



# FY2023 Annual Operating and Capital Plan

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Board of Directors Budget Presentation

June 14, 2022



# Agenda

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## **Executive Summary**

### **FY2023 Budget Overview:**

- Key Plan Drivers | Inflationary Assumptions

### **Key Statistical / Growth Indicators**

#### **Revenue:**

- Key Revenue Assumptions / Payor Mix
- Revenue Trend Analysis

#### **Salaries, Wages, Benefits & FTEs:**

- Salary, Benefits, and FTE Trend Analysis

#### **Non Labor Analysis:**

- Supplies | Professional Fees | Purchased Services | Other Direct Expense

### **FY2023 Annual Budget Summary / EBIDA Recap**

### **Three-Year Capital Plan**

### **Five-Year Financial Projections**

# Executive Summary

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The FY2023 budget provides a plan to meet the current healthcare needs of the district in a post-pandemic environment, while incorporating strategic growth to prepare for future demands. The plan:

- Supports achievement of the five-year financial and capital plan as well as current and long-term strategic plan objectives
- Incorporates continued return of demand for services as the impact of COVID begins to stabilize
- Targets EBIDA of \$123 million, with growth of \$17 million from current projected FY2022 performance
- Continues deployment of capital resources to expand key services and maintain existing facilities
- Identifies expense management initiatives designed to support the long-term goal of cost alignment with Medicare reimbursement models
- Maintains focus on key organizational goals regarding clinical excellence, outcomes, and patient satisfaction

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# FY2023 Budget – Key Drivers & Overview

# Key Plan Drivers

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- Strategic Plan alignment including year-over-year EBIDA improvement, which is consistent with the long-range financial and capital plan targets
- Volume projections that include targeted growth as well as adjustments in demand as the community adapts to a “new normal”
- Strategic focus on meeting the local healthcare needs of the community
- Continued expansion of key service lines including Behavioral Health, Women’s Services, Oncology, Spine, Orthopedics, and Cardiology
- Unprecedented supply and drug inflation, partially offset by strategic expense management initiatives
- Increased staffing needs to support throughput and patient experience initiatives, as well as increased patient volumes
- Reimbursement pressures driven by industry relationships and shifting payor mix, offset by reimbursement enhancement strategies that yield rate increases consistent with annual expense inflation

# Inflationary Assumptions

- FY2023 budget incorporates the nation-wide trend of higher than normal inflation, as a reflection of the uncertainty in global supply chains
- Several initiatives offset inflationary increases through either improved documentation to ensure full revenue capture or contract renegotiation to control expenses

Healthcare Industry Inflation Comparison

Category / Expense	FY2023 Budget	Industry Expectation
Implants	2.0%	0-8%
General Surgery Supplies	3.0%	3-5%
Surgical Needles & Packs	0-4%	0-6%
Oxygen – Gas	10.0%	8-16%
IV Solutions	7.0%	4-10%
Pharmaceuticals	5.5%	5-10%
Radioactive and X-Ray Material	1-2%	5-7%
Other Medical	3.0%	0-12%
Food	3.0%	2-5%
Linen	1.0%	5-10%
All Other: Cleaning, Forms, Office, Uniforms	3-18%	0-21%

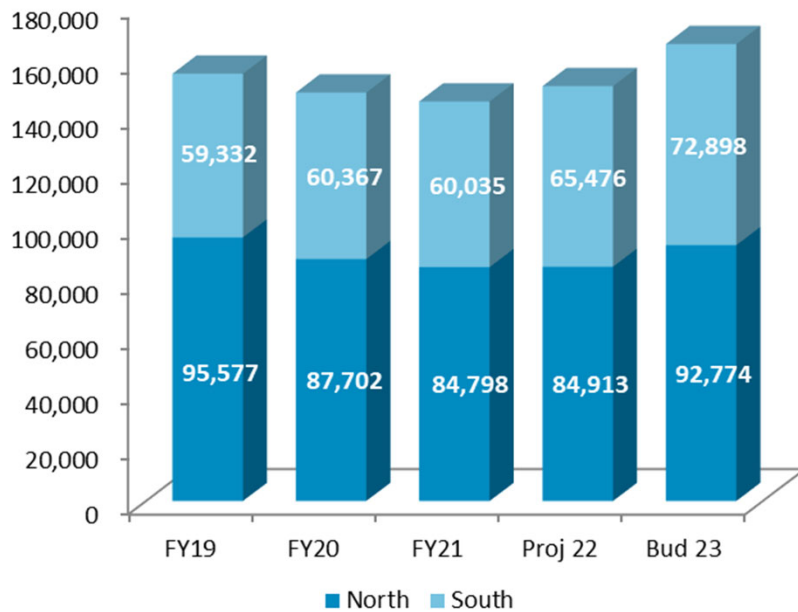
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# Key Statistical Indicators

# Key Statistical Indicators | Inpatient

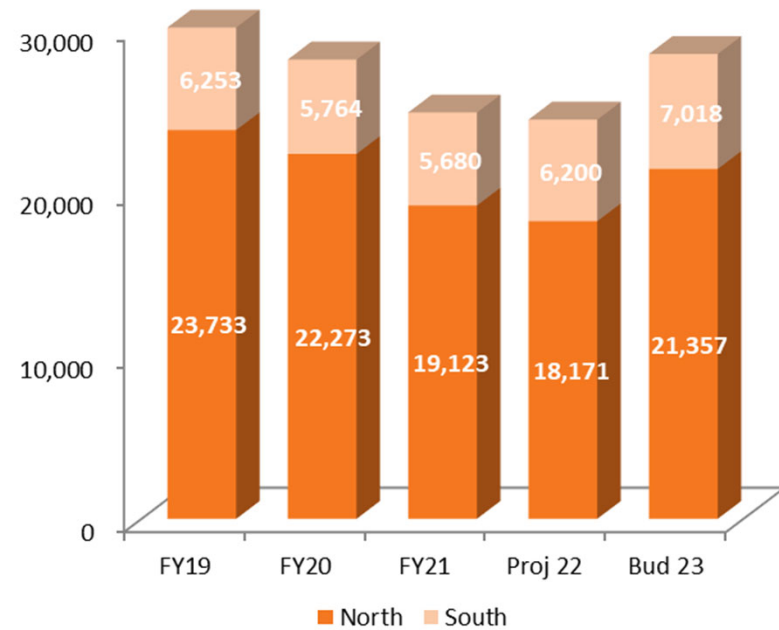
## Total Patient Days (Incl. SNF)

FY2023 planned patient days are increasing by 10.2% due to growth initiatives and returning demand for emergency services



