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November 24, 2021

VIA ELECTRONIC FILING

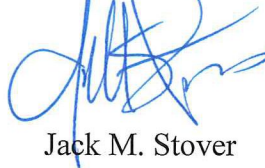
Melissa Greiner
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

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 September 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 September 30, 2021 and 2020



November 24, 2021

ALLEGHENY HEALTH NETWORK

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For the Periods Ended September 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 September 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*

September 30, 2021 and 2020 and December 31, 2020

(Dollars in thousands)

	2021	2020	
	September	September	December
Assets			
Current assets			
Cash and cash equivalents	\$ 420,289	\$ 302,104	\$ 260,438
Patient accounts receivable	447,923	387,918	435,182
Other current assets	230,708	305,940	432,479
Total current assets	1,098,920	995,962	1,128,099
Investments	574,331	557,450	535,593
Assets whose use is limited	84,144	66,383	70,933
Bond project funds	-	1,084	-
Restricted investments	383,062	328,335	357,609
Equity investments/other	42,036	45,471	39,501
Property and equipment, net	1,809,037	1,664,771	1,761,018
Right to use assets	326,151	348,629	356,862
Other assets	194,153	191,445	200,254
Total assets	\$ 4,511,834	\$ 4,199,530	\$ 4,449,869
Liabilities and net assets			
Current liabilities	\$ 598,941	\$ 578,206	\$ 602,057
Current portion of lease liabilities	42,451	47,860	45,287
Current portion of CMS advances	169,992	63,003	94,504
Current portion of long-term debt	26,769	7,516	9,546
Total current liabilities	838,153	696,585	751,394
Accrued pension obligation	221,700	224,135	238,950
Long-term debt	981,716	999,170	1,002,433
Lease liabilities	302,845	313,371	321,248
CMS advances	-	169,487	137,986
Other liabilities	229,149	178,528	219,311
Total liabilities	2,573,563	2,581,276	2,671,322
Net assets:			
Without donor restrictions	1,547,699	1,279,168	1,410,590
With donor restrictions	390,572	339,086	367,957
Total net assets	1,938,271	1,618,254	1,778,547
Total liabilities and net assets	\$ 4,511,834	\$ 4,199,530	\$ 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 September 30, 2021 and 2020

(Dollars in thousands)

	QTD		YTD	
	2021	2020	2021	2020
Revenue				
Net patient service revenue	\$ 942,238	\$ 877,560	\$ 2,785,891	\$ 2,411,871
Other operating revenue	67,096	54,886	203,857	232,536
Total revenue	1,009,334	932,446	2,989,748	2,644,407
Expenses				
Salaries, wages, and fringe benefits	552,188	515,277	1,623,490	1,539,022
Patient care supplies	228,009	204,249	665,353	575,114
Other operating expenses	196,338	184,459	594,961	547,718
Depreciation and amortization	49,399	46,361	147,636	134,038
Total operating expenses	1,025,934	950,346	3,031,440	2,795,892
Operating loss	(16,600)	(17,900)	(41,692)	(151,485)
Investment income	6,793	18,958	21,873	29,553
Net unrealized (losses) gains	(7,413)	133	6,445	(8,357)
Interest expense	(5,406)	(5,607)	(17,321)	(17,740)
Other components of net periodic benefit credit	8,050	8,214	24,150	25,314
Other non-operating expense, net	(1,271)	(2,619)	(4,771)	(4,337)
(Deficit) excess of revenue over expenses, before income taxes	(15,847)	1,179	(11,316)	(127,052)
Income tax expense	(1,329)	(581)	(2,354)	(2,593)
(Deficit) excess of revenue over expenses	\$ (17,176)	\$ 598	\$ (13,670)	\$ (129,645)
Operating margin %	-1.6%	-1.9%	-1.4%	-5.7%
Net margin %	-1.7%	0.1%	-0.5%	-4.9%
Operating EBITDA	\$ 32,799	\$ 28,461	\$ 105,944	\$ (17,447)
Operating EBITDA %	3.2%	3.1%	3.5%	-0.7%
Net EBITDA	\$ 38,958	\$ 53,147	\$ 153,641	\$ 24,726
Net EBITDA %	3.9%	5.7%	5.1%	0.9%
Total current and long-term debt (excluding lease liabilities)	\$ 1,008,485	\$ 1,006,686	\$ 1,008,485	\$ 1,006,686
Total current and long-term debt (excluding lease liabilities) to net EBITDA	6.5	4.7	4.9	30.5

