El Camino Health

AGENDA

FINANCE COMMITTEE MEETING
OF THE EL CAMINO HOSPITAL BOARD

Monday, September 25, 2023 – 5:30 pm

El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040 | Sobrato Boardroom 1

Don Watters will be participating by teleconference from 237 Toyopa Drive, Pacific Palisades, CA, 90272

THE PUBLIC IS INVITED TO JOIN THE OPEN SESSION PORTION OF THE MEETING LIVE AT THE ADDRESS ABOVE OR VIA TELECONFERENCE AT:

Dial-In: 1-669-900-9128. Meeting Code: 974 3831 4782#. No participant code. Just press #.

MISSION: To provide oversight, information sharing, and financial reviews related to budgeting, capital budgeting, long-range financial planning and forecasting, and monthly financial reporting for the El Camino Hospital Board of Directors. In carrying out its review, advisory, and oversight responsibilities, the Committee shall remain flexible in order to best define financial strategies that react to changing conditions.

AGENDA ITEM	PRESENTED BY	ACTION	ESTIMATED TIMES
1. CALL TO ORDER / ROLL CALL	Don Watters, Chair	**information**	**5:30 pm - 5:31 pm**
2. CONSIDER APPROVAL OF AB 2449 REQUEST	Don Watters, Chair	**possible motion** *public comment*	**5:31 - 5:32**
3. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Don Watters, Chair	**information**	**5:32 - 5:33**
4. PUBLIC COMMUNICATION a. Oral Comments *This opportunity is provided for persons in the audience to make a brief statement, not to exceed three (3) minutes on issues or concerns not covered by the agenda.* b. Written Correspondence	Don Watters, Chair	**information**	**5:33 - 5:36**
5. CONSENT CALENDAR *Any Committee Member may remove an item for discussion before a motion is made.* ***Approval*** a. Minutes of the Open Session of the Finance Committee Meeting (08/28//2023) b. FY2024 Period 1 Financial Report ***Information*** c. FY2024 Pacing Plan d. Article(s) of Interest	Don Watters, Chair	**motion required** *public comment*	**5:36 - 5:41**
6. FY2024 PERIOD 2 FINANCIAL REPORT	Carlos Bohorquez, CFO	**motion required** *public comment*	**5:41 - 5:56**
7. CAPITAL PROJECTS REVIEW a. MV Nurse Call System Replacement b. Property Purchase Request	Ken King, CASO	**motion required**	**5:56-6:06**
8. ADJOURN TO CLOSED SESSION	Don Watters, Chair	**motion required** *public comment*	**6:06 - 6:07**

A copy of the agenda for the Regular Meeting will be posted and distributed at least seventy-two (72) hours prior to the meeting. In observance of the Americans with Disabilities Act, please notify us at 650-988-8483 prior to the meeting so that we may provide the agenda in alternative formats or make disability-related modifications and accommodations.

AGENDA ITEM	PRESENTED BY	ACTION	ESTIMATED TIMES
9. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Don Watters, Chair	**information**	**6:07 - 6:08**
10. CONSENT CALENDAR *Any Committee Member may remove an item for discussion before a motion is made.* ***Approval*** *Gov't Code Section 54957.2*: a. Minutes of the Closed Session of the Finance Committee Meeting (08/28/2023) ***Information*** *Health and Safety Code Section 32106(b):* Physician Contracts b. Enterprise Utilization Management Medical Director Agreement	Don Watters, Chair	**motion required**	**6:08 - 6:13**
11. *Health and Safety Code Section 32106(b)* - for a report and discussion involving healthcare facility trade secrets: **STRATEGIC REVENUE CYCLE UPDATE**	Carlos Bohorquez, CFO	**discussion**	**6:13 - 6:33**
12. ADJOURN TO OPEN SESSION	Don Watters, Chair	**motion required**	**6:33 - 6:34**
13. RECONVENE OPEN SESSION / REPORT OUT	Don Watters, Chair	**information**	**6:34 - 6:35**
To report any required disclosures regarding permissible actions taken during the Closed Session.			
14. CONTRACTS & AGREEMENTS ***Recommended for Board Approval*** a. Enterprise Utilization Management Medical Director Agreement	Shreyas Mallur, MD, ACMO	**motion required** *public comment*	**6:35 - 6:40**
15. CLOSING COMMENTS	Don Watters, Chair	**information**	**information 6:40 - 6:45**
16. ADJOURNMENT	Don Watters, Chair	**motion required** *public comment*	**6:45 pm - 6:46 pm**

Upcoming Meetings:
Regular Meetings: November 27, 2023, February 26, 2024 (Joint IC-FC), March 25, 2024, May 20, 2024

El Camino Health

Minutes of the Open Session of the
Finance Committee of the
El Camino Hospital Board of Directors
Monday, August 28, 2023
El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040

Members Present	Members Absent	Staff Present
Don Watters, Chair**	**Bill Hooper**	**Carlos Bohorquez**, Chief Financial Officer
Wayne Doiguchi		**Dan Woods**, Chief Executive Officer
Peter Fung, MD		**Mark Adams, MD,** Chief Medical Officer
Cynthia Stewart		**Samreen Salehi**, Executive Assistant II

**via teleconference

Agenda Item	Comments/Discussion	Approvals/ Action
1. CALL TO ORDER/ ROLL CALL	The open session meeting of the Finance Committee of El Camino Hospital (the "Committee") was called to order at 5:30 pm by Chair Don Watters. A verbal roll call was taken and all members were present at roll call and attended in person except for Chair Watters, who joined telephonically under the AB2449 guidelines and Bill Hooper was absent. A quorum was present pursuant to State of California Executive Orders N-25-20 dated March 12, 2020, and N-29-20 dated March 18, 2020.	
2. CONSIDER APPROVAL OF AB 2449 REQUEST	Chair Watters participated in this session via Zoom under the "Just Cause" guidelines of the AB2449 request therefore a motion is not required.	
3. POTENTIAL CONFLICT OF INTEREST	Chair Watters asked if any Committee members had a conflict of interest with any of the items on the agenda. No conflicts were reported.	
4. PUBLIC COMMUNICATION	No members of the public joined this session and no written correspondence from the public.	
5. CONSENT CALENDAR	**Motion**: To approve the consent calendar: (a) Minutes of the Open Session of the Finance Committee meeting (05/31/2023; (b) FY2023 Period 11 Financial Report and for information; (c) FY2024 Pacing Plan; (d) Article of Interest. **Movant:** Fung **Second:** Doiguchi **Ayes:** Doiguchi, Fung, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** Hooper **Recused:** None	***Consent Calendar approved.***
6. FY2023 PERIOD 12 FINANCIAL REPORT *(Pre-Audit Results)*	Carlos Bohorquez, Chief Financial Officer presented the FY2023 Period 12 Operational/ Financial results as of June 30th 2023, and highlighted the following: • Given the challenges faced by the industry over the past 12-24 months the organization performed very well in FY2023. • Payor mix continues to deteriorate with higher than expected percentage of Medicare. • The organization has seen an increase in government-related activity, driven by an aging community with limited access to primary care. • Collecting payments from payors is one area of concern, with challenges including ensuring payment for services rendered, a higher percentage of denials, and underpayments.	

	• Despite these challenges, overall financial performance is better than budget. **Motion**: To approve the Pre-Audit FYE 2023 / FY2023 Period 12 Financial Report **Movant:** Doiguchi **Second:** Fung **Ayes:** Doiguchi, Fung, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** Hooper **Recused:** None	
7. ADJOURN TO CLOSED SESSION	**Motion**: To adjourn to closed session at 5:45 pm. **Movant:** Doiguchi **Second:** Fung **Ayes:** Doiguchi, Fung, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** Hooper **Recused:** None	***Adjourned to closed session at 5:45 pm***
8. AGENDA ITEM 13: RECONVENE OPEN SESSION/REPORT OUT	During the Closed Session, the Finance Committee approved the following items: Closed Session Minutes of the May 31, 2023 Finance Committee Meeting, by a unanimous vote of all Committee Members present except for Bill Hooper was absent (Mr. Doiguchi, Dr. Fung, Ms. Stewart, Mr. Watters).	
9. AGENDA ITEM 14: PHYSICIAN CONTRACTS & AGREEMENTS	**Motion:** To approve physician contracts. **Movant:** Fung **Second:** Doiguchi **Ayes:** Doiguchi, Fung, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** Hooper **Recused:** None	
10. AGENDA ITEM 15: CLOSING COMMENTS	None	
11. AGENDA ITEM 16: ADJOURNMENT	**Motion:** To adjourn at 6:50 pm. **Movant:** Doiguchi **Second:** Fung **Ayes:** Doiguchi, Fung, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** Hooper **Recused:** None	***Meeting adjourned at 6:50 pm***

Attest as to the approval of the foregoing minutes by the Finance Committee of El Camino Hospital:

_____

Don Watters
Chair, Finance Committee

Prepared by: Samreen Salehi, Executive Assistant II, Administrative Services

El Camino Health

Summary of Financial Operations

Fiscal Year 2024 – Period 1

7/1/2023 to 7/31/2023

Executive Summary - Overall Commentary for Period 1

- **Results for Period 1:**
  - Overall gross revenue favorable to budget by $17.8M / 3.8%
    - Net revenue unfavorable to budget driven by lower outpatient volumes and decline in payor mix
      - Inpatient Charges $18.4M / 7.8% favorable to budget
      - Outpatient Charges $2.4M / 1.1% favorable to budget
      - Professional Charges: $3.0M / 25.5% unfavorable to budget
  - Cost Management
    - When adjusted for volume, overall operating expense is at budgeted level
    - Labor: Sustained improved in Contract Labor and Overtime usage
- Gross charges were favorable to budget by $17.8M / 3.8% and $41.3M / 9.4% higher than the same period last year.
- Net patient revenue was unfavorable to budget by $6.3M / 5.3% and $3.8M / 3.5% higher than the same period last year.
- Operating margin was unfavorable to budget by $2.0M / 18.3% and $5.1M / 36.5% lower than the same period last year.
- Operating EBIDA was favorable to budget by $2.0M / 10.3% and $4.6M / 21.4% lower than the same period last year.
- Net income was favorable to budget by $15.0M and $21.1M lower than the same period last year.

Operational / Financial Results: FY2024 Period 1 – July 2023 (as of 07/31/2023)

PERIOD 1 - RESULTS

($ thousands)		Current Year	Budget	Variance to Budget	Performance to Budget	Prior Year	Variance to Prior Year	Variance to Prior Year	Moody's 'Aa3'	S&P 'AA'	Fitch AA-	Performance to Rating Agency Medians
Activity / Volume	ADC	305	276	30	10.8%	282	23	8.1%	---	---	---	---
	Total Acute Discharges	1,854	1,740	114	6.5%	1,746	108	6.2%	---	---	---	---
	Adjusted Discharges	3,467	3,355	112	3.3%	3,400	67	2.0%	---	---	---	---
	Emergency Room Visits	5,806	6,160	(354)	(5.7%)	5,345	461	8.6%	---	---	---	---
	OP Procedural Cases	10,432	11,246	(814)	(7.2%)	11,633	(1,201)	(10.3%)	---	---	---	---
	Gross Charges ($)	483,085	465,272	17,812	3.8%	441,741	41,344	9.4%	---	---	---	---
Operations	Total FTEs	3,319	3,278	41	1.2%	3,220	99	3.1%	---	---	---	---
	Productive Hrs. / APD	28.7	30.9	(2.2)	(7.2%)	28.4	0.3	1.0%	---	---	---	---
	Cost Per CMI AD	19,019	19,005	14	0.1%	17,388	1,631	9.4%	---	---	---	---
	Net Days in A/R	59.1	54.0	5.1	9.5%	59.4	(0.2)	(0.4%)	47.9	49.7	45.9	
Financial Performance	Net Patient Revenue ($)	112,295	118,641	(6,347)	(5.3%)	108,509	3,786	3.5%	329,311	115,267	---	
	Total Operating Revenue ($)	117,715	123,655	(5,940)	(4.8%)	112,566	5,149	4.6%	373,348	142,369	146,668	
	Operating Margin ($)	**8,821**	**10,797**	**(1,976)**	(18.3%)	**13,891**	**(5,070)**	(36.5%)	**4,066**	**6,122**	**1,613**	
	Operating EBIDA ($)	**17,078**	**19,036**	**(1,958)**	(10.3%)	**21,725**	**(4,647)**	(21.4%)	**24,030**	**13,952**	**9,533**	
	Net Income ($)	28,305	13,329	14,976	112.4%	49,420	(21,116)	(42.7%)	16,237	9,681	4,107	
	Operating Margin (%)	**7.5%**	**8.7%**	**(1.2%)**	(14.2%)	**12.3%**	**(4.8%)**	(39.3%)	**1.1%**	**4.3%**	**1.1%**	
	Operating EBIDA (%)	**14.5%**	**15.4%**	**(0.9%)**	(5.8%)	**19.3%**	**(4.8%)**	(24.8%)	**6.4%**	**9.8%**	**6.5%**	
	DCOH (days)	266	325	(59)	(18.2%)	291	(25)	(8.6%)	262	336	243	

Moody's Medians: Not-for-profit and public healthcare annual report; September 7, 2023. Dollar amounts have been adjusted to reflect monthly averages.
S&P Medians: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios; August 7, 2023. Dollar amounts have been adjusted to reflect monthly averages.
Fitch Medians: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios; August 7, 2023. Dollar amounts have been adjusted to reflect monthly averages.
DCOH total includes cash, short-term and long-term investments.

El Camino Health

Unfavorable Variance < 0.99%
Unfavorable Variance 1.00% - 4.99%
Unfavorable Variance > 5.00%

Consolidated Balance Sheet (as of 07/31/2023)

($000s)

ASSETS		Unaudited
CURRENT ASSETS	**July 31, 2023**	**June 30, 2023**
Cash	232,490	230,539
Short Term Investments	133,789	129,402
Patient Accounts Receivable, net	222,046	218,528
Other Accounts and Notes Receivable	19,581	20,411
Intercompany Receivables	15,559	15,186
Inventories and Prepaids	42,258	45,037
Total Current Assets	**665,724**	**659,102**
BOARD DESIGNATED ASSETS		
Foundation Board Designated	21,702	20,731
Plant & Equipment Fund	417,316	407,526
Women's Hospital Expansion	30,818	30,735
Operational Reserve Fund	207,898	207,898
Community Benefit Fund	17,448	17,743
Workers Compensation Reserve Fund	13,498	13,498
Postretirement Health/Life Reserve Fund	24,332	24,242
PTO Liability Fund	35,853	35,252
Malpractice Reserve Fund	1,873	1,885
Catastrophic Reserves Fund	29,470	28,042
Total Board Designated Assets	**800,209**	**787,551**
FUNDS HELD BY TRUSTEE	**9,462**	**-**
LONG TERM INVESTMENTS	**476,213**	**472,514**
CHARITABLE GIFT ANNUITY INVESTMENTS	**967**	**948**
INVESTMENTS IN AFFILIATES	**33,293**	**33,262**
PROPERTY AND EQUIPMENT		
Fixed Assets at Cost	1,863,678	1,862,363
Less: Accumulated Depreciation	(798,305)	(791,528)
Construction in Progress	171,881	168,956
Property, Plant & Equipment - Net	**1,237,254**	**1,239,791**
DEFERRED OUTFLOWS	57,154	57,204
RESTRICTED ASSETS	36,321	36,339
OTHER ASSETS	155,670	153,023
TOTAL ASSETS	**3,472,268**	**3,439,734**

LIABILITIES AND FUND BALANCE		Unaudited
CURRENT LIABILITIES	**July 31, 2023**	**June 30, 2023**
Accounts Payable	44,140	50,629
Salaries and Related Liabilities	32,012	24,408
Accrued PTO	36,692	36,104
Worker's Comp Reserve	2,300	2,300
Third Party Settlements	11,944	11,295
Intercompany Payables	12,726	12,362
Malpractice Reserves	1,863	1,863
Bonds Payable - Current	10,400	10,400
Bond Interest Payable	9,462	7,890
Other Liabilities	14,000	11,968
Total Current Liabilities	**175,540**	**169,217**
LONG TERM LIABILITIES		
Post Retirement Benefits	24,332	24,242
Worker's Comp Reserve	13,498	13,498
Other L/T Obligation (Asbestos)	29,570	29,543
Bond Payable	452,425	454,806
Total Long Term Liabilities	**519,826**	**522,088**
DEFERRED REVENUE-UNRESTRICTED	**1,366**	**1,103**
DEFERRED INFLOW OF RESOURCES	**74,491**	**74,491**
FUND BALANCE/CAPITAL ACCOUNTS		
Unrestricted	2,449,578	2,419,180
Board Designated	206,876	209,043
Restricted	44,591	44,611
Total Fund Bal & Capital Accts	**2,701,045**	**2,672,834**
TOTAL LIABILITIES AND FUND BALANCE	**3,472,268**	**3,439,734**

El Camino Health

FY2024 Finance Committee Pacing Plan												
AGENDA ITEM	Q1			Q2			Q3			Q4		
	JUL	8/28	9/25	OCT	11/27	DEC	JAN	2/26	3/25	APR	5/20	JUN
STANDING AGENDA ITEMS												
Standing Consent Agenda Items		✓	✓		✓			✓	✓		✓	
Minutes		✓	✓		✓			✓	✓		✓	
Period Financials Report (Approval)		✓	✓		✓			✓	✓		✓	
Board Actions		✓	✓		✓			✓	✓		✓	
APPROVAL ITEMS												
Candidate Interviews & Recommendation to Appoint (If required to add / replace committee member)												
Financial Report Year End Results			✓									
Next FY Committee Goals, Dates, Plan									✓		✓	
Next FY Org. Goals											✓	
Next FY Community Benefit Grant Program											✓	
Physician Contracts		✓	✓		✓			✓	✓		✓	
DISCUSSION ITEMS												
Financial Report (Pre-Audit Year End Results)		✓										
Financial Performance JVs/ Business Affiliates		✓										
Progress on Opportunities/ Risks					✓							
Medical Staff Development Plan (every 2 years)									✓			
Impact of Strategic Initiatives/Market Share Update								✓				
Progress Against Committee Goals & Pacing Plan (Quarterly)					✓			✓			✓	
Foundation Strategic Update					✓							
ECHMN Update					✓				✓			

FY2024 Finance Committee Pacing Plan												
AGENDA ITEM	Q1			Q2			Q3			Q4		
	JUL	8/23	9/25	OCT	11/27	DEC	JAN	2/26	3/25	APR	5/20	JUN
Community Benefit Grant Application Process					✓				✓			
Progress Against 2027 Strategic Plan					✓				✓		✓	
Key Service Lines Performance/ Growth Plans											✓	
Managed Care Update								✓				
Long-Range Financial Forecast								✓				
Next FY Budget and Preliminary Assumptions Review									✓			
Review FY Operational / Capital Budget for Recommendation to Board									✓		✓	
Summary Physician Financial Arrangements									✓			
Post Implementation (as needed)												
Other Updates[1] (as needed)												

1: Includes updates on special projects/joint ventures/real estate, ad-hoc updates

Advisory Board

2023 Health System Sector Industry Trends

10 major trends impacting health systems in 2023

10 major trends impacting health systems in 2023

1. Health systems bend but do not break in the wake of the worst financial year in recent memory.
2. Stakeholders align on urgency to rationalize services for long-term sustainability.
3. Quality suffers as organizations look for workforce stability.
4. Virtual hospitals rise in popularity to accelerate care model transformation.
5. Beware vaporware! The hype and reality of generative AI comes into focus.
6. Mega-corporations make further inroads into care delivery.
7. Health systems lose the narrative in the public's eye.
8. Value-based care hype is tempered by market realities.
9. Health systems look for new growth pastures to compensate for tepid inpatient surgery growth.
10. Unlikely alliances take form to counteract common pressures across the health system community.

Advisory Board interviews and analysis.