## Total Discharges (Incl. SNF)

FY2023 discharges are increasing by 4,004, or 16.4%, year-over-year

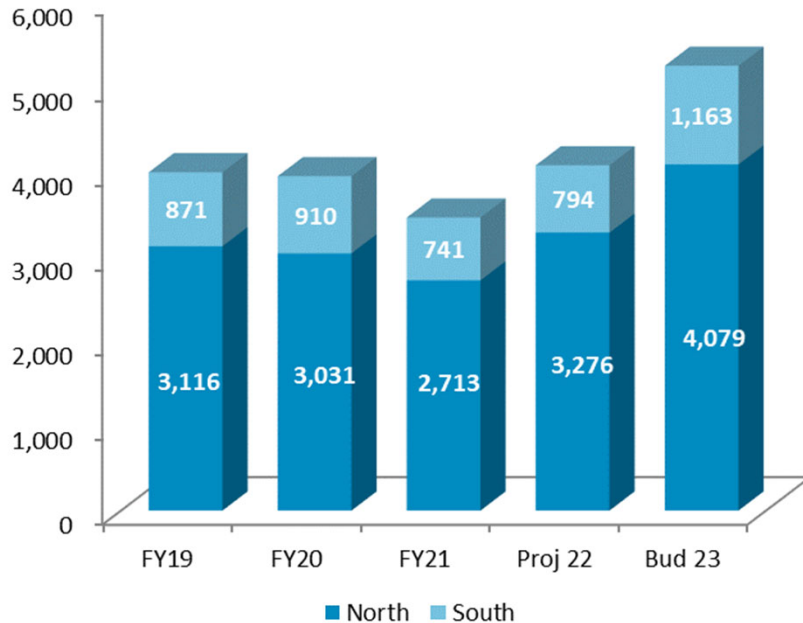




# Key Statistical Indicators | Inpatient

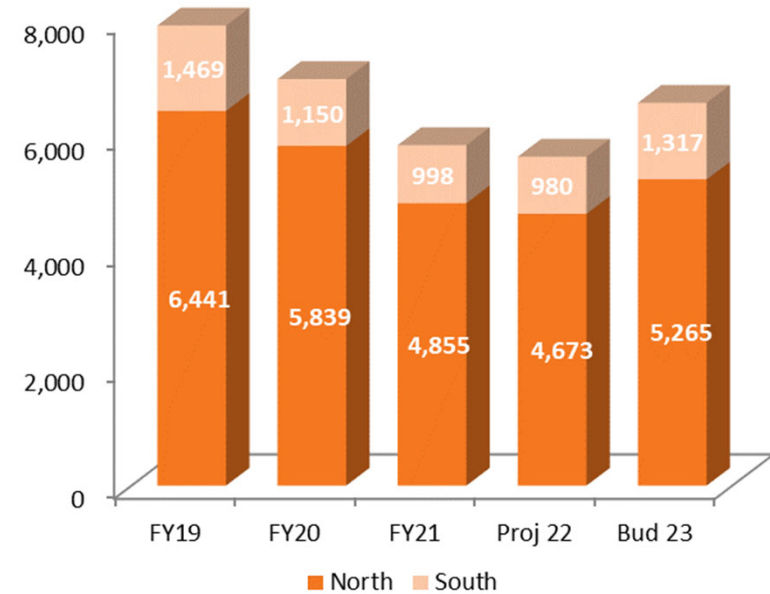
## Deliveries

FY2023 deliveries are increasing 28.8%, based on planned growth in Women’s Services



## Inpatient Surgeries

FY2023 inpatient surgeries are increasing by 16.4%, as capacity for elective cases begins to increase

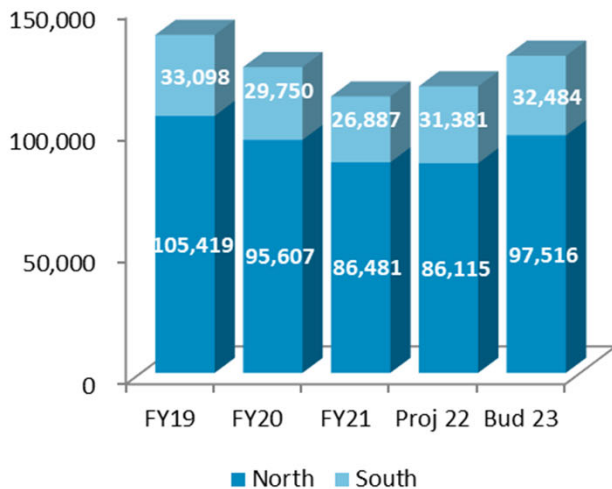


## Key Statistical Indicators | Outpatient

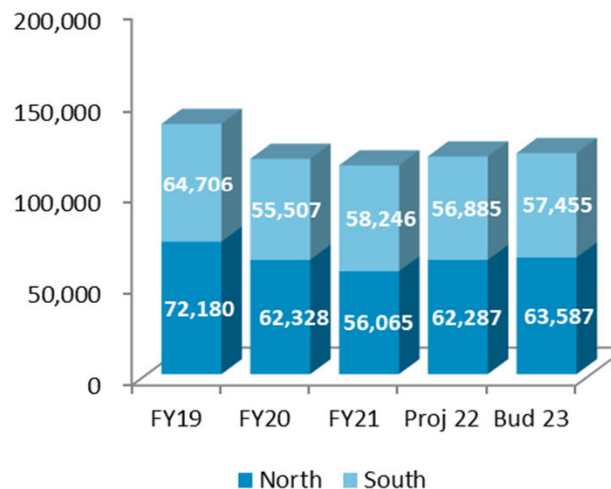
### Outpatient Services

- Emergency Department visits are increasing by 12,504, or 10.6%, as demand increases and throughput improvements create capacity
- Outpatient registrations are increasing based on growth in Oncology and Crisis Stabilization Unit
- Outpatient surgeries are decreasing by 8.9% as low-acuity cases move to the ambulatory setting

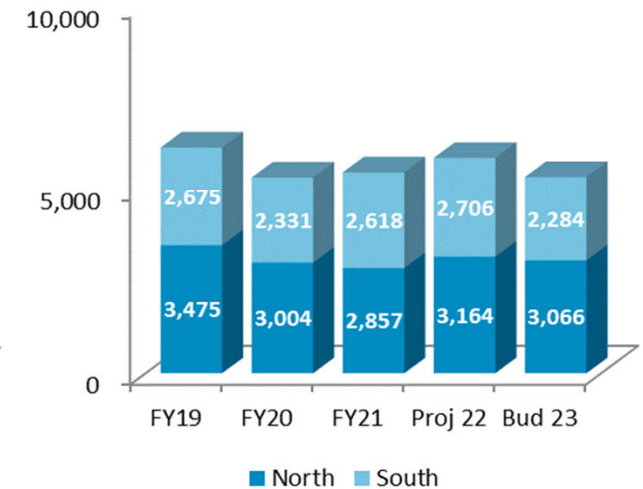
#### Emergency Visits



#### Outpatient Registration



#### Outpatient Surgery

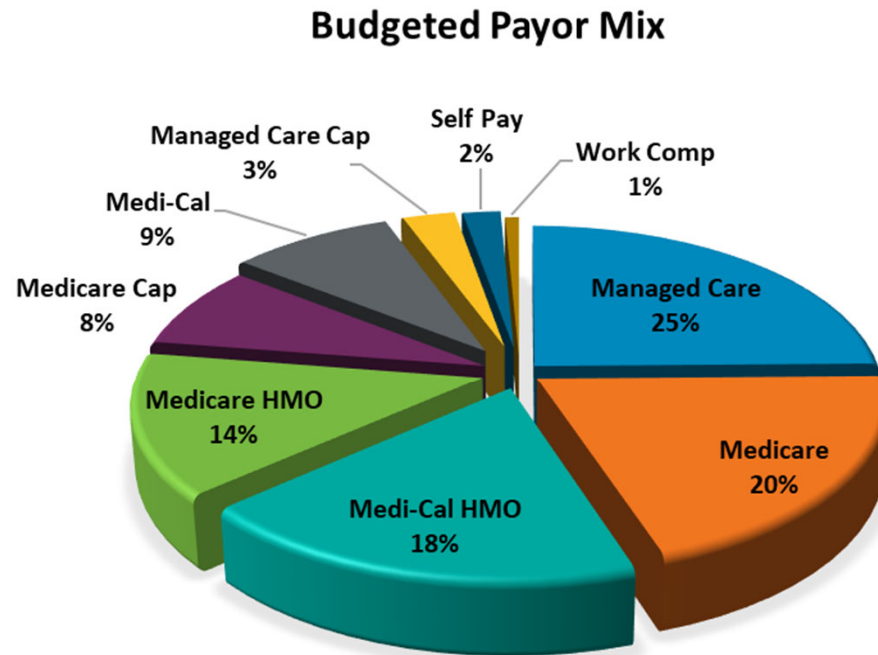


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# Revenue

## Key Revenue Considerations

Payor Category	Total Charges (\$000s)
Managed Care	\$1,294,536
Medicare	\$1,055,704
Medi-Cal HMO	\$970,528
Medicare HMO	\$732,718
Medicare Cap	\$426,581
Medi-Cal	\$459,506
Managed Care Cap	\$147,929
Self Pay	\$106,580
Work Comp	\$38,589
<b>Total</b>	<b>\$5,232,673</b>



