



Thomas D. Kavanaugh
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March 20, 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 December 31, 2022. 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 December 31, 2022 and 2021



March 20, 2023

ALLEGHENY HEALTH NETWORK

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For the Periods Ended December 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, 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* December 31, 2022 and 2021

(Dollars in thousands)

	2022	2021
	December	December
Assets		
Current assets		
Cash and cash equivalents	\$ 276,997	\$ 259,127
Patient accounts receivable	501,899	453,827
Other current assets	252,642	217,402
Total current assets	1,031,538	930,356
Investments	471,374	667,282
Assets whose use is limited	82,604	85,133
Restricted investments	330,594	400,303
Equity investments/other	38,465	42,650
Property and equipment, net	1,931,546	1,862,066
Right to use assets	301,897	304,077
Other assets	192,974	204,450
Total assets	\$ 4,380,992	\$ 4,496,317
Liabilities and net assets		
Current liabilities	\$ 693,218	\$ 612,050
Current portion of lease liabilities	41,583	39,087
Current portion of CMS advances	-	135,124
Current portion of long-term debt	29,590	25,911
Total current liabilities	764,391	812,172
Accrued pension obligation	186,564	152,740
Long-term debt	934,044	960,502
Lease liabilities	277,347	282,954
Other liabilities	211,023	216,065
Total liabilities	2,373,369	2,424,433
Net assets:		
Without donor restrictions	1,674,327	1,663,342
With donor restrictions	333,296	408,542
Total net assets	2,007,623	2,071,884
Total liabilities and net assets	\$ 4,380,992	\$ 4,496,317

* Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Consolidated Statements of Operations – Unaudited* For the Periods Ended December 31, 2022 and 2021

(Dollars in thousands)

	QTD		YTD	
	2022	2021	2022	2021
Revenue				
Net patient service revenue	\$ 1,034,593	\$ 950,270	\$ 3,946,127	\$ 3,736,161
Other operating revenue	72,127	80,293	411,776	284,150
Total revenue	1,106,720	1,030,563	4,357,903	4,020,311
Expenses				
Salaries, wages, and fringe benefits	644,132	591,180	2,508,653	2,214,670
Patient care supplies	250,260	241,506	942,667	906,859
Other operating expenses	221,679	221,000	863,337	815,961
Depreciation and amortization	55,230	55,163	224,044	202,799
Total operating expenses	1,171,301	1,108,849	4,538,701	4,140,289
Operating loss	(64,581)	(78,286)	(180,798)	(119,978)
Investment income	4,809	16,411	40,149	38,284
Net unrealized gains (losses)	21,568	(2,662)	(88,125)	3,783
Interest expense	(8,943)	(6,533)	(33,343)	(23,854)
Other components of net periodic benefit credit	7,992	10,093	30,867	34,243
Other non-operating (expense) income, net	(4,368)	39	(6,842)	(4,732)
Deficit of revenue over expenses, before income taxes	(43,523)	(60,938)	(238,092)	(72,254)
Income tax benefit (expense)	771	218	(2,903)	(2,136)
Deficit of revenue over expenses	\$ (42,752)	\$ (60,720)	\$ (240,995)	\$ (74,390)
Operating margin %	-5.8%	-7.6%	-4.1%	-3.0%
Net margin %	-3.9%	-5.9%	-5.5%	-1.9%
Operating EBITDA	\$ (9,351)	\$ (23,123)	\$ 43,246	\$ 82,821
Operating EBITDA %	-0.8%	-2.2%	1.0%	2.1%
Net EBITDA	\$ 20,650	\$ 758	\$ 19,295	\$ 154,399
Net EBITDA %	1.9%	0.1%	0.4%	3.8%
Total current and long-term debt**	\$ 963,634	\$ 986,413	\$ 963,634	\$ 986,413
Total current and long-term debt** to net EBITDA	11.7	325.3	49.9	6.4

* Includes entities that are not members of the Obligated Group

** Excluding lease liabilities

ALLEGHENY HEALTH NETWORK

Utilization Statistics*

For the Periods Ended December 31, 2022 and 2021

	QTD		YTD	
	2022	2021	2022	2021
Discharges	19,185	19,154	75,015	75,659
Observation cases	10,825	10,303	43,405	42,773
Total discharges and observation cases	30,010	29,457	118,420	118,432
Patient days	113,415	115,088	434,358	432,585
Average length of stay (medical acute days only)	5.44	6.09	5.47	5.40
Case-mix index (all payor)	2.06	2.19	2.01	1.98
Outpatient registrations	424,484	426,049	1,672,721	1,810,096
Emergency department visits	88,088	88,375	336,378	313,258
Inpatient surgeries	5,759	5,405	23,013	23,625
Outpatient surgeries	14,864	14,429	57,478	57,842
Ambulatory surgical cases	6,464	7,088	25,947	27,838
Total surgical cases	27,087	26,922	106,438	109,305
Physician visits	921,177	877,358	3,567,472	3,463,577
Full time equivalents	21,454	21,335	21,270	20,857
Days in patient accounts receivable**	44.6	43.9	44.6	43.9

* Includes entities that are not members of the Obligated Group

** Calculated using 90 days rolling net patient revenue

*** Outpatient registrations related to COVID-19 vaccine clinics include 3,267 registrations in 2022 and 271,035 registrations in 2021.

