# FY2026 Annual Operating and Capital Plan

**Board Budget Presentation**

June 17, 2025

PALOMAR HEALTH
Reimagining Healthcare

# Agenda

**Executive Summary**

**FY2026 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**

**FY2026 Annual Budget Summary / EBIDA Recap**

**Three-Year Capital Plan**

# Executive Summary

The FY2026 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 financial sustainability.

- Targets EBIDA of $86.6 million, with growth of $51.7 million from current projected FY2025 performance
- Continues initiatives to decrease the cost of labor by focusing on reductions in agency, premium pay, and productivity improvement plans
- Maintains current volume projections while continuing multi-year strategies to expand access to care
- Deploys capital resources sparingly to maintain existing facilities and implement new technology
- Prioritizes focus on key organizational goals regarding clinical excellence, patient throughput, and financial improvement

# FY2025 Year in Review

While FY2025 was a challenging year, the progress made in the second half of the year on turnaround projects will carry over into the FY2026 budget.

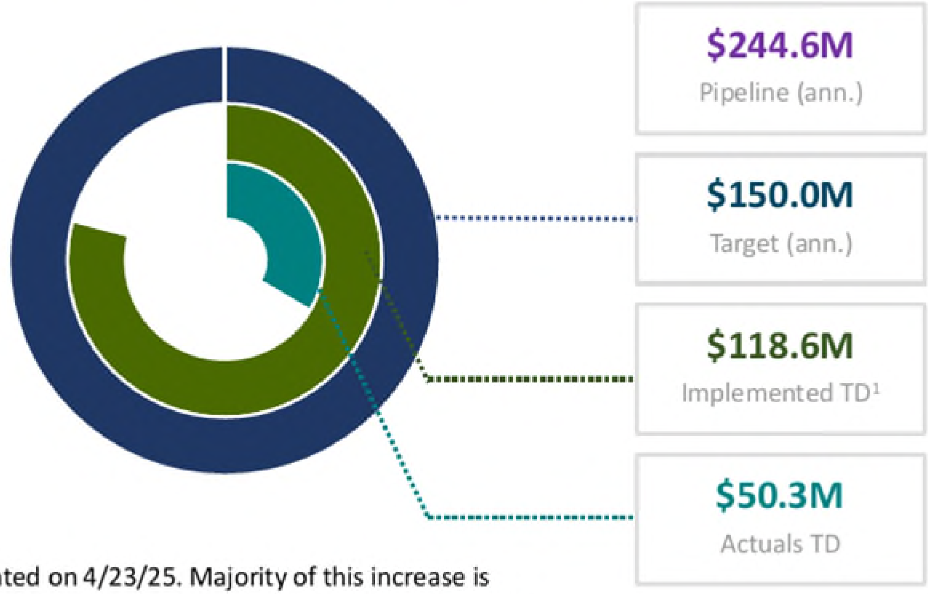
- Execution of a forbearance agreement with Assured Guaranty was a significant focus during the first half of the year
- The forbearance agreement was executed in January 2025
- Several one-time items in FY2025 will not recur in the coming year, improving margin by $23 million
- Implementation of turnaround projects was the core focus beginning in the second quarter of the fiscal year
- A number of margin improvement projects were implemented by June 2025, though results will not be fully realized until FY2026

# Turnaround Project

## Palomar Health has implemented a projected $118.6M of initiatives and realized $50.3M in improvement through April

**Key high value initiatives include:**

- ❑ **$10.0M** — **Denials Reduction** | Initial and fatal denials reduction
- ❑ **$5.0M** — **Corporate Services** | Departmental reductions and restructuring
- ❑ **$5.7M** — **Workforce** | Departmental productivity and premium pay management
- ❑ **$4.5M** — **NICU** | Program adjustments
- ❑ **$4.7M** — **Villas at Poway** | SNF volume and net income improvement
- ❑ **$1.0M** — **OP Imaging** | Revenue capture




Implemented to date value has increased $8.7M from **$109.9M** presented on 4/23/25. Majority of this increase is attributed to Workforce initiatives, including **$3.5M** in Perioperative staffing optimization and **$2.2M** in premium pay reduction strategies. Remaining increases are due to finalized Purchased Services contracts and growth initiatives.

[1] *Implemented to date (TD) reflects pipeline initiatives actively implemented with and projected impact.*

# FY2026 Budget – Key Drivers & Overview

# Key Plan Drivers

- Operating Plan alignment focused on year-over-year EBIDA improvement to improve cash and support progress toward bond covenant compliance
- Ongoing evaluation of community partnerships to support the highest quality of care and expand district-wide service offerings
- Targeted expense management initiatives, informed by industry experts and best practices, to support financial improvement
- Proactive performance monitoring and support frameworks to ensure execution of organizational objectives
- Revenue enhancement and growth strategies designed to mitigate the impact of volume shifts and reimbursement pressures
- Continued growth of key service lines through physician engagement, recruitment and collaboration
- Labor market competition increases the need for flexible staffing models and alignment with industry standards

# Inflationary Assumptions

- FY2026 budget incorporates inflation in-line with higher nationwide trends
- Palomar Health engaged the Huron Consulting Group with a focus on reducing spend on high-cost products in procedural areas