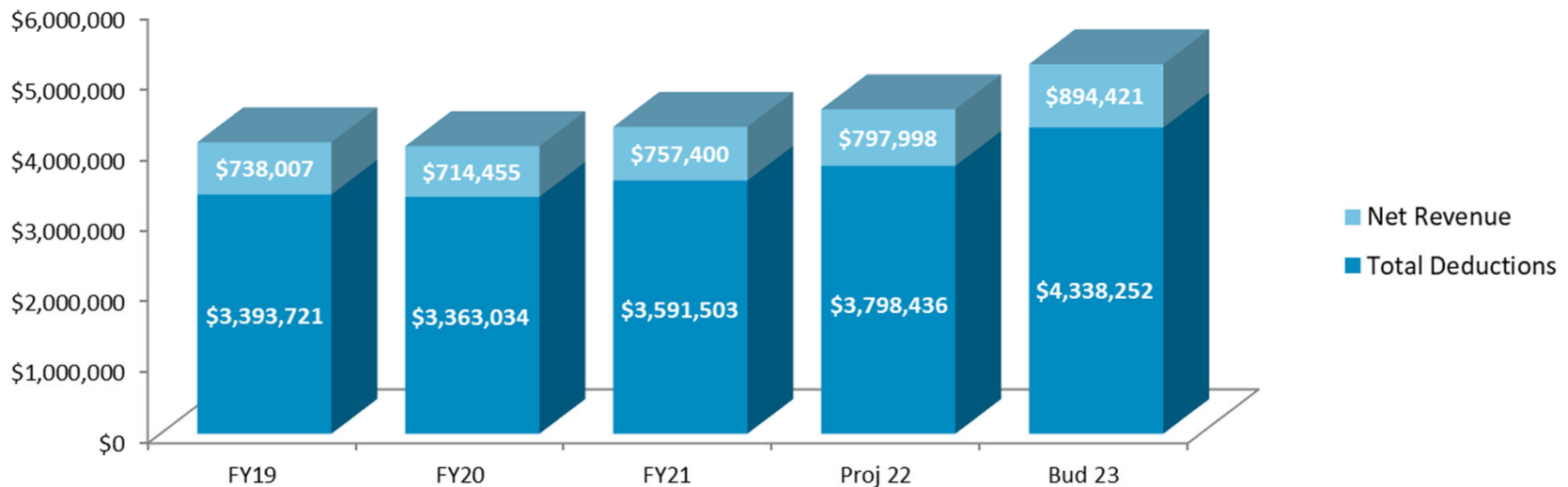
**Assumptions:**

- Overall effective rate increase of 4.55% (targeted 5%)
- Bad debt and uncompensated care have stabilized at approximately 2% year (FY2023 Budget = 2.0%; FY2022 Budget = 1.9%)

## Revenue Trend Analysis

Net revenue is increasing by 12.1% from current year projections due to strategic volume growth

**Gross Charges and Net Revenue (\$000s)**



\$	3,393,721	\$	3,363,034	\$	3,591,503	\$	3,798,436	\$	4,338,252	Total Deductions*
\$	738,007	\$	714,455	\$	757,400	\$	797,998	\$	894,421	Net Revenue
\$	4,131,728	\$	4,077,488	\$	4,348,903	\$	4,596,434	\$	5,232,673	Total Gross Revenue

\*Deductions include net capitation impact

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# Salaries, Wages, Benefits & FTEs

# Labor Impact Summary

The FY2023 labor budget establishes a plan to:

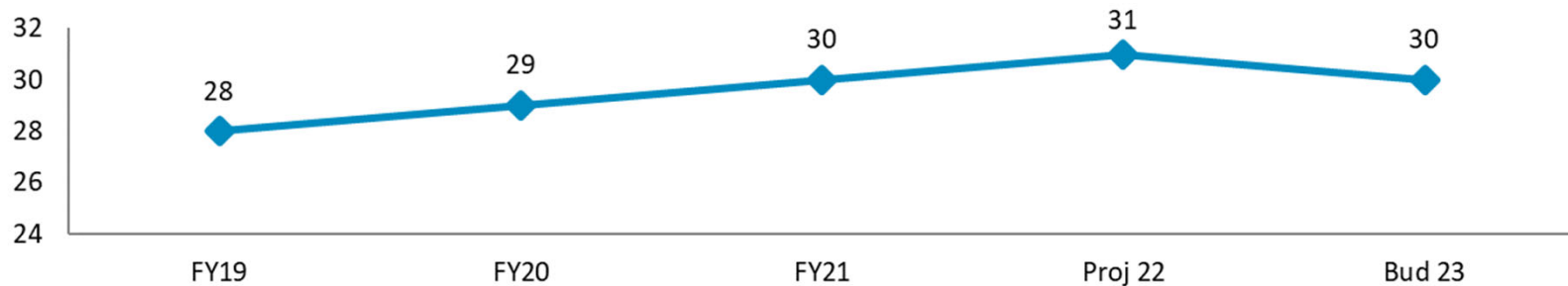
- Support ongoing throughput and patient experience initiatives with targeted FTE additions
- Refocus on staff education and return to pre-COVID learning practices
- Increase staffing in Women’s Services, Oncology, and Behavioral Health to meet strategic growth initiatives
- Significantly expand grant-based programs to support forensic health and early-childhood services for the community

2023 Budgeted FTE Roll Forward	FTEs
<b>FY2022 Paid FTEs (as of 03/26/2022)</b>	<b>3,424</b>
Volume-Related Changes	194
Training FTE Additions	16
Throughput FTE Additions	35
Other Targeted FTE Additions	98
<b>FY2023 Paid FTEs</b>	<b>3,767</b>

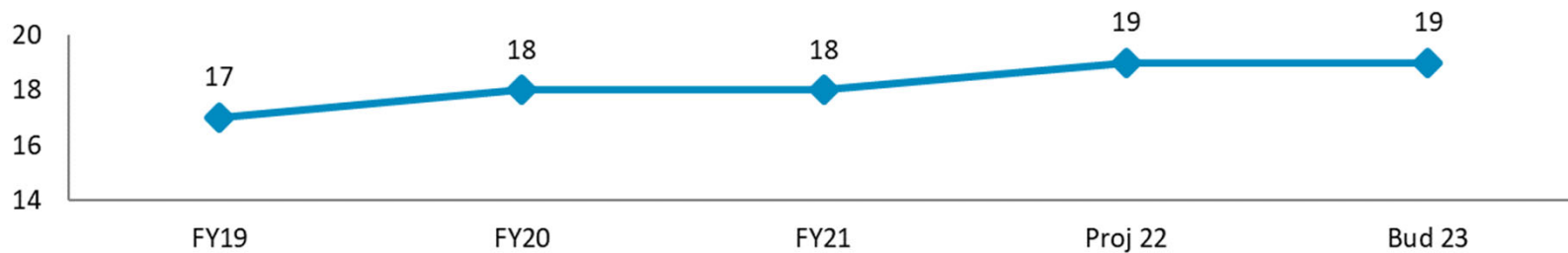
## Labor Analysis | FTEs

FTEs per adjusted discharge are going down slightly as increased volume drives efficiencies, while direct caregiver FTEs remain consistent

