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May 31, 2022

VIA ELECTRONIC FILING

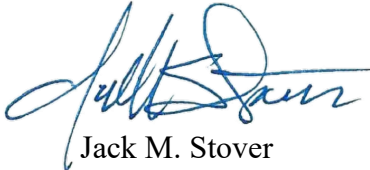
Melissa Greiner
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

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 March 31, 2022. 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 March 31, 2022 and 2021



May 31, 2022

ALLEGHENY HEALTH NETWORK

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For the Periods Ended March 31, 2022 and 2021

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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 March 31, 2022 and 2021, 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*

March 31, 2022 and 2021 and December 31, 2021

(Dollars in thousands)

	2022	2021	
	March	March	December
Assets			
Current assets			
Cash and cash equivalents	\$ 226,485	\$ 295,830	\$ 259,127
Patient accounts receivable	465,806	405,558	453,827
Other current assets	252,101	440,840	217,402
Total current assets	944,392	1,142,228	930,356
Investments	533,841	521,449	667,282
Assets whose use is limited	84,387	72,297	85,133
Restricted investments	377,047	366,656	400,303
Equity investments/other	44,998	39,681	42,650
Property and equipment, net	1,842,467	1,774,818	1,862,066
Right to use assets	306,340	347,102	304,077
Other assets	195,022	189,291	204,450
Total assets	\$ 4,328,494	\$ 4,453,522	\$ 4,496,317
Liabilities and net assets			
Current liabilities	\$ 630,698	\$ 596,193	\$ 612,050
Current portion of lease liabilities	40,230	44,778	39,087
Current portion of CMS advances	97,987	136,437	135,124
Current portion of long-term debt	7,111	9,055	25,911
Total current liabilities	776,026	786,463	812,172
Accrued pension obligation	147,240	233,200	152,740
Long-term debt	958,826	1,000,380	960,502
Lease liabilities	285,157	316,150	282,954
CMS advances	-	96,053	-
Other liabilities	210,880	216,437	216,065
Total liabilities	2,378,129	2,648,683	2,424,433
Net assets:			
Without donor restrictions	1,566,751	1,429,436	1,663,342
With donor restrictions	383,614	375,403	408,542
Total net assets	1,950,365	1,804,839	2,071,884
Total liabilities and net assets	\$ 4,328,494	\$ 4,453,522	\$ 4,496,317

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Consolidated Statements of Operations – Unaudited* For the Quarters Ended March 31, 2022 and 2021

(Dollars in thousands)

	QTD	
	2022	2021
Revenue		
Net patient service revenue	\$ 932,178	\$ 907,230
Other operating revenue	65,767	68,786
Total revenue	997,945	976,016
Expenses		
Salaries, wages, and fringe benefits	606,060	537,277
Patient care supplies	224,955	211,058
Other operating expenses	216,065	202,793
Depreciation and amortization	56,392	48,283
Total operating expenses	1,103,472	999,411
Operating loss	(105,527)	(23,395)
Investment income	10,256	8,467
Net unrealized (losses) gains	(35,655)	397
Interest expense	(7,456)	(6,226)
Other components of net periodic benefit credit	7,625	8,050
Other non-operating income (expense), net	116	(1,286)
Deficit of revenue over expenses, before income taxes	(130,641)	(13,993)
Income tax expense	(2,259)	(36)
Deficit of revenue over expenses	\$ (132,900)	\$ (14,029)
Operating margin %	-10.6%	-2.4%
Net margin %	-13.3%	-1.4%
Operating EBITDA	\$ (49,135)	\$ 24,888
Operating EBITDA %	-4.9%	2.5%
Net EBITDA	\$ (66,793)	\$ 40,516
Net EBITDA %	-6.7%	4.2%
Total current and long-term debt (excluding lease liabilities)	\$ 965,937	\$ 1,009,435
Total current and long-term debt (excluding lease liabilities) to net EBITDA	(3.6)	6.2

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Utilization Statistics*

For the Quarters Ended March 31, 2022 and 2021

	QTD	
	2022	2021
Discharges	18,044	18,825
Observation cases	9,935	9,749
Total discharges and observation cases	27,979	28,574
Patient days	107,606	104,379
Average length of stay (medical acute days only)	5.78	5.27
Case-mix index (all payor)	2.08	2.04
Outpatient registrations	402,579	488,161
Emergency department visits	76,303	65,429
Inpatient surgeries	5,608	6,020
Outpatient surgeries	14,245	13,688
Ambulatory surgical cases	6,621	6,805
Total surgical cases	26,474	26,513
Physician visits	870,396	834,146
Full time equivalents	20,910	20,438
Days in patient accounts receivable**	45.0	40.2

* Includes entities that are not members of the Obligated Group

** Calculated using 90 days rolling net patient revenue

Note: Certain PY amounts have been updated to provide consistency with 2022

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

Consolidated Statements of Operations

Quarter ended March 31, 2022 compared to quarter ended March 31, 2021

For the quarter ended March 31, 2022, loss from operations was \$105.5 million compared to loss from operations of \$23.4 million for the comparable 2021 period, a year over year decline of \$82.1 million. AHN has experienced an increase in labor costs driven by staffing shortages and higher wage rates resulting from the usage of agency staffing, needs-based bonuses and overtime. Quarterly contracted labor costs have increased \$30.1 million from \$13.0 million in the first quarter of 2021 to \$43.1 million in the first quarter of 2022. Hospital and post-acute staffing shortages have put pressure on both volumes and length of stay.