**Healthcare Industry Inflation Comparison**

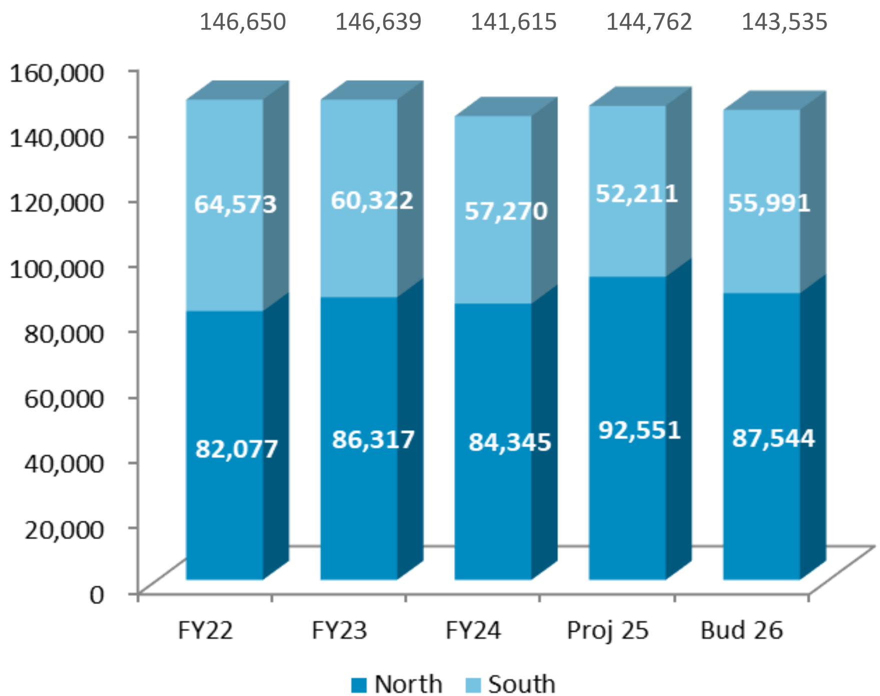
| Category / Expense | FY2026 Budget | Industry Expectation |
|---|---|---|
| Implants | 3.0% | 4.0% |
| General Surgery Supplies | 3.0% | 3.0% |
| Surgical Needles & Packs | 12.5% | 12.5% |
| Oxygen – Gas | 1.0% | 0.5% |
| IV Solutions | 3.0% | 3.0% |
| Pharmaceuticals | 3.8% | 4.0% |
| Radioactive and X-Ray Material | 0.0% | 0.0% |
| Other Medical | 4.0% | 6.1% |
| Food | 3.0% | 3.0% |
| Linen | 4.0% | 3.5% |
| All Other: Cleaning, Forms, Office, Uniforms | 1-6% | 0-15% |

# Key Statistical Indicators

# Key Statistical Indicators | Inpatient

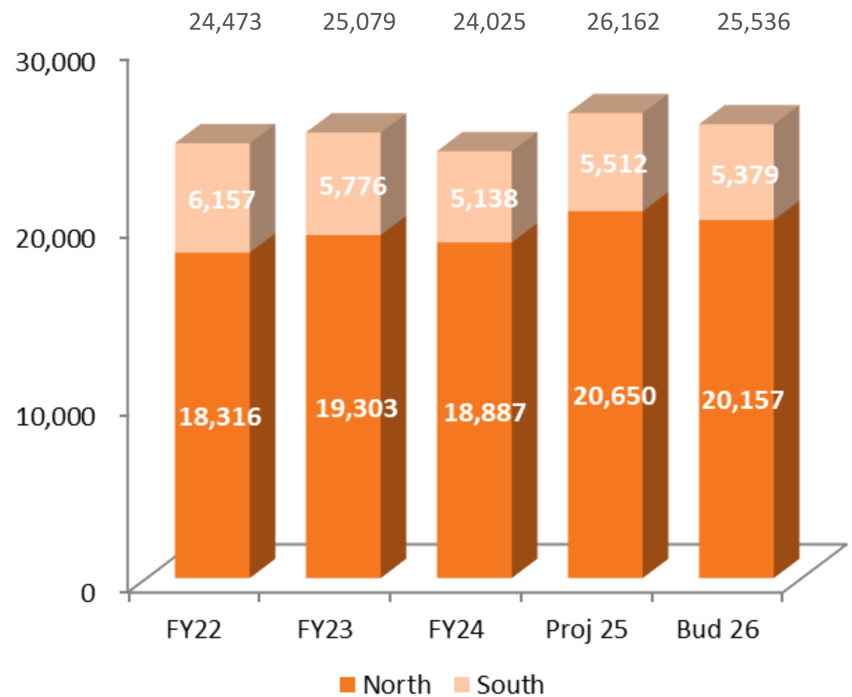
## Total Patient Days (Incl. SNF)