### FTEs per Adjusted Discharge (Incl. SNF)



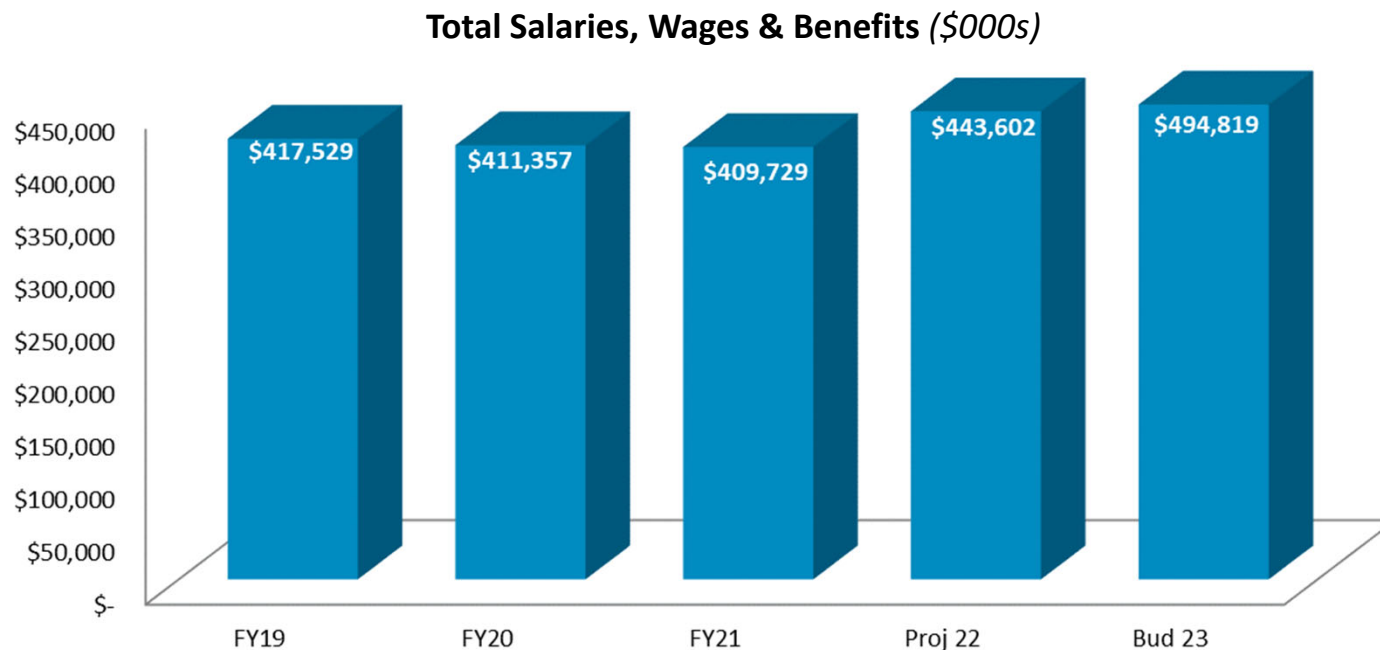
### Direct Caregiver FTEs per Adjusted Discharge (Incl. SNF)





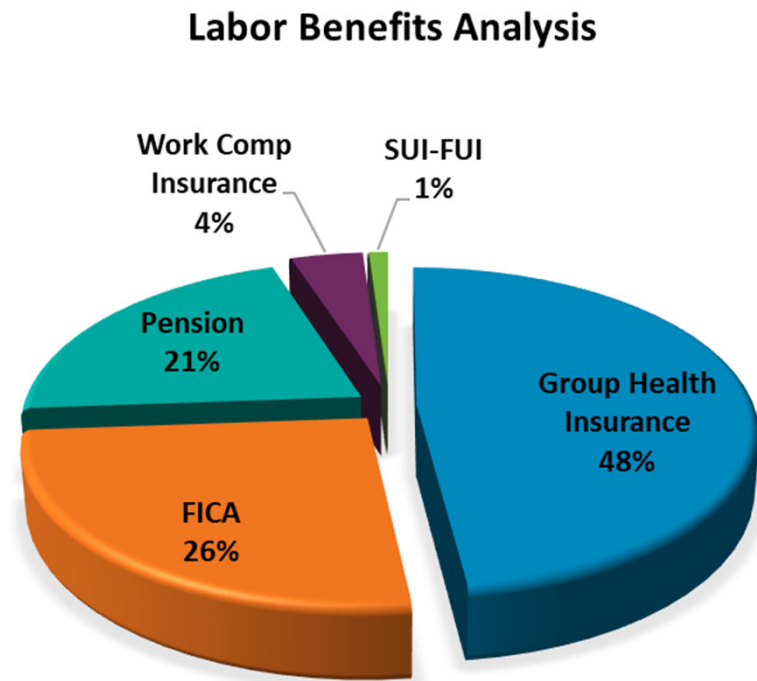
## Labor Analysis | Salaries, Wages & Benefits

- FY2023 total Salaries, Wages, Contract Labor, and Benefits are increasing by \$51 million or 11.5%
- Salary increases are driven by augmented staffing to support volume growth and wage increases to recruit and retain employees in the current market



# Labor Analysis | Benefits (Excl. PTO)

Type of Benefit	% of Total Benefits
Group Health Insurance	48%
FICA	26%
Pension	21%
Workers' Compensation Insurance	4%
SUI-FUI	1%
<b>Total Benefit Spend (\$000s)</b>	<b>\$109,228</b>



## Significant Impacts

- FICA, pension, and group health insurance are increasing along with increased FTE projections
- State and federal unemployment insurance costs are increasing, as CARES Act relief ends

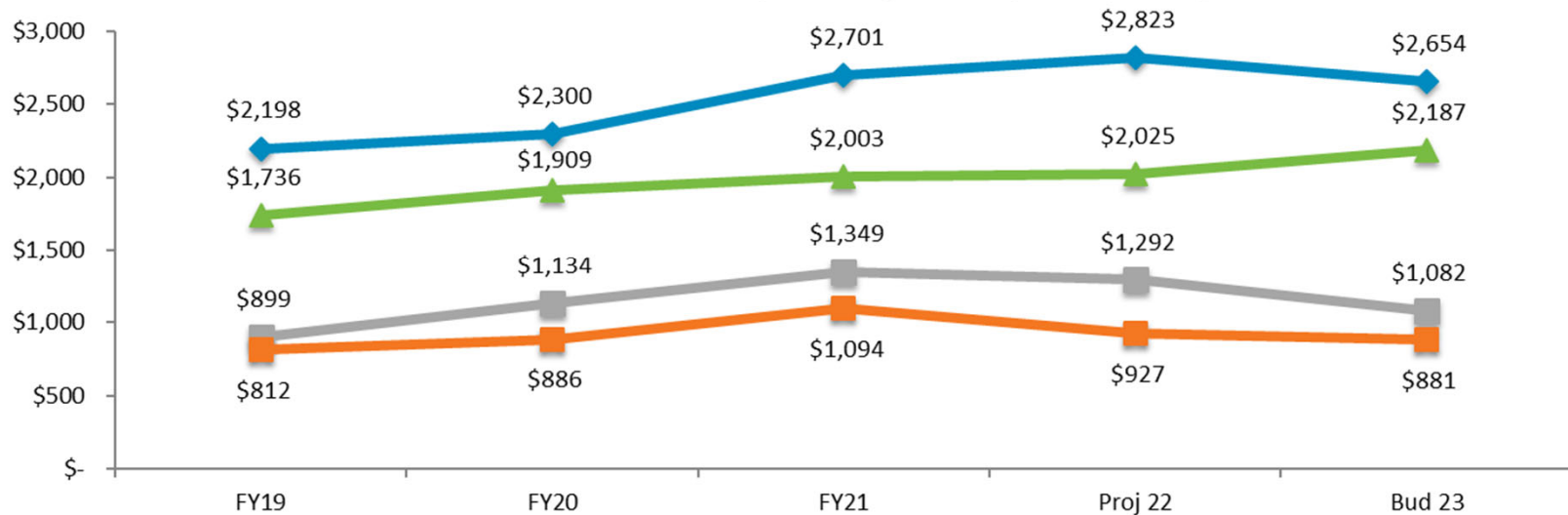
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# Non Labor Analysis

## Non Labor Analysis | Summary

- FY2023 Non-Labor Expense\* is increasing \$32.7 million or 11.9%, due to growth in patient volumes and expansion of key services
- Despite an overall increase, non-labor expense is decreasing by 3.7% on a per adjusted discharge basis

