

FY2025 Annual Operating and Capital Plan

Board Budget Presentation

June 20, 2024



Agenda

Executive Summary

FY2025 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 Summary

FY2025 Annual Budget Summary / EBIDA Recap

Three-Year Capital Plan

Executive Summary

The FY2025 budget provides a plan to support the mission of caring for our community in the midst of changing market conditions. It puts Palomar Health on a pathway toward achieving the five-year strategic financial and capital plan.

- Targets EBIDA of \$87.5M, with growth of \$50.9 million from current projected FY2024 performance
- Establishes initiatives to stabilize the cost of labor in response to current market conditions and regulatory changes
- Maintains current volume projections while continuing the multi-year strategies in place to expand access to care
- Continues deployment of capital resources to expand key service lines, maintain existing facilities, and implement new technology
- Prioritizes 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

FY2025 Budget – Key Drivers & Overview

Key Plan Drivers

- Year-over-year EBIDA improvement will be required to ensure we are able to continue to invest in capital and resources for services within the district
- Development of a strategic facility plan to align capacity to local need and demand
- Ongoing development of key service lines through physician recruitment and collaboration
- Continued evaluation of community partnerships to support the highest quality of care and to expand service offerings for the district
- Labor market competition drives a greater need for flexible staffing and aligning with industry standards
- Expense management initiatives, identified through consultation with industry experts, help offset rising costs
- Revenue enhancement strategies and growth help to offset payor mix shifts and reimbursement pressures

Inflationary Assumptions

Healthcare Industry Inflation Comparison

- FY2025 budget incorporates inflation in-line with higher nationwide trends
- Palomar Health has engaged with Huron Consulting Group to realize cost savings across physician preference, procedural areas, and key high-spend areas to offset inflation

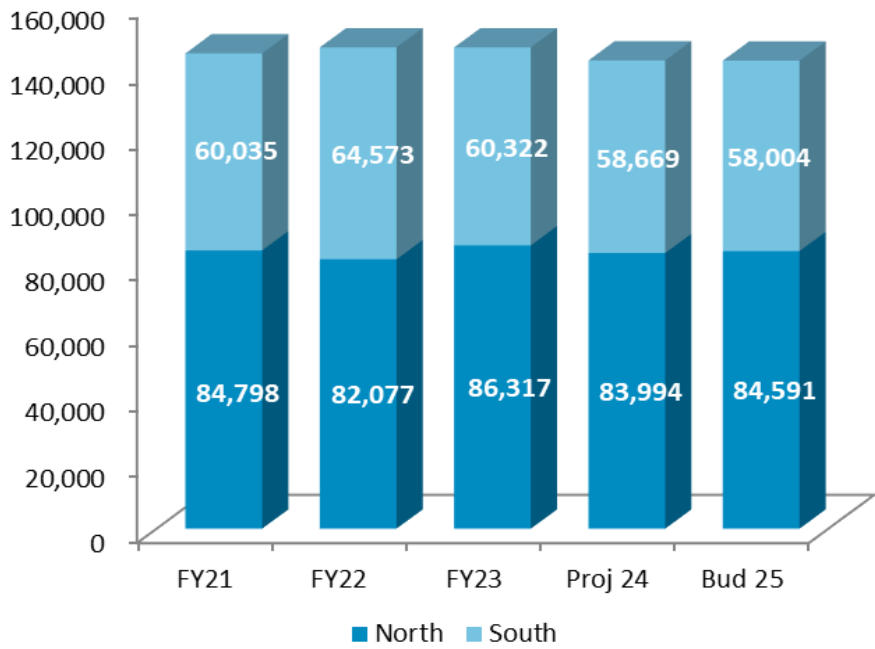
Category / Expense	FY2025 Budget	Industry Expectation
Implants	2.0%	4.5%
General Surgery Supplies	3.0%	4.0%
Surgical Needles & Packs	7.5%	10.0%
Oxygen – Gas	5.0%	7.0%
IV Solutions	4.0%	7.5%
Pharmaceuticals	5.0%	8.0%
Radioactive and X-Ray Material	3.0%	4.0%
Other Medical	3.0%	5.0%
Food	4.0%	5.0%
Linen	3.0%	6.0%
All Other: Cleaning, Forms, Office, Uniforms	1-10%	3-15%

Key Statistical Indicators

Key Statistical Indicators | Inpatient

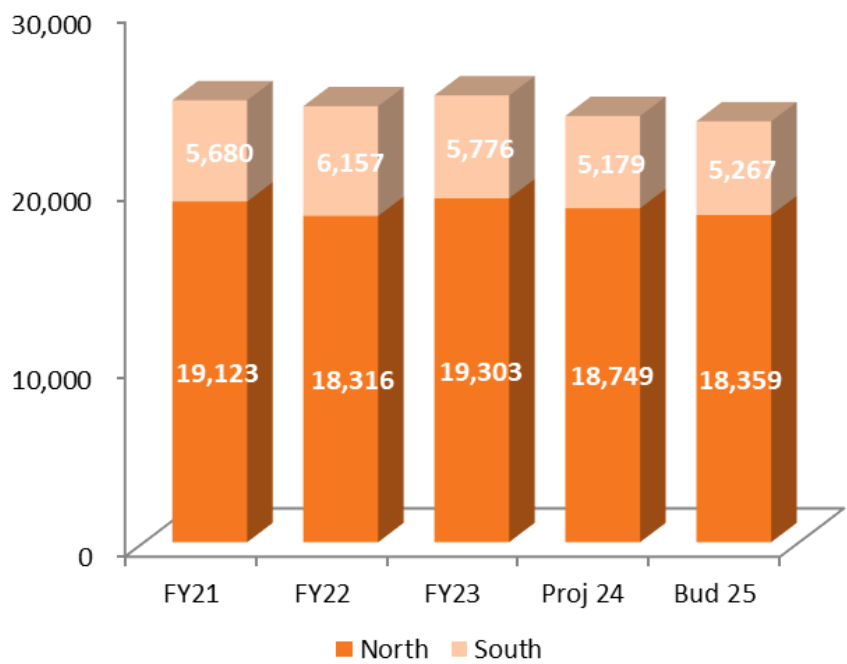
Total Patient Days (Incl. SNF)