01

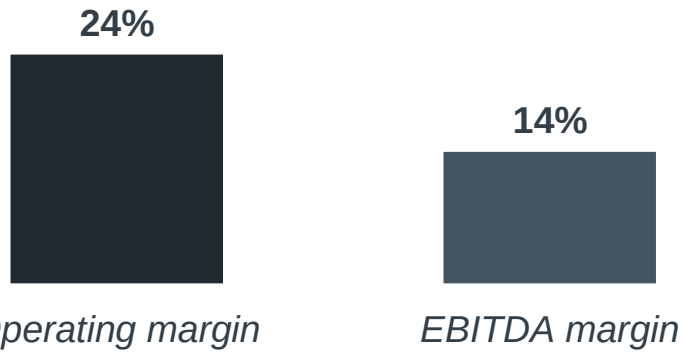
Trend: Health systems bend but do not break in the wake of the worst financial year in recent memory.

Advisory Board interviews and analysis.

Hope in 2023 is better for health systems than 2022

Hospital profitability in 2023 compared to 2022

Percentage change in median hospital margins YTD May 2023-May 2022



Percentage change in median hospital margins YTD 2021-2022

Financial performance in FY 2022

System	Net Income	Operating Income
Ascension	($1.8B)	($0.9B)
Cleveland Clinic	($1.2B)	($0.2B)
CommonSpirit	($1.9B)	($1.3B)
Kaiser	($4.5B)	($1.3B)
Mass General	($2.3B)	($0.4B)
Providence	($6.1B)	($1.7B)
Trinity	($1.4B)	($0.2B)
UPMC	($0.9B)	$0.2B

Source: Kaiser Foundation Health Plan and Hospitals Report 2022 Financial Results | Kaiser Permanente; Cleveland Clinic's net losses land at $1.2B for 2022 (fiercehealthcare.com); 20 health systems reporting losses in 2022 (beckershospitalreview.com); KaufmanHall National Hospital Flash Reports, www.kaufmanhall.com.

Advisory Board interviews and analysis.

Revenue growth mixed based on system portfolio mix

Estimated health system volume performance

Volume category	2022 vs. 2021	2022 vs. 2019
Inpatient admissions	(4.5 – 0.7)% ↓	(1.5 – 19)% ↓
Emergency department visits	(4.8) - 6% ↑	(2 –19)% ↓
Inpatient surgeries	(4.8) - 0% ↓	(7 - 25)% ↓
Outpatient surgeries	1.5% ↑	(1- 15)% ↑
Outpatient visits	3 – 6% ↑	(19)% – +1% ↔

Highlights

- ED visits improve dramatically in 2021 after 15+ consecutive months below pre-pandemic levels
- Non-hospital-based surgeries recover stronger than hospital-based surgeries in 2021
- Higher patient acuity and discharge delays have prolonged length of stay and crowded out non-COVID-19 patient volume

Sources: “HCA Healthcare reports fourth quarter 2022 results and provides 2023 guidance” HCA Healthcare, 01/27/2023; “Mayo Clinic consolidated financial report, years ended December 31, 2022 and 2021” Mayo Clinic, 02/17/2023; “Community Health Systems 10-K form” Community Health Systems, 02/17/2023.

Advisory Board interviews and analysis.

We enter into the “last mile” of inflation reduction

1.2%

increase in healthcare sector wages from 2022 to 2023[1]

“Healthcare cost pressures ease in 2023…”

“U.S. inflation is coming back down to Earth”

“Early 2023 healthcare wage inflation eases”

4.0%

increase in Consumer Price Index, May 2022-2023

3.0%

increase in hospital supply expenses from 2022 to 2023[2]

1.3%

U.S. GDP growth Q1 2023

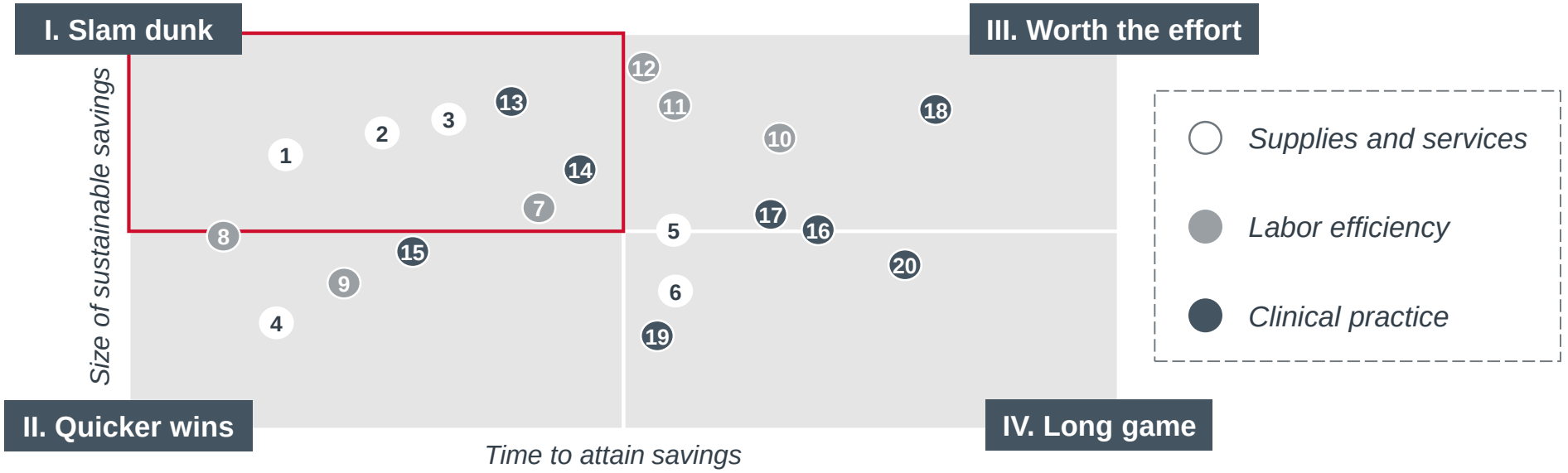
1. March to March.
2. April to April, per day

Source: “Early 2023 healthcare wage inflation eases,” Becker’s Hospital Review, June 12, 2023; ”Consumer prices up 4.0 percent from May 2022 to May 2023,” Bureau of Labor Statistics, June 20, 2023; “Quarterly census of employment and wages,” Bureau of Labor Statistics, 2023; “US economy grew faster in the first quarter than previously reported,” CNN Business, May 25, 2023; “CPI Report: US inflation comes back down to earth,” CNN Business, June 13, 2023; “Healthcare cost pressures ease in 2023 as number of patients postponing or stopping treatments drops, finds GlobalData,” Global Data, June 20, 2023; ‘National Hospital Flash Report,” Kaufman Hall, May 2023;

Advisory Board

Advisory Board interviews and analysis.

Many avenues for cost management — they're all hard



Supplies and services

1. Prevent unnecessary surgical supply waste *(I)*
2. Minimize PPI contract savings leakage *(I)*
3. Revisit unfavorable contract terms *(I)*
4. Use bidding strategy for physician preference items *(II)*
5. Contract directly for clinical preference items *(III)*
6. Realize the potential of energy savings *(IV)*

Labor efficiency

7. Make your employees accountable for their health costs *(I)*
8. Flex staffing to demand *(II)*
9. Revisit manager span of control *(II)*
10. Build a value-driven staffing model *(III)*
11. Stop millennial turnover in the first three years *(III)*
12. Tie employee compensation to enterprise performance *(III)*

Clinical practice

13. Reinforce nurse-led sepsis protocols *(I)*
14. Utilize a pharmacy-led value analysis team *(I)*
15. Revise blood utilization policies *(II)*
16. Install and monitor multi-modal pain regimens *(III)*
17. Integrate pharmacists into cross-continuum care *(III)*
18. Utilize observation units for low-cost short-stay patients *(III)*
19. Designate ownership for frequently overlooked care responsibilities *(IV)*
20. Adopt remote patient monitoring for high-risk populations *(IV)*

Advisory Board interviews and analysis.

02

Trend: Stakeholders align on urgency to rationalize services for long-term sustainability.

Cuts to headcount while clinical roles remain unfilled

"Ochsner Health eliminated about 2 percent of its workforce…the largest layoff to date for the health system."

Becker's Hospital Review

"Following rapid expansion, Jefferson Health launches reorganization and, reportedly, layoffs."

Fierce Healthcare

"Novant Health lays off executive team members."

WBTV

DATA SPOTLIGHT

45%

Increase in job postings for **nurses**, January 2020-January 2022

67%

Increase in advertised pay rates for **travel nurses**, January 2020-January 2022

Sources: "Data brief: Workforce issues remain at the forefront of pandemic-related challenges for hospitals" American Hospital Association, 01/29/2023.

Advisory Board interviews and analysis.

Significant change to service distribution is afoot

Hospital service line closures, 2023

Surgery centers

- Banner Health closes Loveland, Colorado-based ambulatory surgery center (ASC)
- Cabell Huntington (W.Va.) Hospital closes CHH Surgery Center

Home health

- CHI Mercy Health closes Roseburg, Oregon home health line
- Arcata, California-based Mad River Community Hospital suspends home health line

Maternal health

- The only hospital in Manitowoc, Wis., Froedtert Holy Family Memorial Hospital, will stop all obstetrics care
- OhioHealth's Shelby Hospital ended maternity services; nearest maternity services are 13 miles away

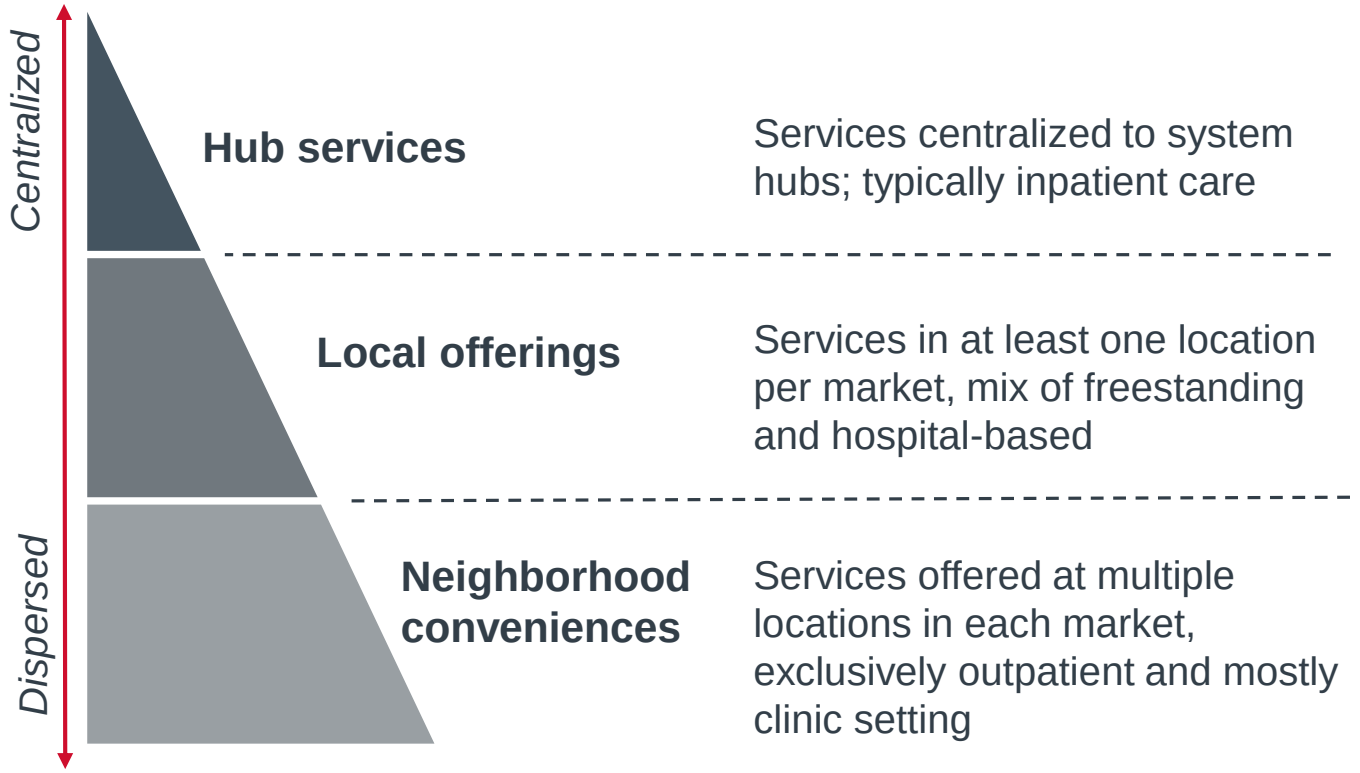
Behavioral health

- Jackson, Mississippi -based St. Dominic Health Services ends its behavioral health services unit
- Acadia Healthcare closes 137-bed Cascade Behavioral Health Hospital in Tukwila, Washington

Nearly 40% of service line closures reported by Becker's in 2023 were maternal health-related closures.

Advisory Board interviews and analysis.

Re-evaluate service line distribution



Factors favoring centralization and dispersion

Centralization

- High fixed costs
- Low volumes
- Multidisciplinary teams required

Dispersion

- High market commoditization
- Urgent treatments
- Frequently in-person

Read our guides to optimize service distribution here.

Advisory Board interviews and analysis.

Tread carefully: Distributing services across a geography

Securing enterprise and community buy-in

Common problems

Stalled decision-making

- Leaders stifle debate by starting with the decision to rationalize
- Overwhelming and diverting staff with too much data

Internally led decision-making

- Central leaders lack local stakeholder implementation perspective
- Local stakeholders lack time to process change and become dissatisfied

Best practice

Building a strong business case

- Make the case for change
- Identify root problems
- Rank different solutions
- Address risks and reinforce goals

Involving, not just informing, stakeholders

- Communicate widely about the need for change and decision process
- Enfranchise local representatives in the decision

TOOLKIT

Service rationalization toolkit

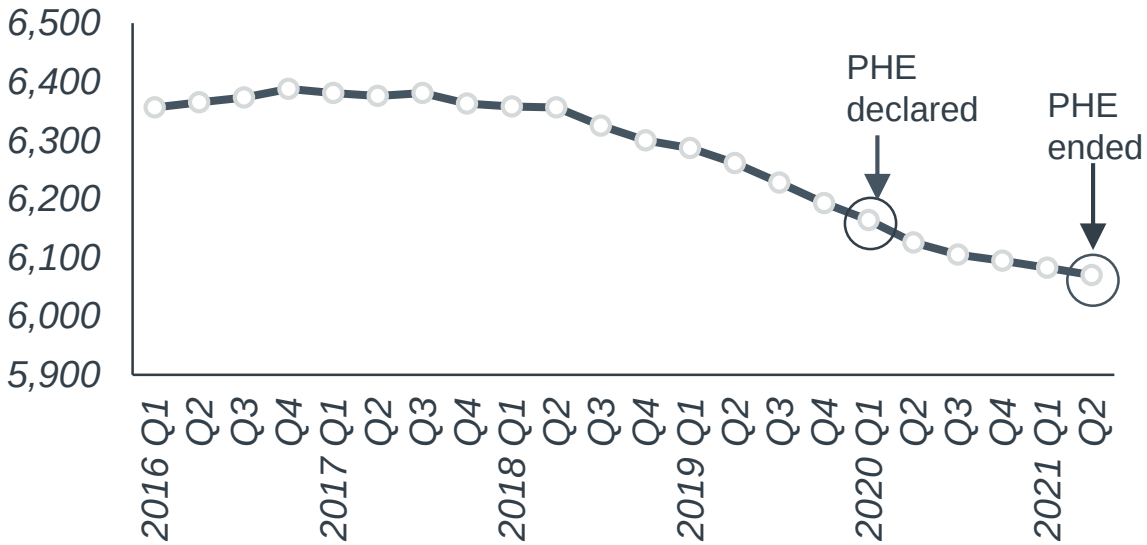
+ Guides, case studies, and our take on service rationalization

Advisory Board interviews and analysis.

Hospital closures materialize despite brief respite from pandemic funding

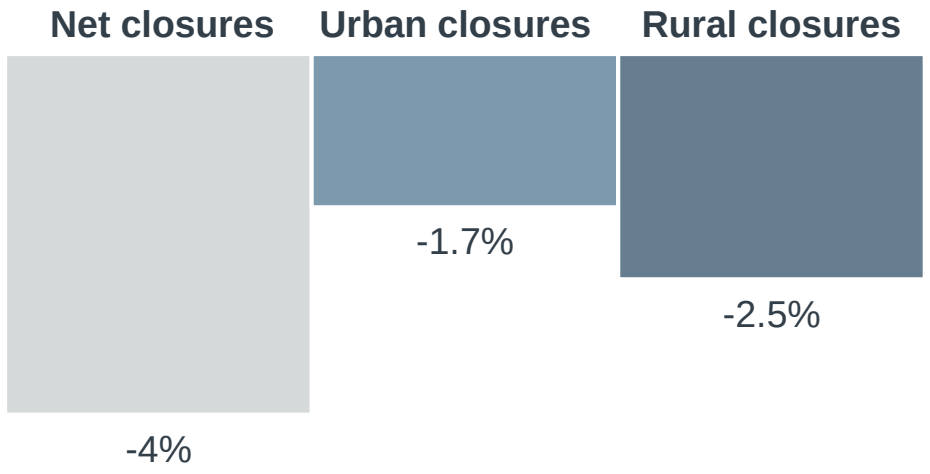
Net hospitals by quarter, 2016-2021

Hospital closures subtracted from hospital openings



Hospital closures Q1 2016-Q2 2021

Net change in hospital openings and closings



The state of rural hospitals in 2023

453 rural hospitals are vulnerable to closure

43% of rural hospitals are operating in the red

20% of rural hospitals likely to pursue rural emergency hospital (REH) conversion are ideal candidates

Advisory Board interviews and analysis.

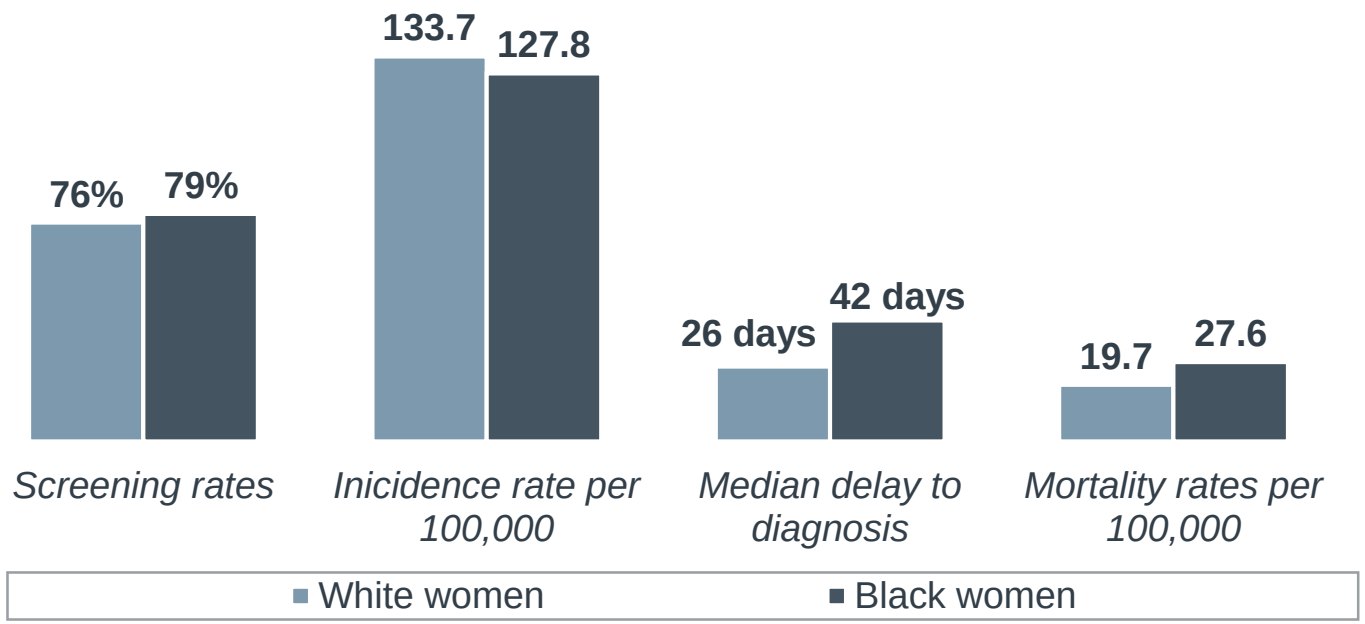
03

Trend: Quality suffers as organizations look for workforce stability.

