

Jack M. Stover
717 237 4837
jack.stover@bipc.com

409 North Second Street
Suite 500
Harrisburg, PA 17101-1357
T 717 237 4800
F 717 233 0852
www.bipc.com

March 25, 2022

VIA ELECTRONIC FILING

Melissa Greiner
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

Re: *Order No. ID-RC-13-06/Condition 14*

Dear Deputy Commissioner Greiner:

Pursuant to Condition 14 of the above-captioned Order, Highmark Health is filing with the Department the attached non-confidential Allegheny Health Network report for the period ending December 31, 2021. I have copied Mr. Beaser and Mr. DeLacey with the filing.

Very truly yours,



Jack M. Stover

JMS/jls

Attachment

cc: Lawrence J. Beaser, Esquire (via email)
Patrick T. DeLacey (via email)

ALLEGHENY HEALTH NETWORK

Unaudited Financial Information and Management's Discussion and Analysis
For the Periods Ended December 31, 2021 and 2020



March 21, 2022

ALLEGHENY HEALTH NETWORK

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For the Periods Ended December 31, 2021 and 2020

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BASIS OF PRESENTATION; FORWARD-LOOKING STATEMENTS

Allegheny Health Network is the Credit Group Representative of an obligated group (the “Obligated Group”) formed pursuant to a Master Trust indenture dated as of December 1, 2017, as amended (the “Master Trust Indenture”). The Allegheny County Hospital Development Authority Revenue Bonds (Allegheny Health Network Obligated Group Issue), Series 2018A (the “Series 2018A Bonds”) are secured pursuant to the Master Trust Indenture. The information contained herein is being filed by Allegheny Health Network for the purpose of complying with the Obligated Group’s obligations under the Continuing Disclosure Agreement entered into in connection with the issuance of the Series 2018A Bonds. Allegheny Health Network and its consolidated subsidiaries are referred to collectively herein as “AHN.”

AHN presumes that users of this financial information have read or have access to AHN’s audited financial statements and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. The audited financial statements of AHN for the fiscal years ended December 31, 2021 and 2020 are on file at www.emma.msrb.org.

Except as otherwise specified, information contained in this report includes the unaudited financial performance of AHN on a consolidated basis, and thus includes entities that are not members of the Obligated Group. The unaudited consolidated financial information contained herein, as of and for the periods ended December 31, 2021 and 2020, include all required adjustments that management believes are necessary for a fair presentation of AHN’s financial position and the results of operations for these quarters. All financial and statistical information is derived from internal records of AHN.

References herein to Highmark Health (“Highmark Health”), which is the parent of AHN and of Highmark Inc. (“Highmark”), mean those entities affiliated with AHN by virtue of common corporate control. **NEITHER HIGHMARK HEALTH NOR HIGHMARK IS OBLIGATED WITH RESPECT TO THE SERIES 2018A BONDS, AND NONE OF THEIR RESPECTIVE ASSETS OR REVENUES ARE AVAILABLE TO PAY DEBT SERVICE ON THE SERIES 2018A BONDS.**

This report contains information which constitutes “forward-looking statements.” Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words like “may,” “believe,” “will,” “expect,” “project,” “estimate,” “anticipate,” “plan,” “initiative” or “continue.” These forward-looking statements are based on the current plans and expectations of AHN and are subject to a number of known and unknown uncertainties and risks, many of which are beyond AHN’s control and could significantly affect current plans and expectations and AHN’s future financial position and results of operations. These factors include, but are not limited to, (i) the highly competitive nature of the health care industry, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs that may impact reimbursements to health care providers and insurers, (iv) the ability to achieve expected levels of patient volumes and control the costs of providing services, (v) changes in federal, state or local regulations affecting the health care industry, (vi) the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against AHN, (viii) changes in accounting practices, (ix) changes in general economic conditions including growing numbers of uninsured and unemployed patients, (x) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms and (xi) the collectability of uninsured accounts and deductible and co-pay amounts. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of AHN. Users of this report are cautioned not to rely on such forward-looking statements when evaluating the information presented in this report, including “Management’s Discussion and Analysis.”