FY2026 planned patient days are relatively flat to projection



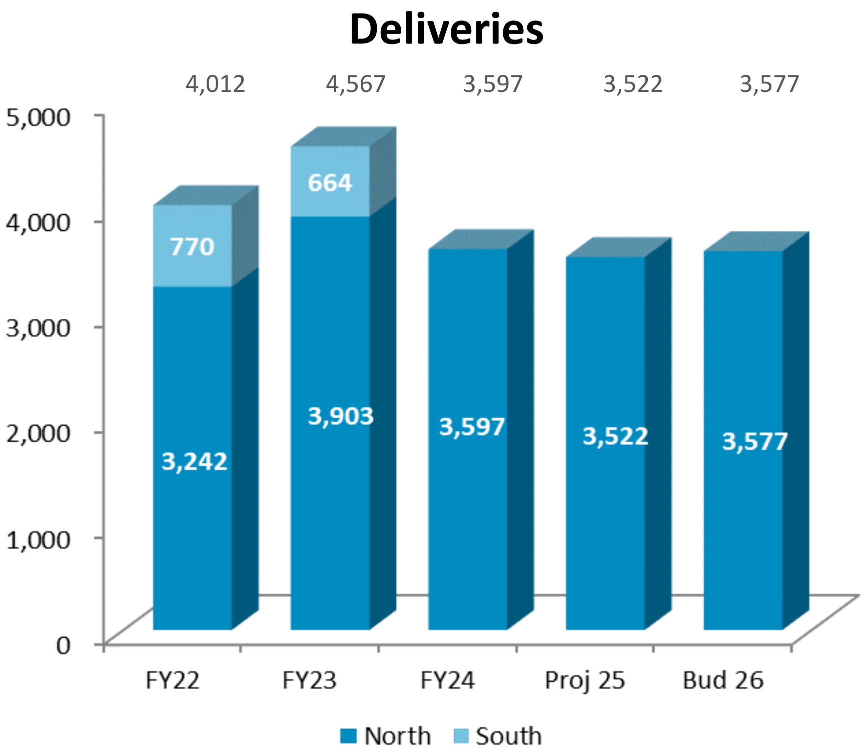

## Total Discharges (Incl. SNF)

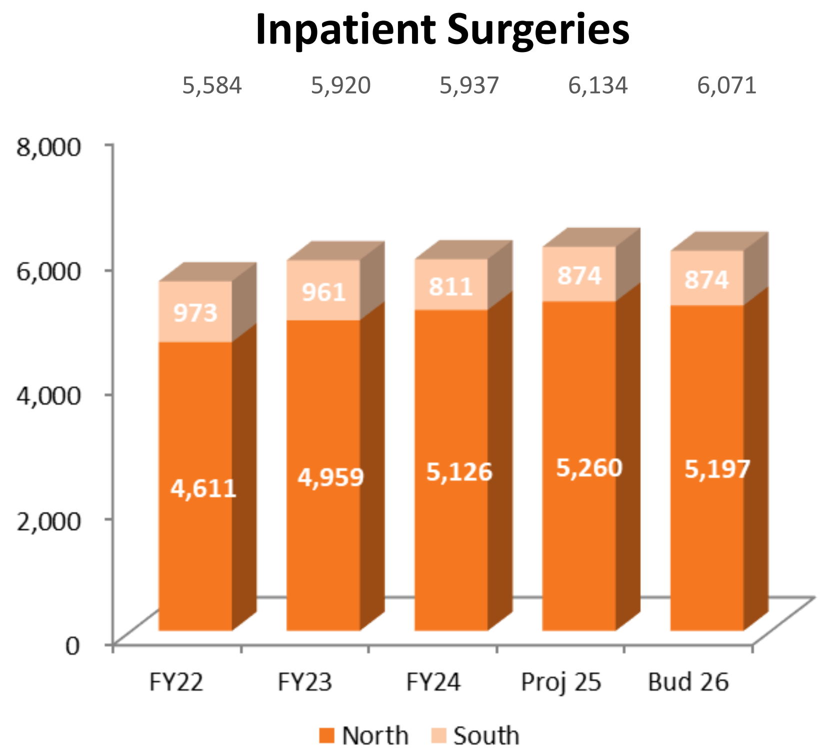
FY2026 discharges are comparable year-over-year



# Key Statistical Indicators | Inpatient

Inpatient Deliveries and Inpatient Surgeries are expected to remain comparable to the current year

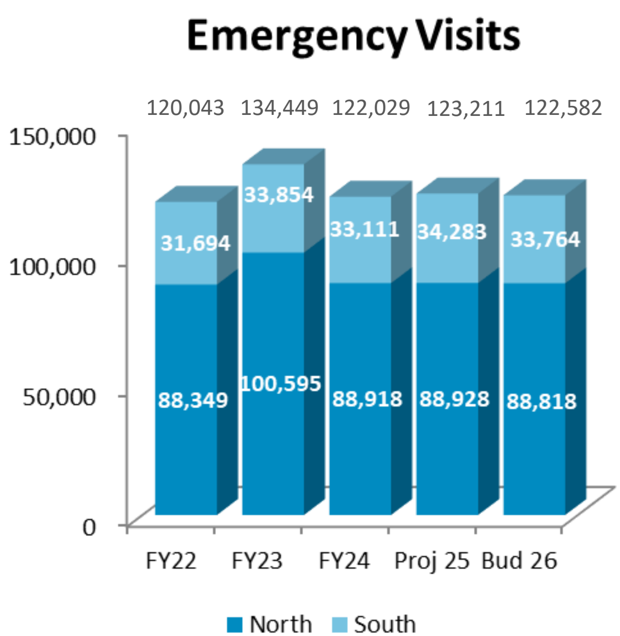


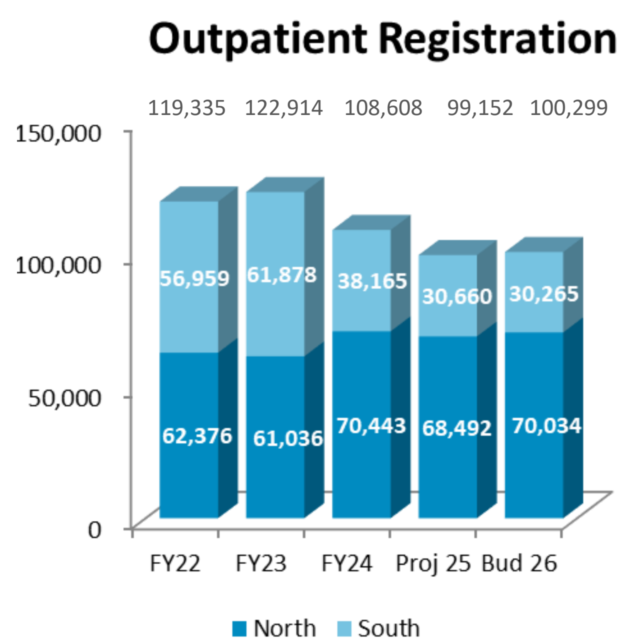



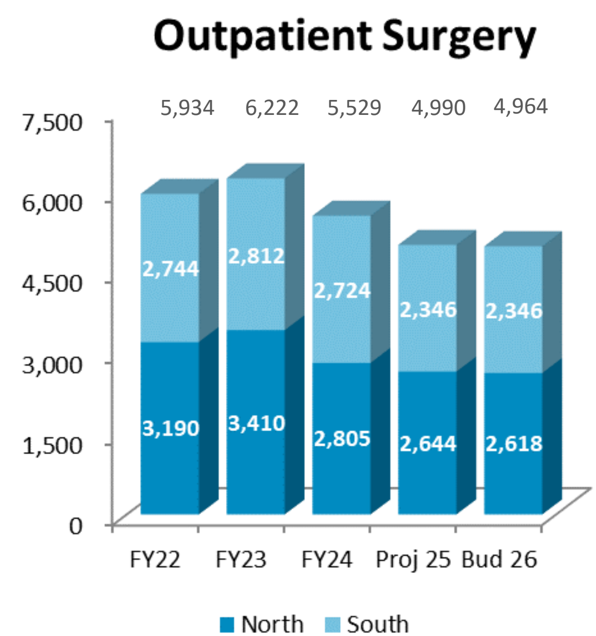
# Key Statistical Indicators | Outpatient

## Outpatient Services

- Emergency Department visits and Outpatient Surgeries are relatively flat year-over-year
- Outpatient registrations are increasing by 1.2% with Infusion Therapy and Radiation Oncology growth