FY2025 planned patient days are flat to projection



Total Discharges (Incl. SNF)

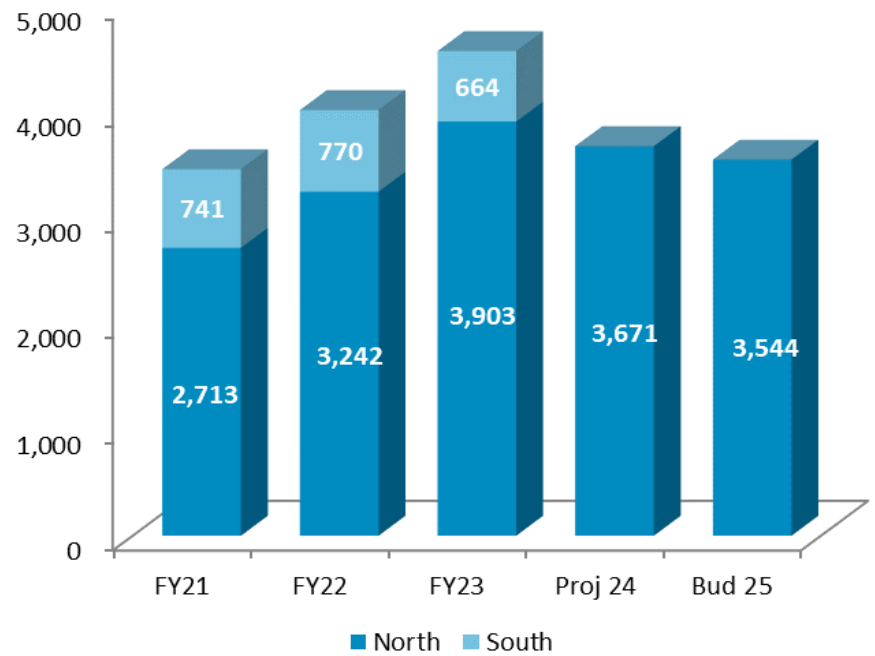
FY2025 discharges are decreasing by 301, or 1.3%, year-over-year



