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August 30, 2021

VIA ELECTRONIC FILING

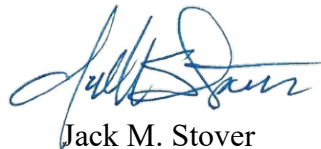
Melissa Greiner
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

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 June 30, 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 June 30, 2021 and 2020



August 27, 2021

ALLEGHENY HEALTH NETWORK

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For the Periods Ended June 30, 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 periods ended June 30, 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*

June 30, 2021 and 2020 and December 31, 2020

(Dollars in thousands)

	2021	2020	
	June	June	December
Assets			
Current assets			
Cash and cash equivalents	\$ 431,311	\$ 335,068	\$ 260,438
Patient accounts receivable	422,315	383,333	435,182
Other current assets	263,388	269,198	432,479
Total current assets	1,117,014	987,599	1,128,099
Investments	551,153	529,117	535,593
Assets whose use is limited	73,394	65,639	70,933
Bond project funds	-	5	-
Restricted investments	386,249	315,419	357,609
Equity investments/other	41,129	43,167	39,501
Property and equipment, net	1,786,919	1,653,834	1,761,018
Right to use assets	335,620	339,882	356,862
Other assets	191,655	189,765	200,254
Total assets	\$ 4,483,133	\$ 4,124,427	\$ 4,449,869
Liabilities and net assets			
Current liabilities	\$ 574,871	\$ 539,188	\$ 602,057
Current portion of lease liabilities	42,841	60,808	45,287
Current portion of CMS advances	158,308	31,502	94,504
Current portion of long-term debt	27,259	7,726	9,546
Total current liabilities	803,279	639,224	751,394
Accrued pension obligation	227,450	260,680	238,950
Long-term debt	983,470	1,001,392	1,002,433
Lease liabilities	311,083	293,076	321,248
CMS advances	45,786	200,988	137,986
Other liabilities	222,378	176,524	219,311
Total liabilities	2,593,446	2,571,884	2,671,322
Net assets:			
Without donor restrictions	1,495,865	1,226,618	1,410,590
With donor restrictions	393,822	325,925	367,957
Total net assets	1,889,687	1,552,543	1,778,547
Total liabilities and net assets	\$ 4,483,133	\$ 4,124,427	\$ 4,449,869

* Includes entities that are not members of the Obligated Group

Note: Certain PY amounts have been updated to provide consistency with 2021

ALLEGHENY HEALTH NETWORK

Consolidated Statements of Operations – Unaudited* For the Periods Ended June 30, 2021 and 2020

(Dollars in thousands)

	QTD		YTD	
	2021	2020	2021	2020
Revenue				
Net patient service revenue	\$ 936,423	\$ 698,003	\$ 1,843,653	\$ 1,534,311
Other operating revenue	67,975	123,095	136,761	177,650
Total revenue	1,004,398	821,098	1,980,414	1,711,961
Expenses				
Salaries, wages, and fringe benefits	534,025	504,107	1,071,302	1,023,745
Patient care supplies	226,286	172,282	437,344	370,865
Other operating expenses	195,830	175,721	398,623	363,259
Depreciation and amortization	49,954	43,082	98,237	87,677
Total operating expenses	1,006,095	895,192	2,005,506	1,845,546
Operating loss	(1,697)	(74,094)	(25,092)	(133,585)
Investment income	6,613	4,588	15,080	10,595
Net unrealized gains (losses)	13,461	39,707	13,858	(8,490)
Interest expense	(5,689)	(5,892)	(11,915)	(12,133)
Other components of net periodic benefit credit	8,050	8,550	16,100	17,100
Other non-operating expense, net	(2,214)	(3,667)	(3,500)	(1,718)
Excess (deficit) of revenue over expenses, before income taxes	18,524	(30,808)	4,531	(128,231)
Income tax expense	(989)	(950)	(1,025)	(2,012)
Excess (deficit) of revenue over expenses	\$ 17,535	\$ (31,758)	\$ 3,506	\$ (130,243)
Operating margin %	-0.2%	-9.0%	-1.3%	-7.8%
Net margin %	1.7%	-3.9%	0.2%	-7.6%
Operating EBITDA	\$ 48,257	\$ (31,012)	\$ 73,145	\$ (45,908)
Operating EBITDA %	4.8%	-3.8%	3.7%	-2.7%
Net EBITDA	\$ 74,167	\$ 18,166	\$ 114,683	\$ (28,421)
Net EBITDA %	7.4%	2.2%	5.8%	-1.7%
Total current and long-term debt (excluding lease liabilities)	\$ 1,010,729	\$ 1,009,118	\$ 1,010,729	\$ 1,009,118
Total current and long-term debt (excluding lease liabilities) to net EBITDA	3.4	13.9	4.4	(17.8)