Advisory Board interviews and analysis.

Health equity is an access issue

Racial disparities in access to care and mortality in U.S. breast cancer patients



Care delivery system turmoil creates barriers to care

- Average wait time for a physician appointment was **26 days** in 2022, up **8%** from 2017
- **19** rural hospitals closed in 2020
- Only **54%** of physicians accepted Medicaid in 2022

Source: "AHA report: Rural hospital closures threaten patient access to care" American Hospital Association, 09/2022; "AMN healthcare survey: Physician appointment wait times up 8% from 2017, up 24% from 2004" Merrit Hawkins. 09/12/2022; Miller-Kleinhenz et al., "Racial disparities in diagnostic delay among women with breast cancer" Journal of the American College of Radiology, 10/2021; McDowell, S. "Breast cancer death rates are highest for Black women—Again" American Cancer Society, 10/03/2022; Susan G. Komen, "How do breast cancer screening rates compare among different groups in the U.S.?" komen.org, Updated 1/24/2023.

Advisory Board interviews and analysis.

Achieving mission with margins

CASE EXAMPLE

OSF Healthcare

Catholic nonprofit health system • Peoria, IL

- 15 hospitals, including five critical access hospitals
- Piloting programs out of OSF OnCall Digital Health, a digital health arm focused on consumer-centric digital health innovation

How do we increase access for underserved pregnant populations in a financially challenging environment?

Approach

- **Product**: A digital app, remote patient monitoring, and centralized care team providing access 24/7, 365 for pregnant mothers on Medicaid
- **Reimbursement mechanism**: Piloted under a contract with the state of Illinois
- **Research:** Ongoing qualitative and quantitative analysis with focus on experience and outcomes

Results

- **Capacity**: Scaled the program to serve over 700 new patients
- **Mission:** OSF increases access for underserved community members
- **Reimbursement:** Data collection allows OSF to scale the program to commercially insured populations

Advisory Board interviews and analysis.

Workforce volatility, shortages raise red flags

Clinical churn, shortages, and duress

22% RN turnover in 2022

16% National RN vacancy rate

62% Percentage of nurses experiencing burnout in 2020

Impact on quality of care

200,000 Estimated loss of experienced RNs, 2020-2022

7% Increased likelihood of patient dying with each additional patient a nurse is assigned

16% Decrease in the percentage of nurses who say they are satisfied with the quality of care they provide, 2021-2023

Source: “2023 AMN Healthcare survey of Registered Nurses: The pandemic’s consequences” AMN Healthcare, 05/01/2023; Cimiotti J, et al., “Nurse staffing, burnout, and health care-associated infection.” American Journal of Infection Control, 08/2012; Condon A, “The cost of hospital contract labor in 22 numbers” Becker’s Hospital Review, 11/04/2022; "Nurse Employment During the First Fifteen Months of the COVID-19 Pandemic,” Health Affairs, Jan 2022; “2023 NSI National health care retention & RN staffing report” NIS Nursing Solutions Inc., 03/2023; “What is nurse burnout? How to prevent it” American Nurses Association, 2020; Smiley et al., “The 2022 National nursing workforce survey: Supplement” Journal of Nursing Regulation, 04/2023.

Advisory Board interviews and analysis.

Patient safety incidents rise alongside staffing pressures

Percent change in patient safety incidents

	2020-2021	2021-2022
Adverse patient events	49% ↑	19% ↑
Patient falls	127% ↑	27% ↑
Delay in treatment	55% ↑	19% ↓

Reported contributors to patient falls

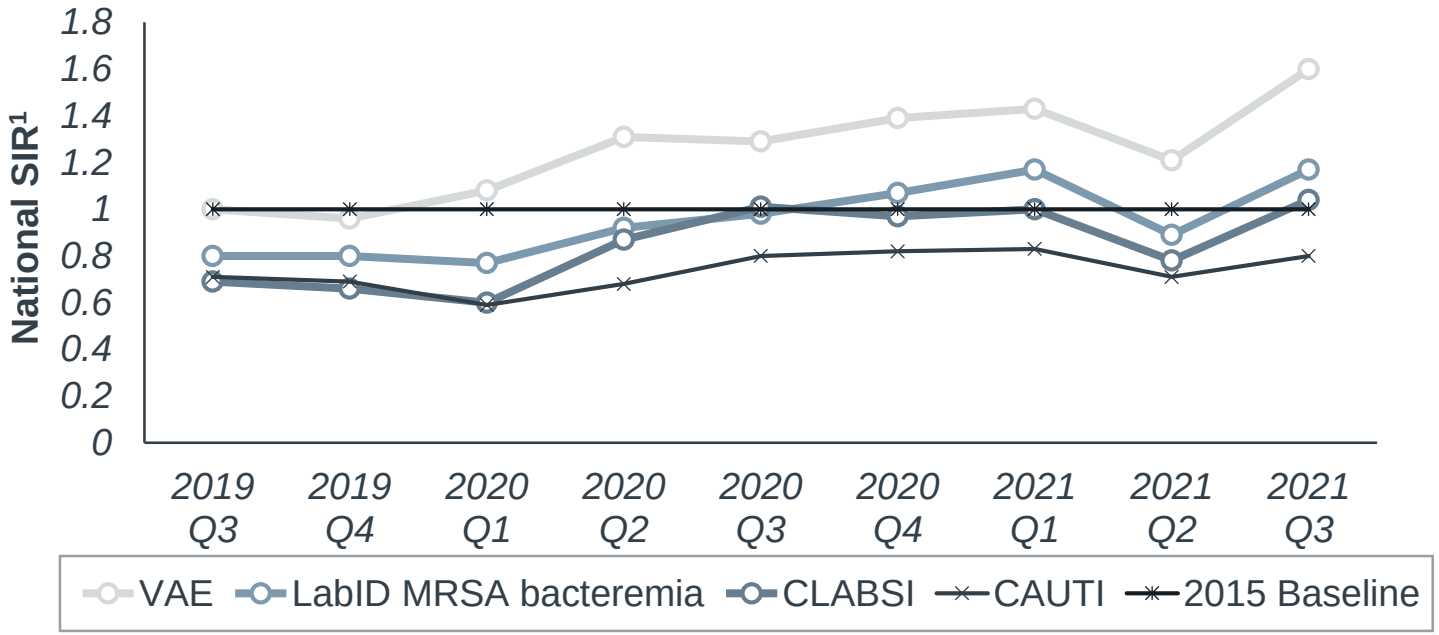
Source: “Sentinel event data 2022 annual review” The Joint Commission, 04/2023

Advisory Board interviews and analysis.

Quality and outcomes takes a nosedive

Incidence of hospital acquired infections (HAIs)

Reported standardized infection ratio (SIR) among acute care hospitals, Q3 2019-Q3 2021



1. SIR >1 indicates higher HAIs than predicted, SIR<1 indicates lower HAIs than predicted, based on 2015 estimates

DATA SPOTLIGHT

Declining health outcomes in the U.S.

5.3% Increase in age-adjusted death rate 2020-2021

40% Increase in maternal mortality rates 2020-2021

10% Increase in overall patient acuity 2019-2021

Sources: "COVID-19 impact on HAIs in 2021" Centers for Disease Control and Prevention, updated 06/10/2022; Hoyert DL, "Maternal mortality rates in the United States, 2021" NCHS Health E-Stats, 2023; "Pandemic-driven deferred care has led to increased patient acuity in America's hospitals" American Hospital Association, 08/2022; Xu J, et al., "Mortality in the United States, 2021" Centers for Disease Control and Prevention, 12/2022.

Advisory Board interviews and analysis.

Turning the tide

Advisory Board resources available online

Understand the problem	Set system wide goals	Support staff
• Total value of care metrics • Care quality sub-pillar menu • C-suite cheat sheet: Provider quality metrics • Cheat sheets: Quality • Health disparity metric picklists • Behavioral health metrics picklist	• The post-acute care clinical quality compendium • How to evolve your quality reporting governance • The system blueprint for clinical standardization	• Safeguarding against nursing never events • The mandate for workforce recovery • First year nurse retention toolkit • Your two-pronged approach to addressing—and preventing—physician burnout

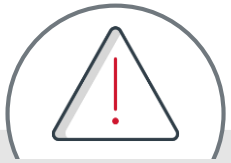
Advisory Board interviews and analysis.

04

Trend: Virtual hospitals rise in popularity to accelerate care model transformation.

Advisory Board interviews and analysis.

An industry in need of new care models



Industry challenges

Providing care is more expensive…

- Labor shortages
- Inflation and increased supply costs
- Lower volumes and higher acuity

… and straining care delivery systems

- Service rationalization and hospital closures
- Declining safety and quality outcomes

Patient dissatisfaction

Patients are taking notice

In a recent poll of U.S. adults:

- 60% gave U.S. healthcare a C or lower grade
- 73% said that the U.S. healthcare system was not meeting their needs
- 66% said providers seemed more rushed than in the past
- 47% think their healthcare provider appeared burned out or overburdened

Source: "The Patient Experience: Perspectives on today's healthcare," American Academy of Physician Associates, 2023.

Advisory Board interviews and analysis.

Digital health bubble deflates — with one exception

2022

- Five-year low in funding
- $10B decrease in telehealth funding
- Q4 2022 was the first quarter since 2018 with no unicorns

2023

- Zero digital health IPOs from the U.S. as of Q2
- $6.1B in deals in H1, lowest since 2019
- 50% of digital health startups predicted to fail by 2024

Recent Virtual Hospital Investments

- Atrium Health
- Mercy Health
- Trinity Health
- CommonSpirit
- UC Irvine Health
- Sanford Health
- Augusta University Health
- NYU Langone
- Orlando Health

Virtual Hospital

- Technologically enhanced and digitally enabled hospital-grade care and monitoring at a distance
- Can occur in and/or out of the hospital and across the care continuum
- $70B projected increase in hospital-at-home market by 2030

Source: "State of Digital Health 2022," CBInsights, 2023; "Acute Hospital Care at Home Resources," CMS, April 27, 2023; "How startups in the hottest part of healthcare are fighting for survival," Business Insider, Feb. 2023; "Virtual Hospitals Could Offer Respite to overwhelmed health systems," McKinsey, May 2023; "Healthier at Home," PA Consulting, 2023; "2023 Q1 Digital Health Funding: Investing likes its 2019," Rock Health, April 2023.

Advisory Board interviews and analysis.

Bringing the health system into the 21st century

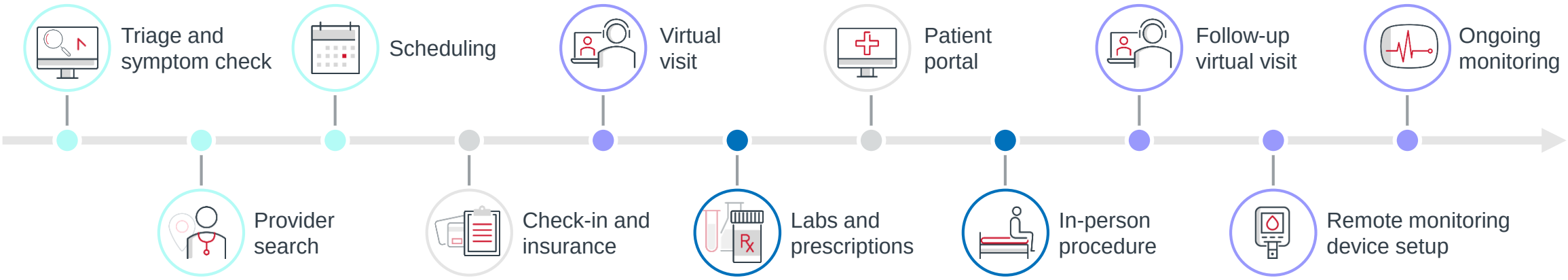
Promises of the virtual hospital

HOSPITAL OPERATIONS	CARE DELIVERY	CONSUMER CENTRCITY
		
Workforce flexibility Technology allows higher staffing ratios and prevents burnout	**Improved outcomes** AI can reduce errors, tailor care to the individual, and anticipate health episodes	**More choice** Virtual care gives patients more flexibility for when, how, and where they are seen
		
Cost savings Lower overhead, increased capacity, and task automation provide savings	**Enable value-based care (VBC)** RPM and continuous chronic disease management will enable value-based care	**Seamless patient journey** Providers can own more of the care continuum and easily transition patients across it

Advisory Board interviews and analysis.

The broader digital picture offers wider care influence

The modern patient's healthcare journey



Digital tools with ability to **influence** downstream care

Potential replacements for traditional care services or management, with ability to **influence** downstream care

Downstream care services that often vary in cost and quality

Advisory Board interviews and analysis.

05

Trend: Beware vaporware! The hype and reality of generative AI comes into focus.

2023 may be AI’s breakout season

Generative AI has caused excitement since the launch of ChatGPT in Nov. 2022

"I've never been more excited about technology advancements in healthcare than what I've seen over the last several months…I've actually had clinicians in tears where they literally break down in tears when they see the possibilities of ChatGPT 4."

Michael Hasselberg, Chief Digital Health Officer
University of Rochester Medical Center

"Gen AI represents a meaningful new tool that can help unlock a piece of the unrealized $1 trillion of improvement potential present in the [healthcare] industry."

McKinsey & Company

Source: “From 'transformative' to 'tremendous fear': Takes on ChatGPT in healthcare at ViVE 2023,” Fierce Healthcare, April 4, 2023;

Advisory Board interviews and analysis.

The gambles of early adoption

AI can replicate existing challenges and inequities

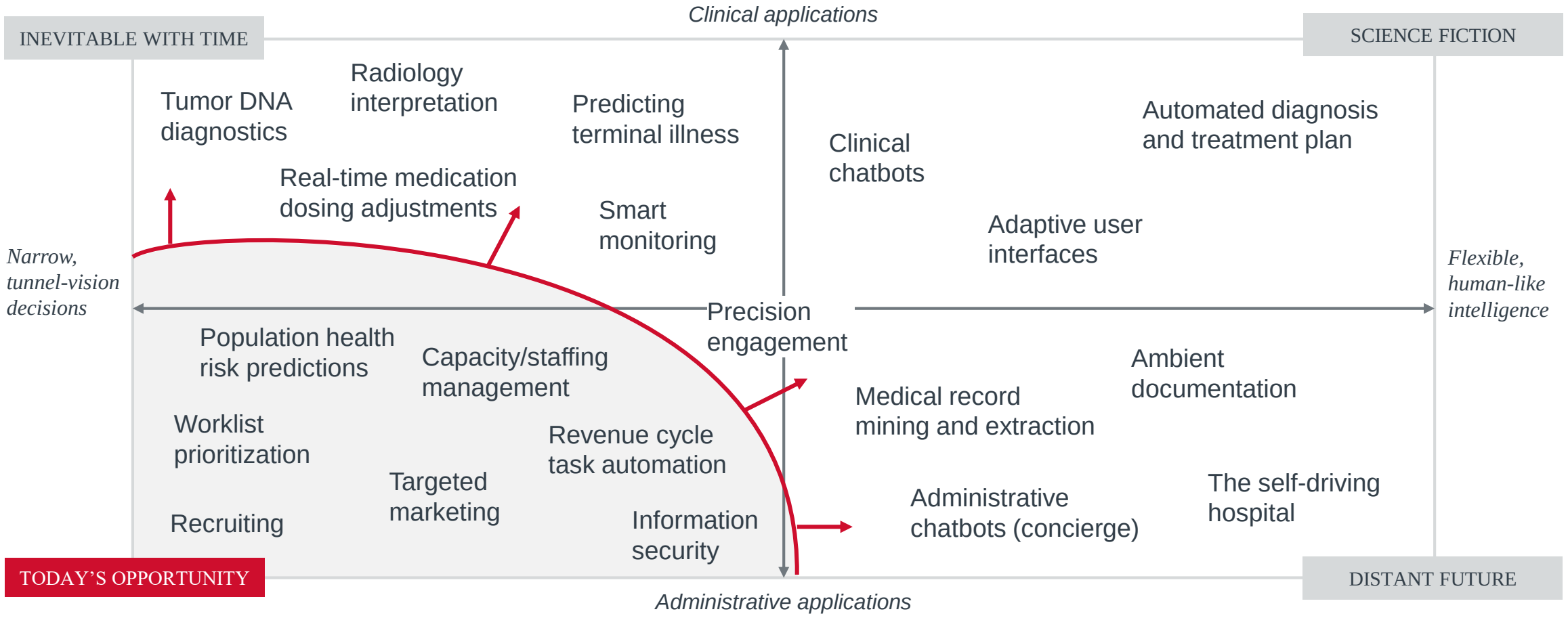
	Misinformation	Algorithmic bias	Workflow misalignment
Concern	Generative AI can produce inaccurate information, including responses with no basis in reality (“hallucinations”).	Models can reinforce health inequities found in data or unintentionally built into them.	AI solutions must be integrated into existing workflows or new ones must be built, risking poor integration and additional work.
Example	A National Eating Disorder Association chatbot designed to support individuals with eating disorders gave dieting advice instead.	An Optum[1] algorithm prioritized healthier white patients over sicker black ones because it was built equating healthcare cost with medical needs.	An intelligent autocomplete meant to speed triage notetaking was not embraced by physicians because they had train it, adding to their workload.

1. Advisory Board is a subsidiary of Optum. All Advisory Board research, expert perspectives, and recommendations remain independent.

Advisory Board interviews and analysis.

Where we are, and where we're going

An AI application landscape

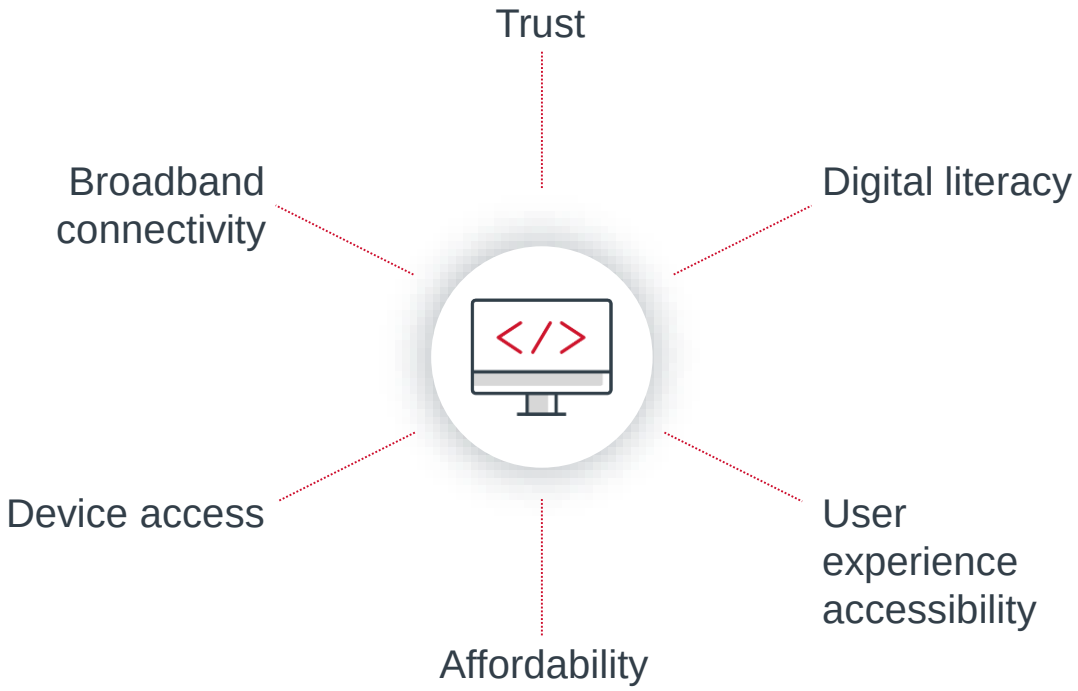


Advisory Board interviews and analysis.