Key Statistical Indicators | Inpatient

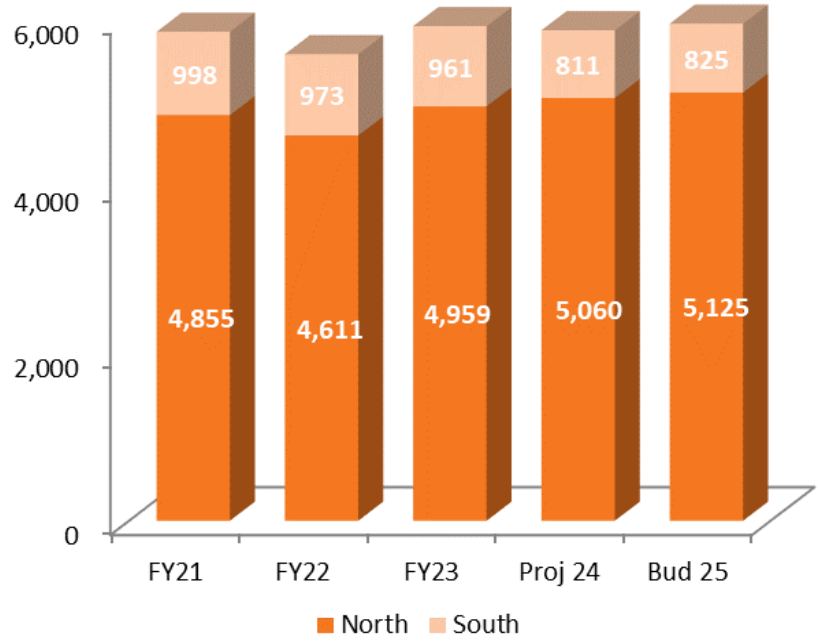
Deliveries

FY2025 deliveries are decreasing by 3.5% as market forces shift demand



Inpatient Surgeries

FY2025 inpatient surgeries are increasing by 1.4% based on physician recruitment

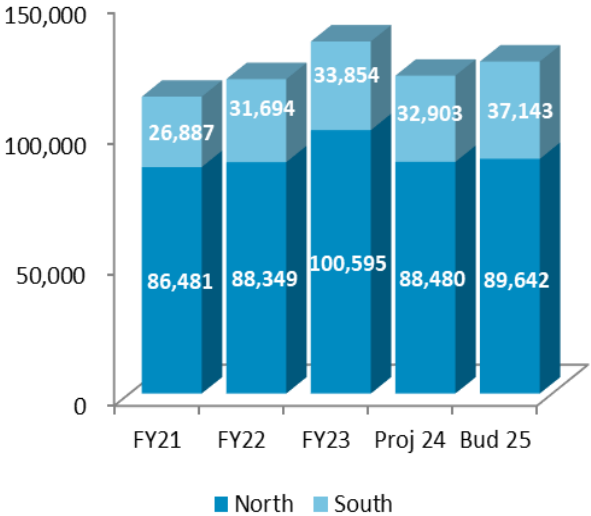


Key Statistical Indicators | Outpatient

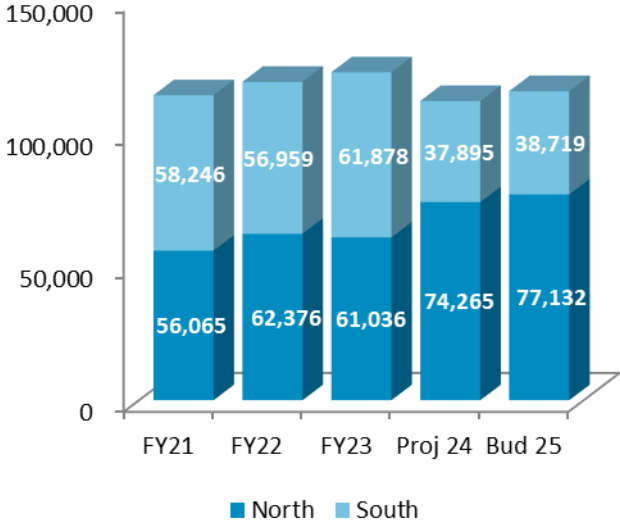
Outpatient Services

- Emergency Department visits are increasing by 5,402, or 4.5%, as demand in the region continues to increase
- Outpatient registrations are increasing 3.3% as growth in key service lines offset a 3.4% planned decrease in outpatient surgery

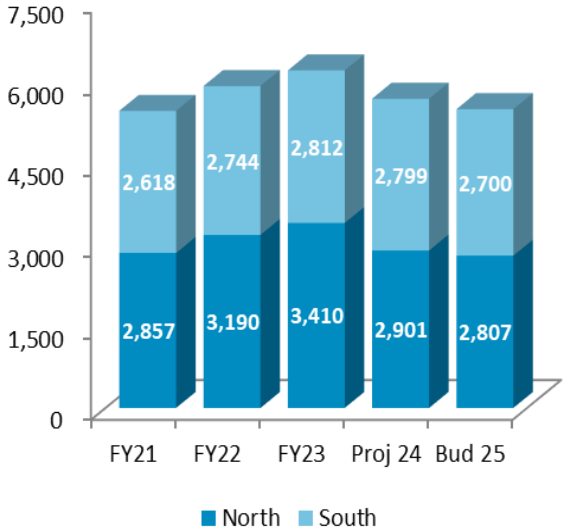
Emergency Visits



Outpatient Registration



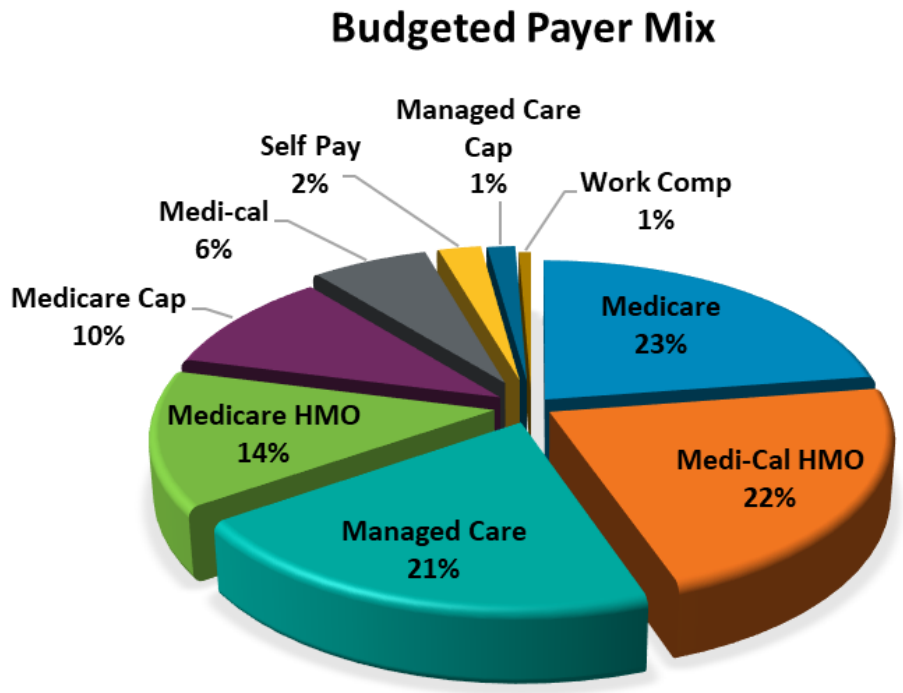
Outpatient Surgery



Revenue

Key Revenue Considerations

Payor Category	Total Charges (\$000s)
Medicare	\$1,271,223
Medi-Cal HMO	\$1,237,983
Managed Care	\$1,164,321
Medicare HMO	\$764,720
Medicare Cap	\$569,812
Medi-Cal	\$356,925
Self Pay	\$130,919
Managed Care Cap	\$85,602
Work Comp	\$36,815
Total	\$5,618,319



