

February 18, 2025

VIA UPLOAD TO OHCA SECURE PORTAL

Kristen Colburn
Office of Health Care Affordability
2020 West El Camino Ave., Ste 800
Sacramento, CA 95833

**Re: Palomar Health
MCN Submission Number 2025-11-13-1448**

Dear Kristen:

We are in receipt of your February 5, 2026, correspondence requesting additional information regarding the formation of a Joint Powers Authority (the “JPA”) with Palomar Health and UCSD Health. Below, please find Palomar Health’s responses to your questions:

1) Please explain any authority the JPA will have to adjust costs of services provided to patients and renegotiate prices.

The JPA will hold the licenses for the two Palomar Health hospitals and, as a result, will have full authority over operational control of the facilities, including managing all labor and non-labor expenses, negotiating and managing payer contracts, making decisions regarding the cost of care and service pricing, and directing material operational and capital decisions through the JPA’s board of directors (the “Board”).

Palomar Health and its associated hospitals and health facilities are in a turnaround situation (FY 25 losses exceeded \$180 million). To address such concerns and allow for continued access to care, the JPA is assuming authority over the hospitals and other health facilities operated by Palomar Health (the “Facilities”). Leadership of the JPA and the Board will focus on: (i) continuing to reduce expenses arising out of the Facilities; (ii) improving revenue cycle and cash flow; and (iii) growing scaled clinical programs and accretive services for the purpose of reaching financial sustainability. Currently, Palomar Health is implementing cost reduction initiatives in all categories of labor and non-labor expenses in all categories. Through Palomar Health’s partnership with UCSD Health via the JPA, the growth of clinical services at the Facilities will create scale and cost efficiencies for Palomar Health while also improving health care access.

2) Does the JPA anticipate increasing the costs of services in the next 5 years?

The JPA’s objective is not to increase the cost of services, but rather to create scale and efficiencies in order to stabilize the Facilities and Palomar Health. On the current trajectory without changes and improvements, Palomar Health will run out of cash as the result of labor and non-labor cost inflation, impacts of federal reconciliation bill H.R. 1, and lack of resources to grow into financial health. Pre-JPA revenue growth and inflation have failed to keep pace with cost inflation, jeopardizing the ability to keep Palomar Health and the Facilities open. The turnaround efforts of

the JPA focus on improving access to care, the quality of care, management of expenses and also the volume of care while expanding service offerings made possible by UCSD Health's clinical capabilities.

- 3) Given the investments UCSD Health is making and their involvement as part of formation of the JPA, are there plans to adjust costs of health care services in the next 5 years? If so, is there a level of increased revenue sought? If increased costs are sought, would they be indexed in some way to UCSD's rates which are those of an academic medical center providing tertiary and quaternary care or what would the basis be?**

UCSD Health's involvement will allow the expansion of tertiary and quaternary services to be provided locally at the Facilities, improving efficiency and reducing the overall costs of care. The parties do not intend to increase prices or shift toward UCSD Health's academic medical center cost structure.

There will be growth in revenue from higher patient volume, development and expansion of clinical services, and service mix improvements, such as the development of a cancer center.

The parties do not plan to index pricing to UCSD Health's rates, but rather community health system rates. There may be increases in pricing as the JPA benchmarks against other local health systems because current pricing may be below local community market rates, exacerbating the financial challenges currently being experienced by Palomar Health.

- 4) Please confirm whether the referenced agreement "UCSD Health Contribution Agreement" or other referenced agreements in your submission have been executed. Please also provide the latest copy of these agreements, if changed/executed.**

The final version of the UCSD Health Contribution Agreement is being uploaded to the OHCA portal in conjunction with this letter. Please note that the parties consider the UCSD Health Contribution Agreement to be a confidential document in light of the fact that it has not yet been executed. To that end, along with the UCSD Health Contribution Agreement, we have also uploaded a corresponding confidentiality request.



2020 West El Camino Avenue, Suite 800
Sacramento, CA 95833
hcai.ca.gov



February 26, 2026

Kevin DeBruin
2125 Citracado Pkwy Suite 300
Escondido, CA 92029

Jordan Grushkin
Sheppard Mullin Richter & Hampton LLP
1901 Avenue of the Stars
Los Angeles, CA 90067

Note to Reader:
On February 26, 2026, OHCA sent this letter (black text). The parties sent their reply interlineated with the original letter's questions. We have put their responses in *blue italic* for ease of reading.

Sent via OHCA Secure Portal

Business Name: Palomar Health
MCN Submission Number: 2025-11-13-1448

Business Name: UC San Diego Health
MCN Submission Number: 2025-09-20-1415

MCN Transaction Number: Transaction 1415-1448 -
UCSD - Palomar

Dear Kevin DeBruin and Jordan Grushkin,

OHCA has reviewed the information and documents submitted for the material change transaction establishing a Joint Powers Authority (JPA) with Palomar Health and UCSD Health and requires additional information as we determine whether to conduct a cost and market impact review (CMIR).

