



FY2024 Annual Operating and Capital Plan

Board Finance Committee Budget Presentation

May 31, 2023



Agenda

Executive Summary

FY2024 Budget Overview:

- Key Plan Drivers | Inflationary Assumptions

Key Statistical / Growth Indicators

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- Key Revenue Assumptions / Payor Mix
- Revenue Trend Analysis

Salaries, Wages, Benefits & FTEs:

- Salary, Benefits, and FTE Trend Analysis

Non Labor Summary

FY2024 Annual Budget Summary / EBIDA Recap

Three-Year Capital Plan

Five-Year Financial Projections

Executive Summary

The FY2024 budget lays out a plan that is focused on meeting the healthcare needs of the district and putting Palomar Health on a pathway toward achieving the five-year strategic financial and capital plan. The plan:

- Targets EBIDA of \$120 million, with growth of \$45 million from current projected FY2023 performance
- Establishes innovative initiatives to stabilize the cost of labor in response to current market conditions
- Incorporates volume growth resulting from multi-year strategies and initiates new plans to improve access to care
- Continues deployment of capital resources to expand key services, maintain existing facilities, and implement technology solutions
- Maintains focus on key organizational goals regarding clinical excellence, outcomes, and patient satisfaction
- Drives alignment of the operating and capital budget with our current year and long-term strategic plan objectives

FY2024 Budget – Key Drivers & Overview

Key Plan Drivers

- Strategic Plan alignment including year-over-year EBIDA improvement, which is consistent with the long-range financial and capital plan targets
- Stable patient volume as growth in key service lines balances shifting market conditions
- Strategic focus on providing comprehensive healthcare to the community by evaluating capacity and aligning plans according to local need and demand
- Continued development of key service lines including Oncology, Cardiology, Orthopedics, Spine, NICU, and Emergency Services
- Changing regulatory requirements and an unstable labor market drive greater need for flexibility in staffing plans
- Expense management strategies identified through comparison to industry benchmarks help offset rising inflation
- Reimbursement enhancement strategies and growth help to offset payor mix shifts driven by the end of the COVID state-of-emergency and other reimbursement pressures

Inflationary Assumptions

- FY2024 budget incorporates inflation in-line with higher nationwide trends
- Palomar Health will continue to mitigate the impact of inflation through strategic utilization and standardization initiatives

Healthcare Industry Inflation Comparison

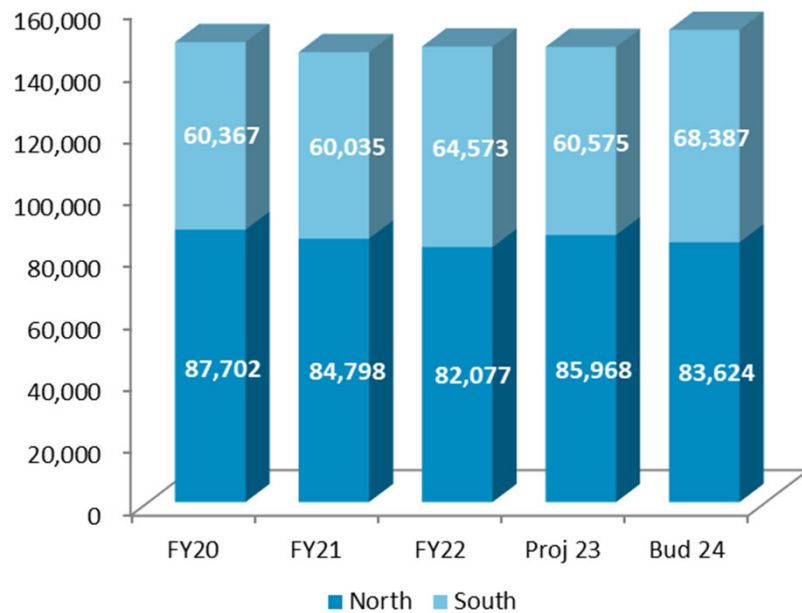
Category / Expense	FY2024 Budget	Industry Expectation
Implants	2.0%	3.0%
General Surgery Supplies	3.0%	4.5%
Surgical Needles & Packs	9.2%	12.0%
Oxygen – Gas	5.0%	12.0%
IV Solutions	4.0%	7.5%
Pharmaceuticals	2.5%	5.0%
Radioactive and X-Ray Material	3.0%	7.0%
Other Medical	3.0%	3-5%
Food	4.0%	6.0%
Linen	3.0%	6.0%
All Other: Cleaning, Forms, Office, Uniforms	3-10%	3-20%

Key Statistical Indicators

Key Statistical Indicators | Inpatient

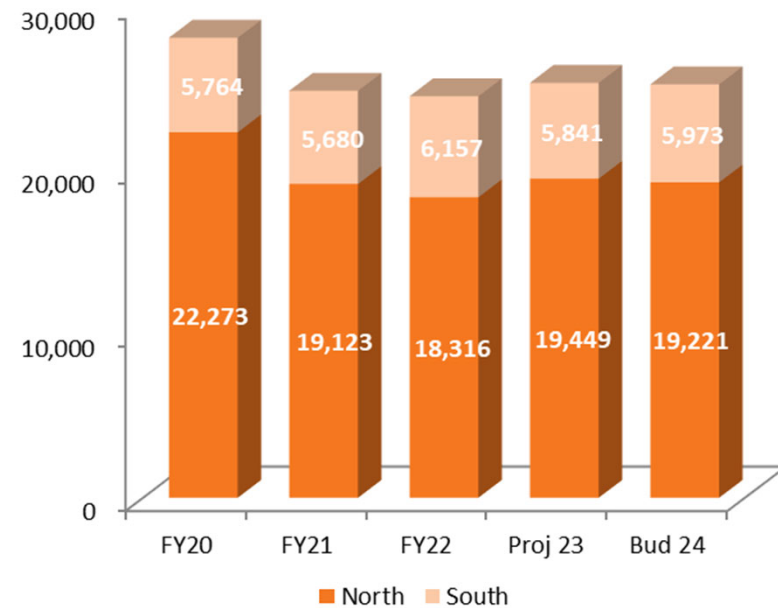
Total Patient Days (Incl. SNF)