It should be noted that earnings before interest, taxes, depreciation and amortization (“EBITDA”), days cash on hand and certain other financial metrics included in this filing are not measures of operating performance, liquidity or financial leverage defined by generally accepted accounting principles and may not be comparable to similarly titled measures presented by other companies.

ALLEGHENY HEALTH NETWORK

Introduction and Overview

Allegheny Health Network is the parent organization of a system of acute care hospitals and affiliated providers in western Pennsylvania that constitutes the clinical delivery component of an integrated delivery and financing system (“IDFS”), with Highmark Health as its parent company. Highmark Health is also the parent of Highmark Inc. (“Highmark”), which together with its subsidiaries and controlled affiliates constitute the nation’s fourth largest Blue Cross Blue Shield insurance plan. AHN is the clinical delivery system affiliate of Highmark for enrollees in Highmark’s various health plans in the region, as well as enrollees covered by other insurers and Medicaid and Medicare programs. While AHN is integrated with Highmark Health and its affiliates for strategic planning, budgetary, and other purposes and shares certain common management personnel, directors, and committees, neither Highmark Health nor Highmark is part of the Obligated Group (as defined in the Master Trust Indenture). Neither Highmark Health nor Highmark is obligated with respect to the Series 2018A Bonds, and none of their assets or revenues are pledged to pay debt service on such bonds.

ALLEGHENY HEALTH NETWORK

Consolidated Balance Sheets – Unaudited* December 31, 2021 and 2020

(Dollars in thousands)

	2021	2020
	December	December
Assets		
Current assets		
Cash and cash equivalents	\$ 259,127	\$ 260,438
Patient accounts receivable	453,827	435,182
Other current assets	217,402	432,479
Total current assets	930,356	1,128,099
Investments	667,282	535,593
Assets whose use is limited	85,133	70,933
Restricted investments	400,303	357,609
Equity investments/other	42,650	39,501
Property and equipment, net	1,862,066	1,761,018
Right to use assets	304,077	356,862
Other assets	204,450	200,254
Total assets	\$ 4,496,317	\$ 4,449,869
Liabilities and net assets		
Current liabilities	\$ 612,050	\$ 602,057
Current portion of lease liabilities	39,087	45,287
Current portion of CMS advances	135,124	94,504
Current portion of long-term debt	25,911	9,546
Total current liabilities	812,172	751,394
Accrued pension obligation	152,740	238,950
Long-term debt	960,502	1,002,433
Lease liabilities	282,954	321,248
CMS advances	-	137,986
Other liabilities	216,065	219,311
Total liabilities	2,424,433	2,671,322
Net assets:		
Without donor restrictions	1,663,342	1,410,590
With donor restrictions	408,542	367,957
Total net assets	2,071,884	1,778,547
Total liabilities and net assets	\$ 4,496,317	\$ 4,449,869

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Consolidated Statements of Operations – Unaudited* For the Periods Ended December 31, 2021 and 2020

(Dollars in thousands)

	QTD		YTD	
	2021	2020	2021	2020
Revenue				
Net patient service revenue	\$ 950,270	\$ 936,766	\$ 3,736,161	\$ 3,348,637
Other operating revenue	80,293	64,166	284,150	296,702
Total revenue	1,030,563	1,000,932	4,020,311	3,645,339
Expenses				
Salaries, wages, and fringe benefits	591,180	547,317	2,214,670	2,086,339
Patient care supplies	241,506	216,885	906,859	791,999
Other operating expenses	221,000	206,210	815,961	753,928
Depreciation and amortization	55,163	47,540	202,799	181,578
Total operating expenses	1,108,849	1,017,952	4,140,289	3,813,844
Operating loss	(78,286)	(17,020)	(119,978)	(168,505)
Investment income	16,411	5,307	38,284	34,860
Net unrealized (losses) gains	(2,662)	23,556	3,783	15,199
Interest expense	(6,533)	(6,671)	(23,854)	(24,411)
Other components of net periodic benefit credit (expense)	10,093	(3,740)	34,243	21,574
Other non-operating income (expense), net	39	923	(4,732)	(3,414)
(Deficit) excess of revenue over expenses, before income taxes	(60,938)	2,355	(72,254)	(124,697)
Income tax benefit (expense)	218	5,499	(2,136)	2,906
(Deficit) excess of revenue over expenses	\$ (60,720)	\$ 7,854	\$ (74,390)	\$ (121,791)
Operating margin %	-7.6%	-1.7%	-3.0%	-4.6%
Net margin %	-5.9%	0.8%	-1.9%	-3.3%
Operating EBITDA	\$ (23,123)	\$ 30,520	\$ 82,821	\$ 13,073
Operating EBITDA %	-2.2%	3.0%	2.1%	0.4%
Net EBITDA	\$ 758	\$ 56,566	\$ 154,399	\$ 81,292
Net EBITDA %	0.1%	5.7%	3.8%	2.2%
Total current and long-term debt (excluding lease liabilities)	\$ 986,413	\$ 1,011,979	\$ 986,413	\$ 1,011,979
Total current and long-term debt (excluding lease liabilities) to net EBITDA	325.3	4.5	6.4	12.4

