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May 28, 2021

VIA ELECTRONIC FILING

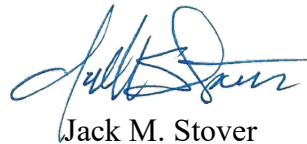
Melissa Greiner
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

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, 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 Quarters Ended March 31, 2021 and 2020



May 28, 2021

ALLEGHENY HEALTH NETWORK

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For the Quarters Ended March 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 year ended December 31, 2020 and 2019 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 quarters ended March 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*

March 31, 2021 and 2020 and December 31, 2020

(Dollars in thousands)

	2021	2020	
	March	March	December
Assets			
Current assets			
Cash and cash equivalents	\$ 295,830	\$ 247,264	\$ 260,438
Patient accounts receivable	405,558	389,129	435,182
Other current assets	440,840	214,977	432,479
Total current assets	1,142,228	851,370	1,128,099
Investments	521,449	486,105	535,593
Assets whose use is limited	72,297	61,391	70,933
Bond project funds	-	21,576	-
Restricted investments	366,656	282,237	357,609
Equity investments/other	39,681	43,446	39,501
Property and equipment, net	1,774,818	1,624,151	1,761,018
Right to use assets	347,102	345,063	356,862
Other assets	189,291	194,257	200,254
Total assets	\$ 4,453,522	\$ 3,909,596	\$ 4,449,869
Liabilities and net assets			
Current liabilities	\$ 596,193	\$ 583,242	\$ 602,057
Current portion of lease liabilities	44,778	59,216	45,287
Current portion of CMS advances	136,437	-	94,504
Current portion of long-term debt	9,055	7,936	9,546
Total current liabilities	786,463	650,394	751,394
Accrued pension obligation	233,200	271,530	238,950
Long-term debt	1,000,380	1,002,080	1,002,433
Lease liabilities	316,150	297,628	321,248
CMS advances	96,053	-	137,986
Other liabilities	216,437	176,162	219,311
Total liabilities	2,648,683	2,397,794	2,671,322
Net assets:			
Without donor restrictions	1,429,436	1,218,532	1,410,590
With donor restrictions	375,403	293,270	367,957
Total net assets	1,804,839	1,511,802	1,778,547
Total liabilities and net assets	\$ 4,453,522	\$ 3,909,596	\$ 4,449,869

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Consolidated Statements of Operations – Unaudited* For the Quarters Ended March 31, 2021 and 2020

(Dollars in thousands)

	QTD	
	2021	2020
Revenue		
Net patient service revenue	\$ 907,230	\$ 836,308
Other operating revenue	68,786	54,555
Total revenue	<u>976,016</u>	<u>890,863</u>
Expenses		
Salaries, wages, and fringe benefits	537,277	519,638
Patient care supplies	211,058	198,583
Other operating expenses	202,793	187,538
Depreciation and amortization	48,283	44,595
Total operating expenses	<u>999,411</u>	<u>950,354</u>
Operating loss	(23,395)	(59,491)
Investment income	8,467	6,007
Net unrealized gains (losses)	397	(48,197)
Interest expense	(6,226)	(6,241)
Other components of net periodic benefit credit	8,050	8,550
Other non-operating (expense) income, net	(1,286)	1,949
Deficit of revenue over expenses, before income taxes	(13,993)	(97,423)
Income tax benefit	(36)	(1,062)
Deficit of revenue over expenses	\$ (14,029)	\$ (98,485)
Operating margin %	-2.4%	-6.7%
Net margin %	-1.4%	-11.1%
Operating EBITDA	\$ 24,888	\$ (14,896)
Operating EBITDA %	2.5%	-1.7%
Net EBITDA	\$ 40,516	\$ (46,587)
Net EBITDA %	4.2%	-5.2%
Total current and long-term debt (excluding lease liabilities)	\$ 1,009,435	\$ 1,010,016
Total current and long-term debt (excluding lease liabilities) to net EBITDA	6.2	(5.4)

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Utilization Statistics*

For the Quarters Ended March 31, 2021 and 2020

	QTD	
	2021	2020
Discharges	18,825	19,518
Observation cases	9,749	10,351
Total discharges and observation cases	28,574	29,869
Patient days	104,379	102,206
Average length of stay (medical acute days only)	5.27	4.94
Case-mix index (all payor)	2.24	1.94
Outpatient registrations	488,161	340,229
Emergency department visits	65,429	69,553
Inpatient surgeries	6,020	6,477
Outpatient surgeries	13,688	13,287
Ambulatory surgical cases	6,805	5,560
Total surgical cases	26,513	25,324
Physician visits	834,146	791,418
Full time equivalents	20,438	20,652
Days in patient accounts receivable**	40.2	42.3

* 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 2021

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

Quarter ended March 31, 2021 compared to quarter ended March 31, 2020

For the quarter ended March 31, 2021, loss from operations was \$23.4 million compared to loss from operations of \$59.5 million for the comparable 2020 period, a year over year improvement of \$36.1 million. The current quarter 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 the first quarter of 2021, though not as significant as in the same period in the prior year. Though certain inpatient volumes through the quarter ended March 31, 2021 trailed that of the quarter ended March 31, 2020, outpatient volumes proved to be stronger in 2021. AHN experienced increases in both inpatient and outpatient volumes for the months of both March and April 2021 when compared to March and April of 2020.