FY2024 planned patient days are increasing by 3.7% largely due to increases in skilled nursing and NICU services



Total Discharges (Incl. SNF)

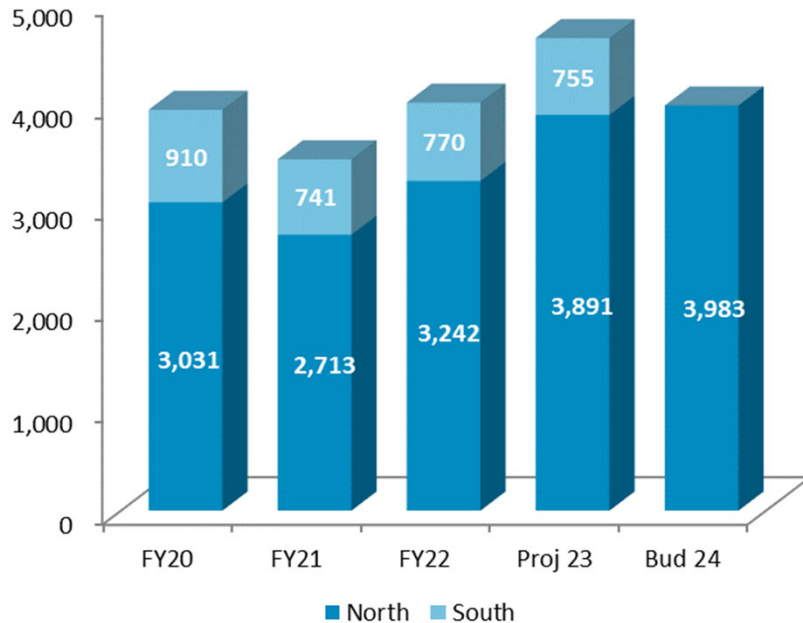
FY2024 discharges are decreasing by 308, or 1.2%, year-over-year



Key Statistical Indicators | Inpatient

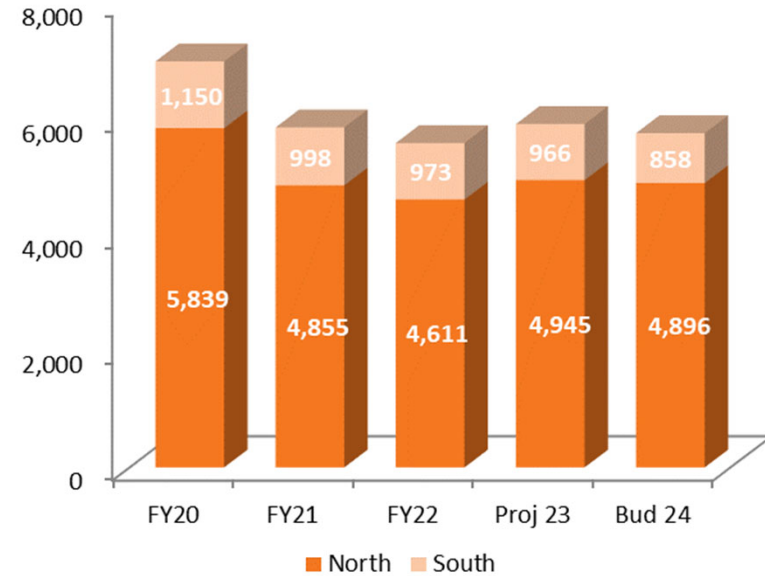
Deliveries

FY2024 deliveries are decreasing by 14.3%, as program consolidation and market forces shift demand



Inpatient Surgeries

FY2024 inpatient surgeries are decreasing by 2.7%, as PMC-Poway no longer performs scheduled cesarean sections

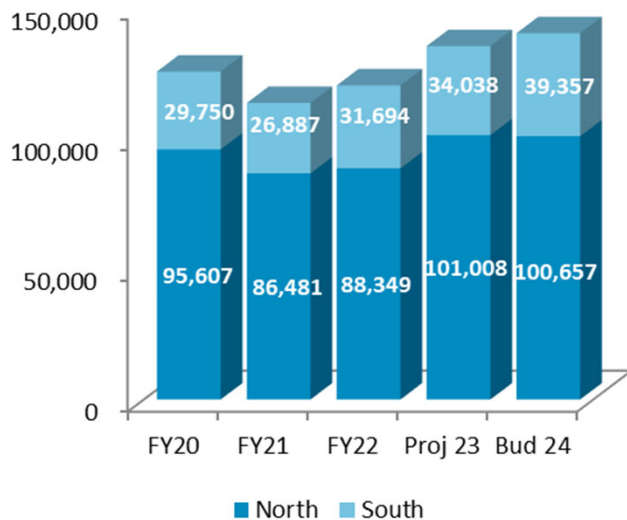


Key Statistical Indicators | Outpatient

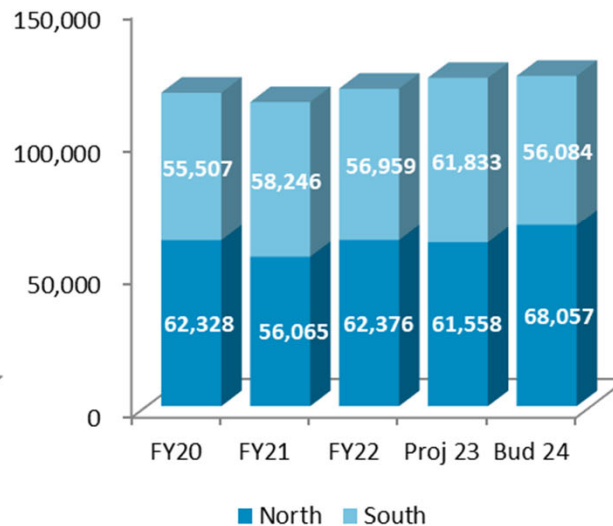
Outpatient Services

- Emergency Department visits are increasing by 4,968, or 3.7%, as demand in the region continues to increase
- Outpatient registrations are relatively flat as growth in key service lines offset a 4.7% planned decrease in outpatient surgery