Don’t overlook digital inequities

> Digital literacies and internet connectivity have been called ‘**super social determinants of health**’ because they address all other social determinants of health.
>
> *Nature*

Elements of digital inequity



Source: Sieck C, et al., “Digital inclusion as a social determinant of health,” March 17, 2021, *Nature*.

Advisory Board interviews and analysis.

06

Trend: Mega-corporations make further inroads into care delivery.

Advisory Board interviews and analysis.

Market cap giants build out their ecosystems

	Market penetration	*Continuum of care assets*	*Market cap*
OptumCare	• Markets: 16 states, 19+ million patients • Locations: 2,000 • Physicians: 70,000 multi-specialty physicians		$450B
Walmart	• Markets: 5 states • Locations: 32 • Physicians: N/A		$390B
Amazon	• Markets: 14 states, 830k+ One Medical members • Locations: 200 One Medical clinics • Physicians: 8,000+ clinicians		$1.0T
CVS	• Markets: 21 states with primary care • Locations: 169 Oak Street centers; 1,000+ HealthHubs • Physicians: 600+ PCPs		$95B
Walgreens	• Markets: 14 states • Locations: 200 co-located VillageMD centers • Physicians: 2,800		$30B

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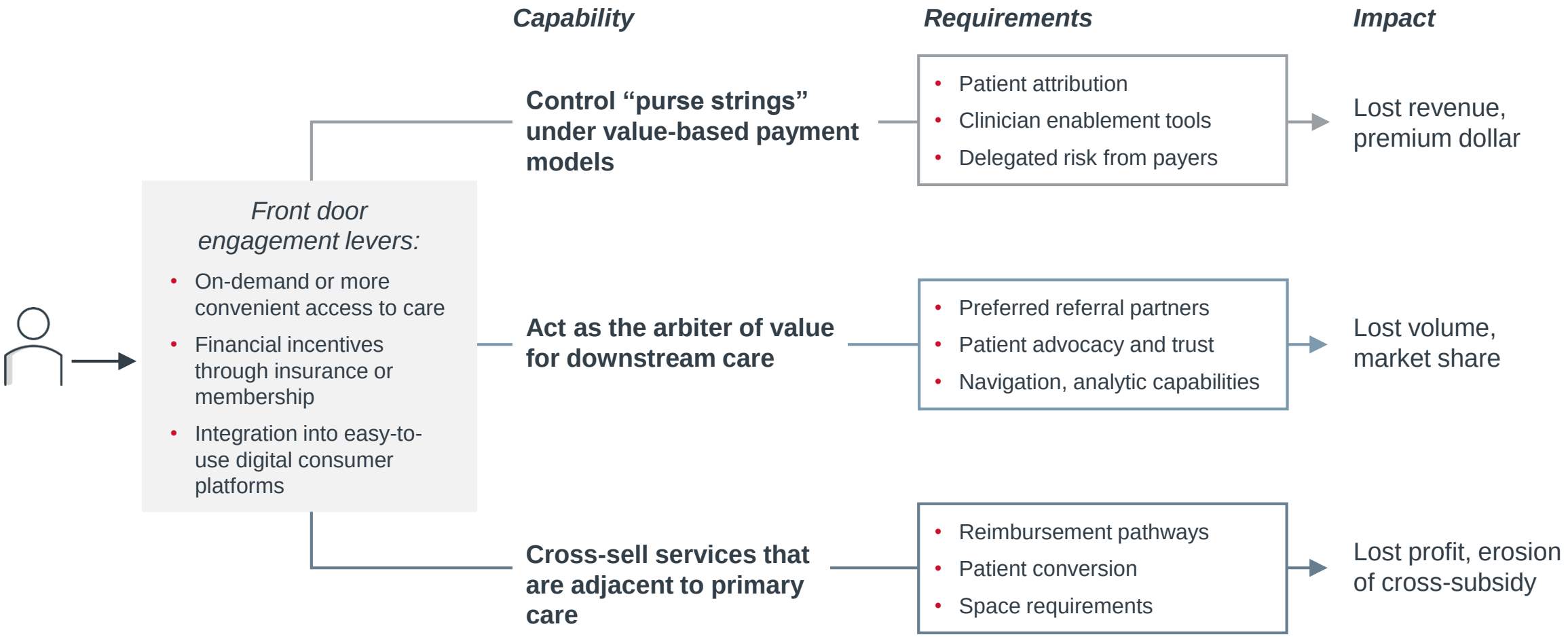
Control of front door poses steerage, network risk



Advisory Board interviews and analysis.

Tech and retail giants have unique ability to disrupt

Advantages compared to start-ups in terms of their ability to disrupt the industry

Nationwide scale

90%

Of the U.S. population lives within 10 miles of a Walmart

$5B

Amount of money Google venture division, GV, has under management

Large user base

200M

Number of Amazon Prime subscribers

Unique capabilities and assets

Cloud

Search

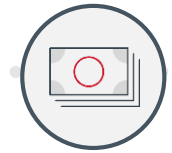
aws

alexa

fitbit

WATCH

Opportunity for cross-sale and/or network effects



Advisory Board interviews and analysis.

The competitive advantages disruptors may exploit

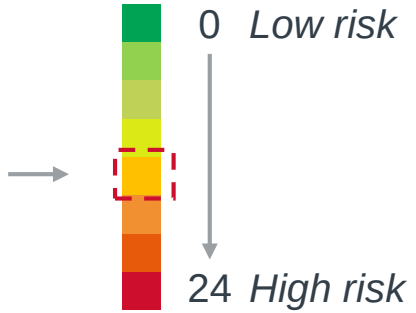
	Winning patients	Scaling businesses	Deploying innovations
Goal	*The disruptor impacts the preferences and choices of end users.*	*The disruptor has expansion opportunities and potential competitive advantages.*	*The disruptor uses novel tactics to produce greater efficiencies, lower cost structures, or improve overall operating performance.*
How they will get there	• Segmented consumer models • Personalized health data insights • Chronic disease remote monitoring • Wellness and coaching programs	• Insurance, risk-based payment • Bundles with non-medical products • Employed specialists • Device integration	• Analytics for value-based referrals • Conversational AI and generative AI • Centralized, cross-continuum health and wellness information hub

Advisory Board interviews and analysis.

What makes for an attractive market

Sample criteria for estimating exposure

Market criteria	Sample evaluation criteria	Exposure		
		Minimal (1)	*Moderate (2)*	*Major (3)*
Customer cross-sell opportunities	• # retail locations in market • # loyalty members • # members		X	
Unconsolidated physician market	• % independent practices	X		
Primary care shortage	• Per capita clinician supply	X		
Patients w/o regular PCP	• % patients w/ regular PCP	X		
Favorable payer mix	• % commercial mix • Medicare advantage penetration			X
Disposable income	• Median income			X
Ease of doing business	• Scope of practice regulations • Corporate tax rates		X	
Geographic appeal	• Population density • Population growth rates		X	
	Total		15	



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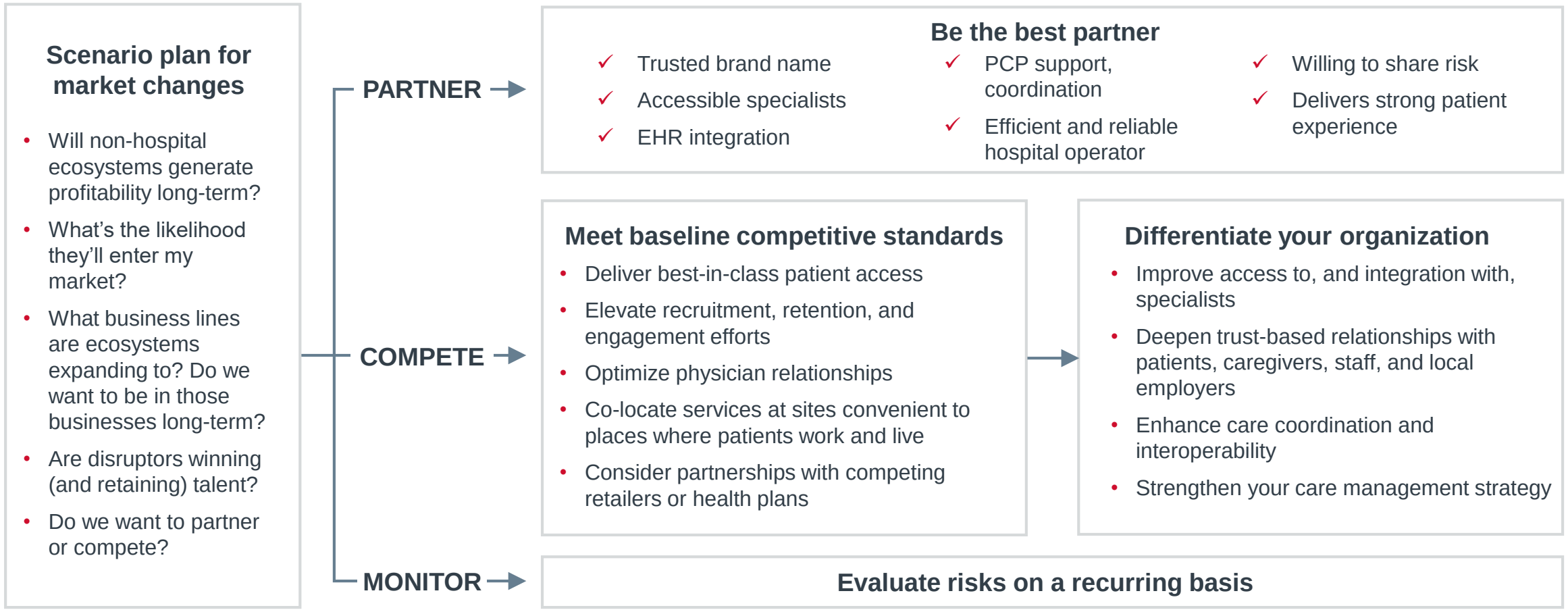
Setting your strategy for what comes next



Advisory Board interviews and analysis.

07

Trend: Health systems lose the narrative in the public's eye.

Advisory Board interviews and analysis.

After period of COVID-19 goodwill, systems accused of putting profits over patients

Nonprofits make headlines, for all the wrong reasons…

"This nonprofit health system cuts off patients with medical debt"

New York Times

"Hundreds of hospitals sue patients or threaten their credit…Does yours?"

KFF Health News

"Tax breaks exceeded charity care spending for nonprofit hospitals"

Revcycle Intelligence

"Nurses' union, lawmakers criticize Mayo Clinic over attempts to gut staffing standards bill"

Bring Me The News

…as they try to respond to harsh realities

$195M

Allina Health System operating loss, 2022

50%

Of hospitals finished 2022 with negative margins

17M

Americans at risk of losing Medicaid coverage between March 2023-2024

7.7%

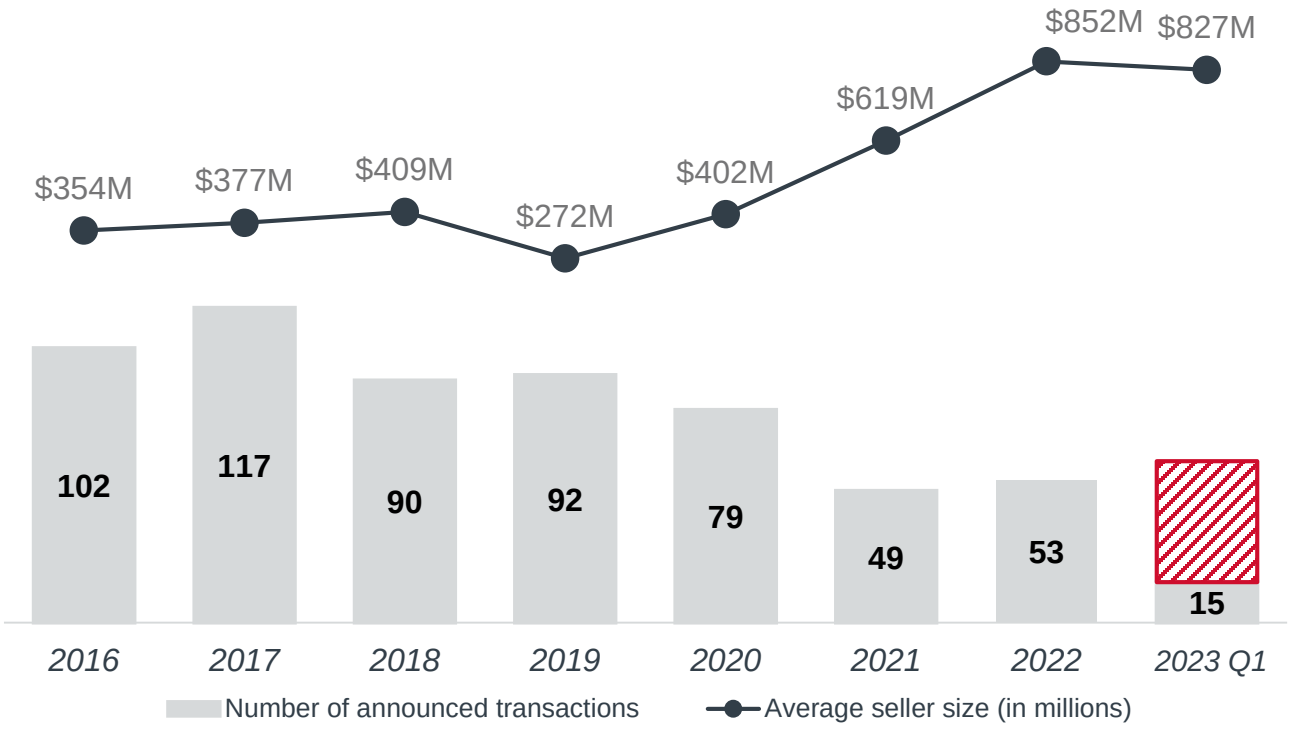
Increase in Mayo's labor costs, Q1 2022-Q1 2023

Source: Burns A, et al., "How many people might lose Medicaid when states unwind continuous enrollment?" KFF, 04/2023; Munio D, "Mayo Clinic reports $433M net gain, rising volumes for Q1 2023" Fierce Healthcare,05/2023; Swanson E, "National hospital flash report: January 2023" Kaufman Hall, 01/2023; Thomas N, "Allina Health reports continued operating losses on $4.9B revenue" Becker's Hospital Review, 02/2023.

Advisory Board interviews and analysis.

Megadeal hospital M&A ambitions invite scrutiny

Hospital and health system M&A deal counts and sizes



Recent activities in "mega-merger" deals

2022

- FEBRUARY — $12.9B — **BHSH Health** merger of Beaumont Health and Spectrum Health | Completed
- FEBRUARY — $4B — Merger of **Lifespan** and **Care New England** | Blocked by FTC
- APRIL — $14B — **Intermountain Health** acquisition of SCL Health | Completed
- JUNE — $1.2B — **HCA Healthcare** acquisition of Steward Health | Halted after FTC challenged
- NOVEMBER — $14B — Merger of **Sanford Health** and **Fairview Health** | Delayed
- DECEMBER — $27B — **Advocate Health** merger of Advocate Aurora and Atrium Health | Completed

2023

- MARCH — $11B — Merger of **UnityPoint** and **Presbyterian** | *Announced*

Source: "2021 M&A in Review: A New Phase in Healthcare Partnerships," KaufmanHall, January 2022; "2022 M&A in Review: Regaining Momentum | Kaufman Hall," KaufmanHall, January 2023; "M&A Quarterly Activity Report: Q1 2022," KaufmanHall, April 2022; "M&A Quarterly Activity Report: Q2 2022," KaufmanHall, July 2022; "M&A Quarterly Activity Report: Q3 2022," KaufmanHall, October 2022; "The top 10 healthcare M&A deals of 2021" Fierce Healthcare, December 2021; "HCA Healthcare to buy operations of 5 Utah hospitals from Steward Health Care," Healthcare Finance, September 2021; "Advocate Aurora Health, Atrium Health close mega-merger," Fierce Healthcare, December 2022.

Advisory Board interviews and analysis.

Rearticulating the value of a system

Intended benefits of the merger

Advocate Aurora Health Atrium Health

$27B

- Scale for payer leverage, operational efficiencies, and workforce recruitment/retention
- Digital health and data analytics acceleration

Beaumont Health Sparrow Health

$13B

- Scale for payer leverage and operational efficiencies
- Health plan expansion
- Infrastructure improvements

Intermountain Health SCL Health

$11B

- Scale for population health and value-based care acceleration
- Expansion into growing regions
- Rural healthcare alignment

Mercy One Genesis Health

$3.7B

- Scale for payer leverage, operational efficiencies, and workforce recruitment/retention
- Increased in-state (Iowa) market share

U. of Michigan Health Sparrow Health

$7B

- Increased in-state (Michigan) market share
- Access to/referrals for specialists
- Workforce efficiencies
- $800M financial investment in Sparrow

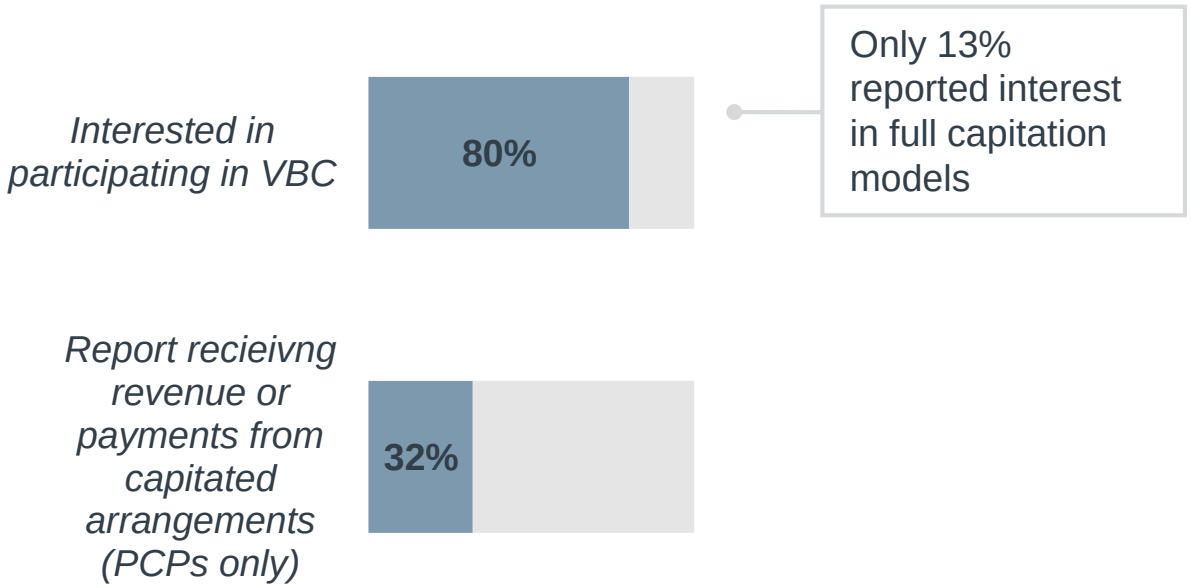
Advisory Board interviews and analysis.