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Utilization Statistics*

For the Periods Ended December 31, 2021 and 2020

	QTD		YTD	
	2021	2020	2021	2020
Discharges	19,154	19,062	75,659	73,955
Observation cases	10,303	9,808	42,773	38,536
Total discharges and observation cases	29,457	28,870	118,432	112,491
Patient days	115,088	108,940	432,585	401,773
Average length of stay (medical acute days only)	6.09	5.36	5.40	5.04
Case-mix index (all payor)	2.41	2.09	2.19	1.96
Outpatient registrations	426,049	368,860	1,810,096	1,330,840
Emergency department visits	88,375	70,743	313,258	264,887
Inpatient surgeries	5,427	6,048	23,647	24,807
Outpatient surgeries	14,457	13,641	57,870	50,581
Ambulatory surgical cases	7,088	7,061	27,838	22,358
Total surgical cases	26,972	26,750	109,355	97,746
Physician visits	877,358	813,890	3,463,577	3,068,871
Full time equivalents	21,335	20,789	20,857	20,533
Days in patient accounts receivable**	43.9	42.7	43.9	42.7

* Includes entities that are not members of the Obligated Group

** Calculated using 90 days rolling net patient revenue

ALLEGHENY HEALTH NETWORK

Financial Ratios*

For the Years Ended December 31, 2021 and 2020

(Dollars in thousands)

Days Cash on Hand

	YTD	
	2021	2020
Cash and cash equivalents	\$ 259,127	\$ 260,438
Investments	667,282	535,593
Assets whose use is limited	85,133	70,933
Total cash on hand	\$ 1,011,542	\$ 866,964
Operating expenses	\$ 4,140,289	\$ 3,813,844
Add: Interest expense	23,854	24,411
Less: Depreciation and amortization	(202,799)	(181,578)
Total	\$ 3,961,344	\$ 3,656,677
Days in period	365	366
Operating expense per day	\$ 10,853	\$ 9,991
Days cash on hand **	93	87

** For purposes of calculating days cash on hand, investments included in the above calculation consist only of unrestricted amounts.

Debt Service Coverage Ratio

	YTD	
	2021	2020
Deficit of revenue over expenses	\$ (74,390)	\$ (121,791)
Add: Depreciation and amortization	202,799	181,578
Add: Interest expense	23,854	24,411
Add: Gross unrealized losses	20,911	13,099
Add/Less: Income tax expense (benefit)	2,136	(2,906)
Add: Pension settlement accounting	-	11,281
Total	\$ 175,310	\$ 105,672
Debt service requirement	\$ 54,225	\$ 54,162
Debt service coverage ratio	3.2	2.0

Debt-to-Capitalization

	2021	2020
Long-term debt including current portion	\$ 986,413	\$ 1,011,979
Net assets without donor restrictions	1,663,342	1,410,590
Total Capitalization	\$ 2,649,755	\$ 2,422,569
Debt-to-Capitalization	37%	42%

*Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Sources of Revenue*

For the Years Ended December 31, 2021 and 2020

Sources of Revenue - Hospital Only

	2021	2020
Highmark commercial	34.5%	37.1%
Highmark medicaid**	3.1%	2.5%
Highmark medicare**	12.5%	12.0%
Highmark subtotal	50.1%	51.6%
Other commercial	14.0%	13.3%
Other medicaid	6.6%	6.9%
Medicare fee for service	13.9%	14.5%
Other medicare	12.9%	11.2%
Other	2.5%	2.5%
Other subtotal	49.9%	48.4%
Total	100.0%	100.0%
Total commercial	48.5%	50.4%
Total government	49.0%	47.1%

*Includes entities that are not members of the Obligated Group

**Includes products provided by Highmark Wholecare

ALLEGHENY HEALTH NETWORK

Management Discussion and Analysis of Recent Financial Performance

Consolidated Statements of Operations

Year to date December 31, 2021 compared to year to date December 31, 2020

The audited financial statements of AHN for the fiscal years ended December 31, 2021 and 2020 are on file at www.emma.msrb.org.

For the year ended December 31, 2021, loss from operations was \$120.0 million compared to loss from operations of \$168.5 million for the comparable 2020 period, a year over year improvement of \$48.5 million. The current year-to-date results reflect the elimination of many of the restrictive measures designed to limit the spread of COVID-19 that were put into place in mid-March 2020. AHN did, however, continue to see the impact related to COVID-19 during 2021, though not as significant as the prior year.

Revenues in 2021 reflected certain rate increases, value based quality incentives, increased case mix index (11.7% higher than the prior year) as well as revenues related to vaccination clinics held in the first half of 2021 that favorably impacted operating results. Other operating revenue trailed the prior year, primarily as a result of prior year recognition of \$68,543 of Coronavirus Aid, Relief and Economic Security Act grant funding.

AHN has experienced an increase in labor costs driven by staffing shortages and higher wage rates resulting from the usage of agency staffing and overtime. Quarterly contracted labor costs have increased 94.4% from the first quarter of 2021 to the fourth quarter of 2021. Hospital and post-acute staffing shortages also led to pressure on capacity, impacting volume and length of stay. Patient care supplies expense also increased over prior year driven by higher surgical mix, continued COVID-19 drug therapies, higher infusion therapy drug costs (also driving higher revenue), patient care supply commodity price inflation and overall increases in patient acuity.

For year ended December 31, 2021, AHN recorded a deficit of revenue over expenses of \$74.4 million compared to a deficit of revenue over expenses of \$121.8 million for the same period in the prior year, an improvement of \$47.4 million. This is primarily due to the improvement in operating loss, noted above.

Operating EBITDA was \$82.8 million for the year ended December 31, 2021 versus operating EBITDA of \$13.1 million for the same period in the prior year, an increase of \$69.7 million. Net EBITDA increased to \$154.4 million for the year ended December 31, 2021 versus net EBITDA of \$81.3 million during the same period in the prior year. This increase was primarily attributable to the improvement in operating performance as described above.

Volumes, as measured by the combined total of discharges and observation cases, increased 5.3% (5,941 cases) from 112,491 cases for the year ended December 31, 2020 to 118,432 cases for the same period during 2021. Total surgical cases increased 11.9% (11,609 cases) from 97,746 cases for the year ended December 31, 2020 to 109,355 cases for the year ended December 31, 2021. This was driven by outpatient surgeries in the hospitals and ambulatory surgery centers.

Consolidated Balance Sheets

December 31, 2021 compared to December 31, 2020

Cash and unrestricted investments totaled \$1,011.5 million and \$867.0 million at December 31, 2021 and December 31, 2020, respectively. Days cash on hand increased by 6 days from 87 days at December 31, 2020 to 93 days at December 31, 2021. This increase was driven by the receipt of payor quality incentives and funding of strategic investments from Highmark.

ALLEGHENY HEALTH NETWORK

Management Discussion and Analysis of Recent Financial Performance

Property and equipment increased \$101.1 million from \$1,761.0 million as of December 31, 2020 to \$1,862.1 million as of December 31, 2021. The increase reflects investments in strategic capital projects including Wexford Hospital and Information Technology Infrastructure.