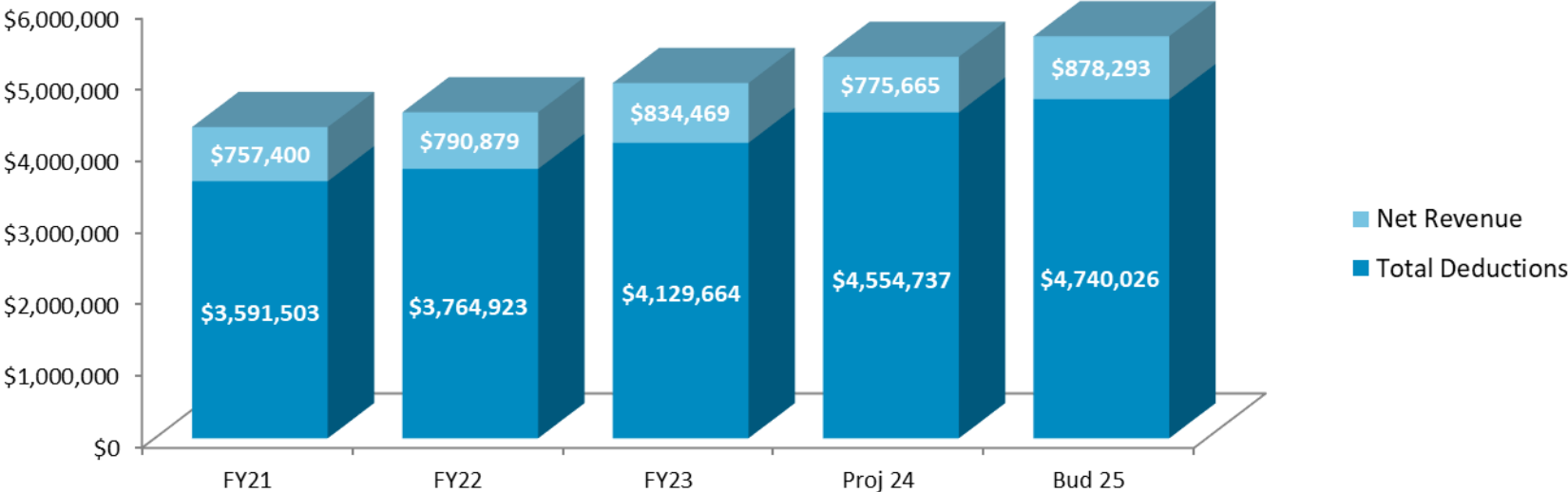
Assumptions:

- Overall effective rate increase of 4.7% (targeted 5%)
- Bad debt and uncompensated care are stable at approximately 2% per year (FY2025 Budget 1.8%; FY2024 = 1.7%)

Revenue Trend Analysis

Net Revenue is anticipated to increase by \$102.6 million, or 13.2%, year over year

Gross Charges and Net Revenue (\$000s)



\$	3,591,503	\$	3,764,923	\$	4,129,664	\$	4,554,737	\$	4,740,026	Total Deductions*
\$	757,400	\$	790,879	\$	834,469	\$	775,665	\$	878,293	Net Revenue
\$	4,348,903	\$	4,555,802	\$	4,964,132	\$	5,330,402	\$	5,618,319	Total Gross Revenue

*Deductions include net capitation impact

Salaries, Wages, Benefits & FTEs

Labor Impact Summary

The FY2025 labor budget establishes a plan to:

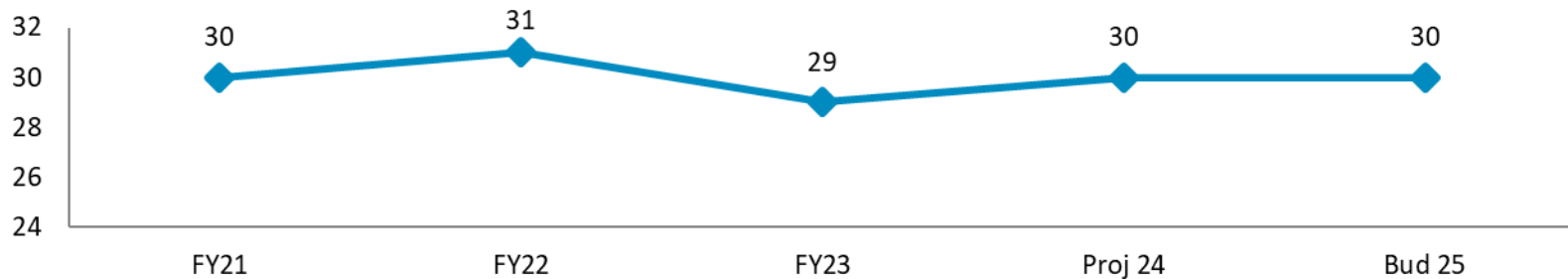
- Recruit local talent through hiring incentives to reduce contract labor and premium pay while improving employee engagement
- Utilize industry benchmarks and community need to realign staffing with demand
- Drive operational efficiencies through staffing and skill-mix initiatives to help offset rising labor costs