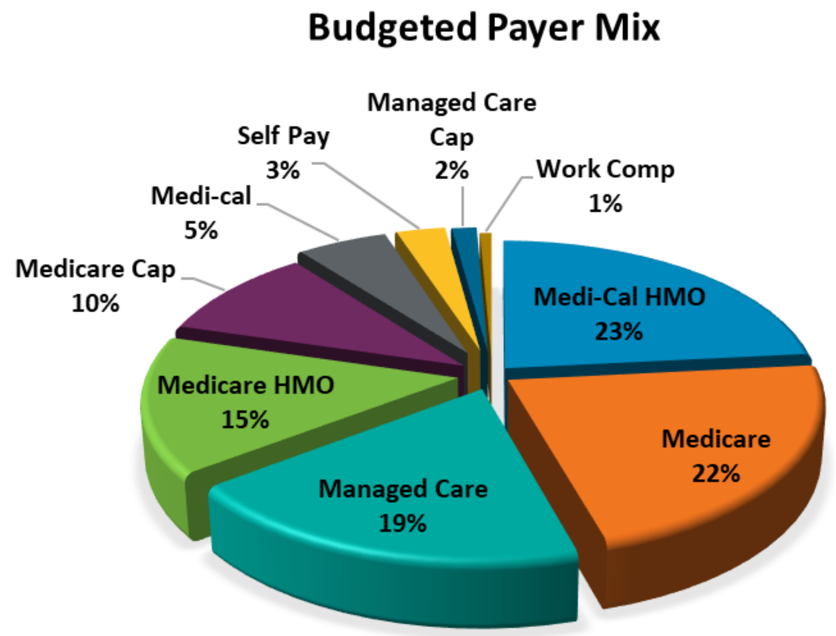



# Revenue

# Key Revenue Considerations

| Payor Category | Total Charges *($000s)* |
|---|---|
| Medi-Cal HMO | $1,365,673 |
| Medicare | $1,298,259 |
| Managed Care | $1,112,060 |
| Medicare HMO | $872,321 |
| Medicare Cap | $582,608 |
| Medi-Cal | $314,012 |
| Self Pay | $169,682 |
| Managed Care Cap | $86,315 |
| Work Comp | $39,676 |
| **Total** | **$5,840,606** |

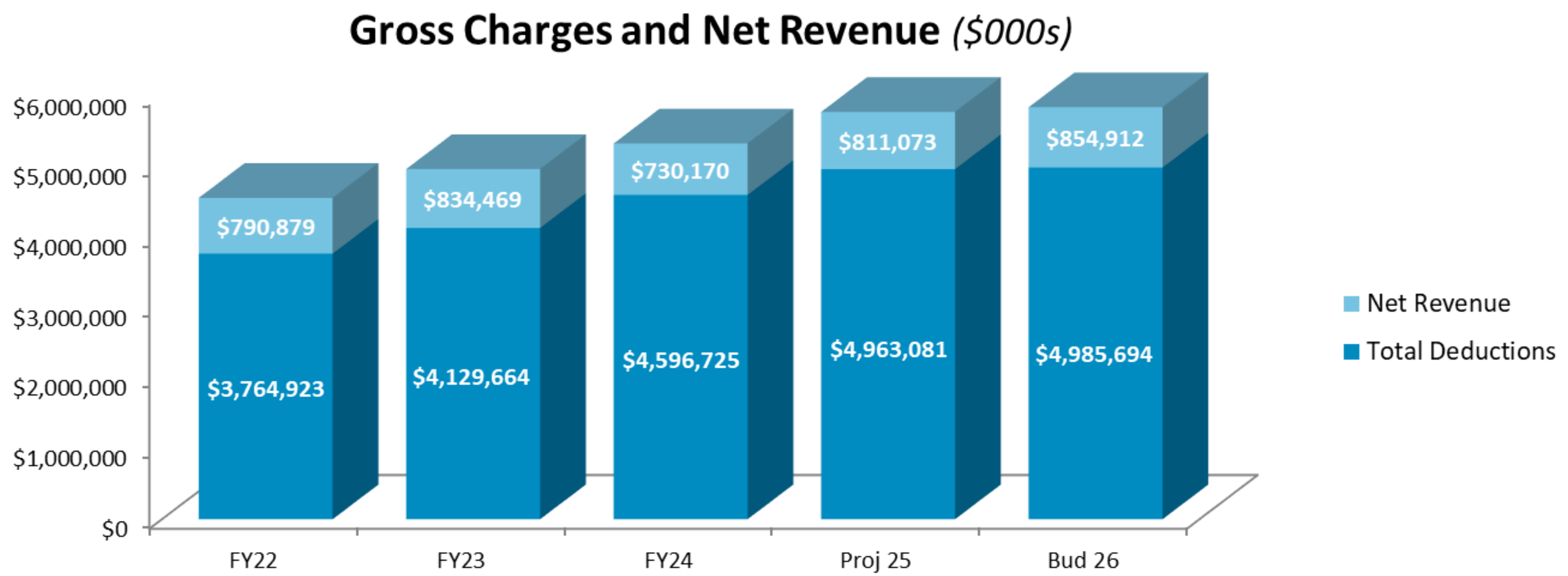



**Assumptions:**

- Overall effective rate increase of 2.6% (targeted 3%)
- Bad debt and uncompensated care are stable at approximately 2% per year (FY2026 Budget 2.1%; FY2025 = 2.2%)

# Revenue Trend Analysis

Net Revenue is anticipated to increase by $66.5 million, or 1.2%, year-over-year




| | | | | | |
|---|---|---|---|---|---|
| $ 3,764,923 | $ 4,129,664 | $ 4,596,725 | $ 4,963,081 | $ 4,985,694 | Total Deductions* |
| $ 790,879 | $ 834,469 | $ 730,170 | $ 811,073 | $ 854,912 | Net Revenue |
| $ 4,555,802 | $ 4,964,132 | $ 5,326,895 | $ 5,774,154 | $ 5,840,606 | Total Gross Revenue |

*Deductions include net capitation impact

# Salaries, Wages, Benefits & FTEs

# Labor Impact Summary

The FY2026 labor budget establishes a plan to:

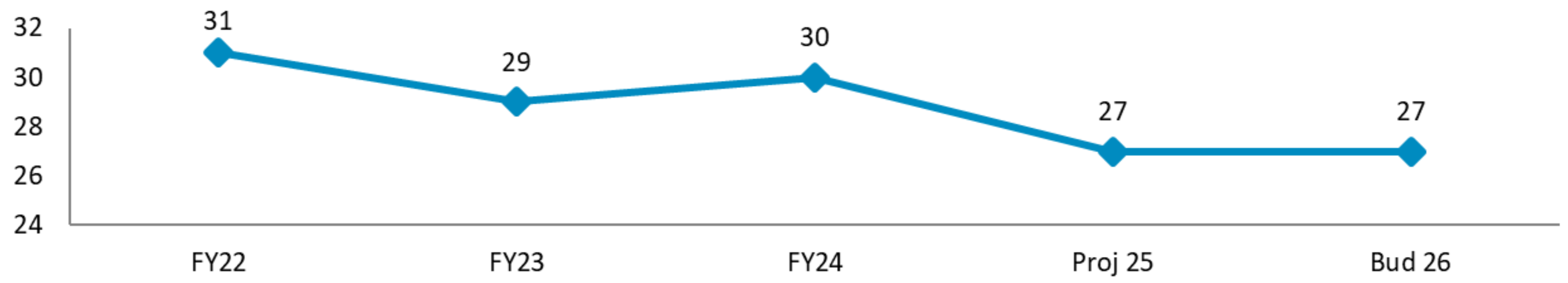
- Utilize industry and internal benchmarks to right-size staffing to volumes and mandated staffing requirements
- Reduce contract labor and premium pay by increasing internal float pools and hiring initiatives to retain and recruit staff
- Continue current initiatives to drive operational efficiencies by changes to skill-mix, operational improvement plans, and program changes

| 2026 Budgeted FTE Roll Forward | FTEs |
|---|---|
| **FY2025 Paid FTEs (as of 3/22/2025)** | **3,074** |
| Volume and FTE Adjustments | 84 |
| Reduction in Force | (66) |
| Program Changes | (32) |
| **FY2026 Paid FTEs** | **3,061** |

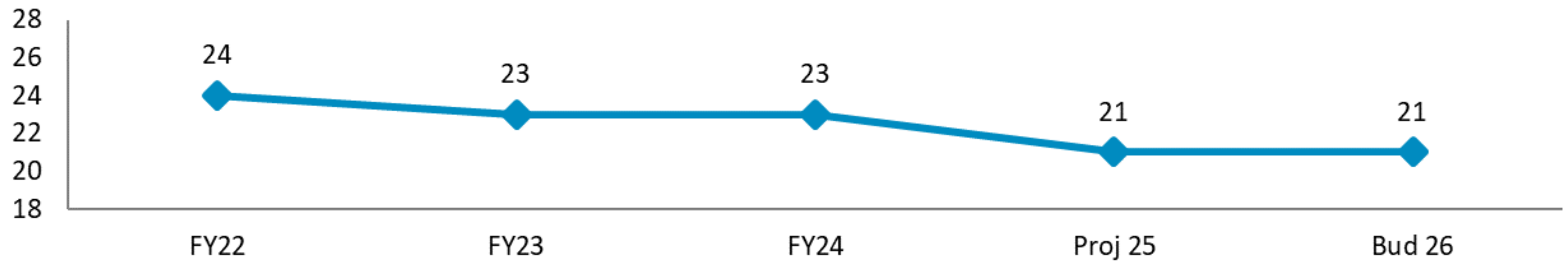
# Labor Analysis | FTEs

Budgeted FTEs per adjusted discharge are consistent with current year projections, reducing from prior years as operational improvements drive efficiencies