**Trended Non Labor Expense per Adj. Discharge+SNF (000s)**



\*excludes depreciation

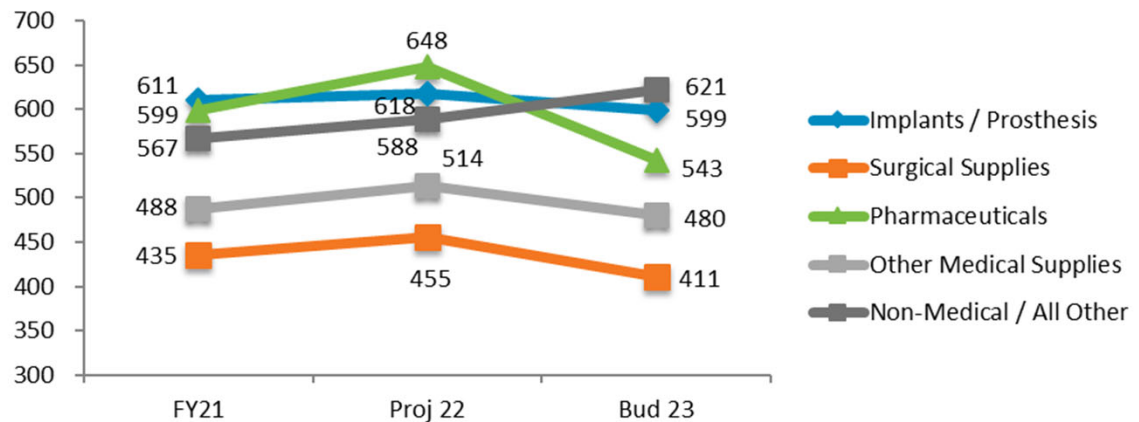
◆ Supplies    
 ■ Professional Fees    
 ▲ Purchased Services    
 ■ Other Direct Expenses

## Non Labor Analysis | Supplies

FY2023 Supply Roll Forward	Expense (\$000s)
<b>FY2022 Supply Expense (Mar 2022 Projection)</b>	<b>\$110,156</b>
Changes due to Volume and Utilization	8,007
Inflationary Increases	4,161
Supply Reduction Initiatives	(2,000)
<b>FY2023 Budgeted Supply Expense</b>	<b>\$120,324</b>

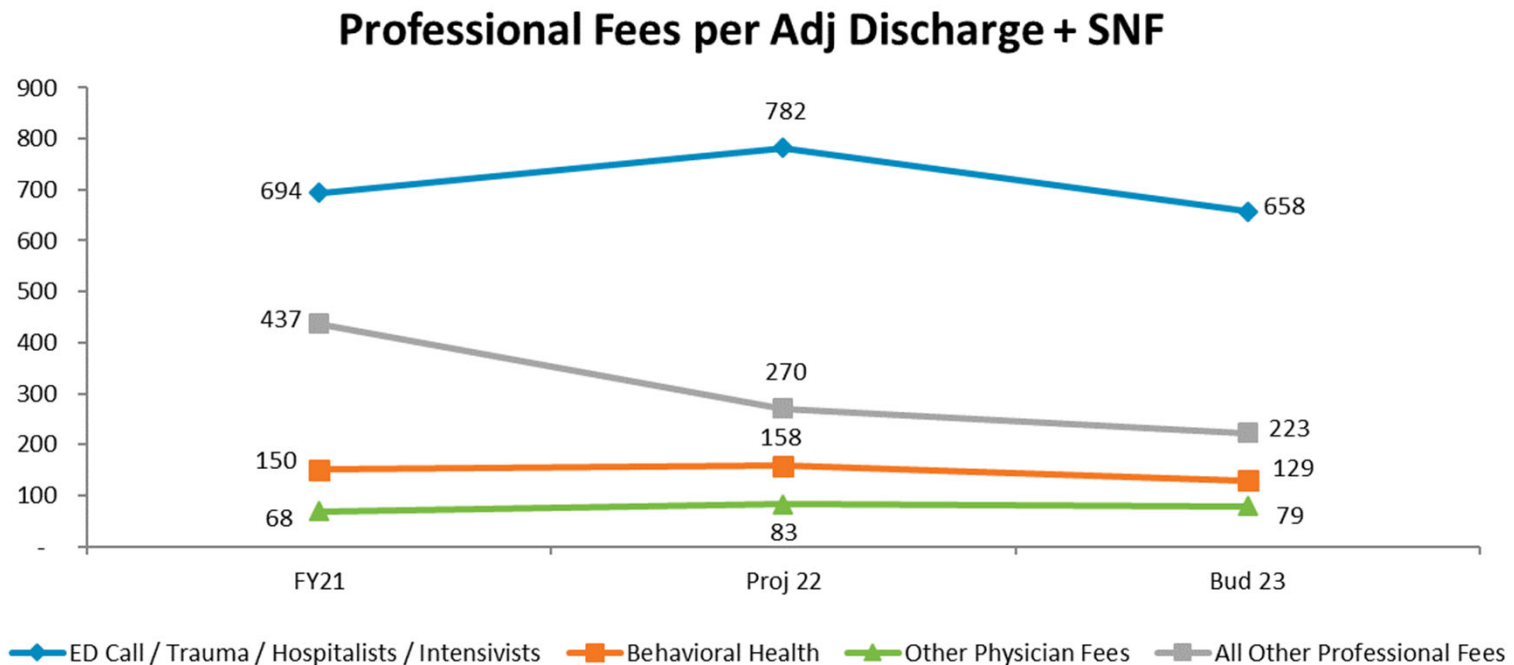
### Supplies per Adjusted Discharge (Incl. SNF)

Supply management efforts and documentation initiatives are crucial to help offset increasing inflation and ensure appropriate reimbursement for supplies and drugs



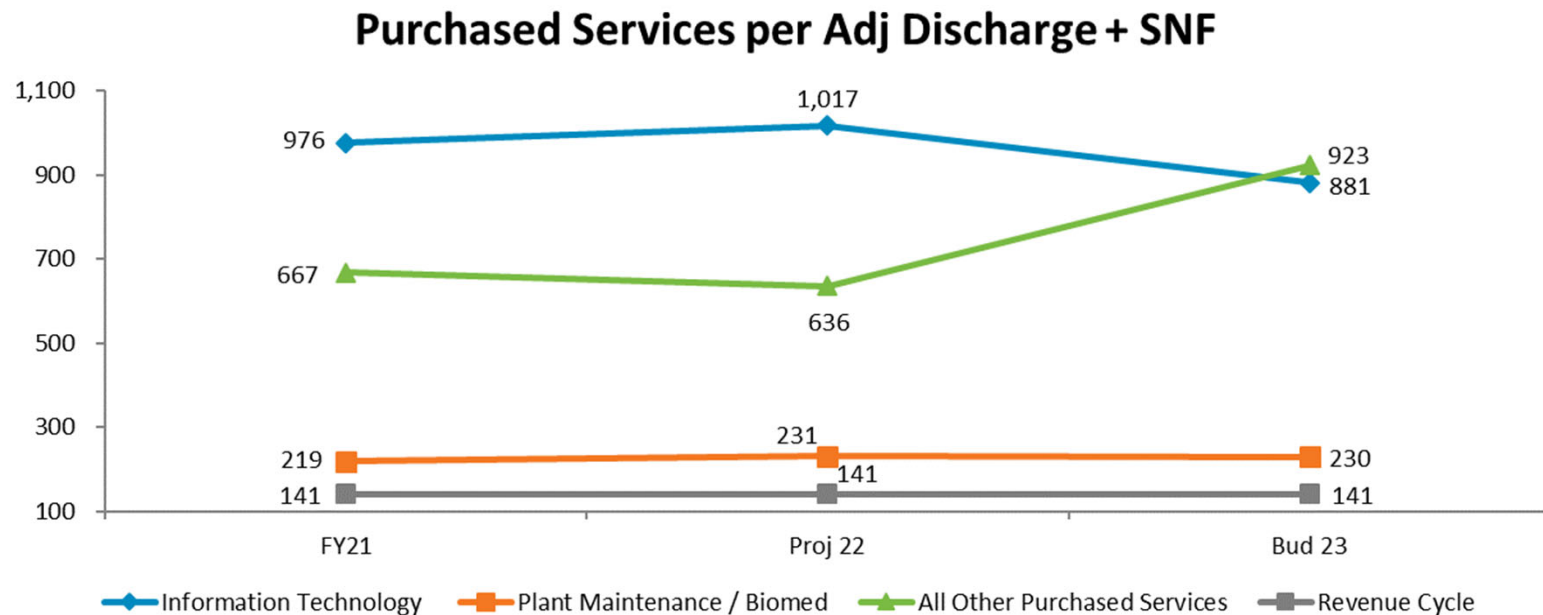
# Non Labor Analysis | Professional Fees