2025 Budgeted FTE Roll Forward	FTEs
FY2024 Paid FTEs (as of 3/23/2024)	3,293
Volume-Related Changes	16
Program Consolidations	(38)
Operational Efficiencies	(54)
Targeted FTE Additions	78
FY2025 Paid FTEs	3,295

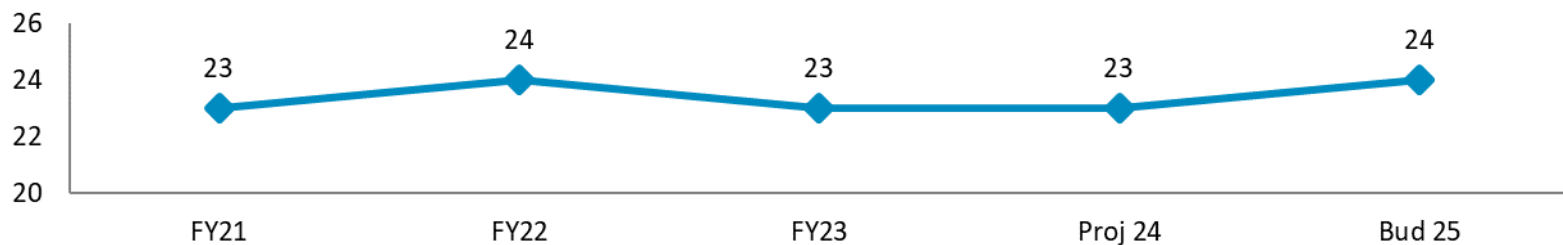
Labor Analysis | FTEs

Budgeted FTEs per adjusted discharge are consistent with current year projections while changes in staffing are increasing direct caregiver and support FTEs

FTEs per Adjusted Discharge (Incl. SNF)



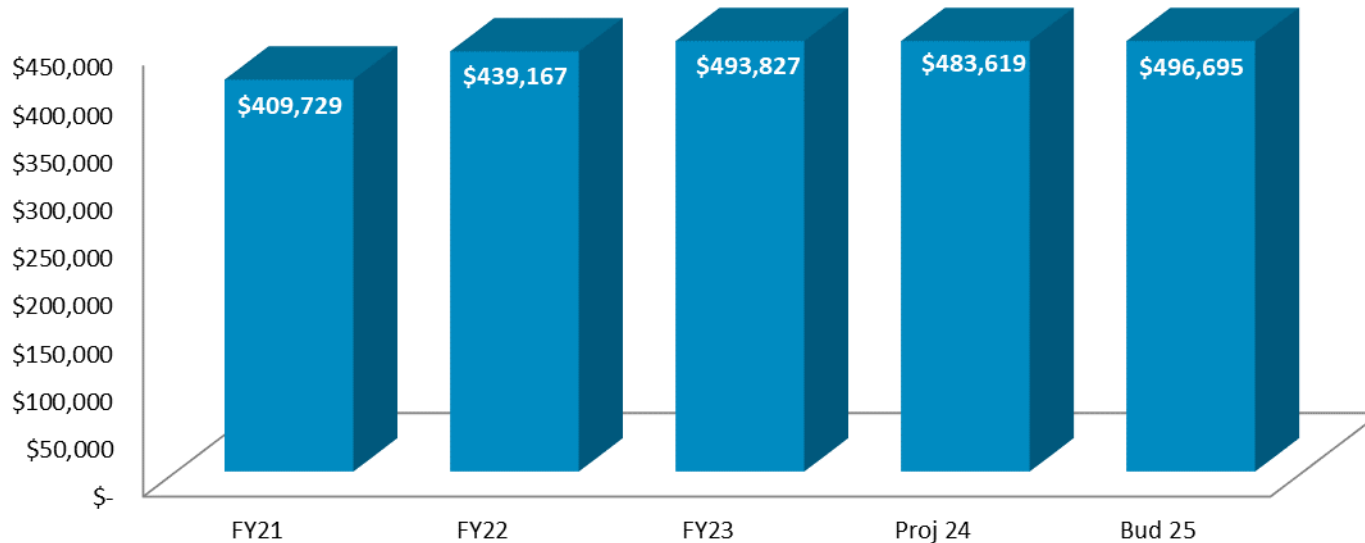
Direct Caregiver & Support FTEs per Adjusted Discharge (Incl. SNF)