FTEs per Adjusted Discharge

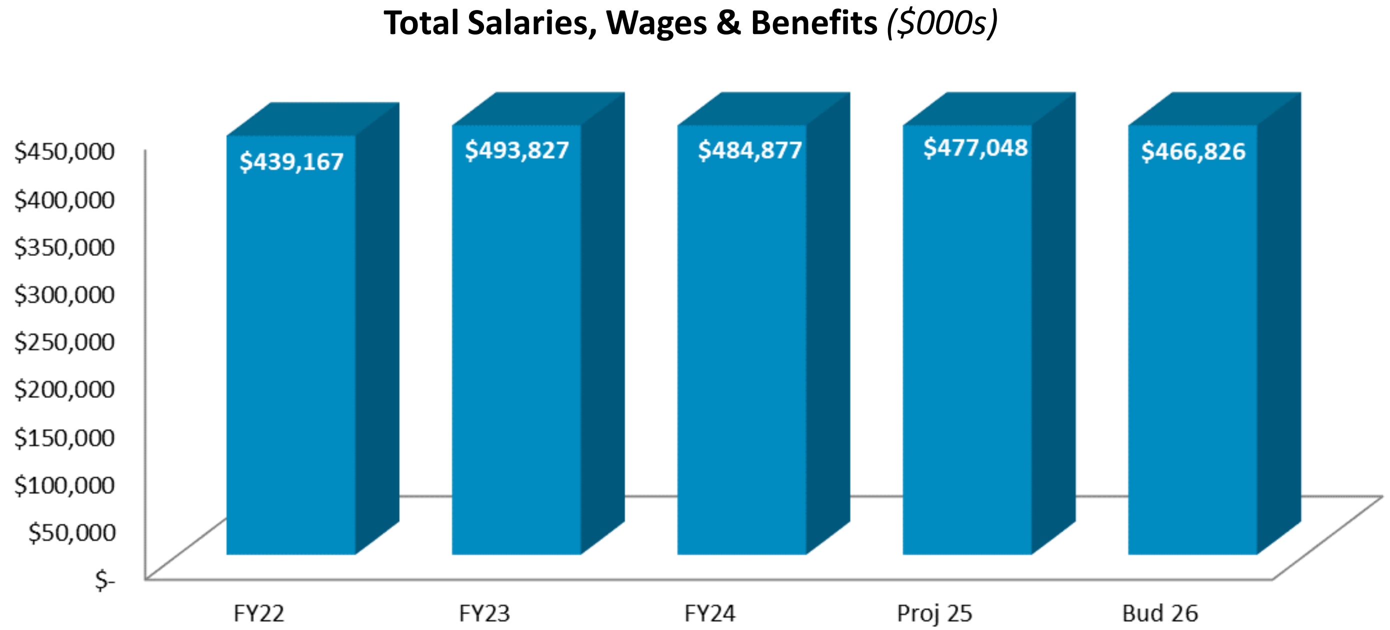



Direct Caregiver (Incl. Support) FTEs per Adjusted Discharge



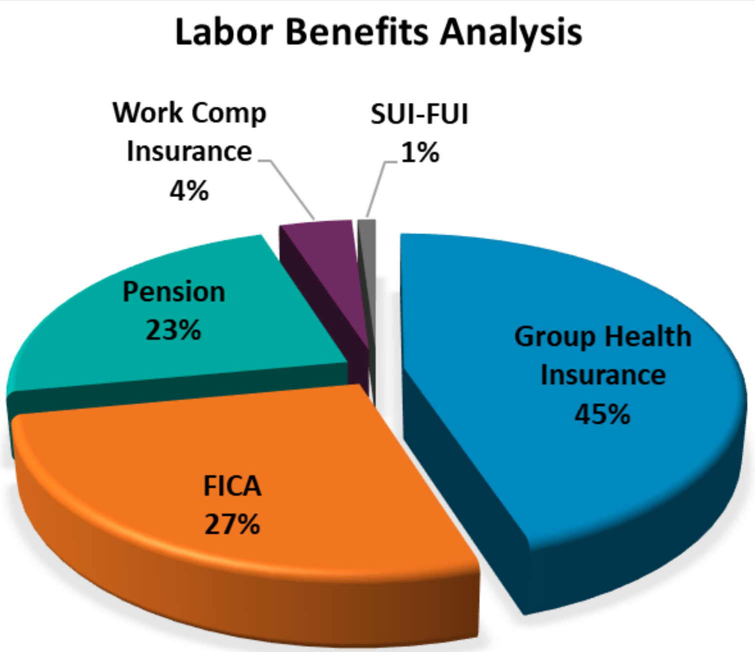
# Labor Analysis | Salaries, Wages & Benefits

- FY2026 total Salaries, Wages, Contract Labor, and Benefits are expected to decrease by $10.2 million, or 2.1%
- Salary increases to recruit and retain employees are offset by reduced reliance on contract labor, premium pay, and total worked hours



# Labor Analysis | Benefits (Excl. PTO)

| Type of Benefit | % of Total Benefits |
|---|---|
| Group Health Insurance | 45% |
| FICA | 27% |
| Pension | 23% |
| Workers' Compensation Insurance | 4% |
| SUI-FUI | 1% |
| **Total Benefit Spend** *($000s)* | **$98,105** |



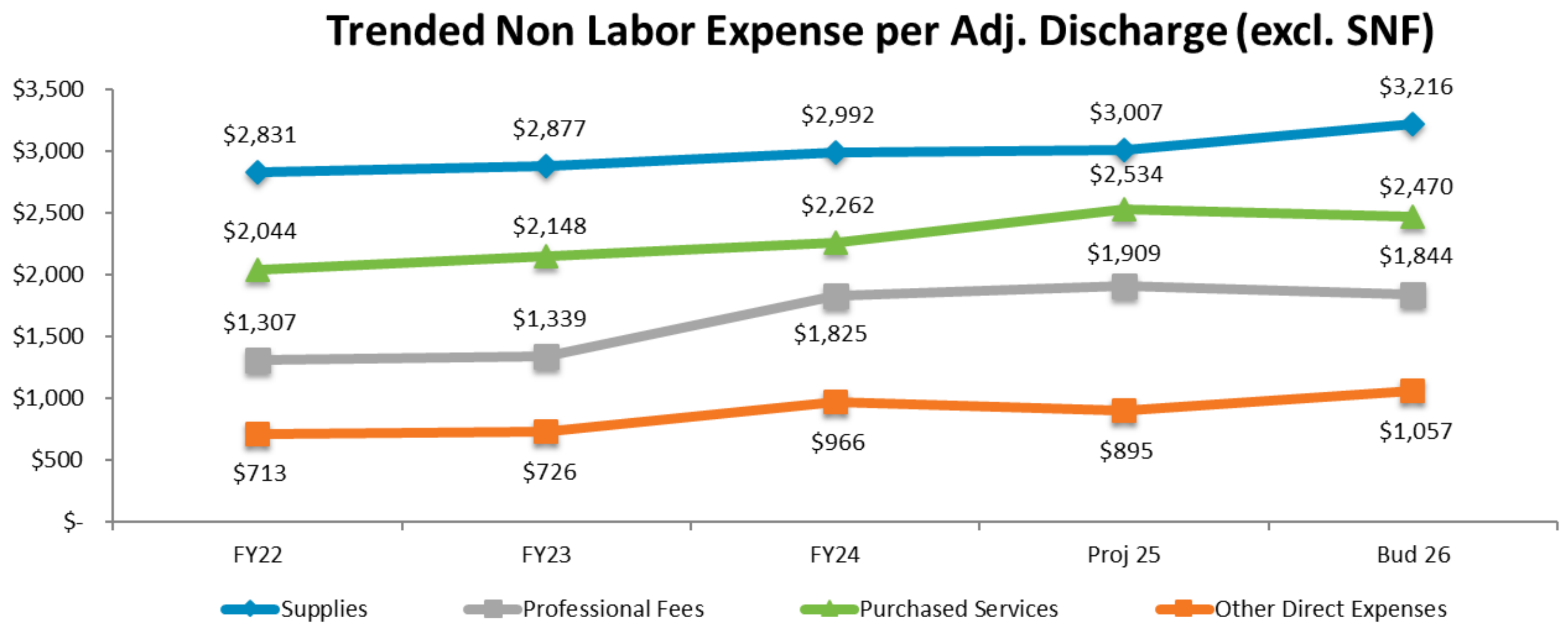

## Significant Impacts

- Benefit expenses are flat year-over-year
- While targeted initiatives to move Palomar to Sharp Health Plan showed some improvement on trended cost, much of that cost was taken back when our employees were added to our capitated program
- Will work on plan design adjustments to help control future costs