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

ALLEGHENY HEALTH NETWORK

Financial Ratios*

For the Years Ended December 31, 2022 and 2021

(Dollars in thousands)

Days Cash on Hand

	YTD	
	2022	2021
Cash and cash equivalents	\$ 276,997	\$ 259,127
Investments	471,374	667,282
Assets whose use is limited	82,604	85,133
Total cash on hand	\$ 830,975	\$ 1,011,542
Operating expenses	\$ 4,538,701	\$ 4,140,289
Add: Interest expense	33,343	23,854
Less: Depreciation and amortization	(224,044)	(202,799)
Total	\$ 4,348,000	\$ 3,961,344
Days in period	365	365
Operating expense per day	\$ 11,912	\$ 10,853
Days cash on hand **	70	93

** For purposes of calculating days cash on hand, investments included in the above calculation consist only of unrestricted amounts.

Debt Service Coverage Ratio

	YTD	
	2022	2021
Deficit of revenue over expenses	\$ (240,995)	\$ (74,390)
Add: Depreciation and amortization	224,044	202,799
Add: Interest expense	33,343	23,854
Add: Gross unrealized losses	89,316	20,911
Add: Income tax expense	2,903	2,136
Total	\$ 108,611	\$ 175,310
Debt service requirement	\$ 47,401	\$ 54,225
Debt service coverage ratio	2.3	3.2

Debt-to-Capitalization

	2022	2021
Long-term debt including current portion	\$ 963,634	\$ 986,413
Net assets without donor restrictions	1,674,327	1,663,342
Total Capitalization	\$ 2,637,961	\$ 2,649,755
Debt-to-Capitalization	37%	37%

*Includes entities that are not members of the Obligated Group

ALLEGHENY HEALTH NETWORK

Sources of Revenue*

For the Years Ended December 31, 2022 and 2021

Sources of Revenue - Hospital Only

	2022	2021
Highmark commercial	35.8%	34.5%
Highmark medicaid**	3.0%	3.1%
Highmark medicare**	11.5%	12.5%
Highmark subtotal	50.3%	50.1%
Other commercial	13.9%	14.0%
Other medicaid	6.3%	6.6%
Medicare fee for service	14.0%	13.9%
Other medicare	13.1%	12.9%
Other	2.4%	2.5%
Other subtotal	49.7%	49.9%
Total	100.0%	100.0%
Total commercial	49.7%	48.5%
Total government	47.9%	49.0%

*Includes entities that are not members of the Obligated Group

**Includes products provided by Highmark Wholecare

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

Consolidated Statements of Operations

Year to date December 31, 2022 compared to year to date December 31, 2021

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 year ended December 31, 2022, loss from operations was \$180.8 million compared to loss from operations of \$120.0 million for the comparable 2021 period, a year over year decline of \$60.8 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. Contracted labor costs have increased \$130.0 million from \$63.9 million for the year ended December 31, 2021 to \$193.9 million for the year ended December 31, 2022. Hospital and post-acute staffing shortages have put pressure on both volumes and length of stay. These increases in expenses were partially offset by additional revenue from federal programs, as discussed further below.

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.

For the year ended December 31, 2022, AHN recorded a deficit of revenue over expenses of \$241.0 million compared to a deficit of revenue over expenses of \$74.4 million for the same period in the prior year, a decline of \$166.6 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 \$48.0 million for the year ended December 31, 2022 compared to investment earnings of \$42.1 million for the year ended December 31, 2021, a year over year decline of \$90.1 million.

Operating EBITDA was \$43.2 million for the year ended December 31, 2022 versus operating EBITDA of \$82.8 million for the same period in the prior year, a decrease of \$39.6 million. Net EBITDA decreased to \$19.3 million for the year ended December 31, 2022 versus net EBITDA of \$154.4 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, remained consistent with prior year with 118,432 cases reported for the year ended December 31, 2021 and 118,420 cases for the same period during 2022. Total surgical cases decreased 2.6% (2,867 cases) from 109,305 cases for the year ended December 31, 2021 to 106,438 cases for the year ended December 31, 2022. Outpatient registrations, when excluding COVID-19 vaccine registrations, increased 8.5% (130,663 registrations) from 1,538,791 cases for the year ended December 31, 2021 to 1,669,454 cases for the same period during 2022. Physician visits grew 3.0% (103,895 visits) from 3,463,577 visits for the year ended December 31, 2021 to 3,567,472 visits for the same period during 2022.