Labor Analysis | Salaries, Wages & Benefits

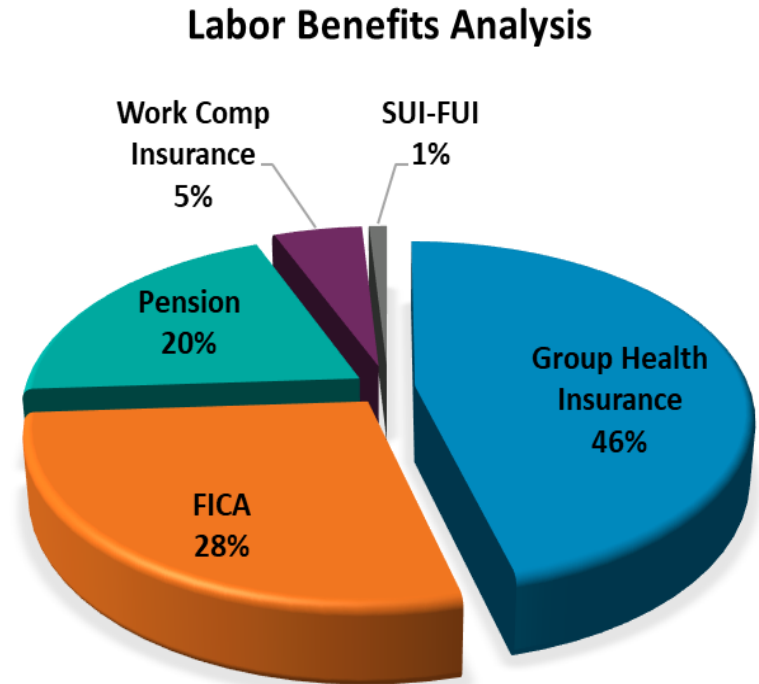
- FY2025 total Salaries, Wages, Contract Labor, and Benefits are expected to increase by \$13 million, or 2.7%
- Salary increases to recruit and retain employees are partially offset by reduced reliance on contract labor

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



Labor Analysis | Benefits (Excl. PTO)

Type of Benefit	% of Total Benefits
Group Health Insurance	46%
FICA	28%
Pension	20%
Workers' Compensation Insurance	5%
SUI-FUI	1%
Total Benefit Spend (\$000s)	\$102,117



Significant Impacts

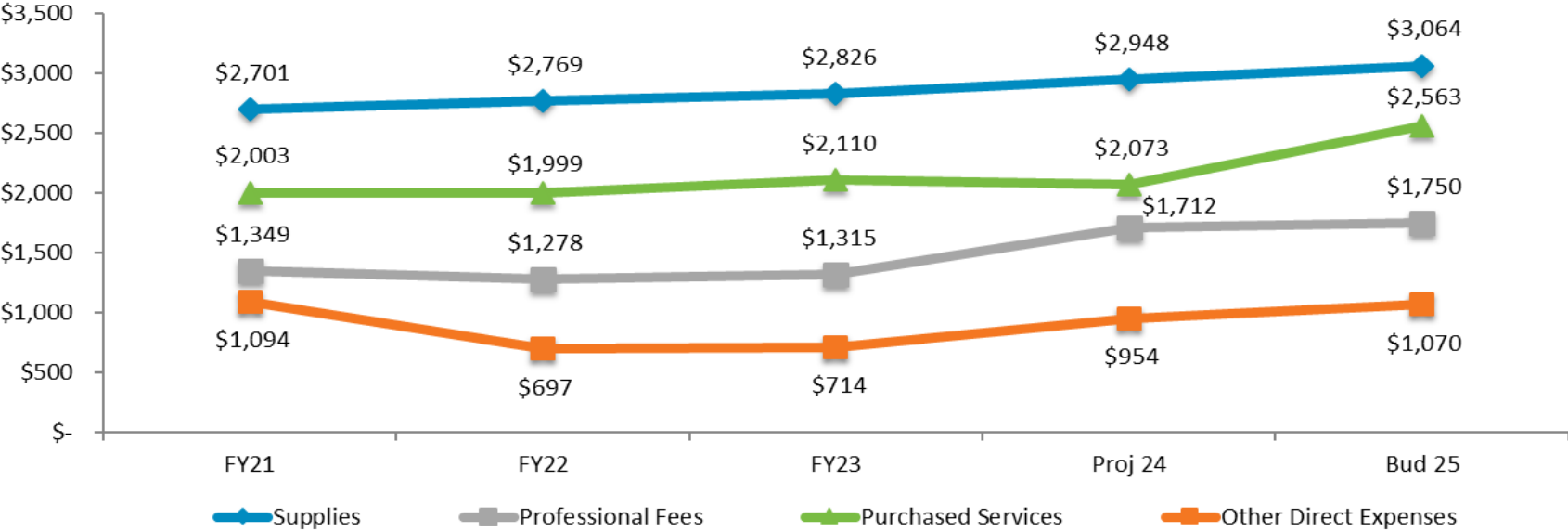
- Benefits are increasing along with increased salary projections
- Targeted initiatives help to control increasing group health insurance costs