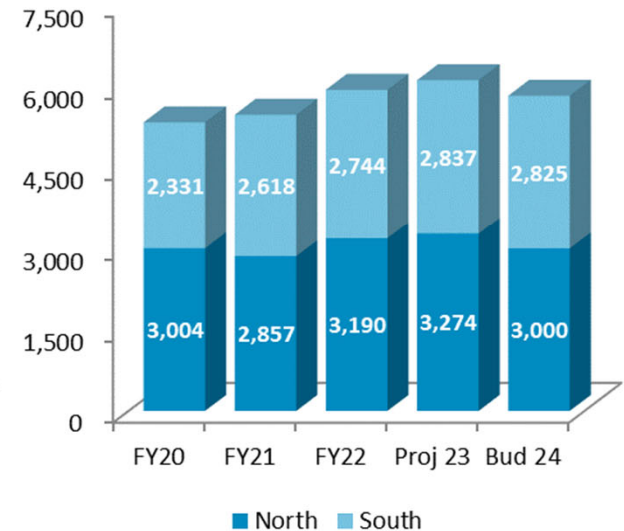
Emergency Visits



Outpatient Registration



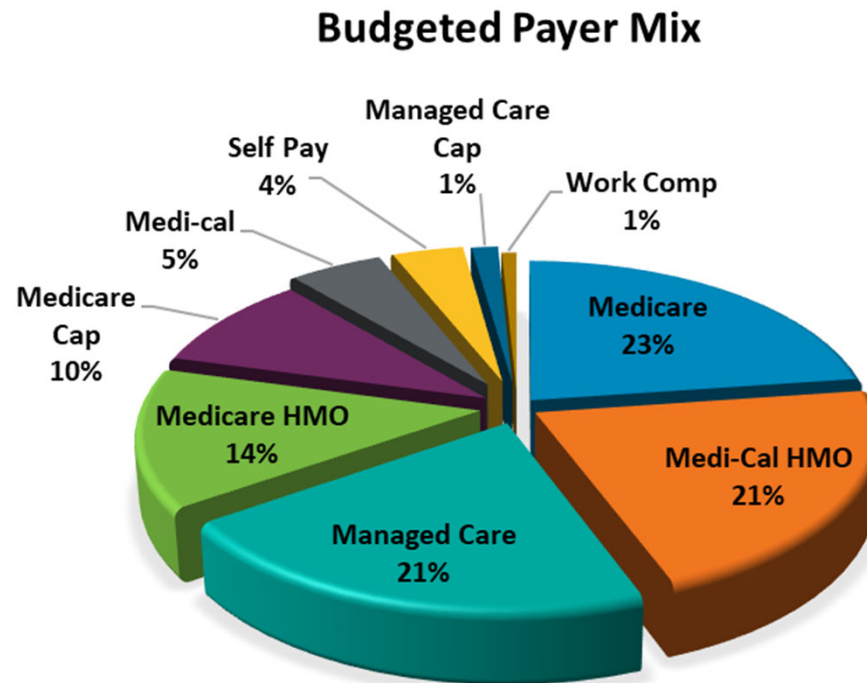
Outpatient Surgery



Revenue

Key Revenue Considerations

Payor Category	Total Charges (\$000s)
Medicare	\$1,251,970
Medi-Cal HMO	\$1,179,638
Managed Care	\$1,158,834
Medicare HMO	\$763,312
Medicare Cap	\$522,524
Medi-Cal	\$281,558
Self Pay	\$213,244
Managed Care Cap	\$78,760
Work Comp	\$43,975
Total	\$5,493,815



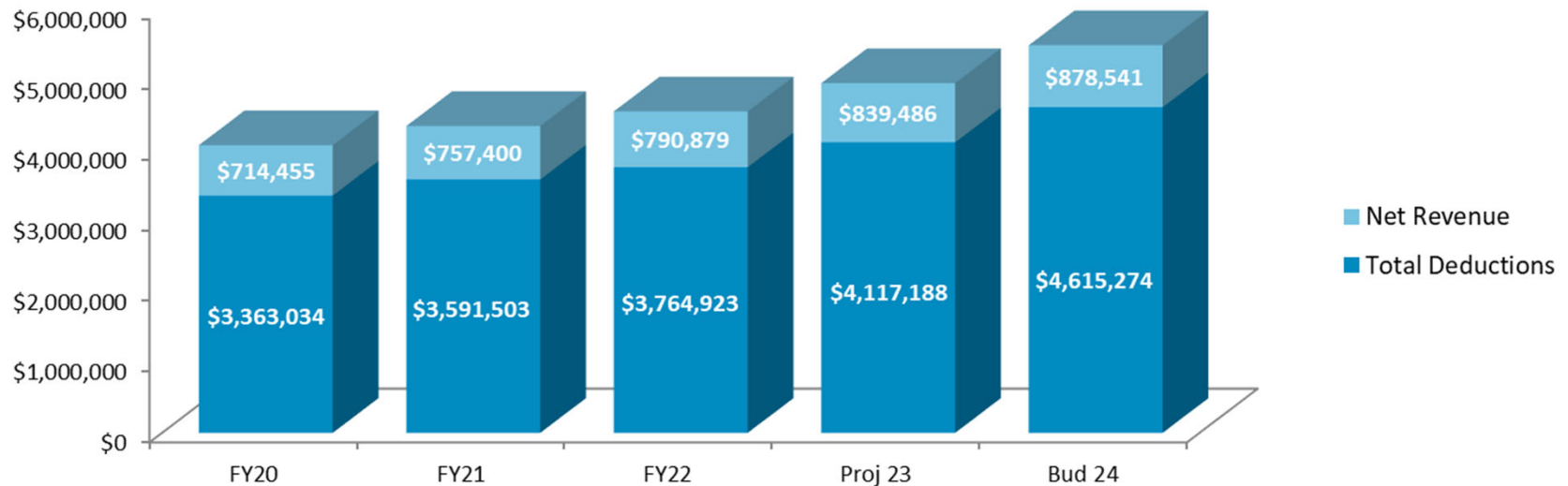
Assumptions:

- Overall effective rate increase of 11.4% (targeted 12%)
- Bad debt and uncompensated care are stable at approximately 2% per year (FY2024 Budget 1.7%; FY2023 = 1.8%)

Revenue Trend Analysis

Net Revenue is anticipated to increase by \$39.1 million, or 4.7%, year over year

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



\$	3,363,034	\$	3,591,503	\$	3,764,923	\$	4,117,188	\$	4,615,274	Total Deductions*
\$	714,455	\$	757,400	\$	790,879	\$	839,486	\$	878,541	Net Revenue
\$	4,077,488	\$	4,348,903	\$	4,555,802	\$	4,956,674	\$	5,493,815	Total Gross Revenue

*Deductions include net capitation impact

Salaries, Wages, Benefits & FTEs

Labor Impact Summary

The FY2024 labor budget establishes a plan to:

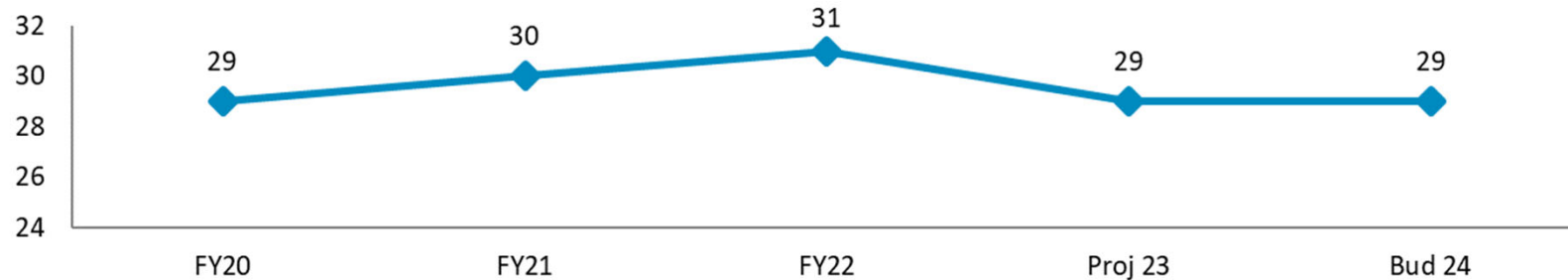
- Attract local talent and create a sustainable workforce
- Reduce reliance on contract labor and premium pay to improve employee experience
- Utilize industry benchmarks to align staffing resources based on need and to increase staffing in areas of strategic growth
- Expand grant-based programs to support forensic health and early-childhood services for the community

2024 Budgeted FTE Roll Forward	FTEs
FY2023 Paid FTEs (as of 3/25/2023)	3,433
Volume-Related Changes	129
Program Consolidations	(151)
Operational Efficiencies	(109)
Targeted FTE Additions	88
FY2024 Paid FTEs	3,390

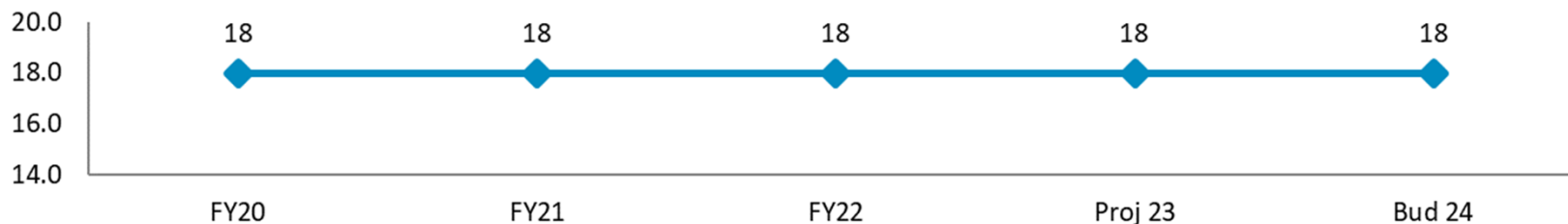
Labor Analysis | FTEs

Budgeted FTEs per adjusted discharge are consistent with current year projections

FTEs per Adjusted Discharge (Incl. SNF)



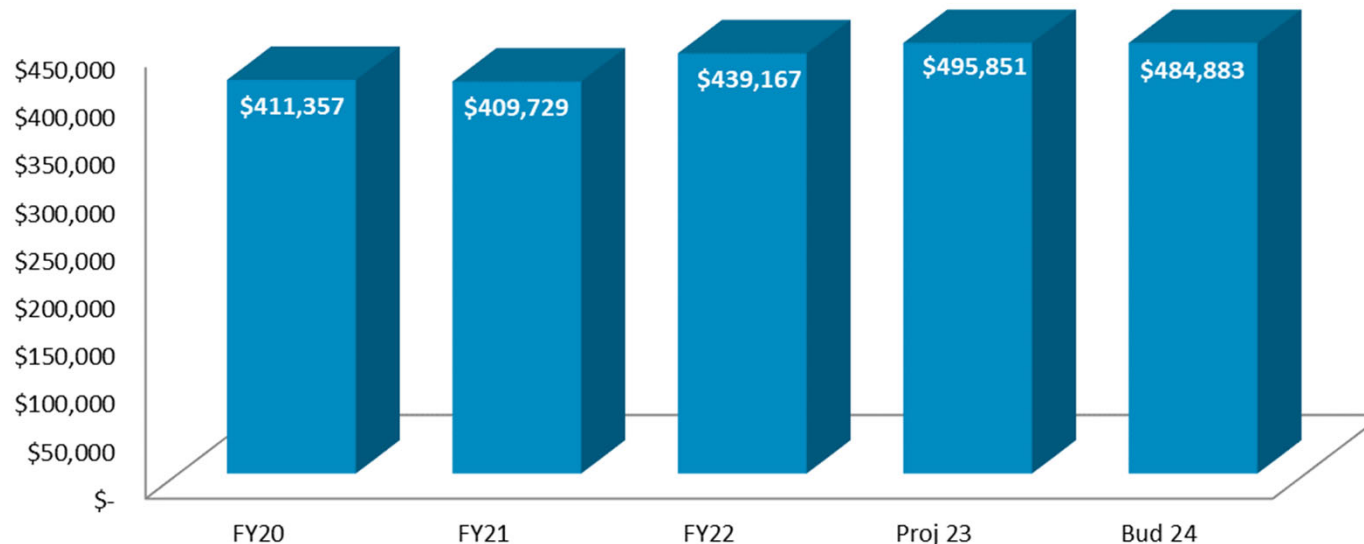
Direct Caregiver FTEs per Adjusted Discharge (Incl. SNF)