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Utilization Statistics*

For the Periods Ended September 30, 2021 and 2020

	QTD		YTD	
	2021	2020	2021	2020
Discharges	18,694	19,180	56,505	54,893
Observation cases	11,220	10,458	32,470	28,728
Total discharges and observation cases	29,914	29,638	88,975	83,621
Patient days	107,661	104,413	317,497	292,833
Average length of stay (medical acute days only)	5.29	4.99	5.28	4.92
Case-mix index (all payor)	2.22	1.97	2.19	1.96
Outpatient registrations	402,343	375,952	1,384,047	961,980
Emergency department visits	83,835	70,780	224,883	194,144
Inpatient surgeries	5,945	6,691	18,220	18,759
Outpatient surgeries	14,357	14,081	43,413	36,940
Ambulatory surgical cases	6,819	6,282	20,750	15,297
Total surgical cases	27,121	27,054	82,383	70,996
Physician visits	894,883	817,162	2,586,219	2,254,981
Full time equivalents	20,989	20,347	20,693	20,446
Days in patient accounts receivable**	43.7	40.7	43.7	40.7

* Includes entities that are not members of the Obligated Group

** Calculated using 90 days rolling net patient revenue

ALLEGHENY HEALTH NETWORK

Appendix

Consolidated Statements of Operations

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

For the nine months ended September 30, 2021, loss from operations was \$41.7 million compared to loss from operations of \$151.5 million for the comparable 2020 period, a year over year improvement of \$109.8 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 nine months of 2021, though not as significant as in the same period in the prior year.

Revenues in the first nine months of 2021 reflected certain rate increases, value based quality incentives, increased case mix index as well as revenues related to vaccination clinics held mainly during the first quarter 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. Hospital and post-acute staffing shortages also leading 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 infused medication costs (also driving higher revenue), patient care supply commodity price inflation and overall increases in patient acuity.

For the nine months ended September 30, 2021, AHN recorded a deficit of revenue over expenses of \$13.7 million compared to a deficit of revenue over expenses of \$129.6 million for the same period in the prior year, an improvement of \$115.9 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 \$28.3 million for the nine months ended September 30, 2021 compared to investment earnings of \$21.2 million for the nine months ended September 30, 2020.

Operating EBITDA was \$105.9 million for the nine months ended September 30, 2021 versus operating EBITDA of (\$17.4) million for the same period in the prior year, an increase of \$123.3 million. Net EBITDA increased to \$153.6 million for the nine months ended September 30, 2021 versus net EBITDA of \$24.7 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 6.4% (5,354 cases) from 83,621 cases for the nine months ended September 30, 2020 to 88,975 cases for the same period during 2021. Total surgical cases increased 16.0% (11,387 cases) from 70,996 cases for the nine months ended September 30, 2020 to 82,383 cases for the nine months ended September 30, 2021. This was driven by outpatient surgeries in the hospitals and ambulatory surgery centers.

Consolidated Balance Sheets

September 30, 2021 compared to September 30, 2020

Cash and unrestricted investments totaled \$1,078.8 million and \$927.0 million at September 30, 2021 and September 30, 2020, respectively. Days cash on hand increased by 7 days from 95 days at September 30, 2020 to 102 days at September 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.

ALLEGHENY HEALTH NETWORK

Appendix

Property and equipment increased \$144.2 million from \$1,664.8 million as of September 30, 2020 to \$1,809.0 million as of September 30, 2021. The increase reflects investments in strategic capital projects including Wexford Hospital and IT Infrastructure.

Long-term debt (including the current portion) increased \$1.8 million from \$1,006.7 million as of September 30, 2020 to \$1,008.5 million as of September 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 \$19.3 million from \$7.5 million at September 30, 2020 to \$26.8 million at September 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 September 30, 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 the first nine months of 2021. Certain defined benefit pension plans are frozen with no new participation permitted. As of September 30, 2021, AHN's recorded unfunded pension obligations totaled \$221.7 million, which was a decrease of \$2.4 million from \$224.1 million at September 30, 2020. The decrease was due to a net periodic benefit credit, partially offset by settlement accounting losses and unrealized loss activity.

Centers for Medicare and Medicaid Services (CMS) advances decreased \$62.5 million from \$232.5 million as of September 30, 2020 to \$170.0 million as of September 30, 2021. The decrease was attributed 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 September 30, 2021 totaled \$1,547.7 million. This was an increase of \$268.5 million over the balance of \$1,279.2 million as of September 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 nine months ended September 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 \$150.1 million and were reflected as equity transfers in the AHN financial statements.

New Hospital Opening

On September 30, 2021, AHN opened its 14th hospital, Wexford Hospital, in the North Hills community of Pittsburgh. The all-private 100-bed hospital features a 24-bed emergency department, a complete labor and delivery unit with a level 2 NICU and specialty care in cancer, neurology, cardiology, radiology, gastroenterology, and orthopedics.

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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>
4/1/2022	\$ 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