Wexford Hospital opened in the fourth quarter of 2021 and accounted for 6.7% of the inpatient volume and 6.7% of the outpatient volume, contributing \$145.8 million of patient revenue for the year ended December 31, 2022.

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

Consolidated Balance Sheets

December 31, 2022 compared to December 31, 2021

Cash and unrestricted investments totaled \$831.0 million and \$1,011.5 million at December 31, 2022 and December 31, 2021, respectively. Days cash on hand decreased by 23 days from 93 days at December 31, 2021 to 70 days at December 31, 2022. This decrease was driven by the scheduled repayments of Centers for Medicare and Medicaid Services (CMS) advances (\$135.1 million) and AHN's first principal payment on the Series 2018A Bonds, partially offset by the receipt of payor quality incentives, provider relief funding, and funding of strategic investments from Highmark. Additionally, days cash on hand was negatively impacted by declining investment values, driven by overall poor market performance.

Property and equipment increased \$69.4 million from \$1,862.1 million as of December 31, 2021 to \$1,931.5 million as of December 31, 2022. The increase reflects investments in strategic capital projects including North Fayette Health and Wellness Pavilion, Wexford Hospital, and information technology infrastructure.

Long-term debt (including the current portion) decreased \$22.8 million from \$986.4 million as of December 31, 2021 to \$963.6 million as of December 31, 2022. The decrease in debt was due to required principal payments, including the first bond payment of \$18.7 million for the Series 2018A Bonds, and the amortization of bond premiums. In December 2022, AHN deposited \$25.0 million in trust for the purpose of paying required principal and interest on the Series 2018A Bonds coming due in 2023.

As of December 31, 2022, AHN had a three-year line of credit facility for \$50.0 million that was established in July 2020. In December 2022, this three-year facility was amended to address the LIBOR transition language and the expiration date was extended to 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 December 31, 2022.

AHN's recorded unfunded pension obligations, related to its defined benefit plans, increased during 2022. Certain defined benefit pension plans are frozen with no new participation permitted. As of December 31, 2022, AHN's recorded unfunded pension obligations totaled \$186.6 million, which was an increase of \$33.9 million from \$152.7 million at December 31, 2021. 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 December 31, 2022.

Net assets without donor restrictions as of December 31, 2022 totaled \$1,674.3 million. This was an increase of \$11.0 million over the balance of \$1,663.3 million as of December 31, 2021. 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.

ALLEGHENY HEALTH NETWORK

Management's Discussion and Analysis of Recent Financial Performance

For the year ended December 31, 2022, Highmark made investments in AHN pursuant to a clinical affiliation agreement between the parties to support strategic capital investments made by AHN. Effective January 1, 2023, AHN executed a new five-year agreement with Highmark. The new agreement follows the core purpose of the original agreement, focusing on access and capacity, service line development, reimbursement methodology, clinical innovation, and pacesetter role through regular affiliation payments.

Capital investments from Highmark totaled \$293.1 million and were reflected as net asset transfers in the AHN financial statements. In addition, Highmark deposited \$21.3 million in trust for the purpose of paying interest on the Series 2018A Bonds, also reflected as a net asset transfer on the consolidated balance sheets. This amount was utilized to pay the required interest payments made in October 2022.

State and Federal COVID-19 Funding

In April 2022, AHN received \$11.0 million from the Commonwealth of Pennsylvania pursuant to Act 2 of 2022 enacted under the American Rescue Plan Act, which provided Pennsylvania hospitals with dedicated funding to support nursing recruitment and retention efforts. In July 2022, AHN distributed these funds to eligible employees and recognized the revenue within other operating revenue on the consolidated statements of operations.

In the second quarter of 2022, AHN recognized \$25.5 million from the federal government for Phase 4 General and Rural American Rescue Plan payments. These amounts were reported in other operating revenue.

In the third quarter of 2022, AHN recognized \$91.0 million for Phase 3 American Rescue Plan payments after having made a request for a Phase 3 Reconsideration. These amounts were reported in other operating revenue.

ALLEGHENY HEALTH NETWORK

Appendix

Series 2018A Revenue Bonds Due Dates and CUSIPs

Serial Bonds:

<u>Due Date</u>	<u>Amount</u>	<u>CUSIP</u>
4/1/2023	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