Revenues in the first quarter of 2021 reflected certain rate increases and an increased case mix index that favorably impacted operating results, as well as revenues related to vaccination clinics. 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. Patient care supplies expense also increased over prior year quarter driven by higher surgical mix and overall increases in patient acuity.

For the quarter ended March 31, 2021, AHN recorded a deficit of revenue over expenses of \$14.0 million compared to a deficit of revenue over expenses of \$98.5 million for the same period in the prior year, an improvement of \$84.5 million. This is primarily due to the improvement in operating loss, noted above, as well as improved performance in the investment markets. AHN had total investment earnings (net unrealized gains and investment income) of \$8.9 million for the quarter ended March 31, 2021 compared to investment losses of \$42.2 million for the quarter ended March 31, 2020.

Operating EBITDA was \$24.9 million for the quarter ended March 31, 2021 versus operating EBITDA of (\$14.9) million for the same period in the prior year, an increase of \$39.8 million. Net EBITDA increased to \$40.5 million for the quarter ended March 31, 2021 versus net EBITDA of (\$46.6) million during the same period in the prior year. This increase was primarily attributable to the improvement in operating loss and investment market performance as described above.

Volumes, as measured by the combined total of discharges and observation cases, decreased 4.3% (1,295 cases) from 29,869 cases for the quarter ended March 31, 2020 to 28,574 cases for the same period during 2021. Total surgical cases increased 4.7% (1,189 cases) from 25,324 cases for the quarter ended March 31, 2020 to 26,513 cases for the quarter ended March 31, 2021. This was driven by outpatient surgeries in the hospitals and ambulatory surgery centers. AHN had the highest total discharges and observations in March 2021 than any of the last 12 months. Both inpatient and outpatient surgeries realized significant improvements when comparing the month of March 2021 to March 2020. Inpatient surgeries increased 10.5% and outpatient surgeries increased 49.5%. This also holds true for AHN surgery centers (which are not included in outpatient surgeries) where surgeries increased 97.8% for the same period. The month of April 2021 continued to be favorable over April 2020 with inpatient surgeries improving by 46.1% and outpatient surgeries improving by 282.4%. April 2021 also showed improvement over April 2020 for the surgery centers, as there were no such cases in April 2020 due to the temporary shutdown of these locations.

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

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, 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 \$35.0 million, with a \$206.2 million receivable due from Highmark at March 31, 2021, and were reflected as equity transfers in the AHN financial statements.

Cash, Liquidity, Long-Term Debt and Unfunded Pension Obligations

Cash and unrestricted investments totaled \$889.6 million and \$816.3 million at March 31, 2021 and March 31, 2020, respectively. Days cash on hand increased by 3 days from 81 days at March 31, 2020 to 84 days at March 31, 2021. This increase was driven by the receipt of funding through the CMS Medicare Accelerated and Advance Payment Program pursuant to the Coronavirus Aid, Relief, and Economic Security Act in the second quarter of 2020 offset by losses incurred throughout 2020 and into 2021. CMS began recouping the accelerated payments in April 2021.

Long-term debt (including the current portion) declined \$0.6 million from \$1,010.0 million as of March 31, 2020 to \$1,009.4 million as of March 31, 2021. The reduction was primarily due to required principal payments and the amortization of bond premiums.

AHN has two lines of credit facilities for \$50.0 million each that were established in July 2020. As of March 31, 2021, AHN has not drawn on either of these facilities.

AHN's recorded unfunded pension obligations, related to its defined benefit plans, declined during the first three months of 2021. Certain defined benefit pension plans are frozen with no new participation permitted. As of March 31, 2021, AHN's recorded unfunded pension obligations totaled \$233.2 million, which was a decrease of \$38.3 million from \$271.5 million at March 31, 2020. The decrease was due to a net periodic benefit credit and funding payments made in 2020.

Net assets without donor restrictions as of March 31, 2021 totaled \$1,429.4 million. This was an increase of \$210.9 million over the balance of \$1,218.5 million as of March 31, 2020. The increase was a result of the accrued clinical affiliation transfers made to AHN by Highmark, partially offset by AHN's deficit of revenue over expenses during the period.

Vaccination Response

AHN played a key role in the state's vaccine distribution plan and organized large-scale vaccination clinics across its footprint initially targeting seniors, minorities, and historically underserved and marginalized populations. AHN recently expanded its vaccination clinics to all individuals age 12 and above. Through May 27, 2021, AHN held approximately two dozen large-scale community mass vaccination clinics, and dozens of smaller scale clinics, delivering over 350,000 doses of the vaccine. The Pennsylvania Department of Health's vaccine plan has been to rely on larger hospital networks, practices, and pharmacies for vaccine distribution as they are able to vaccinate patients more quickly and in larger numbers than smaller organizations. AHN has continued to work collaboratively with both the Pennsylvania Department of Health and the Allegheny County Health Department to meet the needs of patients in the communities it serves.

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>\$ 943,365,000</u>	Total Series 2018A Revenue Bonds