Labor Analysis | Salaries, Wages & Benefits

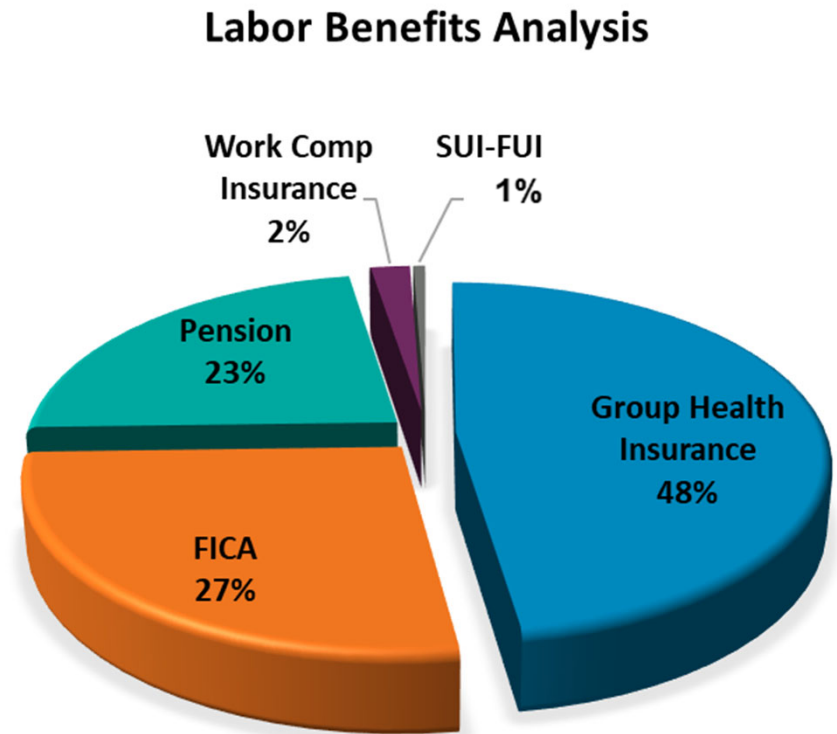
- FY2024 total Salaries, Wages, Contract Labor, and Benefits are expected to decrease by \$11 million, or 2.2%
- Salary increases to recruit and retain employees are offset by reduced reliance on contract labor

Total Salaries, Wages & Benefits (\$000s)



Labor Analysis | Benefits (Excl. PTO)

Type of Benefit	% of Total Benefits
Group Health Insurance	48%
FICA	27%
Pension	23%
Workers' Compensation Insurance	2%
SUI-FUI	1%
Total Benefit Spend (\$000s)	\$98,657



Significant Impacts

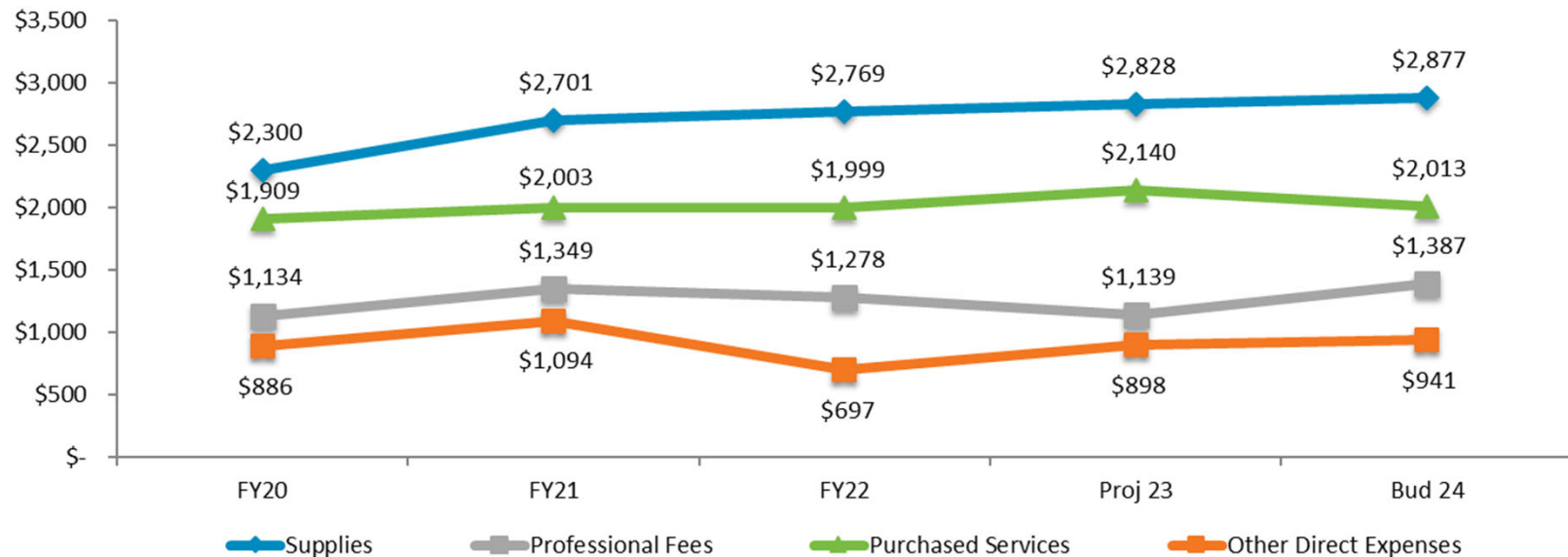
- FICA, pension, and group health insurance are increasing along with increased FTE projections
- Workers' compensation insurance costs continue to decrease as a result of employee safety initiatives