Non Labor Analysis

Non Labor Analysis | Summary

FY2025 Non-Labor Expense* is increasing \$26.7 million, or 8.7%, year over year

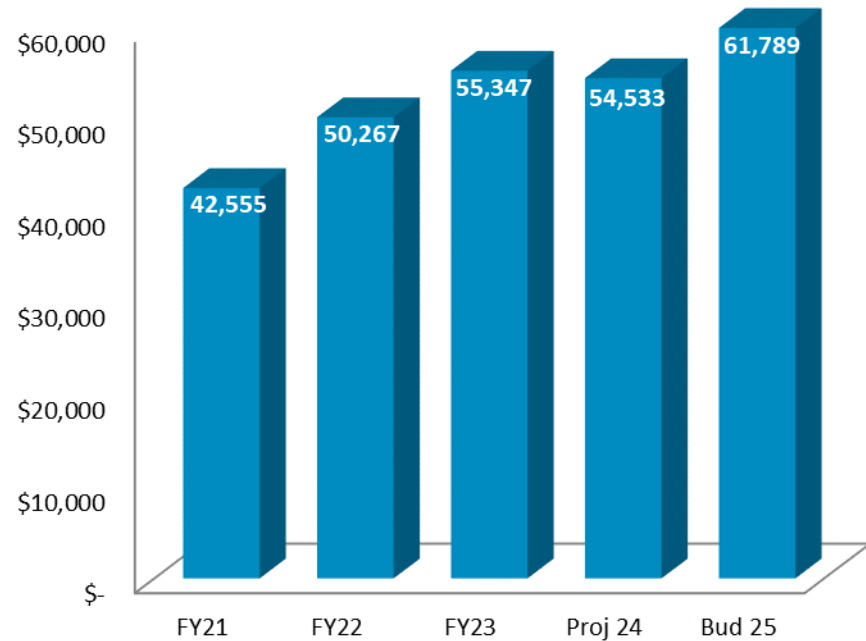
Trended Non Labor Expense per Adj. Discharge+SNF



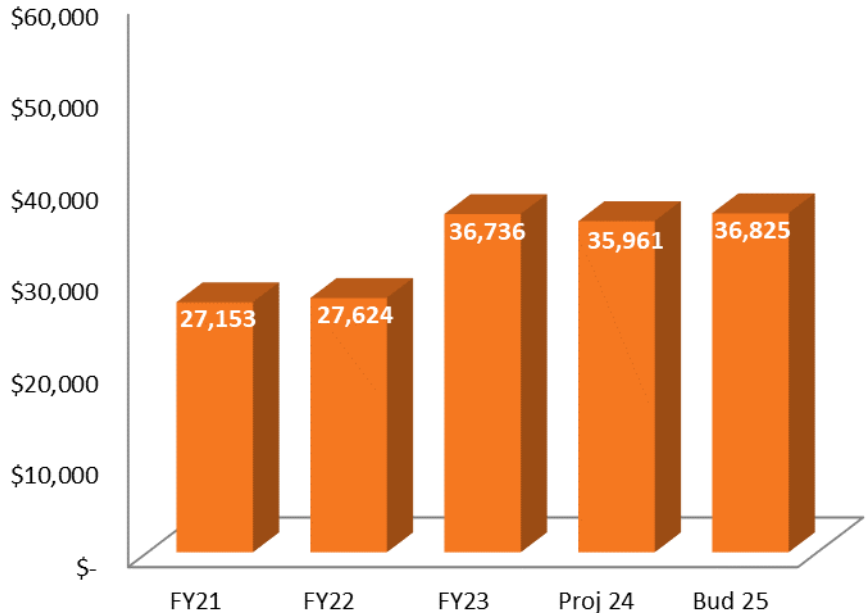
*excludes depreciation

Depreciation and Interest Expense

Depreciation Expense (\$000s)



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

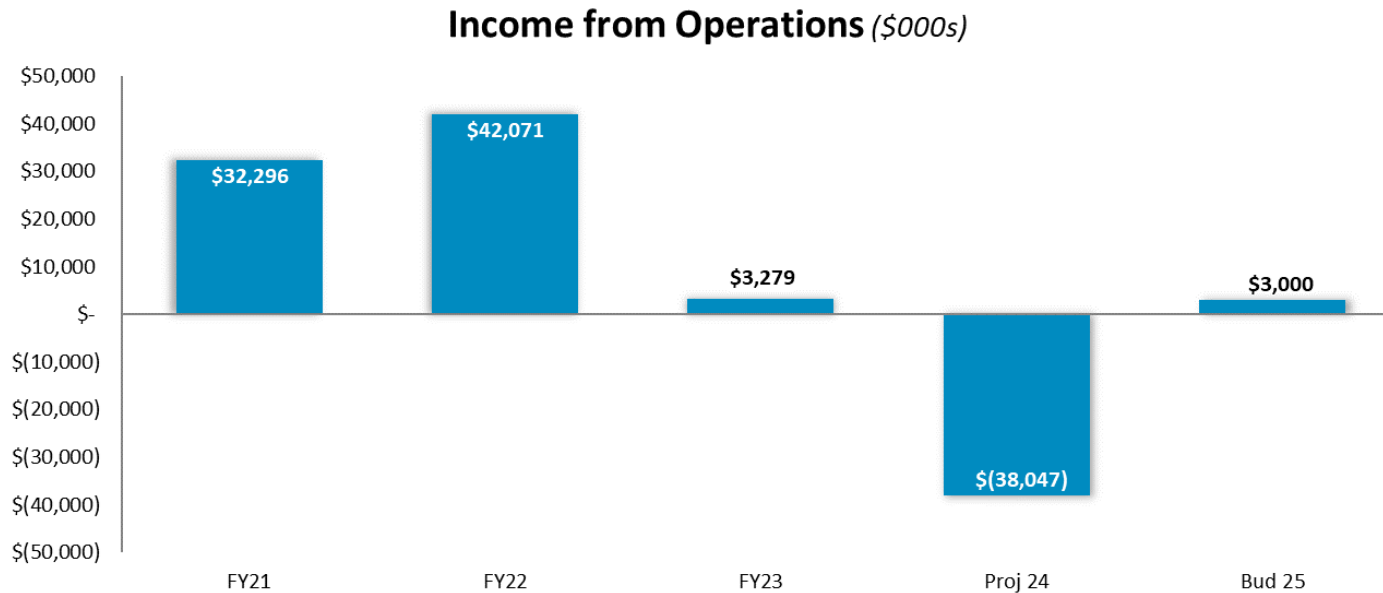


*Interest Expense reflected for leases & revenue bonds only

Annual Operating Budget Summary & EBIDA Recap

Income from Operations

- FY2025 Income from Operations is planned to increase by \$41 million from FY2024 projections
- The increase will result from physician recruitment and targeted expense management strategies designed to align next year's financial results with the five-year strategic financial plan