- FY2023 Professional Fees are decreasing by \$1.1 million or 2.2%
- Improvements in legal, consulting, and physician professional fees are driving this decrease



## Non Labor Analysis | Purchased Services

- FY2023 Purchased Services are increasing by \$19.6 million or 24.8%, year over year
- Expansion of inpatient care services, including the Neonatal Intensive Care Unit, Pediatrics, and Hospital at Home, are driving the majority of the increase



# Purchased Services | IT Roadmap

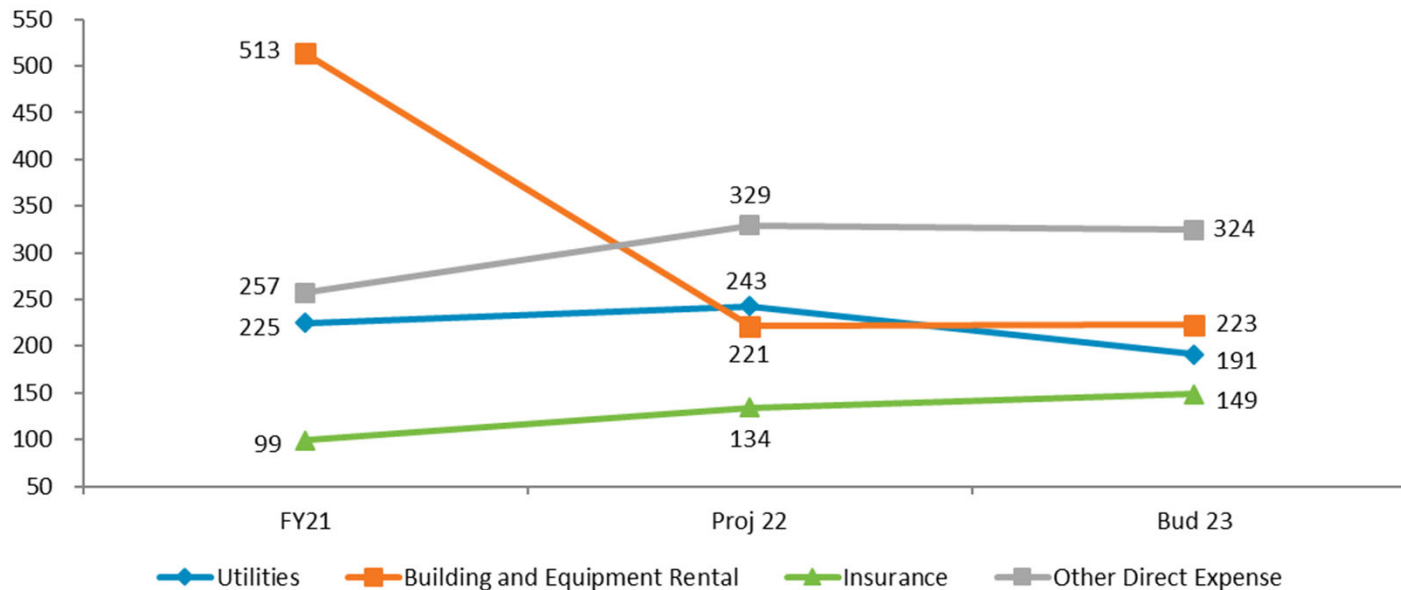
FY2022 Accomplishments	
Patient Status Order (PSO)	Email Retention Project
Tele Health Phase 1	PACS Image Retention
Network Security & Infrastructure Upgrades	Surgery Optimization Review
Self-Service Password Reset	Patient Safe at PMCP
Information Security Phase 1	Multifactor Authentication
Expanded Security Cameras	Experian Enhanced Eligibility
FY2023 Planned Projects	
Information Security Phase 2	Data Visualization & Analytics
Surgery Charge Improvement	Kronos Time & Attendance
Anesthesia Documentation	Infrastructure Phase 2
nThrive Contract Modeling	Office 365
Mindray Patient Monitoring	Healthe Intent/EDW
Quality Improvement Program (QIP)	MCDS-Leapfrog



## Non Labor Analysis | Other Direct Expense

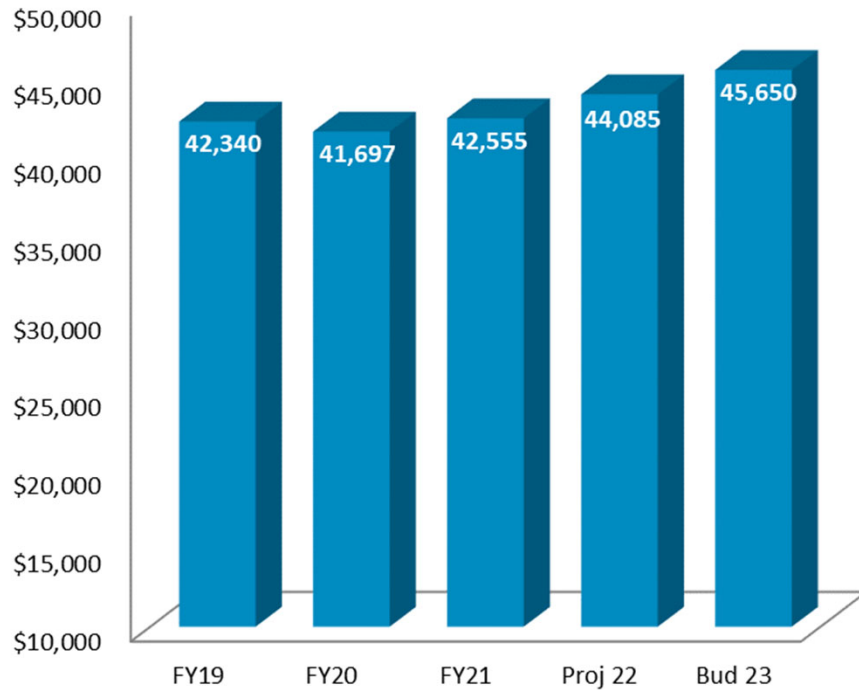
- FY2023 Budgeted Other Direct Expense is increasing by \$4.0 million or 11.1%
- Adjustments in building rent and utilities offset increases in insurance, marketing, and strategic projects