Non Labor Analysis

Non Labor Analysis | Summary

- FY2024 Non-Labor Expense* is increasing \$7.5 million, or 2.5%, year over year
- Reduction in contracted Purchased Service expenses help offset inflationary increases in Supplies and Professional Fees

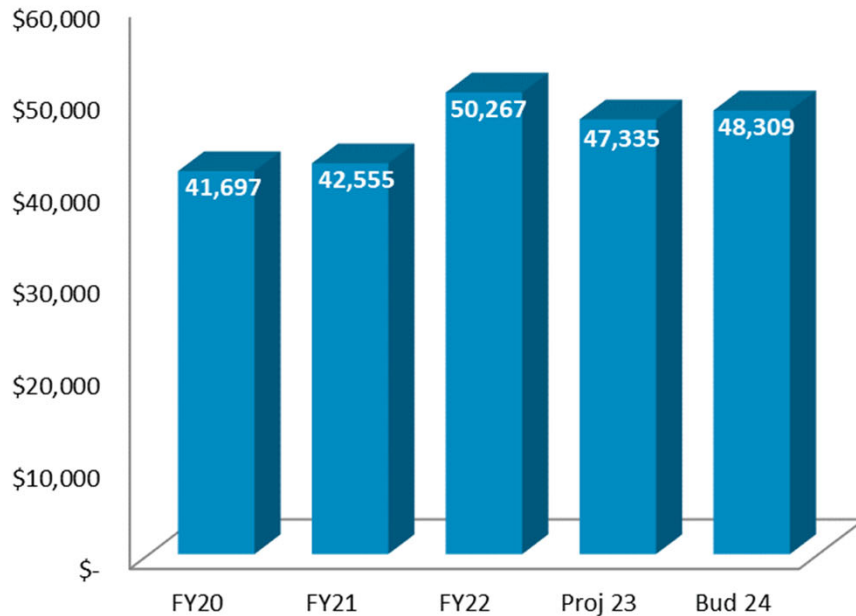
Trended Non Labor Expense per Adj. Discharge+SNF



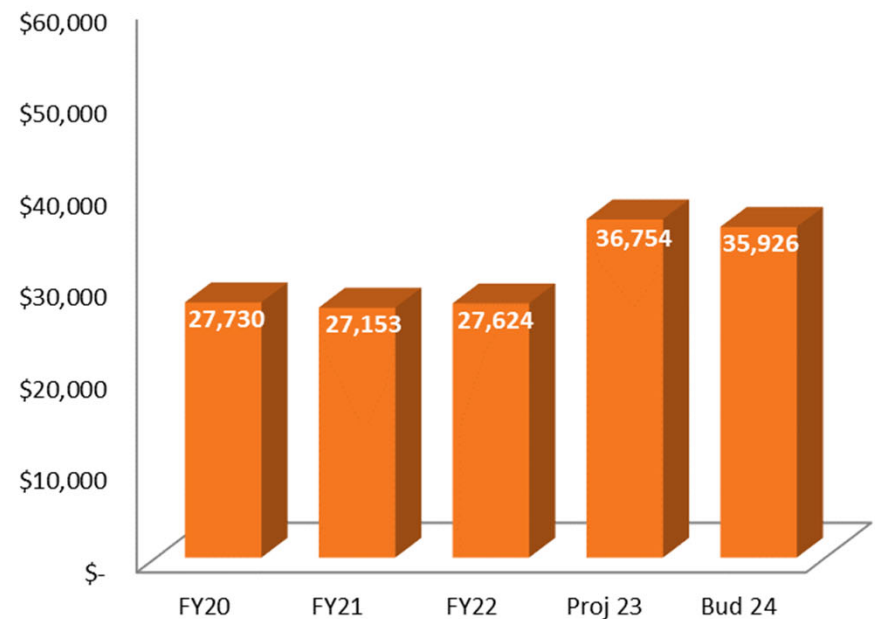
*excludes depreciation

Depreciation and Interest Expense

Depreciation Expense (\$000s)



