



Thomas D. Kavanaugh
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May 30, 2023

Via Electronic Filing

Diana L. Sherman
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 Sherman:

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, 2023. I have copied Mr. Beaser and Mr. DeLacey with the filing.

Very truly yours,

A handwritten signature in black ink, appearing to read "T.D. Kavanaugh".

Thomas D. Kavanaugh

TDK/sk
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, 2023 and 2022



May 30, 2023

ALLEGHENY HEALTH NETWORK

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For the Quarters Ended March 31, 2023 and 2022

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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, 2022 and 2021 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 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”). 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, 2023 and 2022 and December 31, 2022

(Dollars in thousands)

	2023	2022	
	March	March	December
Assets			
Current assets			
Cash and cash equivalents	\$ 184,469	\$ 226,485	\$ 276,997
Patient accounts receivable	535,911	465,806	501,899
Other current assets	246,369	252,101	252,642
Total current assets	966,749	944,392	1,031,538
Investments	415,745	533,841	471,374
Assets whose use is limited	82,457	84,387	82,604
Restricted investments	337,476	377,047	330,594
Equity investments/other	37,067	44,998	38,465
Property and equipment, net	1,925,171	1,842,467	1,931,546
Right to use assets	338,861	306,340	301,897
Other assets	189,447	195,022	192,974
Total assets	\$ 4,292,973	\$ 4,328,494	\$ 4,380,992
Liabilities and net assets			
Current liabilities	\$ 541,444	\$ 630,698	\$ 693,218
Current portion of lease liabilities	43,586	40,230	41,583
Current portion of CMS advances	-	97,987	-
Current portion of long-term debt	8,923	7,111	29,590
Total current liabilities	593,953	776,026	764,391
Accrued pension obligation	181,974	147,240	186,564
Long-term debt	933,362	958,826	934,044
Lease liabilities	314,125	285,157	277,347
Other liabilities	208,843	210,880	211,023
Total liabilities	2,232,257	2,378,129	2,373,369
Net assets:			
Without donor restrictions	1,722,524	1,566,751	1,674,327
With donor restrictions	338,192	383,614	333,296
Total net assets	2,060,716	1,950,365	2,007,623
Total liabilities and net assets	\$ 4,292,973	\$ 4,328,494	\$ 4,380,992

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Consolidated Statements of Operations – Unaudited* For the Quarters Ended March 31, 2023 and 2022

(Dollars in thousands)

	QTD	
	2023	2022
Revenue		
Net patient service revenue	\$ 1,082,171	\$ 932,178
Other operating revenue	82,965	65,767
Total revenue	1,165,136	997,945
Expenses		
Salaries, wages, and fringe benefits	646,309	606,060
Patient care supplies	265,424	224,955
Other operating expenses	233,336	216,065
Depreciation and amortization	56,303	56,392
Total operating expenses	1,201,372	1,103,472
Operating loss	(36,236)	(105,527)
Investment income	9,667	10,256
Net unrealized gains (losses)	11,342	(35,655)
Interest expense	(7,558)	(7,456)
Other components of net periodic benefit credit	6,815	7,625
Other non-operating (expense) income, net	(1,095)	116
Deficit of revenue over expenses, before income taxes	(17,065)	(130,641)
Income tax expense	(1,215)	(2,259)
Deficit of revenue over expenses	\$ (18,280)	\$ (132,900)
Operating margin %	-3.1%	-10.6%
Net margin %	-1.6%	-13.3%
Operating EBITDA	\$ 20,067	\$ (49,135)
Operating EBITDA %	1.7%	-4.9%
Net EBITDA	\$ 46,796	\$ (66,793)
Net EBITDA %	4.0%	-6.7%
Total current and long-term debt**	\$ 942,285	\$ 965,937
Total current and long-term debt** to net EBITDA	5.0	(3.6)

* Includes entities that are not members of the Obligated Group

** Excluding lease liabilities

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Utilization Statistics*

For the Quarters Ended March 31, 2023 and 2022

	QTD	
	2023	2022
Discharges	19,675	17,897
Observation cases	11,044	9,966
Total discharges and observation cases	30,719	27,863
Patient days	117,099	111,304
Average length of stay (medical acute days only)	5.45	5.80
Case-mix index (all payor)	2.05	2.08
Outpatient registrations	420,156	391,451
Emergency department visits	86,132	77,293
Inpatient surgeries	5,695	5,129
Outpatient surgeries	14,327	12,957
Ambulatory surgical cases	7,050	6,621
Total surgical cases	27,072	24,707
Physician visits	930,974	870,396
Full time equivalents	21,397	20,910
Days in patient accounts receivable**	44.6	45.0

* 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 2023

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

Consolidated Statements of Operations

Quarter ended March 31, 2023 compared to quarter ended March 31, 2022

The audited financial statements of AHN for the fiscal years ended December 31, 2022 and 2021 are on file at www.emma.msrb.org.

For the quarter ended March 31, 2023, loss from operations was \$36.2 million compared to loss from operations of \$105.5 million for the comparable 2022 period, a year over year improvement of \$69.3 million, which was largely driven by higher volumes across the organization, value based reimbursement incentives, and third-party payor settlements. However, the increased revenue resulting from the improved volumes was partially offset due to 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. Contracted labor costs increased \$11.2 million from \$43.1 million for the quarter ended March 31, 2022 to \$54.3 million for the quarter ended March 31, 2023. Additionally, patient care supplies expense increased over prior year driven by the increased volumes, price inflation on patient care supply commodities, and expansion of the retail pharmacy programs driving increased drug expense, as well as higher revenue.