# Non Labor Analysis

# Non Labor Analysis | Summary

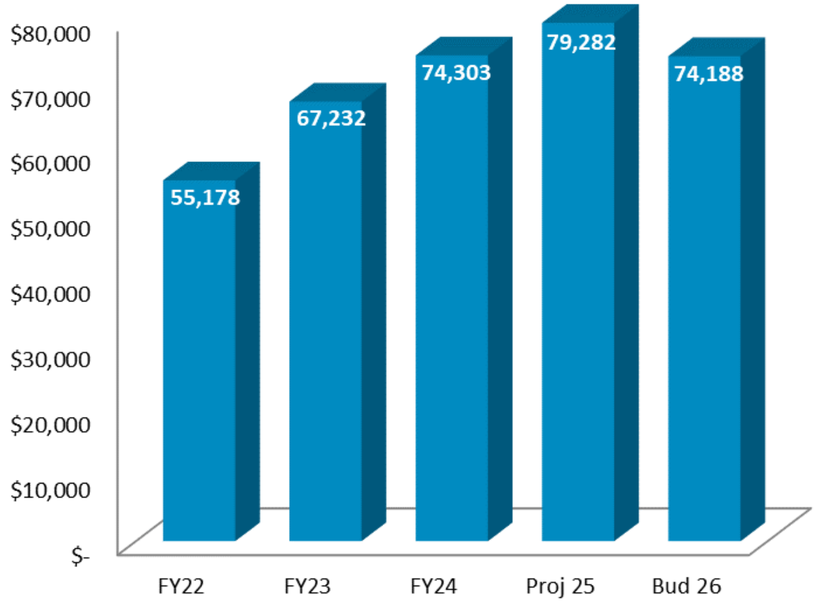
FY2026 Non-Labor Expense* is decreasing $3.8 million, or 1.1%, year-over-year



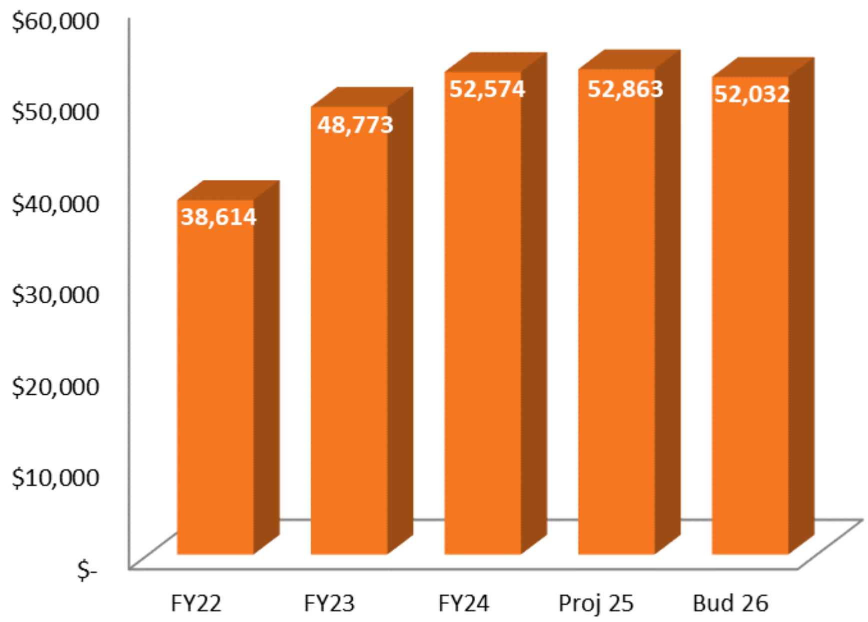

*excludes depreciation

# Depreciation and Interest Expense

## Depreciation Expense *($000s)*




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

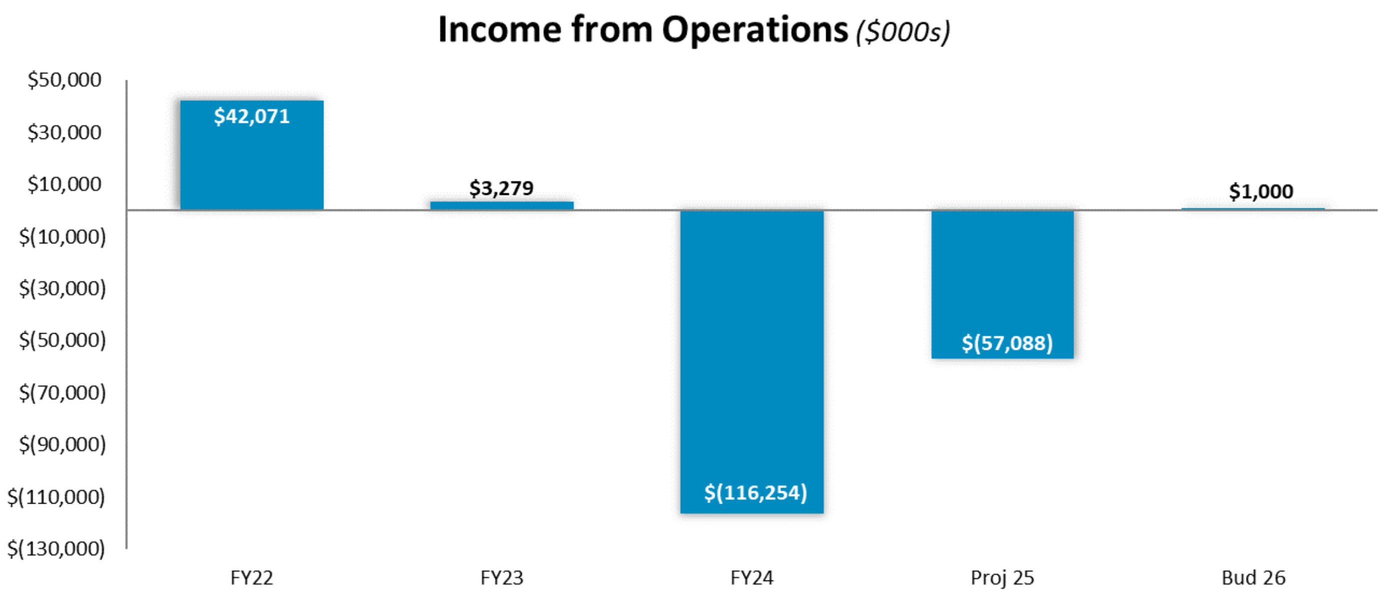



*Interest Expense reflected for leases & revenue bonds only

# Annual Operating Budget Summary & EBIDA Recap

# Income from Operations

- FY2026 Income from Operations is planned to increase by $58.1 million from FY2025 projections
- The increase will result from execution of margin improvement strategies related to our turnaround plan and targeted physician recruitment