08

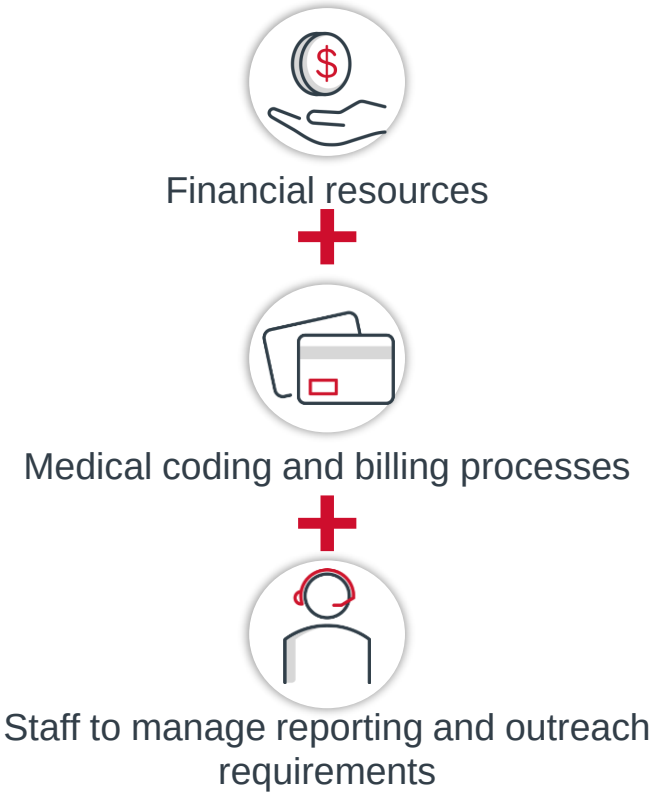
Trend: Value-based care hype is tempered by market realities.

Market conditions complicate adoption of risk-based models

Percentage of physicians interested in VBC vs. participating in VBC



Physician reported barriers to adoption



Source: Abou-Atmen Z, et al., "Investing in the new era of value-based care" McKinsey & Company, 12/16/2022; Horstman C, and Lewis C, "Engaging primary care in value-based payment: New findings from the 2022 Commonwealth Fund survey of primary care physicians" The Commonwealth Fund, 04/13/2023. Ney E, et al., "What will it take for physicians to adopt value-based care?" Bain & Company, 11/14/2022.

Advisory Board interviews and analysis.

Investment in value-based primary care is hot, specialty care gets new attention

Major value-based care deals, 2021-2023

Primary care-focused → *Specialty care-focused*

Oak Street

- Value-based primary care provider
- Acquired for $10.6B by **CVS Health**

Change Healthcare

- Value-based care solution company
- Acquired for $7.84B by **UnitedHealth Group**[1]

Signify

- Value-based home health enablement platform
- Acquired for $8B by **CVS Health**

Monogram

- Value-based kidney and polychronic care platform
- Raised $375M in series C funding from **CVS Health**, **Cigna Ventures**, **Humana**, **TPG Capital** and more

Upperline

- Provider network focused on value-based specialty care
- Raised $58M in seed funding led by **Crestline Investors**

DATA SPOTLIGHT

4x Increase in private capital inflows to VBC companies between 2019-2021

$741.3M Total equity funding for value-based contract management, 2021-H1 2023

Source: Abou-Atmen Z, et al.," Investing in the new era of value-based care" McKinsey & Company, 12/16/2022; Adams K. "Upperline Health snags $58M for its network of value-based specialty care clinics" Medcity News, 06/07/2023; cbinsights.com company database, accessed 6/26/2023; "Value-based contract management" cbinsights.com, accessed 6/26/2023.

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Advisory Board interviews and analysis.

Health system strategic moves take on a value-based care flavor

Health system mergers, 2022-2023

SYSTEM	DESCRIPTION	THE PROMISE
Risant	**Kaiser** acquires **Geisinger**, who will operate under Kaiser subsidiary **Risant;** the health systems plan to acquire five more systems in the next five years	• Extensive experience between the two systems in VBC • Future acquisitions focused on hospitals making progress toward VBC
Intermountain Health	**Intermountain** and **SCL** merge, partner with **UC Health** to form a clinically integrated network (CIN)	• Intermountain will scale experience in VBC and operating a health plan to new markets • CIN facilitates transition to VBC with improved care coordination across a population of 300,000

The challenge

- Dominant players in VBC are merging with partners who are less experienced
- The power of leadership to adapt local mindsets and operating structures will determine success in scaling to new markets

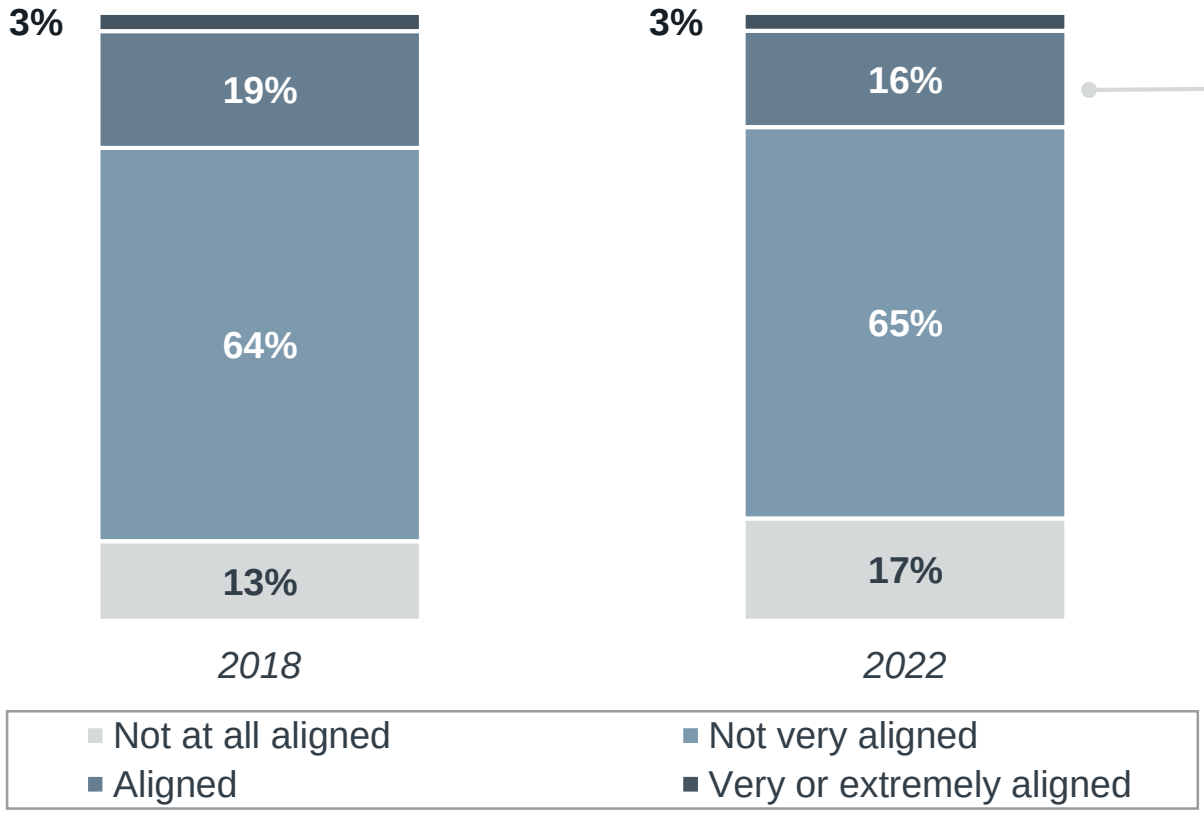
Sources: Hudson C., "Kaiser, Geisinger launch nonprofit to buy hospitals" Modern Healthcare, 04/26/2023; "Intermountain Healthcare and SCL Health complete merger" sclhealth.org, 04/05/2022; Landi H, "JPM23: Intermountain Health, UCHealth launch joint venture to accelerate value-based care in Colorado" Fierce Healthcare, 01/11/2023

Advisory Board interviews and analysis.

Progress in payer-provider alignment lags behind 2018 levels

Provider-rated alignment between payers and providers

Q: How aligned are payer and provider organizations in working together toward achieving value-based care in the health industry? n=1,009



Only 12% of hospitals report alignment with payers, the lowest of all respondent groups

According to providers, they aren't to blame

Q: What are the top two stakeholders with the most influence to improve collaboration between payers and providers?

1. **Healthcare payers** (56% of respondents)
2. **Government/regulators** (48% of respondents)

Source: Shrank W and Powers B, "Payers and providers seek value-based care, but progress is slow" NEJM Catalyst Innovation in Care Delivery Journal, 04/20/2022.

Advisory Board interviews and analysis.

Alternatives to commercial agreements bring their own set of challenges

Health systems lean toward three pathways to value

1 Medicare-managed contracts

2 Medicaid-managed contracts

3 Direct-to-employer offerings

Core competencies needed for success require institutional effort and capital

Model	Cost rebasing	Data analytics	Frictionless access	Interdisciplinary care teams	Ability to address social determinants of health
Medicare	●	●	●	●	◕
Medicaid	●	●	●	◕	●
Direct to employer	◑	◕	●	◑	◔

Legend

○ Not important ◔ Minimal importance ◑ Moderate importance ◕ Significant importance ● Utmost importance

Advisory Board interviews and analysis.

Differing capabilities will give rise to value-based care archetypes

CONTINUUM OF CARE — *IDENTITY YET TO BE DETERMINED* — *ACUTE CARE*

Financially integrated health systems

- *Owns*: The care continuum from cradle to grave and a health plan
- *Operating model:* Contain the cost of care by getting patients the right care, in the right setting, at the right time
- *Assets and attributes*: Scale, systemness, data infrastructure, risk segmentation, and minimal care variation

Questions to consider

- What services are essential to our identity?
- Where can we partner or outsource?
- Do I have the talent, resources, and institutional will to increase lives under risk?
- Do I have the capability to be the best at one specific offering?
- Historically, has our partnership strategy proved successful?
- Have we done well with increased scale or doubling down on core markets?
- Where can we improve quality and patient experience?
- Toward which archetype do our strengths and identity align best?

Focused factory specialist operator

- *Owns*: Complex acute and/or specialized care
- *Operating model:* Be the provider of choice for specific offering with high-quality care at a predictable cost
- *Assets and attributes*: Lean operations, top talent, volumes for quality, and non-substitutable services

Advisory Board interviews and analysis.

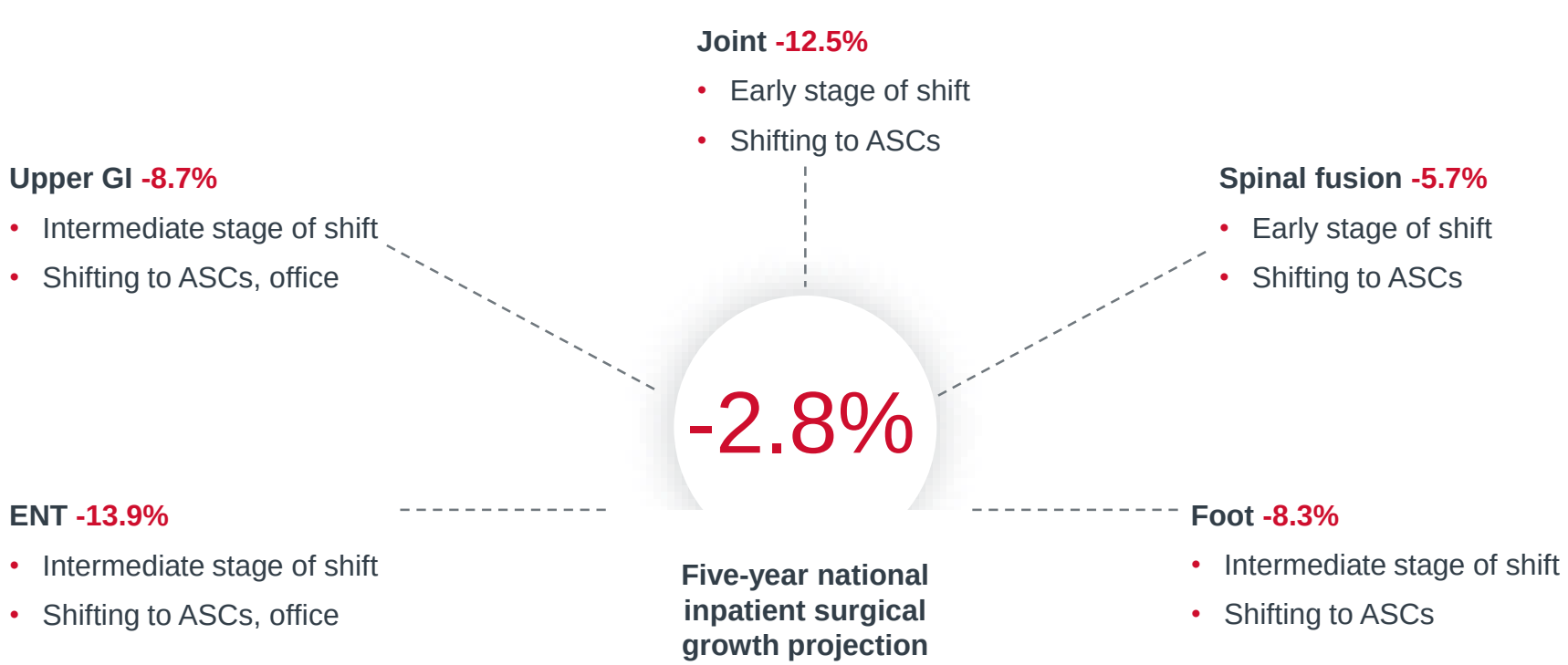
09

Trend: Health systems look for new growth pastures to compensate for tepid inpatient surgery growth.

Advisory Board interviews and analysis.

Inpatient surgeries continue to shift outpatient

Five-year volume projections and stage of shift



Stage of shift

Advanced: Prolonged period of shifts in historical data

Intermediate: Moderate shifts identifiable in historical data with significant room for further hospital outpatient department (HOPD) market share loss

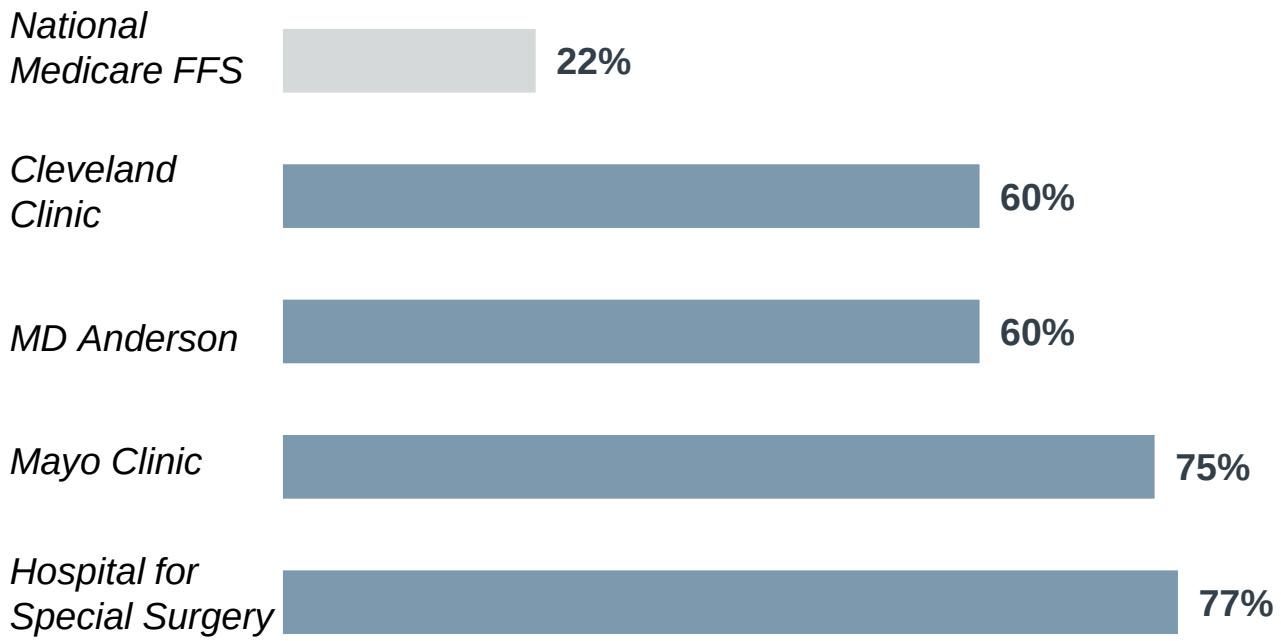
Early: Expected to shift based on qualitative factors and indicators from competitive markets

Advisory Board interviews and analysis.

Competition stiffer — brands win out-of-market care

Travel propensity[1] at select health systems with national brand recognition

Percentage of claims from patients receiving care outside of their hospital referral region,[2] Medicare FFS data 2021-2022



Research: What you need to know about out-of-market travel for surgery

- This chart appears in our market insights report highlighting top trends in domestic patient travel for surgical care
- The report contains conclusions from our analysis of CMS' Standard Analytical Files (SAFs), from Q2 2021 and Q1 2022, for inpatient surgical procedures

+ Review analysis and methodology

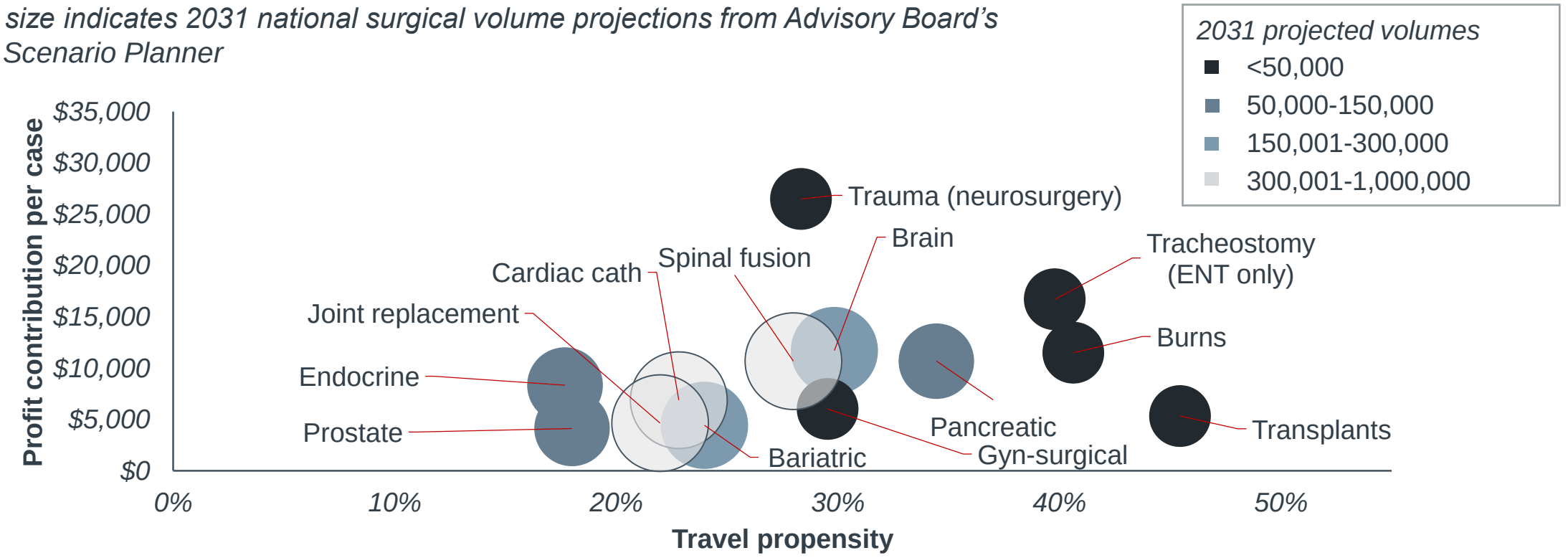
1. Travel propensity is defined as the percentage of Medicare FFS claims where patients received care outside of their hospital referral region.
2. Hospital referral regions represent regional health care markets for tertiary care, as defined by Dartmouth Atlas.

Advisory Board interviews and analysis.