Annual Operating Budget Summary and Trend

	FY2022 Results	FY2023 Results	FY2024 Projection	FY2025 Budget
Revenue:				
Net Revenue	790,879,243	834,468,693	775,665,484	878,293,447
Other Operating Revenue	9,232,228	12,229,805	30,623,080	16,053,986
Total Operating Revenue	\$ 800,111,471	\$ 846,698,498	\$ 806,288,564	\$ 894,347,434
Expenses:				
Salaries, Wages, Registry, Benefits	439,167,372	493,826,609	483,618,853	496,695,293
Supplies	110,289,837	119,389,719	117,417,558	120,744,923
Depreciation	50,267,077	55,346,937	54,532,625	61,789,217
Other	158,316,592	174,856,250	188,766,916	212,118,001
Total Operating Expense	\$ 758,040,878	\$ 843,419,514	\$ 844,335,952	\$ 891,347,434
Operating Income	42,070,592	3,278,984	(38,047,388)	3,000,000
Non-Operating Income (Loss)	5,998,813	15,630,502	10,418,530	9,934,553
(Interest Expense)	(27,623,516)	(36,735,757)	(35,961,300)	(36,825,184)
Unrealized (Loss) gain on interest rate swap	13,152,115	5,324,960	0	0
(ROU Interest)	(10,990,065)	(12,037,107)	(13,757,245)	(12,743,001)
Property Tax Revenue	20,184,290	21,982,534	23,427,478	25,500,000
Income (Loss)	\$ 42,792,228	\$ (2,555,884)	\$ (53,919,924)	\$ (11,133,631)
PHMG Foundation Support	27,000,000	33,000,000	42,000,000	42,000,000
PHMG New Providers / Strategic Initiatives	0	0	4,350,000	3,000,000
Net Margin %	5.3%	-0.3%	-6.7%	-1.2%
OEBIDA Margin (Excl. Property Tax Rev)	11.5%	6.9%	2.0%	7.2%
OEBIDA Margin (Incl. Property Tax Rev)	14.1%	9.5%	5.0%	10.1%
EBIDA Margin	13.4%	9.9%	4.5%	9.8%
Total Uncompensated Care & Bad Debt	83,824,508	83,825,356	92,183,991	99,761,290
Total Uncompensated Care as % of Gross	1.84%	1.69%	1.73%	1.78%

FY2025 EBIDA Recap (\$000s)

	FY2022 Results	FY2023 Results	FY2024 Projected	FY2025 Budget
Net Income from Ops (Excl. Interest Expense)	42,071	3,279	(38,047)	3,000
Depreciation Expense	50,267	55,347	54,533	61,789
OEBIDA	\$ 92,338	\$ 58,626	\$ 16,485	\$ 64,789
OEBIDA Margin (Excl. Property Tax Rev)	11.5%	6.9%	2.0%	7.2%
OEBIDA Margin (Incl. Property Tax Rev)	14.1%	9.5%	5.0%	10.1%
EBIDA	107,531	84,202	36,574	87,481
EBIDA Margin	13.4%	9.9%	4.5%	9.8%
Total Uncompensated Care & Bad Debt	83,825	83,825	92,184	99,761
Total Uncompensated Care as % of Gross	1.84%	1.69%	1.73%	1.78%
Net Income / (Loss) after Non-Op Income	\$ 42,792	\$ (2,556)	\$ (53,920)	\$ (11,134)

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)

	FY2025	FY2026	FY2027	Total Project Spend
Funded from Unrestricted Cash				
Equipment	4,000	4,000	4,000	12,000
IT Infrastructure & Projects	8,000	8,000	10,000	26,000
Facility Renovation	500	500	500	1,500
Total	12,500	12,500	14,500	39,500
Funded from Restricted Cash				
Infrastructure Funded by Bonds	30,000	30,000	12,000	72,000
Externally Funded Projects	4,000	7,000	5,000	16,000
Total	34,000	37,000	17,000	88,000
Grand Total	46,500	49,500	31,500	127,500

FY2025 Budget Summary & Key Take-Aways

Summary

➔ **FY2025 Budget sets achievable targets in the midst of a turnaround year and will require success in the following areas:**

- A 13% growth in Net Patient Revenue year-over-year, with continued contributions from supplemental programs to augment revenues from the growing Medi-Cal population
- Talent acquisition and retention of key staff to reduce contract labor and premium pay
- Strategic physician recruitment to support service line and facility development
- Continued implementation of expense management initiatives to align with industry experts

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

- Adapt to evolving local market conditions and industry demands
- Deploy sufficient capital to meet the needs of the organization and community while improving liquidity
- Achieve net income improvement of \$42.8 million year-over-year; and operating income improvement of \$41.0 million