Long-term debt (including the current portion) decreased \$25.6 million from \$1,012.0 million as of December 31, 2020 to \$986.4 million as of December 31, 2021. The consolidated joint venture, Erie Medical Complex, LLC (“EMC”) held an outstanding mortgage loan of \$20.5 million at December 31, 2020, related to a medical office building. In December 2021, EMC was merged into and with a third party real estate investment trust. As a result of the merger, AHN’s interest in EMC was cancelled in exchange for cash consideration, and EMC was removed from the consolidated financial statements. The additional decrease in debt was due to the required principal payments and the amortization of bond premiums. Current portion of long-term debt increased \$16.4 million from \$9.5 million at December 31, 2020 to \$25.9 million at December 31, 2021. The increase was due to the first bond payment of \$18.7 million for the Series 2018A Bonds coming due April 1, 2022.

As of December 31, 2021, AHN had a three-year line of credit facility for \$50.0 million that was established in July 2020. \$20.0 million of this amount was set aside for letters of credit, of which \$12.8 million has been utilized, but not drawn upon.

AHN’s recorded unfunded pension obligations, related to its defined benefit plans, declined during 2021. Certain defined benefit pension plans are frozen with no new participation permitted. As of December 31, 2021, AHN’s recorded unfunded pension obligations totaled \$152.7 million, which was a decrease of \$86.3 million from \$239.0 million at December 31, 2020. The decrease was due to a net periodic benefit credit and unrealized gain activity.

Centers for Medicare and Medicaid Services (CMS) advances decreased \$97.4 million from \$232.5 million as of December 31, 2020 to \$135.1 million as of December 31, 2021. The decrease was attributable to the scheduled repayment of advances provided in 2020 in connection to the Accelerated and Advance Payment Programs. All funding is expected to be repaid to CMS by the end of the third quarter of 2022.

Net assets without donor restrictions as of December 31, 2021 totaled \$1,663.3 million. This was an increase of \$252.7 million over the balance of \$1,410.6 million as of December 31, 2020. The increase was a result of the clinical affiliation transfers made to AHN by Highmark during the period.

Investments in AHN by Highmark

Highmark has continued to make investments in AHN to enhance AHN’s position as the provider core to the Highmark Health IDFS. Highmark is not an obligor or guarantor of the Series 2018A Bonds and none of its assets or revenues are pledged as collateral.

For the year ended December 31, 2021, Highmark made investments in AHN pursuant to a clinical affiliation agreement between the parties to support strategic capital investments made by AHN. These capital investments totaled \$266.2 million and were reflected as equity transfers in the AHN financial statements, including more than \$100.0 million in construction costs related to the newly opened Wexford Hospital.

ALLEGHENY HEALTH NETWORK

Appendix

Series 2018A Revenue Bonds Due Dates and CUSIPs

Serial Bonds:

<u>Due Date</u>	<u>Amount</u>	<u>CUSIP</u>
4/1/2022	\$ 18,695,000	01728A3G9
4/1/2023	19,655,000	01728A3H7
4/1/2024	20,665,000	01728A3J3
4/1/2025	21,720,000	01728A3K0
4/1/2026	22,835,000	01728A3L8
4/1/2027	24,005,000	01728A3M6
4/1/2028	25,240,000	01728A3N4
4/1/2029	26,535,000	01728A3P9
4/1/2030	27,895,000	01728A3Q7
4/1/2031	29,325,000	01728A3R5
4/1/2032	30,825,000	01728A3S3
4/1/2033	32,410,000	01728A3T1
4/1/2034	34,070,000	01728A3U8
4/1/2035	35,815,000	01728A3V6
4/1/2036	37,655,000	01728A3W4
4/1/2037	39,385,000	01728A3X2
4/1/2038	40,990,000	01728A3Y0
	<u>\$ 487,720,000</u>	Total Serial Bonds

Term Bonds

<u>Due Date</u>	<u>Amount</u>	<u>CUSIP</u>
4/1/2044	\$ 283,575,000	01728A3Z7
4/1/2047	172,070,000	01728A4A1
	<u>\$ 455,645,000</u>	Total Term Bonds
	<u><u>\$ 943,365,000</u></u>	Total Series 2018A Revenue Bonds