Top travel procedures are high profit but low volume

Inpatient surgical sub-service lines[1]: Travel propensity,[2] profit,[3] and volumes

Bubble size indicates 2031 national surgical volume projections from Advisory Board's Market Scenario Planner



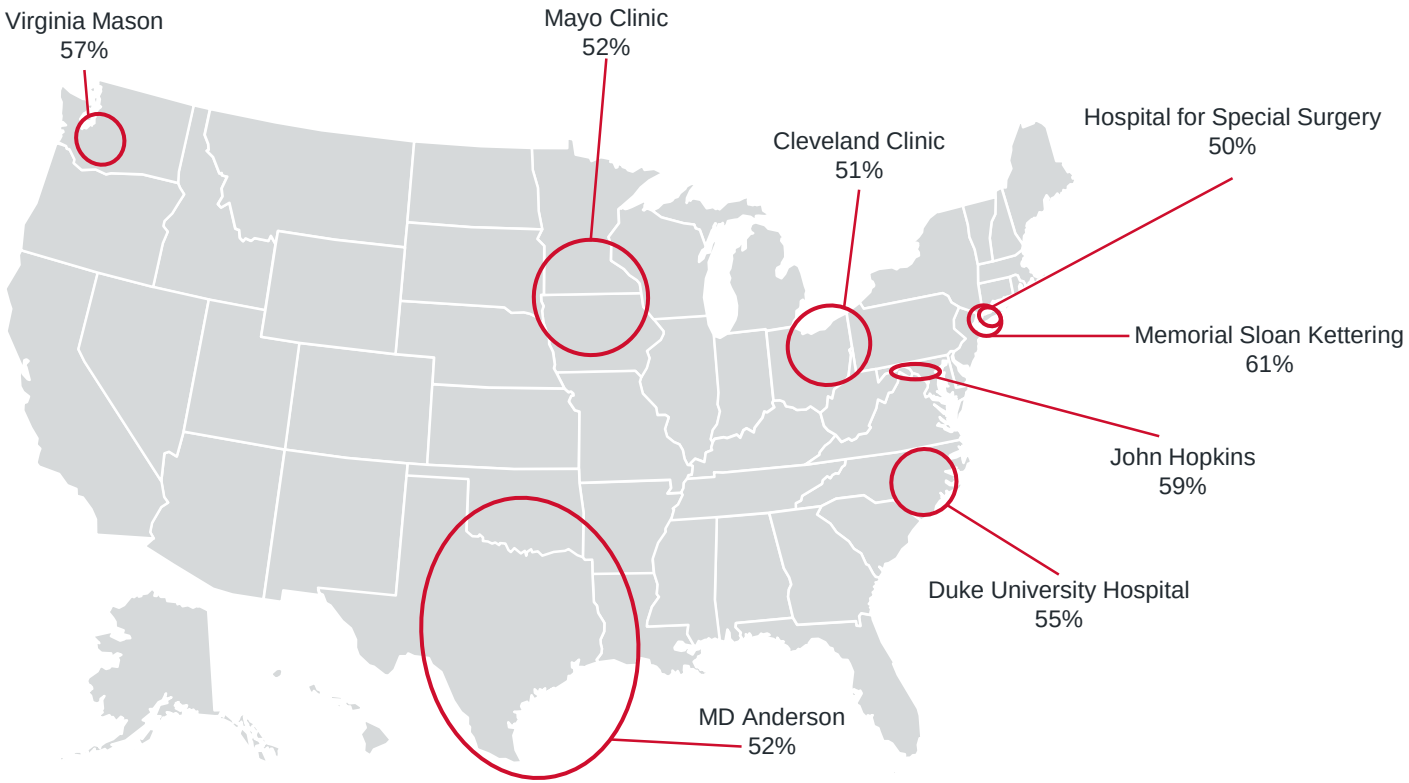
1. Lung transplants, left off this chart, have a travel propensity of 68%, a profit of $29,735 per case and a projected volume of 2,517 in 2031.
2. Travel propensity is defined as the percentage of Medicare FFS claims where patients received care outside of their hospital referral region.
3. Profit contribution per case is taken from the 50th percentile of Medicare FFS claims.

Advisory Board interviews and analysis.

Convenience is still key

Primary travel area for brand names and percentage of claims from that area

Circles represent travel distance from care site[1] for at least 50% of claims



93 miles

Average distance between brand name hospitals and their top five inbound regions[2]

1. Main campus only
2. Representing 24%-75% of all travel volume

Advisory Board

Advisory Board interviews and analysis.

Craft a response to travel patients

Attract travel patients		Defend volumes
• Offer e-consult and second opinion services to systems outside your market • Partner with smaller health systems that lack service offerings	**Partnership** *Be prepared to share volumes*	• Partner with a brand name that offers second opinions and e-consults to strengthen perceived quality • Affiliate with well-known systems in your market
• Create a unique experience with concierge services and amenities • Leverage remote patient monitoring and new technologies that competitors don't have	**Care experience** *Create a seamless care experience*	• Create a user-friendly digital front door, smooth care transitions, and co-located services • Make receiving care locally the easiest choice
• Center messaging on unique care experience and cutting-edge technologies • Expand marketing campaigns to patients and referral partners several hours drive away	**Marketing** *Clearly differentiate your product*	• Center messaging on access, quality, and affordability • Reinforce relationships with local referral partners; use data to address any concerns about quality
• Identify services in short supply in outside markets • Invest further in your strongest service lines; become known for a service line	**Service offerings** *Develop your reputation*	• Identify local service gaps to fill • Create multiple touchpoints to the system across the care continuum to win patients early; become known as a consistent source for healthcare

Advisory Board interviews and analysis.

10

Trend: Unlikely alliances take form to counteract common pressures across the health system community.

Systems face unrelenting financial struggle

Core challenges to hospital-based care finances

Rising staffing and supply complexity

48,500

Healthcare workers participating in **strikes** with 1,000+ workers, leading to wage and staffing level increases

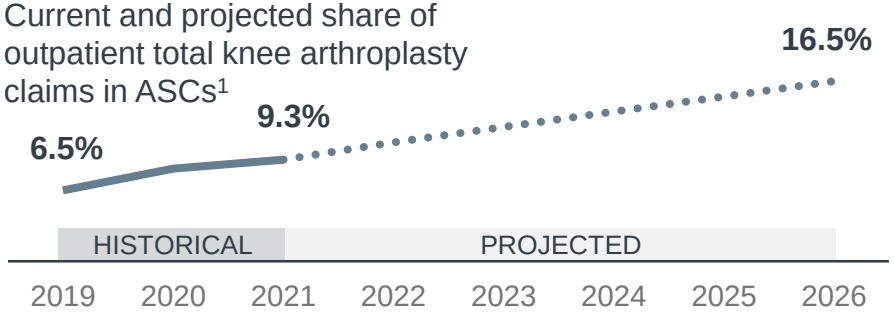
January 2022 to May 2023

Common hospital supply chain inefficiencies:

- Unfixed shipping costs
- Excessive deliveries
- Distributed contracting authority
- Inventory management

Inpatient revenue erosion

Current and projected share of outpatient total knee arthroplasty claims in ASCs[1]



Persistent capacity constraints

11%

Increase in average **length of stay**

December 2019 to December 2022

48% Orthopedic surgery

26% Cardiology

Increase in average **wait times** for new patient appointments

2017 to 2022

Deteriorating legacy subsidies

- **Site-neutral payments:** Congress drafting Medicare payment bill
- **340B drug discounts program:** Appellate Court allows manufacturers to restrict contract pharmacy 340B access
- **Not-for-profit status:** Congress drafting bill to expand FTC authority over nonprofits

1. Advisory Board analysis and modeling of Optum's de-identified Clinformatics® Data Mart Database (2007-2022).

Source: "National Hospital Flash Reports," Kaufman Hall, 2019-2022; "Survey of Physician Appointment Wait Times and Medicare and Medicaid Acceptance Rates," AMN Healthcare, 2022; "Work Stoppages," BLS, 2023; The Optum de-identified Clinformatics® Data Mart Database (2007-2022).

Advisory Board interviews and analysis.

Uniting for common purpose

Three types of nontraditional health system partnerships

Venture Capital

Ex: General Catalyst, LRVHealth, Truveta

- Co-invest in, scale, and develop startups and technologies
- Knowledge exchange between health systems and entrepreneurs
- Goals: Diversified revenue and innovative solutions

Niche Provider

Ex: Hartford Healthcare-OneMedical, RUSH-CVS ACO

- Strategic, limited partnership
- Geographically bounded agreement for referrals
- Goals: Protect volumes, access new patients, and get brand exposure

Health Systems

Ex: Intermountain-UC Health

- Adjoin clinical resources to form CIN
- Systems and CIN remain independent from each other
- Goals: VBC acceleration, market and insurance expansion

Advisory Board interviews and analysis.

Decision guide for partnerships and affiliations

Identify the following when pursuing a partnership

Specific strategic goals

Goals dictate the depth of the partnership and the starting point for due diligence

- Operational efficiency (shared services, logistics, supplies, staff)
- Clinical operations (referrals, ability to offer high quality care, clinical intellectual property)
- Market outlook (risk portfolio, protect local volumes, service niche, regional presence, bridge the care continuum)

Strengths and culture

Attract the right partner and ensure mutual value

- Areas of high-quality performance
- Service lines with strong referral potential
- Brand recognition among community, physicians, etc.
- Staffing and support infrastructure
- Organizational values and mission

Risks and trade-offs

Without forethought, these can limit or stymie a partnership

- Insufficient integration
- Information or data silos
- Financial risks (unequal buy-in, initial costs v. projected savings)
- Leadership changes
- Lack of physician buy-in
- No terms for dissolution

Advisory Board interviews and analysis.

10 major trends impacting health systems in 2023

1. Health systems bend but do not break in the wake of the worst financial year in recent memory.
2. Stakeholders align on urgency to rationalize services for long-term sustainability.
3. Quality suffers as organizations look for workforce stability.
4. Virtual hospitals rise in popularity to accelerate care model transformation.
5. Beware vaporware! The hype and reality of generative AI comes into focus.
6. Mega-corporations make further inroads into care delivery.
7. Health systems lose the narrative in the public's eye.
8. Value-based care hype is tempered by market realities.
9. Health systems look for new growth pastures to compensate for tepid inpatient surgery growth.
10. Unlikely alliances take form to counteract common pressures across the health system community.

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KaufmanHall

AUGUST 2023

National Hospital Flash Report

Real Data. Real Insight. Real Time.

Based on July Data from More Than 1,300 Hospitals

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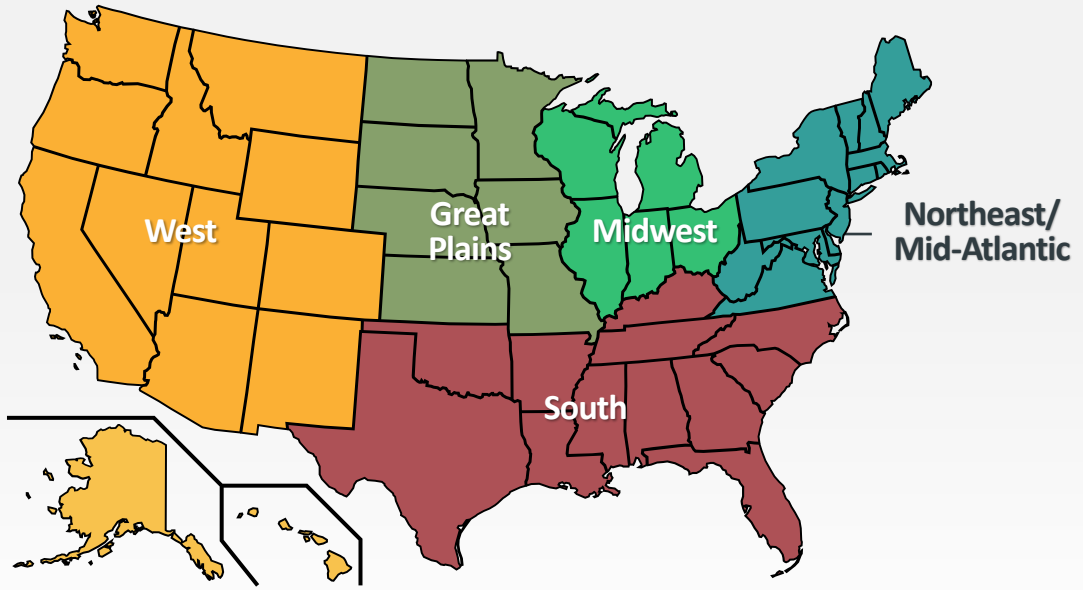
About the Data

The *National Hospital Flash Report* uses both actual and budget data over the last three years, sampled from more than 1,300 hospitals on a recurring monthly basis from Syntellis Performance Solutions.

The sample of hospitals for this report is representative of all hospitals in the United States both geographically and by bed size. Additionally, hospitals of all types are represented, from large academic to small critical access. Advanced statistical techniques are used to standardize data, identify and handle outliers, and ensure statistical soundness prior to inclusion in the report.

While this report presents data in the aggregate, Syntellis Performance Solutions also has real-time data down to individual department, jobcode, paytype, and account levels, which can be customized into peer groups for unparalleled comparisons to drive operational decisions and performance improvement initiatives.

Map of Regions



About the Data *(continued)*

About Kaufman Hall

KaufmanHall

Kaufman Hall provides management consulting solutions to help society's foundational institutions realize sustained success amid changing market conditions. Since 1985, Kaufman Hall has been a trusted advisor to boards and executive management teams, helping them incorporate proven methods, rigorous analytics, and industry-leading solutions into their strategic planning and financial management processes, with a focus on achieving their most challenging goals.

Kaufman Hall services use a rigorous, disciplined, and structured approach that is based on the principles of corporate finance. The breadth and integration of Kaufman Hall advisory services are unparalleled, encompassing strategy; financial and capital planning; performance improvement; treasury and capital markets management; mergers, acquisitions, partnerships, and joint ventures; and real estate.

About Syntellis Performance Solutions

SYNTELLIS

Syntellis Performance Solutions provides innovative enterprise performance management software, data and intelligence solutions for healthcare organizations. Its solutions include enterprise planning, cost and decision support, and financial and clinical analytics tools to elevate organizational performance and transform vision into reality. With over 2,800 organizations and 450,000 users relying on its Axiom, Connected Analytics and Stratasan software, combined with No. 1 rankings from Black Book Research and an HFMA Peer Review designation for six consecutive years, Syntellis helps healthcare providers acquire insights, accelerate decisions and advance their business plans. For more information, please visit syntellis.com.

Key Takeaways

1. **Hospital performance declined on a month-over-month basis in July.**
   All volume indicators registered declines this month. However, when compared to 2022, there is some slight improvement in operating margins.

2. **Outpatient volumes decreased slightly more than inpatient.**
   Some of this decline may be attributed to less patients seeking elective procedures in summer.

3. **Expenses declined, but not enough to offset revenue losses.**
   Labor continues to be the biggest share of hospital expenses, and expenses will likely continue to fluctuate due to inflation.

4. **Bad debt and charity care rose month-over-month.**
   Medicaid eligibility redetermination continues to affect hospitals and patients, with more than 30 states disenrolling people in June and July.

Action Steps

In an environment where hospitals continue to feel the effects of Medicaid disenrollment and labor expenses, those that have been more successful have made care transition a priority. Hospitals should consider:

- Starting off right by obtaining the necessary pre-certifications and payer authorizations before the patient comes in the door, as well as planning for discharge as soon as they are admitted.
- Collecting data and using it to inform process improvement. Hospitals need to quantify lengths-of-stay and related data, and more importantly, use this data to make change.
- Establishing relationships with post-acute care settings and having a clear pathway for patients' post-discharge transition.

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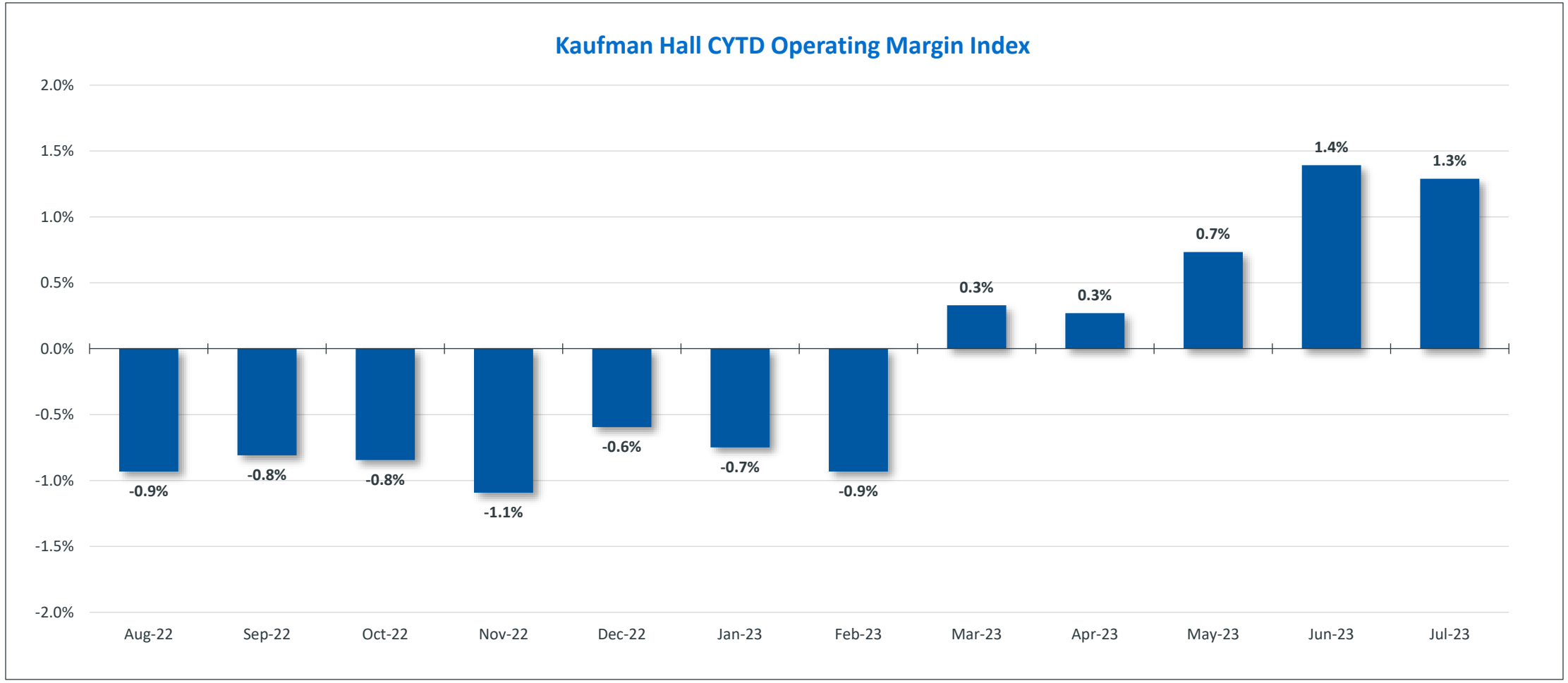
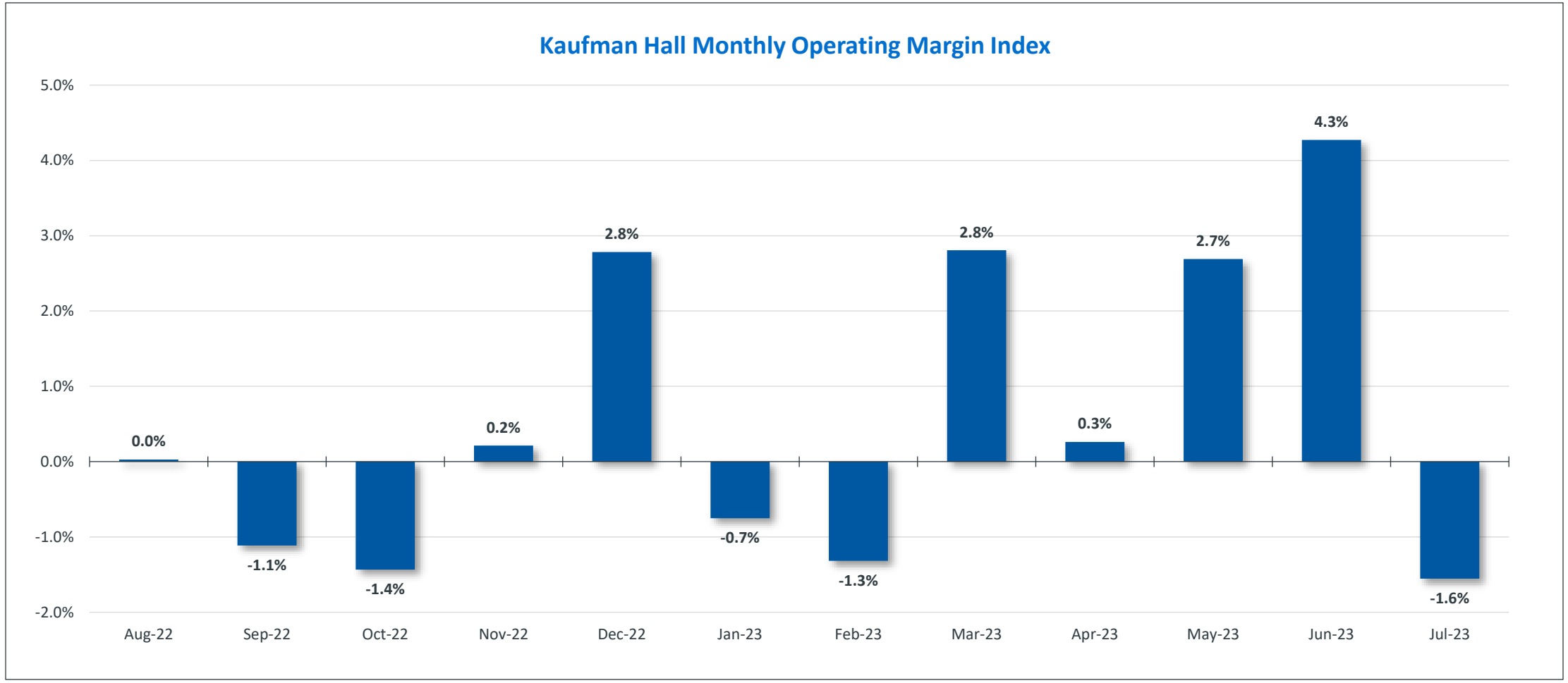
Operating Margin