Patient care supplies expense also increased over prior year driven by higher infusion therapy drug costs (also driving higher revenue), price inflation on patient care supply commodities, and longer length of stay for inpatient cases, impacting supplies.

For the quarter ended March 31, 2022, AHN recorded a deficit of revenue over expenses of \$132.9 million compared to a deficit of revenue over expenses of \$14.0 million for the same period in the prior year, a decline of \$118.9 million. This is primarily due to the increase in operating loss, noted above, as well as a decline in investment results due to market volatility. AHN had a total investment loss (net unrealized losses and investment income) of \$25.4 million for the quarter ended March 31, 2022 compared to investment earnings of \$8.9 million for the quarter ended March 31, 2021, a year over year decline of \$34.3 million.

Operating EBITDA was (\$49.1) million for the quarter ended March 31, 2022 versus operating EBITDA of \$24.9 million for the same period in the prior year, a decrease of \$74.0 million. Net EBITDA decreased to (\$66.8) million for the quarter ended March 31, 2022 versus net EBITDA of \$40.5 million during the same period in the prior year. This decrease was driven by operating losses and a decline in investment results as described above.

Volumes, as measured by the combined total of discharges and observation cases, decreased 2.1% (595 cases) from 28,574 cases for the quarter ended March 31, 2021 to 27,979 cases for the same period during 2022. Total surgical cases remained relatively consistent with 26,513 cases for the quarter ended March 31, 2021 and 26,474 cases for the quarter ended March 31, 2022. Outpatient registrations, when excluding COVID-19 vaccine registrations, increased 14.3% (49,937 registrations) from 350,176 cases for the quarter ended March 31, 2021 to 400,113 cases for the same period during 2022. Physician visits grew 4.3% (36,250 visits) from 834,146 visits for the quarter ended March 31, 2021 to 870,396 visits for the same period during 2022.

Wexford Hospital opened in the fourth quarter of 2021 and accounted for 5.9% of the inpatient volume and 6.1% of the outpatient volume, contributing \$31.6 million of revenue for the quarter ended March 31, 2022.

Consolidated Balance Sheets

March 31, 2022 compared to March 31, 2021

Cash and unrestricted investments totaled \$844.7 million and \$889.6 million at March 31, 2022 and March 31, 2021, respectively. Days cash on hand decreased by 12 days from 84 days at March 31, 2021 to 72 days at March 31, 2022. This decrease was driven by AHN's first principal payment on the Series 2018A Bonds in the amount of \$18.7 million as well as the scheduled repayments of Centers for Medicare and Medicaid Services (CMS) advances, partially offset by the receipt of payor quality incentives and funding of strategic investments from Highmark.

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

Property and equipment increased \$67.7 million from \$1,774.8 million as of March 31, 2021 to \$1,842.5 million as of March 31, 2022. The increase reflects investments in strategic capital projects including Wexford Hospital and Information Technology Infrastructure.

Long-term debt (including the current portion) decreased \$43.5 million from \$1,009.4 million as of March 31, 2021 to \$965.9 million as of March 31, 2022. The consolidated joint venture, Erie Medical Complex, LLC ("EMC") held an outstanding mortgage loan of \$20.3 million at March 31, 2021, related to a medical office building. In December 2021, EMC was merged with and into 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, including the first bond payment of \$18.7 million for the Series 2018A Bonds, and the amortization of bond premiums.

As of March 31, 2022, 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 the first three months of 2022. Certain defined benefit pension plans are frozen with no new participation permitted. As of March 31, 2022, AHN's recorded unfunded pension obligations totaled \$147.2 million, which was a decrease of \$86.0 million from \$233.2 million at March 31, 2021. The decrease was due to a net periodic benefit credit and unrealized gain activity.

CMS advances decreased \$134.5 million from \$232.5 million as of March 31, 2021 to \$98.0 million as of March 31, 2022. 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 March 31, 2022 totaled \$1,566.8 million. This was an increase of \$137.4 million over the balance of \$1,429.4 million as of March 31, 2021. The increase was a result of the clinical affiliation transfers made to AHN by Highmark and certain pension plan liability changes, partially offset by AHN's deficit of revenue over expenses 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 quarter ended March 31, 2022, 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 \$38.7 million and were reflected as equity transfers in the AHN financial statements.

State and Federal COVID-19 Funding

In April 2022, AHN received \$11.0 million from the Commonwealth of Pennsylvania related to PA Act 2, which provided hospitals with dedicated funding to support nursing recruitment and retention efforts. Additionally, AHN received \$8.3 million from the federal government for Phase 4 Rural ARP payments. None of the funding received during 2022 has been recognized in income.

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

\$ 943,365,000 Total Series 2018A Revenue Bonds