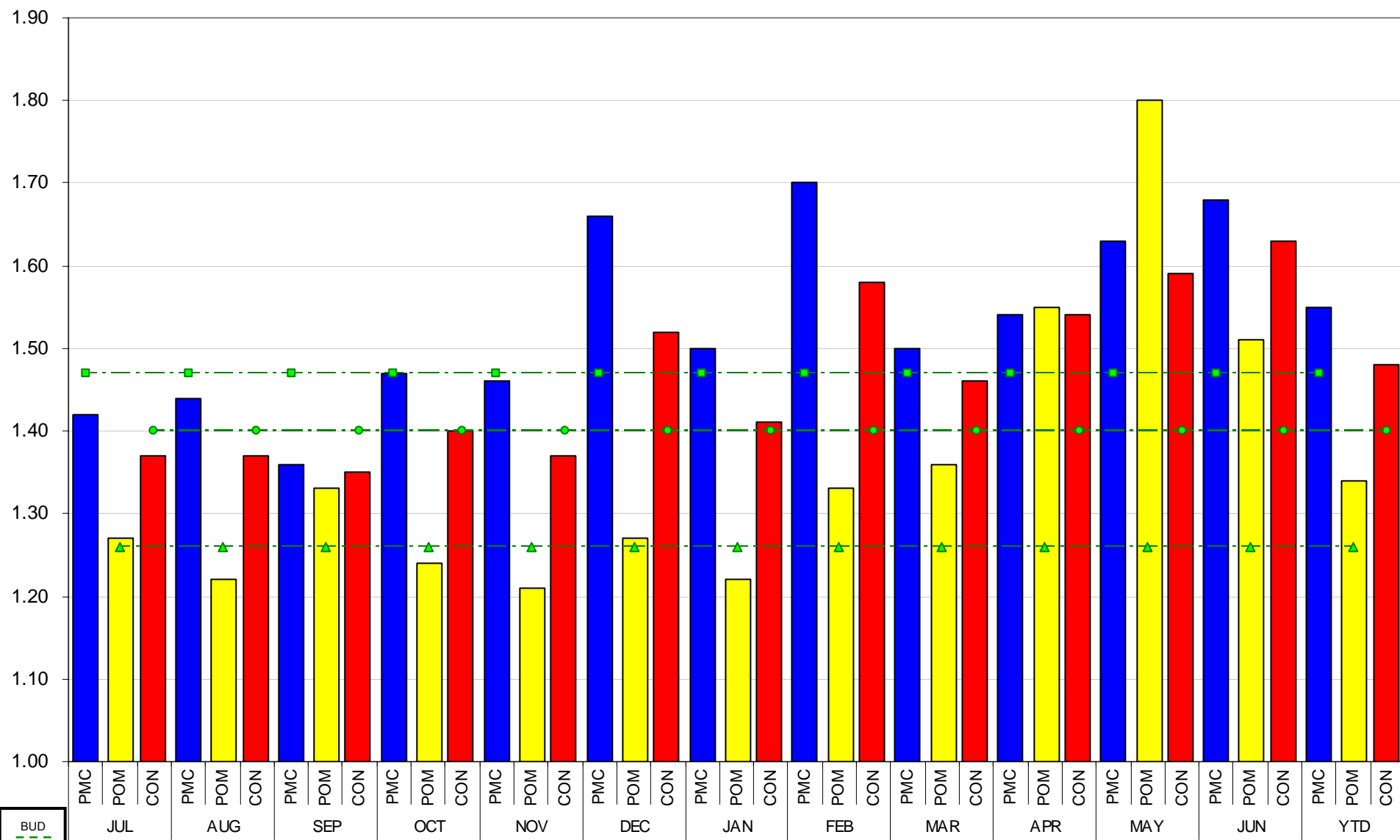
# Case Mix Index by Region

(excludes Deliveries)



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>
<b>PMC</b>	1.42	1.40	1.49	1.44	1.43	1.49	1.50	1.54	1.51	1.48	1.55	1.52	1.49
<b>POM</b>	1.26	1.38	1.27	1.26	1.28	1.30	1.27	1.39	1.39	1.53	1.41	1.55	1.36
<b>CON</b>	1.38	1.40	1.43	1.40	1.39	1.44	1.45	1.50	1.49	1.50	1.51	1.53	1.46

Case Mix Index by Region  
Medicare



	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>YTD</u>
<b>PMC</b>	1.42	1.44	1.36	1.47	1.46	1.66	1.50	1.70	1.50	1.54	1.63	1.68	1.55
<b>POM</b>	1.27	1.22	1.33	1.24	1.21	1.27	1.22	1.33	1.36	1.55	1.80	1.51	1.34
<b>CON</b>	1.37	1.37	1.35	1.40	1.37	1.52	1.41	1.58	1.46	1.54	1.59	1.63	1.48