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



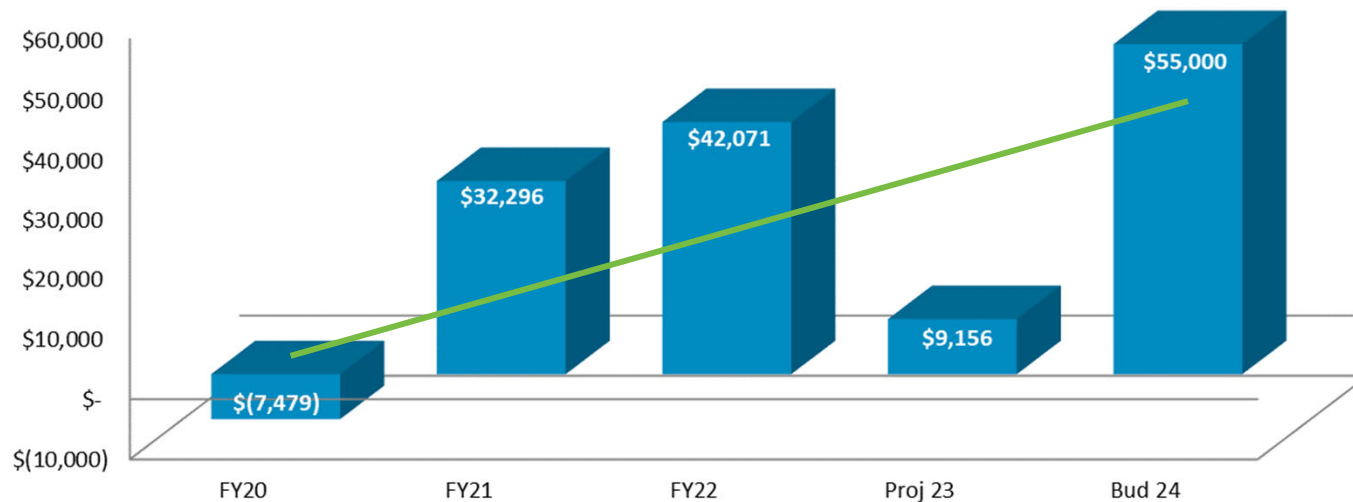
*Interest Expense reflected for leases & revenue bonds only

Annual Operating Budget Summary & EBIDA Recap

Income from Operations

- FY2024 Income from Operations is planned to increase by \$45.8 million from FY2023 projections
- The increase will result from strategic volume growth and targeted expense management strategies designed to align next year's financial results with the five-year strategic financial plan

Income from Operations (\$000s)



FY2024 Annual Operating and Capital Plan

Annual Operating Budget Summary and Trend

	FY2021 Results	FY2022 Results	FY2023 Projection	FY2024 Budget
Revenue:				
Net Revenue	757,399,651	790,879,243	839,485,517	878,540,632
Other Operating Revenue	9,899,382	9,232,228	10,789,233	15,030,964
Total Operating Revenue	\$ 767,299,032	\$ 800,111,471	\$ 850,274,750	\$ 893,571,596
Expenses:				
Salaries, Wages, Registry, Benefits	409,728,562	439,167,372	495,851,229	484,883,049
Supplies	106,833,220	110,289,837	120,276,497	121,730,073
Depreciation	42,555,205	50,267,077	47,335,365	48,308,669
Other	175,886,344	158,316,592	177,655,905	183,649,805
Total Operating Expense	\$ 735,003,330	\$ 758,040,878	\$ 841,118,996	\$ 838,571,596
Operating Income	32,295,702	42,070,592	9,155,754	55,000,000
Non-Operating Income (Loss)	4,509,195	5,998,813	9,990,138	4,836,222
(Interest Expense)	(27,153,206)	(27,623,516)	(36,754,480)	(35,926,396)
Unrealized (Loss) gain on interest rate swap	9,444,610	13,152,115	7,093,469	0
(ROU Interest)	0	(10,990,065)	(10,941,090)	(11,511,101)
Property Tax Revenue	19,319,455	20,184,290	20,081,661	23,500,000
Income (Loss)	\$ 38,415,755	\$ 42,792,228	\$ (1,374,548)	\$ 35,898,725
PHMG Foundation Support	21,500,000	27,000,000	33,000,000	42,000,000
PHMG New Providers / Strategic Initiatives	0	0	0	4,350,000
Net Margin %	5.0%	5.3%	-0.2%	4.0%
OEBIDA Margin (Excl. Property Tax Rev)	9.8%	11.5%	6.6%	11.6%
OEBIDA Margin (Incl. Property Tax Rev)	12.3%	14.1%	9.0%	14.2%
EBIDA Margin	12.9%	13.4%	9.7%	13.4%
Total Uncompensated Care & Bad Debt	95,388,405	83,824,508	89,935,049	93,117,352
Total Uncompensated Care as % of Gross	2.19%	1.84%	1.81%	1.69%

FY2024 Annual Operating and Capital Plan

FY2024 EBIDA Recap (\$000s)

	FY2021 Results	FY2022 Results	FY2023 Projected	FY2024 Budget
Net Income from Ops (Excl. Interest Expense)	32,296	42,071	9,156	55,000
Depreciation Expense	42,555	50,267	47,335	48,309
OEBIDA	\$ 74,851	\$ 92,338	\$ 56,491	\$ 103,309
OEBIDA Margin (Excl. Property Tax Rev)	9.8%	11.5%	6.6%	11.6%
OEBIDA Margin (Incl. Property Tax Rev)	12.3%	14.1%	9.0%	14.2%
EBIDA	98,680	107,531	75,622	120,134
EBIDA Margin	12.9%	13.4%	8.9%	13.4%
Total Uncompensated Care & Bad Debt	95,388	83,825	89,935	93,117
Total Uncompensated Care as % of Gross	2.19%	1.84%	1.81%	1.69%
Net Income / (Loss) after Non-Op Income	\$ 38,416	\$ 42,792	\$ (1,375)	\$ 35,899

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)

Funded by Restricted & Unrestricted Cash:

	FY2024	FY2025	FY2026	Total Project Spend
Equipment				
Routine Replacement	4,496	4,011	3,396	11,903
Bed Replacement	941	941	941	2,823
Total	5,437	4,952	4,337	14,726
Facilities				
New Floor Buildout - Escondido	31,025	46,600	-	77,625
Facilities Renovation - Escondido	7,597	5,140	-	12,737
Facilities Renovation - Poway	22,678	4,973	2,000	29,651
Total	61,300	56,713	2,000	120,013
IT Infrastructure & Projects	8,933	11,205	12,205	32,343
Strategic Capital	4,500	2,500	10,000	17,000
Grand Total	80,170	75,370	28,542	184,082