Kaufman Hall, National Hospital Flash Report (August 2023)

** Note: The Kaufman Hall Hospital Operating Margin and Operating EBITDA Margin Indices are comprised of the national median of our dataset adjusted for allocations to hospitals from corporate, physician, and other entities.*

Operating Margin *(continued)*



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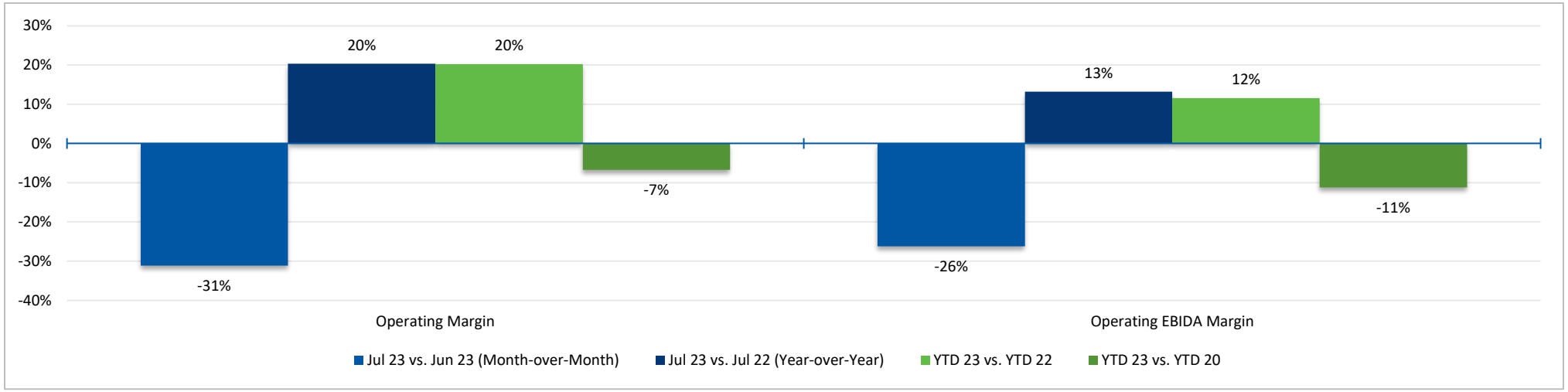
National and Regional Data

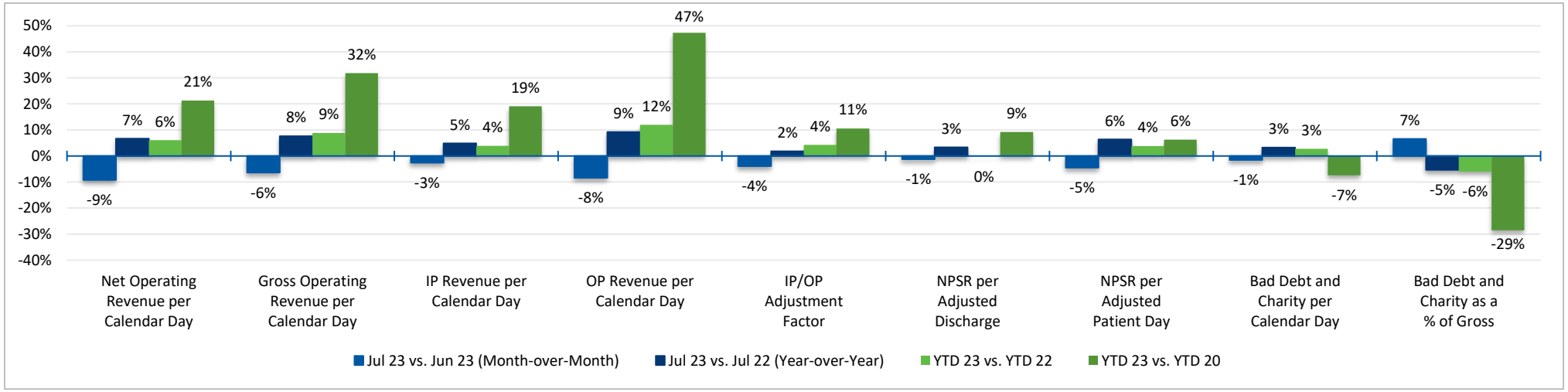
Profitability, Revenue, Expense, and Volume