### Other Direct Expense per Adj Discharge + SNF

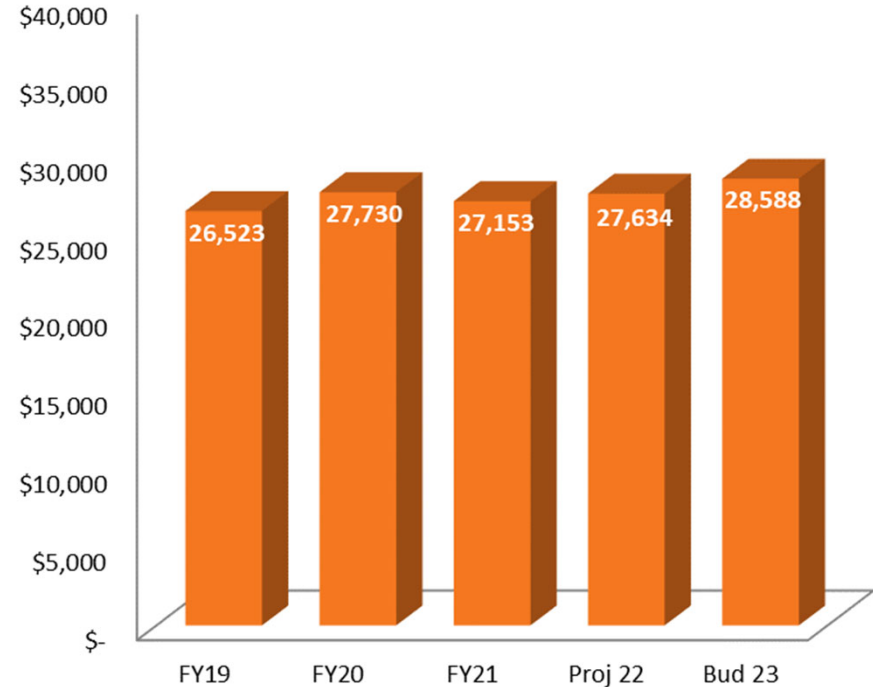


## Depreciation and Interest Expense

### Depreciation Expense (\$000s)



### \* Interest Expense (\$000s)



\*Interest Expense reflected for Revenue Bonds only

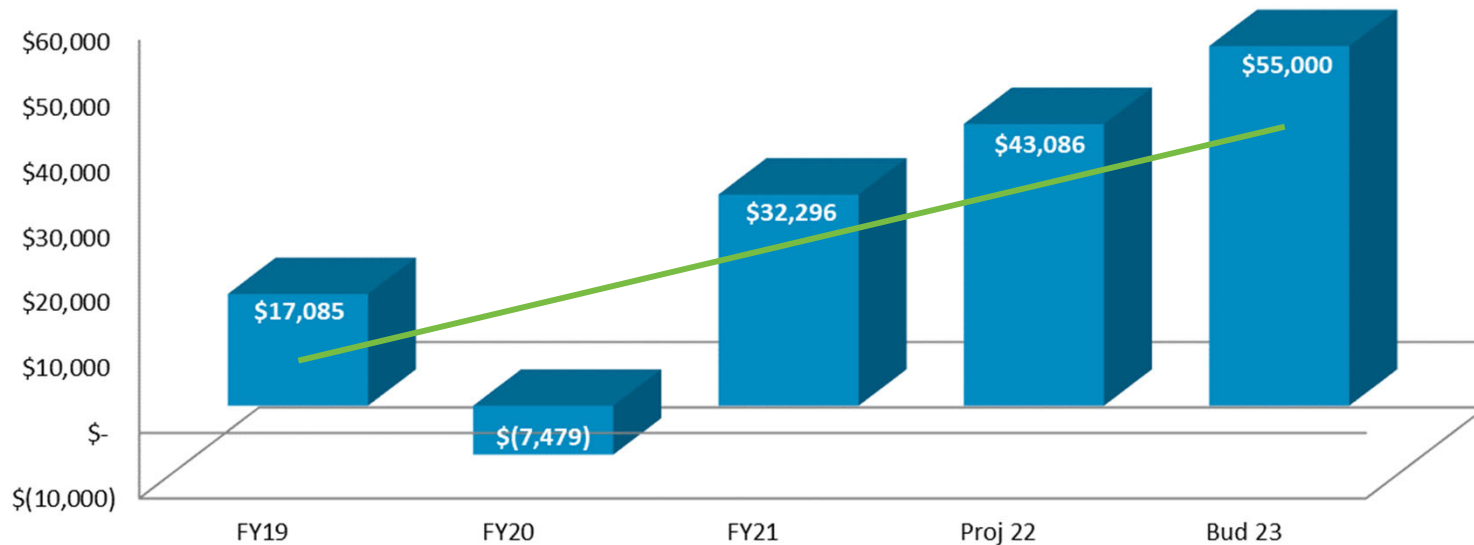
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# Annual Operating Budget Summary & EBIDA Recap

## Income from Operations

- FY2023 Income from Operations is increasing by \$11.9 million from current year projections
- The increase is driven through strategic volume and revenue growth combined with continued focus on expense management

**Income from Operations** (\$000s)



## Annual Operating Budget Summary and Trend

	FY2020 Results	FY2021 Results	FY2022 Projection	FY2023 Budget
<b>Revenue:</b>				
Net Revenue	714,454,518	757,399,651	797,997,875	894,420,502
Other Operating Revenue	10,948,217	9,899,382	8,562,946	9,524,811
<b>Total Operating Revenue</b>	<b>\$ 725,402,735</b>	<b>\$ 767,299,032</b>	<b>\$ 806,560,821</b>	<b>\$ 903,945,313</b>
<b>Expenses:</b>				
Salaries, Wages, Registry, Benefits	411,357,391	409,728,562	443,602,199	494,819,283
Supplies	103,317,897	106,833,220	110,156,337	120,324,108
Depreciation	41,697,090	42,555,205	44,084,543	45,649,855
Other	176,508,912	175,886,344	165,631,446	188,152,066
<b>Total Operating Expense</b>	<b>\$ 732,881,291</b>	<b>\$ 735,003,330</b>	<b>\$ 763,474,526</b>	<b>\$ 848,945,313</b>
Operating Income	(7,478,556)	32,295,702	43,086,296	55,000,000
Non-Operating Income (Loss)	24,374,389	4,509,195	(532,199)	2,086,088
(Interest Expense)	(27,730,285)	(27,153,206)	(27,633,740)	(28,587,640)
Unrealized (loss) gain on interest rate swap	(9,642,486)	9,444,610	0	0
Property Tax Revenue	18,356,493	19,319,455	18,982,664	20,100,000
<b>Income (Loss)</b>	<b>\$ (2,120,446)</b>	<b>\$ 38,415,755</b>	<b>\$ 33,903,020</b>	<b>\$ 48,598,448</b>
PHMG Foundation Support	18,959,000	21,500,000	27,000,000	33,000,000
Net Margin %	-0.3%	5.0%	4.2%	5.4%
OEBIDA Margin (Excl. Property Tax Rev)	4.7%	9.8%	10.8%	11.1%
OEBIDA Margin (Incl. Property Tax Rev)	7.2%	12.3%	13.2%	13.4%
EBIDA Margin	10.6%	12.9%	13.1%	13.6%
Total Uncompensated Care & Bad Debt	84,604,670	95,388,405	93,198,242	106,243,075
Total Uncompensated Care as % of Gross	2.07%	2.19%	2.03%	2.03%

## FY2023 Annual Operating and Capital Plan

# FY2023 EBIDA Recap (\$000s)

	FY2020 Results	FY2021 Results	FY2022 Projected	FY2023 Budget
Net Income from Ops (Excl. Interest Expense)	(7,479)	32,296	43,086	55,000
Depreciation Expense	41,697	42,555	44,085	45,650
<b>OEBIDA</b>	<b>\$ 34,219</b>	<b>\$ 74,851</b>	<b>\$ 87,171</b>	<b>\$ 100,650</b>
OEBIDA Margin (Excl. Property Tax Rev)	4.7%	9.8%	10.8%	11.1%
OEBIDA Margin (Incl. Property Tax Rev)	7.2%	12.3%	13.2%	13.4%
<b>EBIDA</b>	<b>76,949</b>	<b>98,680</b>	<b>105,621</b>	<b>122,836</b>
<b>EBIDA Margin</b>	<b>10.6%</b>	<b>12.9%</b>	<b>13.1%</b>	<b>13.6%</b>
Total Uncompensated Care & Bad Debt	84,605	95,388	93,198	106,243
Total Uncompensated Care as % of Gross	2.07%	2.19%	2.03%	2.03%
Net Income / (Loss) after Non-Op Income	<b>\$ (2,120)</b>	<b>\$ 38,416</b>	<b>\$ 33,903</b>	<b>\$ 48,598</b>

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# Capital Plan

# Capital Plan | Three-Year Planning Process

During the preparation of the three-year plan, capital priorities are based on:

- Equipment reaching end of useful life
- Organizational strategic initiatives and expansion of services in the community
- Enhancing the IT capabilities of the organization to improve physician, staff, and patient experience
- Deploying capital across the entire district
- Balancing the needs vs. resources of the organization

Funding sources for capital projects and acquisitions include:

- Proceeds from Certificates of Participation (COP) issuances
- Cash from operations
- Equipment Leases
- Tenant Improvement Funds
- Foundation fundraising