# Annual Operating Budget Summary and Trend

| | FY2023 Results | FY2024 Results | FY2025 Projection | FY2026 Budget |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Net Revenue | 834,468,693 | 730,169,594 | 814,032,700 | 854,911,606 |
| Other Operating Revenue | 12,229,805 | 13,655,480 | 11,286,574 | 13,917,481 |
| **Total Operating Revenue** | $ 846,698,498 | $ 743,825,074 | $ 825,319,274 | $ 868,829,087 |
| **Expenses:** | | | | |
| Salaries, Wages, Registry, Benefits | 493,826,609 | 484,876,508 | 478,788,884 | 466,825,954 |
| Supplies | 119,389,719 | 118,009,078 | 123,233,202 | 129,037,327 |
| Depreciation | 55,346,937 | 57,894,071 | 61,844,926 | 56,442,530 |
| Other | 174,856,250 | 199,299,252 | 218,748,674 | 215,523,276 |
| **Total Operating Expense** | $ 843,419,514 | $ 860,078,909 | $ 882,615,686 | $ 867,829,087 |
| Operating Income | 3,278,984 | (116,253,835) | (57,296,411) | 1,000,000 |
| Non-Operating Income (Loss) | 27,515,544 | 25,088,276 | 21,995,071 | 18,471,469 |
| Non-Operating Depreciation Expense | (11,885,042) | (16,408,812) | (17,726,650) | (17,745,603) |
| (Interest Expense) | (36,735,757) | (36,293,425) | (36,887,432) | (36,985,897) |
| Unrealized (Loss) gain on interest rate swap | 5,324,960 | 0 | 0 | 0 |
| (ROU Interest) | (12,037,107) | (16,280,740) | (16,168,465) | (15,045,981) |
| Property Tax Revenue | 21,982,534 | 23,366,471 | 24,449,949 | 25,700,000 |
| **Income (Loss)** | $ (2,555,884) | $ (136,782,065) | $ (81,633,939) | $ (24,606,011) |
| PHMG Foundation Support | 29,800,000 | 46,350,000 | 42,000,000 | 42,000,000 |
| PHMG New Providers / Strategic Initiatives | 3,200,000 | 3,850,000 | 3,000,000 | 1,000,000 |
| Net Margin % | -0.3% | -18.4% | -9.9% | -2.8% |
| OEBIDA Margin (Excl. Property Tax Rev) | 6.9% | -7.8% | 0.6% | 6.6% |
| OEBIDA Margin (Incl. Property Tax Rev) | 9.5% | -4.7% | 3.5% | 9.6% |
| EBIDA Margin | 12.8% | -1.3% | 6.2% | 11.7% |
| Debt Service Coverage Ratio | 1.57 | (1.13) | (0.12) | 1.08 |
| Total Uncompensated Care & Bad Debt | 83,825,356 | 108,743,234 | 126,948,441 | 124,624,087 |
| Total Uncompensated Care as % of Gross | 1.69% | 2.04% | 2.19% | 2.13% |

# FY2026 EBIDA Recap *($000s)*

| | FY2023 Results | FY2024 Results | FY2025 Projected | FY2026 Budget |
|---|---|---|---|---|
| Net Income from Ops (Excl. Interest Expense) | 3,279 | (116,254) | (57,296) | 1,000 |
| Depreciation Expense | 55,347 | 57,894 | 61,845 | 56,443 |
| **OEBIDA** | **$ 58,626** | **$ (58,360)** | **$ 4,549** | **$ 57,443** |
| OEBIDA Margin (Excl. Property Tax Rev) | 6.9% | -7.8% | 0.6% | 6.6% |
| OEBIDA Margin (Incl. Property Tax Rev) | 9.5% | -4.7% | 3.5% | 9.6% |
| Non-Operating Depreciation Expense | 11,885 | 16,409 | 17,727 | 17,746 |
| **EBIDA** | **108,124** | **(9,905)** | **50,994** | **101,614** |
| **EBIDA Margin** | **12.8%** | **-1.3%** | **6.2%** | **11.7%** |
| Total Uncompensated Care & Bad Debt | 83,825 | 108,743 | 126,948 | 124,624 |
| Total Uncompensated Care as % of Gross | 1.69% | 2.04% | 2.19% | 2.13% |
| Net Income / (Loss) after Non-Op Income | **$ (2,556)** | **$ (136,782)** | **$ (81,634)** | **$ (24,606)** |

# 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)*

| | FY2026 | FY2027 | FY2028 | Total Project Spend |
|---|---|---|---|---|
| **Funded from Unrestricted Cash** | | | | |
| Equipment | 5,000 | 4,000 | 3,500 | 12,500 |
| IT Infrastructure & Projects | 2,500 | 3,000 | 4,500 | 10,000 |
| Facility Renovation | 500 | 1,000 | 2,500 | 4,000 |
| Total | 8,000 | 8,000 | 10,500 | 26,500 |
| **Funded from Restricted Cash** | | | | |
| Infrastructure Funded by Bonds | 30,000 | 32,000 | - | 62,000 |
| Externally Funded Projects | 500 | 500 | 1,500 | 2,500 |
| Total | 30,500 | 32,500 | 1,500 | 64,500 |
| **Grand Total** | **38,500** | **40,500** | **12,000** | **91,000** |

# FY2026 Budget Summary & Key Take-Aways

# Summary

**FY2026 Budget sets achievable targets and more closely aligns with our turnaround plan. It requires success in the following areas:**

- A 5% 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, retention of key staff, leveraging the float pool, and implementing skill-mix changes to reduce contract labor utilization and premium pay spend
- Continued implementation of expense management initiatives to align with volume and staffing requirements and turnaround objectives

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

- Experience modest year-over-year growth and continue to execute on the financial turnaround plan
- Deploy sufficient capital to meet the needs of the organization and community while improving liquidity
- Achieve net income improvement of $57.0 million year-over-year; and operating income improvement of $58.3 million