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Utilization Statistics*

For the Periods Ended June 30, 2021 and 2020

	QTD		YTD	
	2021	2020	2021	2020
Discharges	18,986	16,195	37,811	35,713
Observation cases	11,501	7,919	21,250	18,270
Total discharges and observation cases	30,487	24,114	59,061	53,983
Patient days	105,457	86,214	209,836	188,420
Average length of stay (medical acute days only)	5.24	4.78	5.26	4.88
Case-mix index (all payor)	2.24	2.02	2.26	1.95
Outpatient registrations	493,543	245,799	981,704	586,028
Emergency department visits	75,619	53,811	141,048	123,364
Inpatient surgeries	6,255	5,591	12,275	12,068
Outpatient surgeries	15,368	9,572	29,056	22,859
Ambulatory surgical cases	7,126	3,455	13,931	9,015
Total surgical cases	28,749	18,618	55,262	43,942
Physician visits	857,190	646,401	1,691,336	1,437,819
Full time equivalents	20,648	20,340	20,544	20,496
Days in patient accounts receivable**	41.0	50.0	41.0	50.0

* 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 2021

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

Consolidated Statements of Operations

Year to date June 30, 2021 compared to year to date June 30, 2020

For the six months ended June 30, 2021, loss from operations was \$25.1 million compared to loss from operations of \$133.6 million for the comparable 2020 period, a year over year improvement of \$108.5 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 the first six months of 2021, though not as significant as in the same period in the prior year.

Revenues in the first six months of 2021 reflected certain rate increases and an increased case mix index as well as revenues related to vaccination clinics that favorably impacted operating results. 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 driven by higher surgical mix and overall increases in patient acuity.

For the six months ended June 30, 2021, AHN recorded an excess of revenue over expenses of \$3.5 million compared to a deficit of revenue over expenses of \$130.2 million for the same period in the prior year, an improvement of \$133.7 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 \$28.9 million for the six months ended June 30, 2021 compared to investment earnings of \$2.1 million for the six months ended June 30, 2020.

Operating EBITDA was \$73.1 million for the six months ended June 30, 2021 versus operating EBITDA of (\$45.9) million for the same period in the prior year, an increase of \$119.0 million. Net EBITDA increased to \$114.7 million for the six months ended June 30, 2021 versus net EBITDA of (\$28.4) 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, increased 9.4% (5,078 cases) from 53,983 cases for the six months ended June 30, 2020 to 59,061 cases for the same period during 2021. AHN had the highest combined total of discharges and observation cases in June 2021 than any of the last 15 months. Total surgical cases increased 25.8% (11,320 cases) from 43,942 cases for the six months ended June 30, 2020 to 55,262 cases for the six months ended June 30, 2021. This was driven by outpatient surgeries in the hospitals and ambulatory surgery centers.

Consolidated Balance Sheets

June 30, 2021 compared to June 30, 2020

Cash and unrestricted investments totaled \$1,055.9 million and \$929.8 million at June 30, 2021 and June 30, 2020, respectively. Days cash on hand increased by 4 days from 96 days at June 30, 2020 to 100 days at June 30, 2021. This increase was driven by the receipt of payor quality incentives, funding of strategic investments from Highmark, and investment gains from favorable market conditions.

Long-term debt (including the current portion) increased \$1.6 million from \$1,009.1 million as of June 30, 2020 to \$1,010.7 million as of June 30, 2021. The increase was due to new borrowings in the amount of \$4.5 million related to equipment financing partially offset by the required principal payments and the amortization of bond premiums. Current portion of long-term debt increased

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

\$19.6 million from \$7.7 million at June 30, 2020 to \$27.3 million at June 30, 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 June 30, 2021, AHN had two lines of credit facilities for \$50.0 million each that were established in July 2020. Subsequently, on July 28, 2021 the one-year line of credit expired with no plans of renewal. The three-year line of credit remains in effect.

AHN's recorded unfunded pension obligations, related to its defined benefit plans, declined during the first six months of 2021. Certain defined benefit pension plans are frozen with no new participation permitted. As of June 30, 2021, AHN's recorded unfunded pension obligations totaled \$227.5 million, which was a decrease of \$33.2 million from \$260.7 million at June 30, 2020. The decrease was due to a net periodic benefit credit and funding payments made in 2020, partially offset by settlement accounting losses and unrealized loss activity.

Centers for Medicare and Medicaid Services advances decreased \$28.4 million from \$232.5 million as of June 30, 2020 to \$204.1 million as of June 30, 2021. The decrease was attributed to the scheduled repayment of advances provided in 2020 in connection to the Accelerated and Advance Payment Programs.

Net assets without donor restrictions as of June 30, 2021 totaled \$1,495.9 million. This was an increase of \$269.3 million over the balance of \$1,226.6 million as of June 30, 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 six months ended June 30, 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 \$84.5 million, with a \$17.7 million receivable due from Highmark at June 30, 2021, and were reflected as equity transfers in the AHN financial statements.

Vaccination Response

AHN played a key role in the state's vaccine distribution plan and organized large-scale vaccination clinics across its footprint including efforts that targeted seniors, minorities, and historically underserved and marginalized populations. Through August 26, 2021, AHN held approximately two dozen large-scale community mass vaccination clinics, and dozens of smaller scale clinics, delivering more than 360,000 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.

As of August 26, 2021, AHN's vaccine clinics have resulted in nearly 75,000 new patients (or patients not seen within the last three years) utilizing the network.

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