For the quarter ended March 31, 2023, AHN recorded a deficit of revenue over expenses of \$18.3 million compared to a deficit of revenue over expenses of \$132.9 million for the same period in the prior year, an improvement of \$114.6 million. This is primarily due to the improvement in operating results, noted above, as well as improved performance in the investment markets. AHN had total investment income (net unrealized gains and investment income) of \$21.0 million for the quarter ended March 31, 2023 compared to investment losses of \$25.4 million for the quarter ended March 31, 2022, a year over year improvement of \$46.4 million.

Operating EBITDA was \$20.1 million for the quarter ended March 31, 2023 versus operating EBITDA of (\$49.1) million for the same period in the prior year, an increase of \$69.2 million. Net EBITDA increased to \$46.8 million for the quarter ended March 31, 2023 versus net EBITDA of (\$66.8) million during the same period in the prior year, an increase of \$113.6 million. This increase was driven by the improvement in operating results and investment market performance as described above.

Volumes, as measured by the combined total of discharges and observation cases, increased 10.3% (2,856 cases) from 27,863 cases for the quarter ended March 31, 2022 to 30,719 cases for the same period during 2023. Total surgical cases increased 9.6% (2,365 cases) from 24,707 cases for the quarter ended March 31, 2022 to 27,072 cases for the quarter ended March 31, 2023. Outpatient registrations, when excluding COVID-19 vaccine registrations, increased 8.1% (31,362 registrations) from 388,794 cases for the quarter ended March 31, 2022 to 420,156 cases for the same period during 2023. Length of Stay (LOS) has improved by 6.0%, decreasing to 5.45 for the quarter ended March 31, 2023. Physician visits grew 7.0% (60,578 visits) from 870,396 visits for the quarter ended March 31, 2022 to 930,974 visits for the same period during 2023.

Consolidated Balance Sheets

March 31, 2023 compared to March 31, 2022

Cash and unrestricted investments totaled \$682.7 million and \$844.7 million at March 31, 2023 and March 31, 2022, respectively. Days cash on hand decreased by 19 days from 72 days at March 31, 2022 to 53 days at March 31, 2023. This decrease was driven by AHN's debt service payments on the Series 2018A Bonds, accelerated accounts payable settlements, as well as the scheduled repayments of the Centers for Medicare and Medicaid Services ("CMS") advances (fully repaid in

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

2022), partially offset by the receipt of payor quality incentives, provider relief funding, and funding of strategic investments from Highmark.

Property and equipment increased \$82.7 million from \$1,842.5 million as of March 31, 2022 to \$1,925.2 million as of March 31, 2023. The increase reflects investments in strategic capital projects including North Fayette Health and Wellness Pavilion, WPH Melanoma Clinic and Lab, Neuroscience Institute at AGH Cancer Center, and information technology infrastructure.

Long-term debt (including the current portion) decreased \$23.6 million from \$965.9 million as of March 31, 2022 to \$942.3 million as of March 31, 2023. The decrease in debt was due to required principal payments, including the second bond payment made on March 31, 2023 of \$19.7 million for the Series 2018A Bonds, and the amortization of bond premiums.

As of March 31, 2023, AHN had a three-year line of credit facility for \$50.0 million that expires on December 18, 2023. \$20.0 million of this amount was set aside for letters of credit, of which \$5.5 million has been utilized for strategic real estate projects, but not drawn upon. No amounts were outstanding at March 31, 2023.

As of March 31, 2023, AHN's recorded unfunded pension obligations totaled \$182.0 million, which was an increase of \$34.8 million from \$147.2 million at March 31, 2022. The increase was due to unrealized loss activity partially offset by a net periodic benefit credit.

In 2022, AHN repaid \$135.1 million related to the remaining CMS advances provided in 2020 in connection to the Accelerated and Advance Payment Programs. No further amounts are due to CMS for these advances at March 31, 2023.

Net assets without donor restrictions as of March 31, 2023 totaled \$1,722.5 million. This was an increase of \$155.7 million over the balance of \$1,566.8 million as of March 31, 2022. The increase was a result of the net asset transfers made to AHN by Highmark pursuant to the clinical affiliation agreement, partially offset by certain pension plan liability changes and 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, 2023, 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 \$58.7 million and were reflected as net asset transfers in the AHN financial statements.

Effective January 1, 2023, AHN executed a new five-year clinical affiliation agreement with Highmark. The new agreement is consistent with the original agreement providing for affiliation payments to AHN for access and capacity projects, service line development and enhancement, development of reimbursement strategies, clinical innovation initiatives and AHN's role in the development of the enterprise's Living Health strategy.

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Appendix

Series 2018A Revenue Bonds Due Dates and CUSIPs

Serial Bonds:

<u>Due Date</u>	<u>Amount</u>	<u>CUSIP</u>
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>\$ 469,025,000</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

\$ 924,670,000 Total Series 2018A Revenue Bonds Outstanding