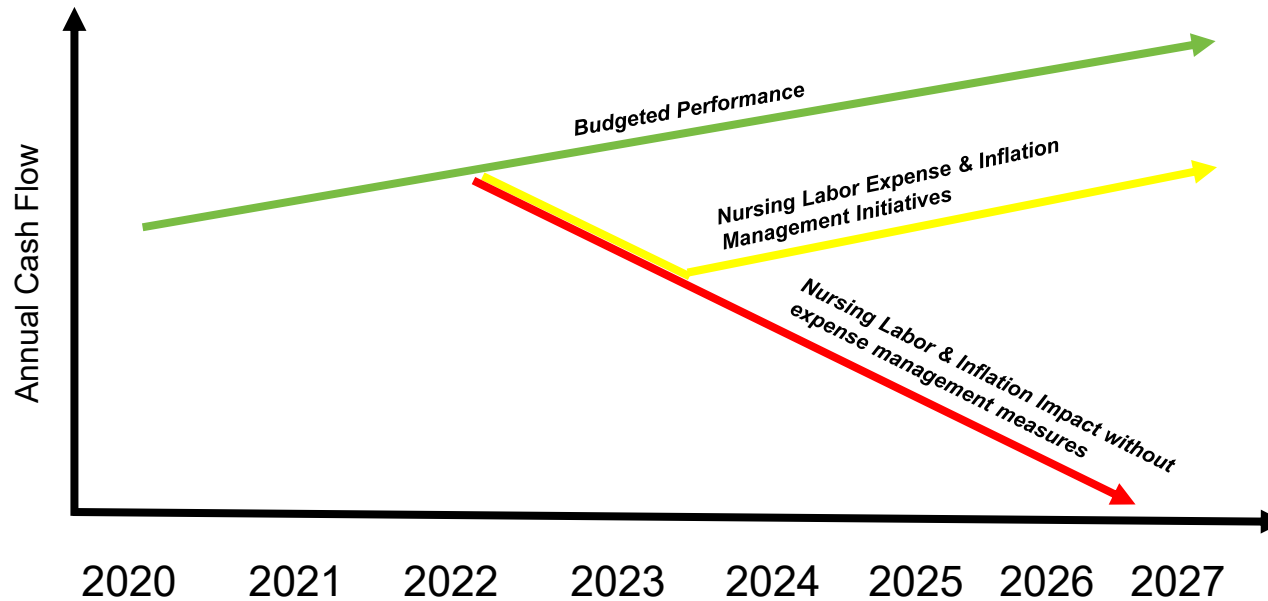
FY2024 Budget Summary & Key Take-Aways

Summary

- ➔ **FY2024 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 4.7% growth in Net Patient Revenue year-over-year, with continued contributions from supplemental programs to augment revenues from the growing Medi-Cal population
 - Successful recruitment of key staff to reduce reliance on contract labor and premium pay
 - Continued implementation of expense management initiatives to align with industry benchmarks
- ➔ **Successful execution will allow Palomar Health to:**
 - Expand local healthcare services to better serve the members of the district
 - Deploy sufficient capital to meet the needs of the organization while improving liquidity
 - Continue improvements in clinical excellence and patient satisfaction
 - Achieve net income improvement of \$37.3 million year-over-year; and operating income improvement of \$45.8 million

Five-Year Financial Projections

Five-Year Financial Projections



Palomar Health needs a sound financial strategy in order to:

- Control contract labor costs & inflationary pressures to provide care at sustainable margins
- Continue to improve key liquidity ratios
- Adjust capacity to serve the changing needs of the community
- Continue the development of a fully integrated health delivery system
- Fund sufficient capital to replace aging equipment and renovate facilities

**Prepared by Kaufman Hall*

FY2024 Annual Operating and Capital Plan

Five-Year Financial Projections

Ratio/Statistic	Audited		Estimated	Projection Years				
	2021	2022	2023	2024	2025	2026	2027	2028
Total Operating Revenue	\$842,901	\$913,075	\$986,338	\$1,032,431	\$1,087,239	\$1,142,745	\$1,201,783	\$1,264,586
Operating EBIDA	\$61,186	\$62,459	\$22,404	\$63,512	\$80,066	\$94,040	\$110,207	\$129,832
Operating Income	(\$18,561)	(\$18,315)	(\$65,433)	(\$20,723)	(\$7,802)	\$4,966	\$22,123	\$43,197
Operating Income Excl. interest expense	\$8,592	\$9,309	(\$28,679)	\$15,204	\$27,574	\$39,906	\$56,606	\$76,285
Palomar Health	\$31,640	\$30,845	\$10,108	\$59,700	\$72,070	\$87,402	\$107,102	\$129,781
PHMG	(\$22,466)	(\$21,340)	(\$38,591)	(\$44,300)	(\$44,300)	(\$47,300)	(\$50,300)	(\$53,300)
Unrestricted Cash	\$292,404	\$252,941	\$184,806	\$205,952	\$251,435	\$311,083	\$385,331	\$472,415
Capital Expenditures	\$35,137	\$21,023	\$33,000	\$81,143	\$73,397	\$25,000	\$25,000	\$30,000
Profitability								
Operating Margin	(2.2%)	(2.0%)	(6.6%)	(2.0%)	(0.7%)	0.4%	1.8%	3.4%
Operating Margin Excl. interest expense	1.0%	1.0%	(2.9%)	1.5%	2.5%	3.5%	4.7%	6.0%
Operating EBIDA Margin	7.3%	6.8%	2.3%	6.2%	7.4%	8.2%	9.2%	10.3%
Liquidity								
Days Cash On Hand (days)	132.3	105.1	67.4	74.8	88.0	105.1	124.9	147.6
Days Cash On Hand (days) - Excl. interest	136.9	108.5	70.0	77.6	91.1	108.6	128.8	152.0
Other								
Adjusted Discharges	44,946	37,879	43,025	42,477	43,730	45,028	46,365	47,742
Cost / Adj Discharge	\$17,392	\$22,456	\$22,404	\$22,811	\$23,032	\$23,290	\$23,543	\$23,768
Capital Spending Ratio	66.8%	39.6%	64.6%	168.0%	139.8%	46.2%	46.6%	56.0%

*Prepared by Kaufman Hall