# Capital Plan | Three-Year Summary

## Three-Year Capital Budget Summary (\$000s)

	FY2023	FY2024	FY2025	Total Project Spend
<b>Funded by Operations:</b>				
Equipment	9,000	7,000	8,000	24,000
Facilities	14,000	19,000	10,000	43,000
Information Technology	8,000	7,000	7,000	22,000
Escondido 9th Floor Build-out	12,600	-	-	12,600
<b>Total Funded by Operations</b>	<b>43,600</b>	<b>33,000</b>	<b>25,000</b>	<b>101,600</b>
<b>Other Funding Sources:</b>				
<b>Funded from Restricted Cash:</b>				
Parking Garage - Escondido	17,000	-	-	17,000
<b>Funded by Tenant Improvement Credit:</b>				
Outpatient Strategy	17,200	-	-	17,200
<b>Funded by Foundation:</b>				
Conference Center / Sleep Room	540	-	-	540
Other	2,200	3,000	3,000	8,200
<b>Subtotal</b>	<b>2,740</b>	<b>3,000</b>	<b>3,000</b>	<b>8,740</b>
<b>Total from Other Funding Sources</b>	<b>36,940</b>	<b>3,000</b>	<b>3,000</b>	<b>42,940</b>
<b>Grand Total</b>	<b>80,540</b>	<b>36,000</b>	<b>28,000</b>	<b>144,540</b>

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# FY2023 Budget Summary & Key Take-Aways

## Summary

### ➔ **FY2023 Budget sets achievable targets and ties to the Strategic Financial & Capital Plan. It requires success in the following areas:**

- Effective execution of planned strategies to increase volume in key service lines
- A 12% growth in Net Patient Revenue year over year, with continued contributions from supplemental programs to augment revenues from the growing Medi-Cal population
- Improvements in patient throughput to ease Emergency Room capacity and provide a better patient experience
- Continued implementation of expense management initiatives to begin shifting the organization to a Medicare cost-profile

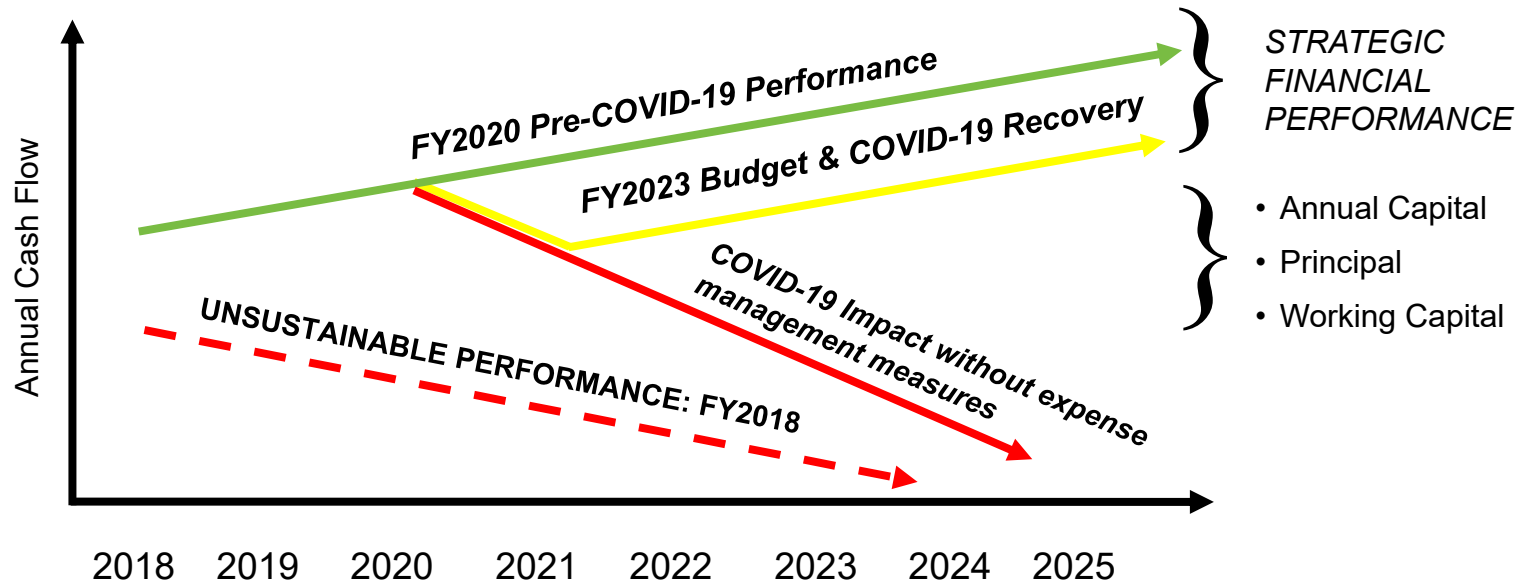
### ➔ **Successful execution will allow Palomar Health to:**

- Expand local healthcare services to the district while continuing to navigate amongst fluid COVID conditions
- Deploy sufficient capital to meet the needs of the organization and continue improvement of liquidity
- Continue improvements in clinical excellence and patient satisfaction
- Achieve net income improvement of \$14.7 million year over year and operating income improvement of \$11.9 million

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# Five-Year Financial Projections

## Five-Year Financial Projections



Palomar Health needs a sound financial strategy in order to:

- Deploy sufficient capital to support the strategic plan and development / expansion of services
- Adjust capacity to serve the changing needs of the community in a post-COVID-19 environment
- Continue the development of a fully integrated health delivery system
- Sustain improvement of key liquidity ratios and achieve investment level ratings from all rating agencies

# FY2023 Annual Operating and Capital Plan

## Five-Year Financial Projections

Ratio/Statistic	Audited		Estimated	Projection Years				
	2020	2021	2022	2023	2024	2025	2026	2027
Total Operating Revenue	\$765,928	\$842,901	\$884,085	\$945,309	\$965,657	\$1,005,767	\$1,048,741	\$1,091,700
Operating EBIDA	\$11,171	\$53,315	\$57,725	\$68,449	\$66,532	\$79,043	\$91,516	\$95,154
Operating Income	(\$59,599)	(\$18,535)	(\$15,226)	(\$5,698)	(\$10,722)	\$1,242	\$13,546	\$16,910
Operating Income Excl. Interest expense	(\$31,829)	\$8,618	\$12,864	\$21,804	\$16,191	\$27,527	\$39,122	\$41,787
Palomar Health	(\$8,781)	\$30,154	\$43,060	\$55,000	\$49,887	\$61,723	\$73,818	\$76,983
PHMG	(\$22,466)	(\$21,340)	(\$30,000)	(\$33,000)	(\$33,500)	(\$34,000)	(\$34,500)	(\$35,000)
Net Income	(\$31,802)	\$18,433	\$4,188	\$8,350	\$18,392	\$33,462	\$48,095	\$53,513
Unrestricted Cash	\$302,348	\$292,404	\$245,356	\$224,948	\$244,262	\$283,951	\$338,470	\$399,548
Capital Expenditures	\$35,137	\$21,023	\$33,000	\$80,540	\$36,000	\$28,000	\$28,000	\$28,000
<b>Profitability</b>								
Operating Margin	(7.8%)	(2.2%)	(1.7%)	(0.6%)	(1.1%)	0.1%	1.3%	1.5%
Operating Margin Excl. interest expense	(4.2%)	1.0%	1.5%	2.3%	1.7%	2.7%	3.7%	3.8%
Operating EBIDA Margin	1.5%	6.3%	6.5%	7.2%	6.9%	7.9%	8.7%	8.7%
Palomar Health Operating EBIDA Margin	4.7%	9.8%	10.9%	11.7%	11.3%	12.2%	13.0%	12.9%
<b>Debt Position</b>								
Debt Service Coverage (x)	1.4x	1.9x	2.0x	2.0x	2.3x	2.7x	3.0x	3.1x
<b>Liquidity</b>								
Cash to Long Term Debt	51.3%	47.0%	40.1%	37.7%	41.9%	50.1%	61.5%	74.9%
Days Cash On Hand (days)	141.4	130.7	104.8	90.8	96.3	109.1	125.7	142.8
Days Cash On Hand (days) - Excl. interest	146.6	135.2	108.4	93.6	99.2	112.1	129.1	146.3
<b>Other</b>								
Discharges	28,453	24,325	25,047	27,680	27,198	27,772	28,574	29,296
Adjusted Discharges	44,946	38,437	39,689	42,713	42,611	43,565	44,661	45,677
Cost / Adj Discharge	\$16,793	\$20,542	\$20,821	\$20,529	\$21,101	\$21,272	\$21,433	\$21,817
Capital Spending Ratio	81.7%	47.0%	73.6%	172.7%	71.5%	54.4%	53.4%	52.5%