For this transaction, OHCA has concerns about the potential increases in costs, accessibility of services (expansions and potential reductions), and workforce stability and wishes to confirm transparency of data reporting and application of the spending growth targets. OHCA is also monitoring the overall expansion of UCSD Health. The JPA will add significant control for UCSD Health over what will become Palomar UCSD Medical Center Escondido and Palomar UCSD Medical Center Poway. UCSD Health, an academic medical system, already includes UCSD Health La Jolla (with Jacobs

Medical Center, Thornton Pavilion, and Sulpizio Cardiovascular Center) and UCSD Health Hillcrest Medical Center, East Campus Medical Center (formerly Alvarado Hospital acquired by UCSD Health in 2023). We are also aware that the Imperial Valley Healthcare District Board recently approved a five-year agreement between UCSD Health and Imperial Valley Healthcare District to integrate the District's two facilities, Pioneer Memorial Hospital and El Centro Regional Medical Center.

Please review the questions below and provide responses through the portal by March 6, 2026. To ensure public transparency regarding this transaction, OHCA will attach the information provided in response to these questions, and the earlier responses in Palomar Health's February 18, 2026 letter, to the public MCN posted on OHCA's website. OHCA will not publish information and documents it has agreed to keep confidential.

I. Accessibility, Affordability, and Workforce

We are concerned about prices increasing for Palomar Health patients due to UCSD Health's higher costs, highly specialized network, and increasing market presence through the JPA. Please provide responses to the following questions:

- 1) Prior communications stated that it is not the intention of the parties to index pricing to UCSD Health's academic rates but rather community health system rates and there may be price increases as the JPA benchmarks against other local community market rates.
 - a) Please explain the community health system benchmarks you plan to use, including any granularity by payer market (commercial, Medi-Cal and Medicare).
 - b) Please explain if the parties anticipate the use of community health system pricing benchmarks will be sufficient for the JPA to address Palomar's Health turnaround.

While the formation and governance of the Palomar UC San Diego Health Authority (the "JPA") includes an investment and support role for UC San Diego Health, the JPA will operate its own independent health system which has and will continue to have its own contracts with commercial and public payers.

The Palomar Health District operates a critical multi-hospital and physician delivery system which provides key health care services not otherwise available in the entirety of northeast San Diego County. Palomar is, and the JPA will be, the region's only Level II Trauma Center, and provides the region with access to essential obstetrics/labor & delivery, neonatal intensive care and inpatient rehabilitation services.

The Palomar Health District has been operating as a distressed health care entity for a significant period due, in part, to its inability to obtain reasonable payer rates on par with the other providers within its region and market. It will be essential for the JPA, as it assumes existing payer contracts, to have the ability to negotiate for updated commercial

payer rates that bring it in line with the other health systems serving the San Diego County region. To the extent that UCSD Health's clinical service involvement through either the co-location or co-development of services such as a comprehensive cancer center or advanced cardiovascular or other surgical services enhances the JPA's health care presence in the region, this will benefit the JPA, its patients and the community. Any restriction on the JPA's ability to fully and freely negotiate with commercial payers to receive reimbursement rates comparable to those of other health systems in the region, would doom the JPA to a path like the path the Palomar Health District has been on.

- 2) Prior communications explained that there will be growth in revenue from higher patient volume, development and expansion of clinical services, and service mix improvements, such as a cancer center.

- a) Please explain which specific service offerings you plan to expand.

In coordination with UCSD Health, the JPA plans to expand the availability of cancer services through the expansion of the region's only National Cancer Institute designated cancer center. The JPA also expects to expand its women's health and cardiovascular services within the first 12-24 months following the close of the transaction. In addition, the JPA will be looking for opportunities, through collaboration with the physician community, to expand other inpatient and outpatient sub-specialized services such as sub-specialty services in Neurosurgery, Urology, Orthopedics, Cancer Surgery, Trauma, and other services as needed to provide care to the community closer to home.

- b) Please explain how UCSD Health's involvement will expand tertiary and quaternary care for Palomar Health patients, how these expansions will be financially supported, and whether they will increase costs for Poway and Escondido patients.

As the only academic medical center in the region training the next generation of physicians and given its existing role as a leader in the provision of critical tertiary and quaternary care within San Diego county, the opportunity to collaborate with UCSD Health and the faculty within the UCSD School of Medicine means that the JPA will have the opportunity to draw world class physicians who perform critical services in the areas of cancer surgery, cardiovascular surgery and the other services as outlined above to work alongside the JPA's existing providers in ways that will mean the patients of our region will no longer have to travel further from their homes and families for their lifesaving care. We expect that any expansion of services will be supported through the efficient operation of the specific service line.

Of the other major health systems within the region, UCSD Health was the system that stepped up to offer a collaborative approach to the Palomar Health District with a proposal to achieve this level of stabilization and expansion of services within our region. The demand for highly specialized care in San Diego County is significant and in the absence of the expansion of services in the JPA's facilities, patients are forced to wait and experience delay in the receipt of care due to other institutions current capacity

constraints. Without this opportunity our patients and community would suffer greatly from the loss of an important health system. This will undoubtedly afford patients more choices and options for where and when to receive their care.

- 3) Prior communications stated that the JPA will have full operational control of the Palomar Health hospitals and that Palomar Health facilities will retain existing employees. They also stated that Palomar Health is implementing cost reduction initiatives in all categories of labor expenses.

The JPA and Palomar Health are entering into an Employee Lease Agreement (the "Employee Lease") that will be effective as of the operational date. The Employee Lease provides that the JPA will lease [substantially]¹ all employees of Palomar Health who provide services at Palomar Health facilities (the "Leased Employees"). The Leased Employees will: (i) continue to be employees of Palomar Health; (ii) remain on Palomar Health's benefit plans; and (iii) remain subject to the terms of any applicable collective bargaining agreement between Palomar Health and a union. Additionally, Palomar Health retains all rights and responsibilities for the Leased Employees that are required to be retained by an employer under applicable law.

- a) Please provide further detail on these workforce initiatives.
- b) Please explain if Palomar Health is implementing changes in deployment of workforce or reductions.

The Palomar Health District has, over the past two years, implemented various workforce initiatives which has included some reductions in force. At present, without the ability to predict future reimbursement rates, volumes and service growth, the JPA does not foresee other significant reductions in force. However, the details of these efforts will be dependent upon the real time determinations of the JPA leadership in coordination with the efforts of its Turnaround Officer, Alvarez and Marsal. Palomar Health District's current management has worked to maintain tight workforce staffing levels and it may be that an expansion of clinical services, as is the goal of the JPA, will result in an expansion of the existing workforce.

- 4) Media reported that there is an option for UCSD Health to purchase Palomar Health's assets after seven years. At a December 2025 town hall, UCSD Health stated that it is not the intent of the parties to exercise that option.

It is not UCSD Health's current intention to exercise the option to purchase Palomar Health/JPA assets after seven years. However, UCSD Health retains all rights to purchase such assets pursuant to the terms set forth in the applicable option agreement.

¹ Note to UCSD Health: Discuss if want to make such commitment more general.

- a) Do the parties project that in seven years' time Palomar Health will be out of debt and financial distress?

Based on both the projected growth of services and the execution of the turn-around efforts, it is believed that Palomar Health will be out of financial distress within seven years.

- b) Please confirm that, if UCSD Health exercises the option to purchase Palomar Health's assets, the parties will file notice of the material change transaction with OHCA.

If UCSD Health exercises the option to purchase Palomar Health's assets, the parties will file notice of the material change transaction with OHCA if required by OHCA at the time of the asset purchase.

II. Data Reporting and Spending Targets

Prior communications stated that the JPA will hold the licenses for the two Palomar Health hospitals. We would like to confirm how this will impact the way Palomar hospitals report data to HCAI and comply with state spending targets. Please provide responses to the following questions:

- 1) Will the Palomar hospitals have new NPI and EIN/TIN numbers through the JPA-held licenses?

Yes. The JPA will hold the applicable healthcare licenses for Palomar UCSD Medical Center, Poway, and Palomar UCSD Medical Center Escondido and will bill under the JPA's EIN/TIN and NPI(s).

- 2) In December 2025, OHCA [presented](#) its final methodology for measuring annual changes in hospital spending relative to the spending targets. This methodology will use HCAI annual financial disclosure report data.

- a) Will each hospital continue to submit separate annual financial disclosure report data to HCAI?

Yes

- b) Please confirm whether annual financial disclosure report filings for newly named entities (Palomar UCSD Medical Centers Escondido and Poway) constitute financial data for the previously named entities.

Yes, the annual financial disclosure report filings for Palomar UCSD Medical Center, Poway, and Palomar UCSD Medical Center Escondido constitute financial data for the entities previously known as Palomar Medical Center Escondido and Palomar Medical Center Poway.

- 3) Each of the Palomar hospitals is accountable to the spending target. Please confirm the JPA's understanding and agreement that OHCA will measure performance for each hospital separately and calculate year-over-year growth based on spending of the former entity prior to the formation of the JPA.

Yes, it is the JPA's understanding and agreement that OHCA will measure performance for each hospital separately and calculate year-over-year growth based on spending of the former entity prior to the formation of the JPA.

Please let us know if you have any questions.

Sincerely,

Sheila Tatayon
Assistant Deputy Director, Health Systems Compliance
Chief Counsel for the Office of Health Care Affordability