National Data

Profitability

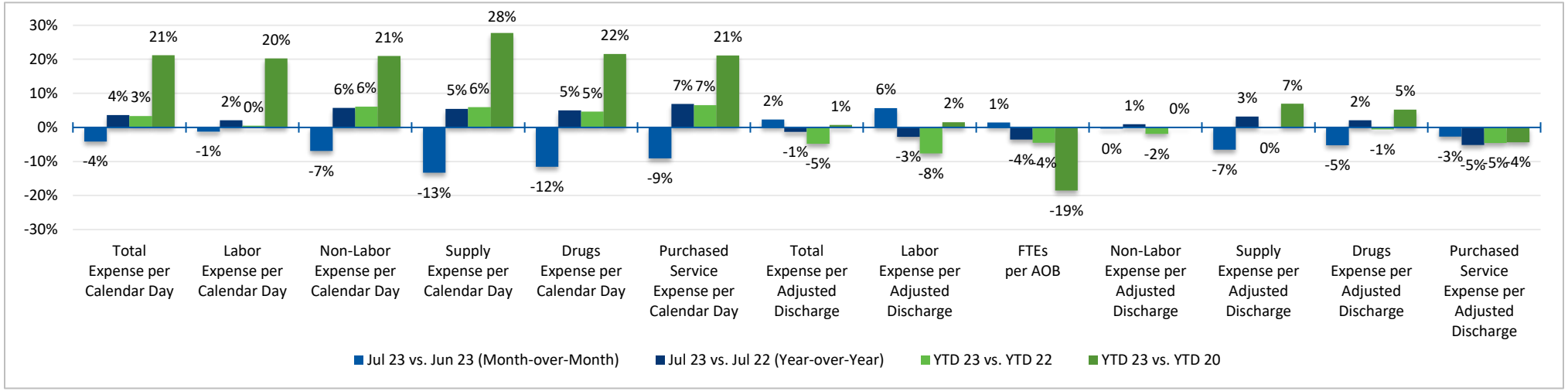


Revenue

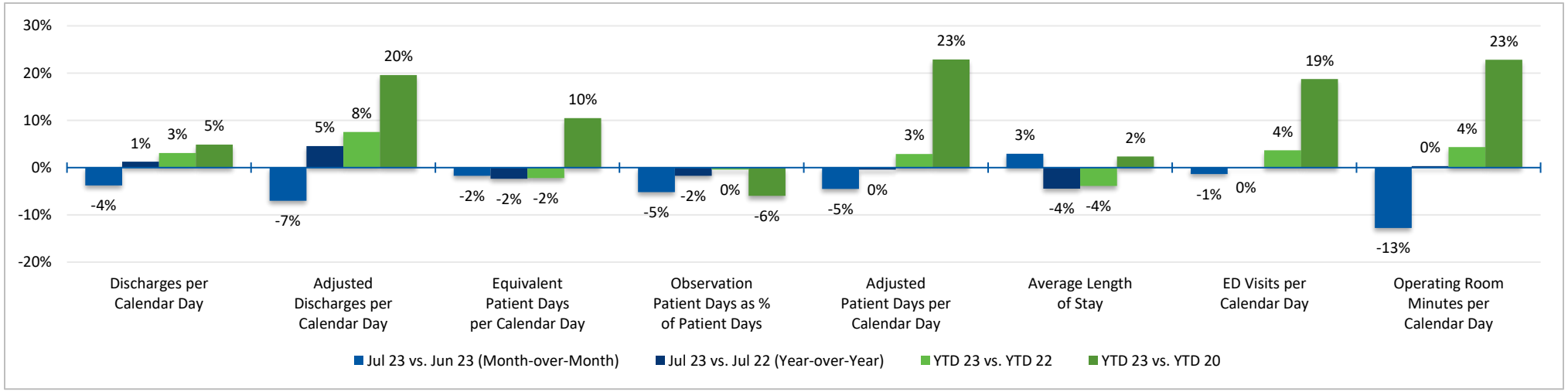


National Data *(continued)*

Expense

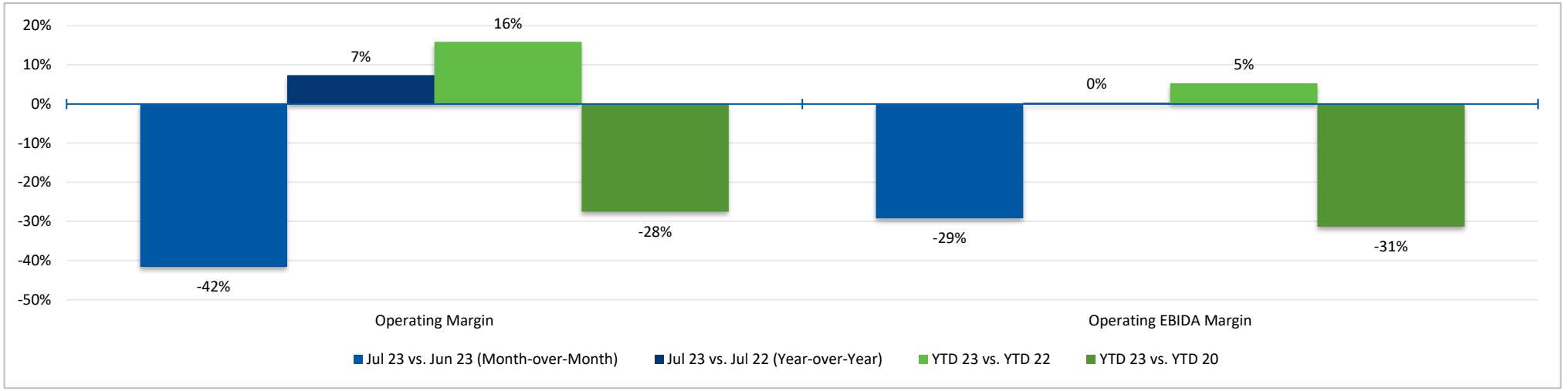


Volume

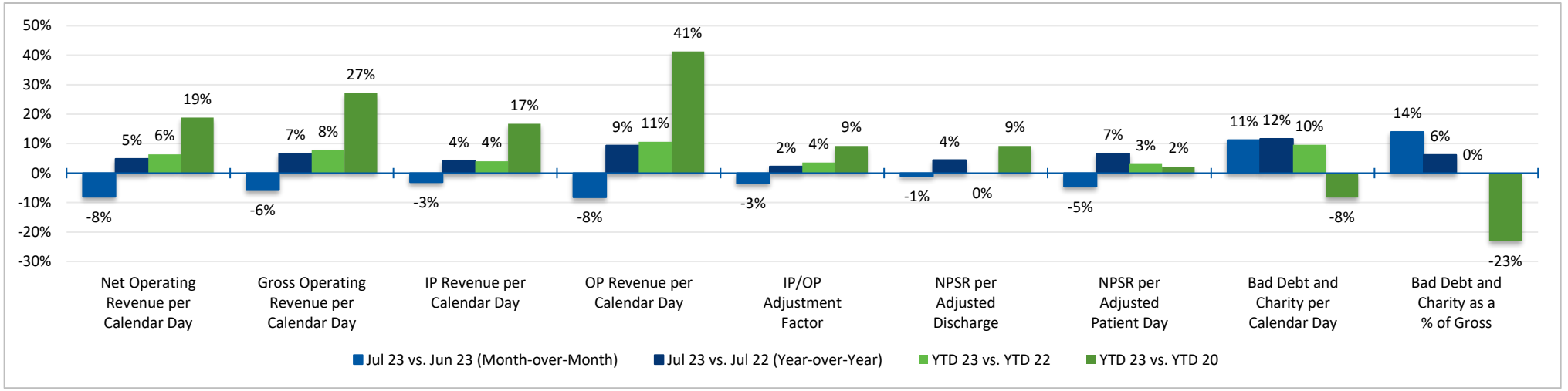


Regional Data: West

Profitability

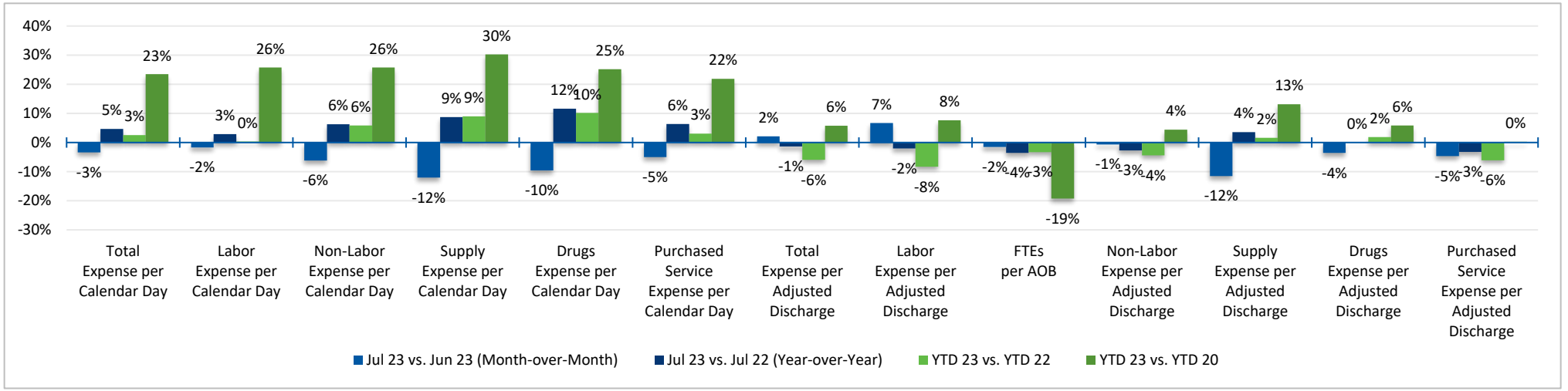


Revenue

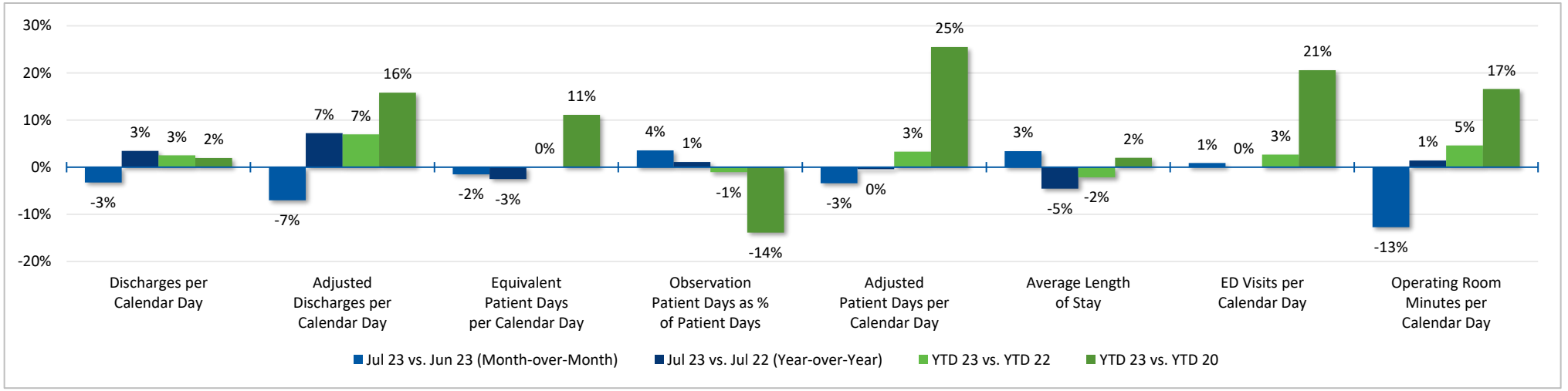


Regional Data: West *(continued)*

Expense

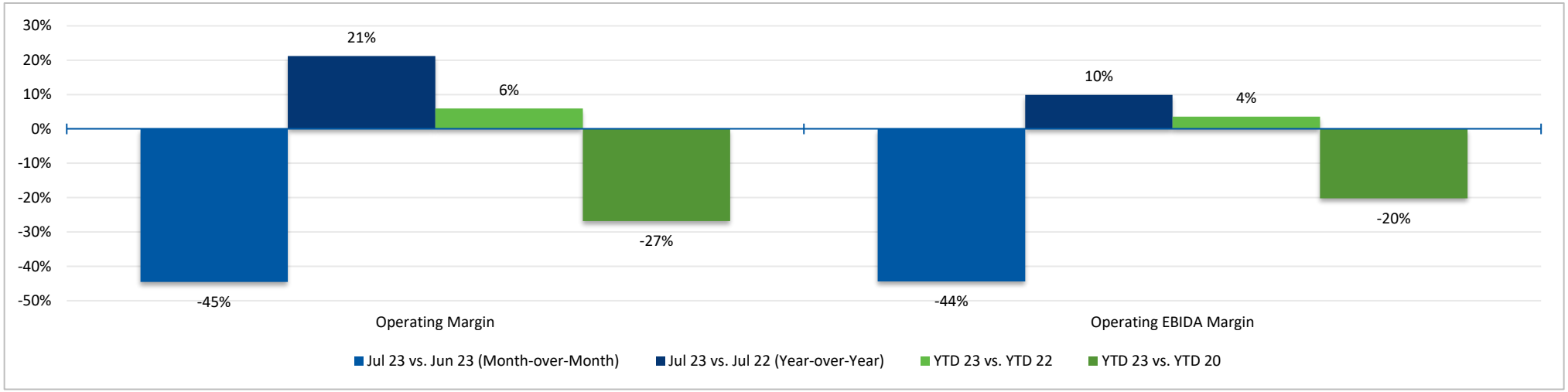


Volume

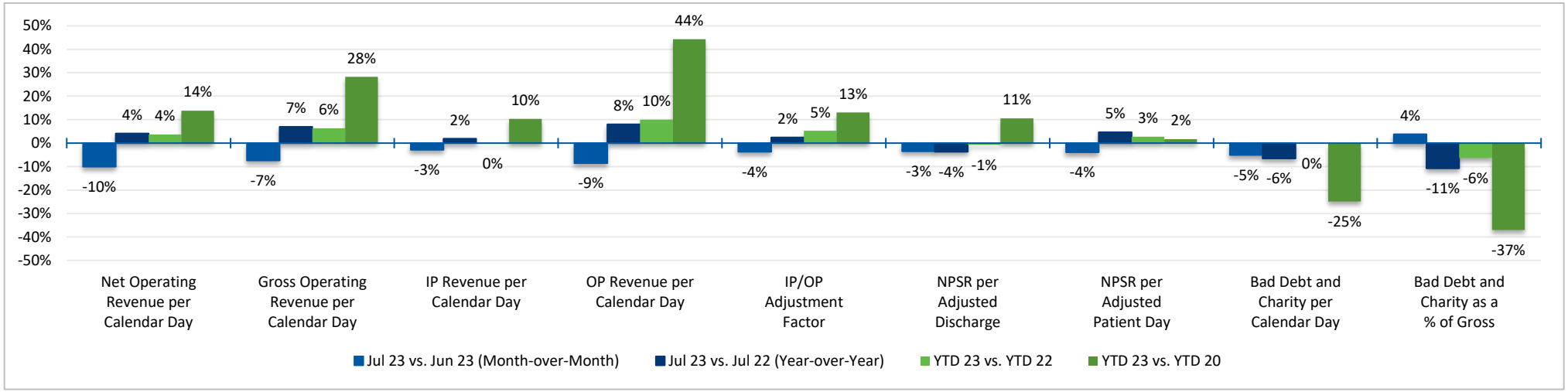


Regional Data: Midwest

Profitability

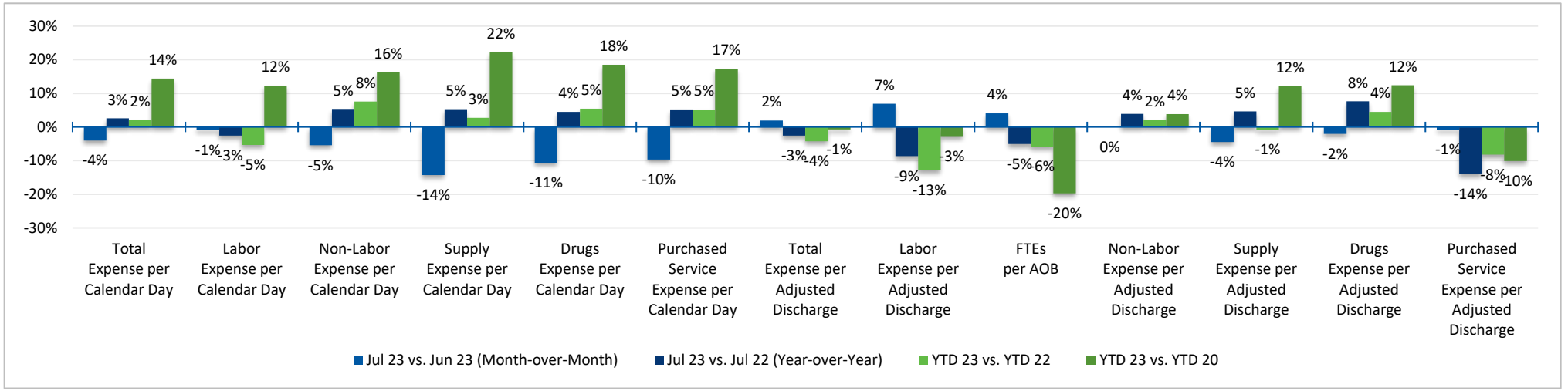


Revenue

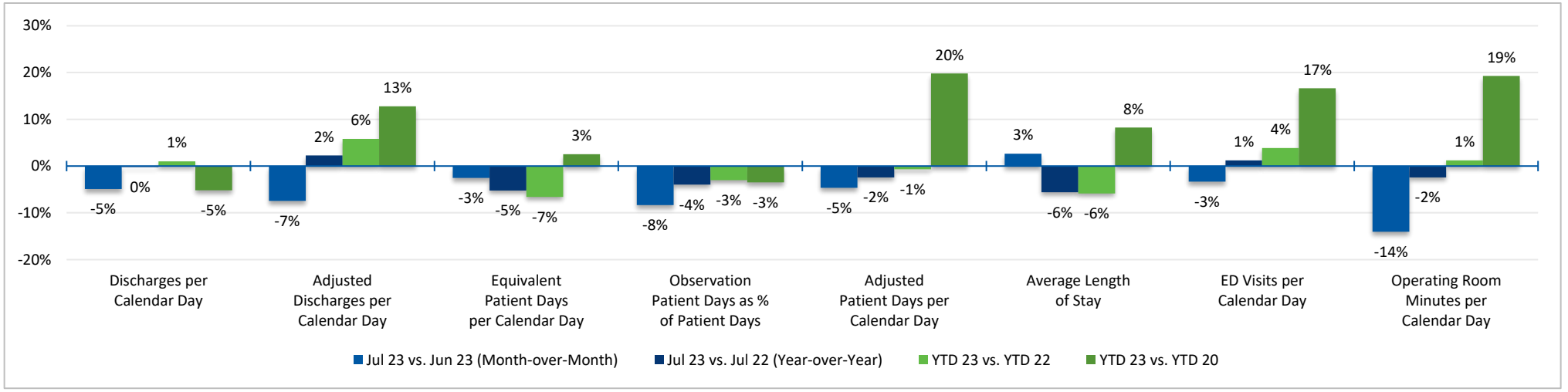


Regional Data: Midwest *(continued)*

Expense

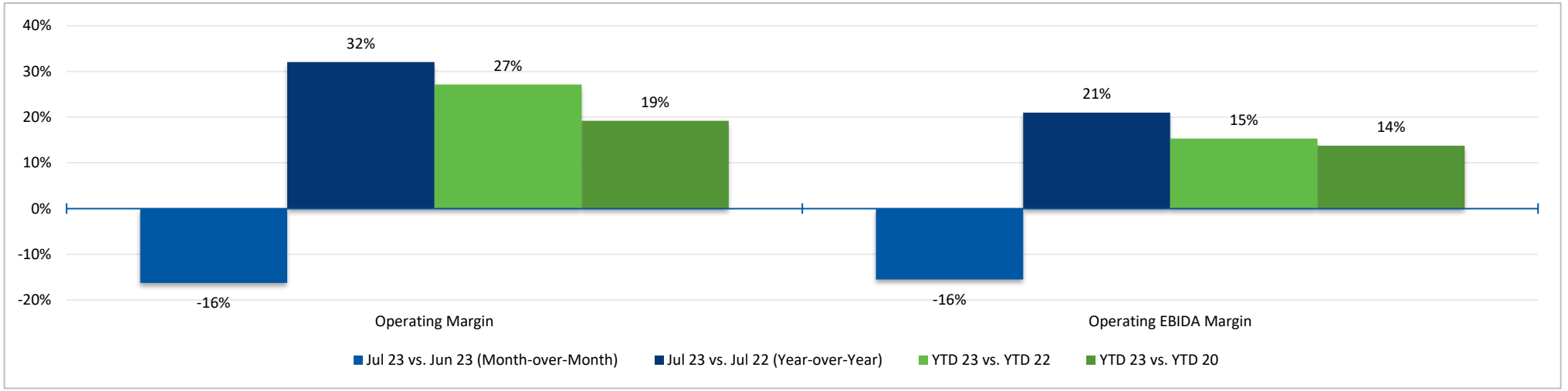


Volume

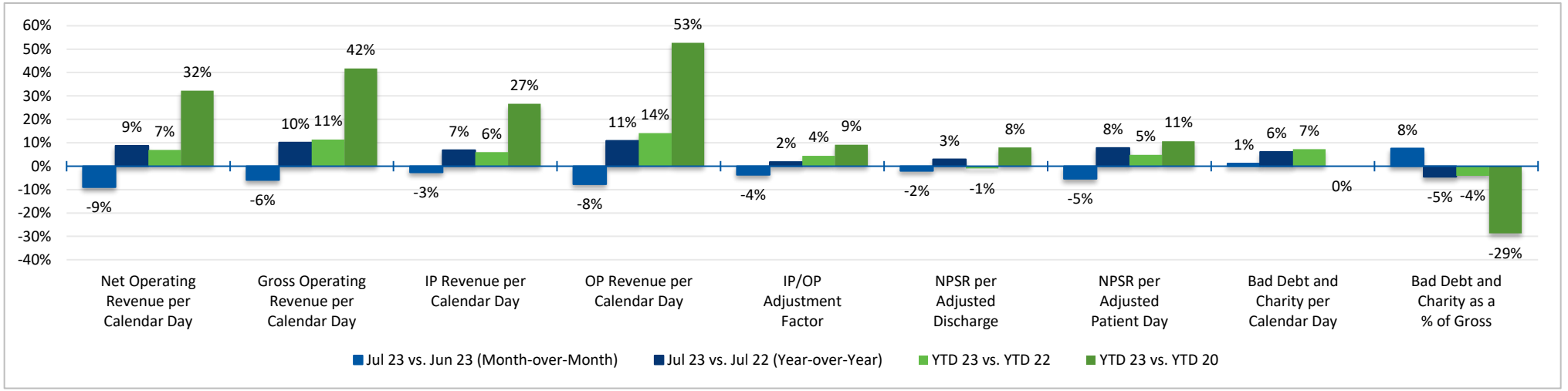


Regional Data: South

Profitability

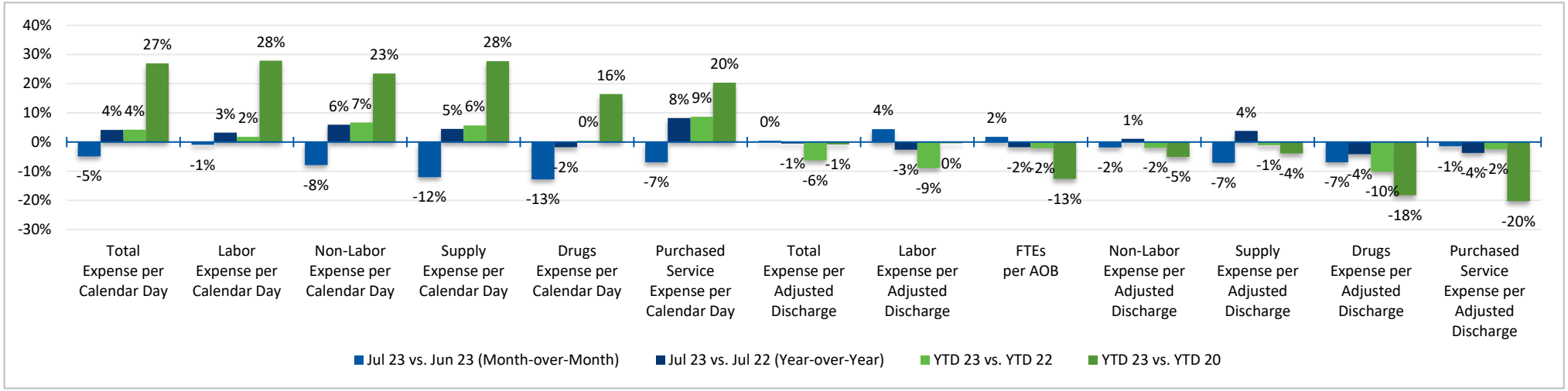


Revenue

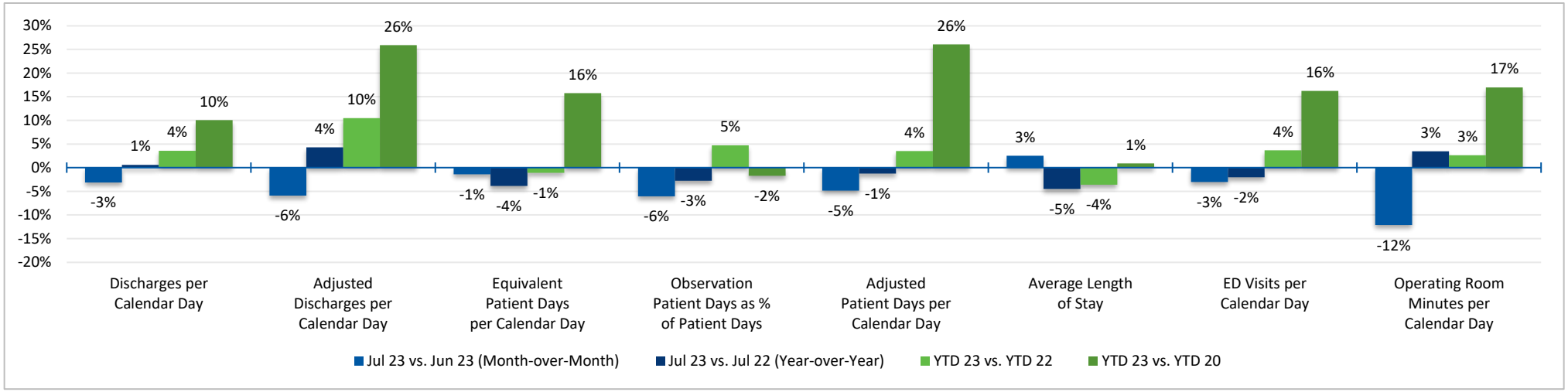


Regional Data: South *(continued)*

Expense

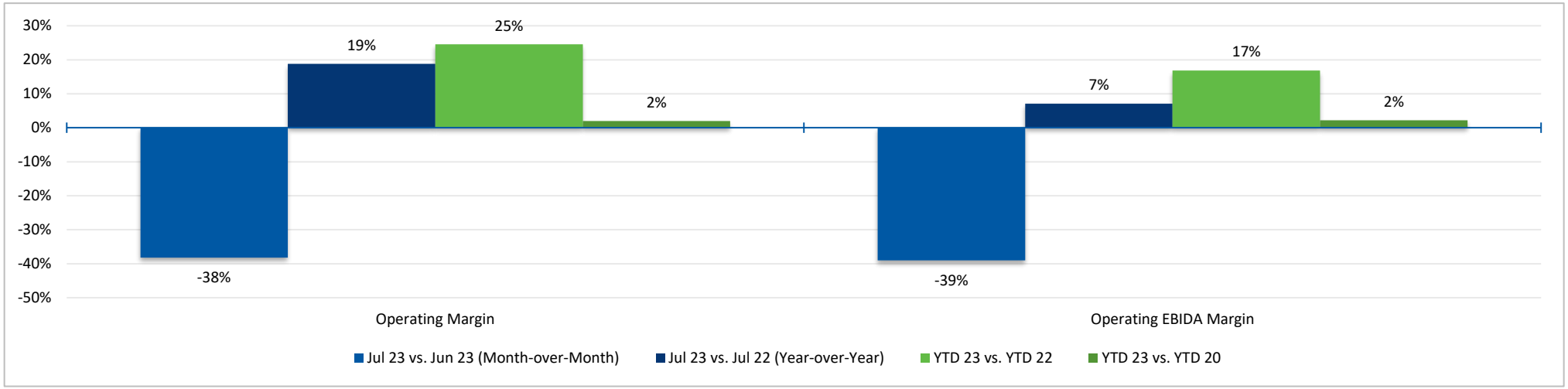


Volume

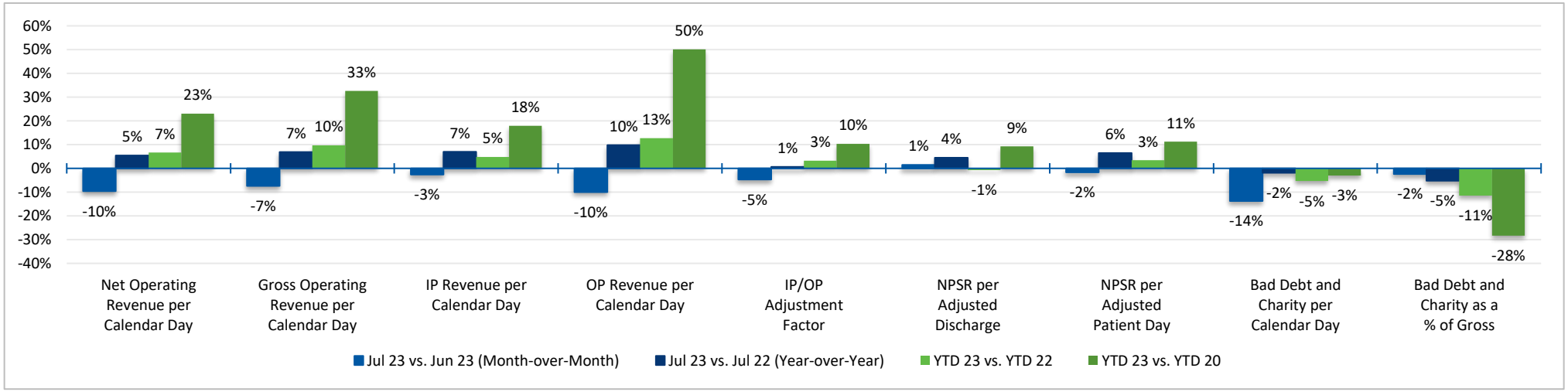


Regional Data: Northeast/Mid-Atlantic

Profitability

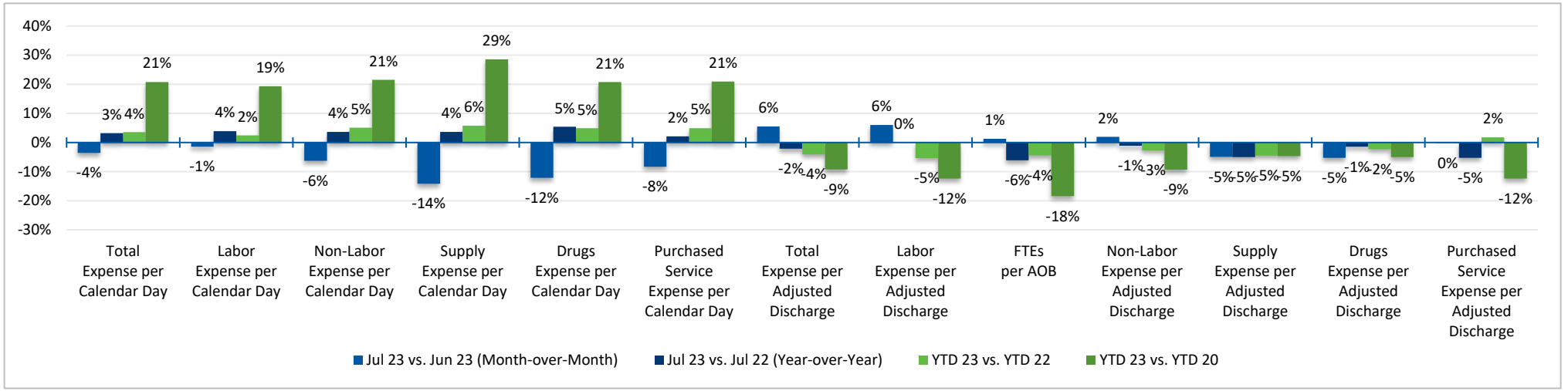


Revenue

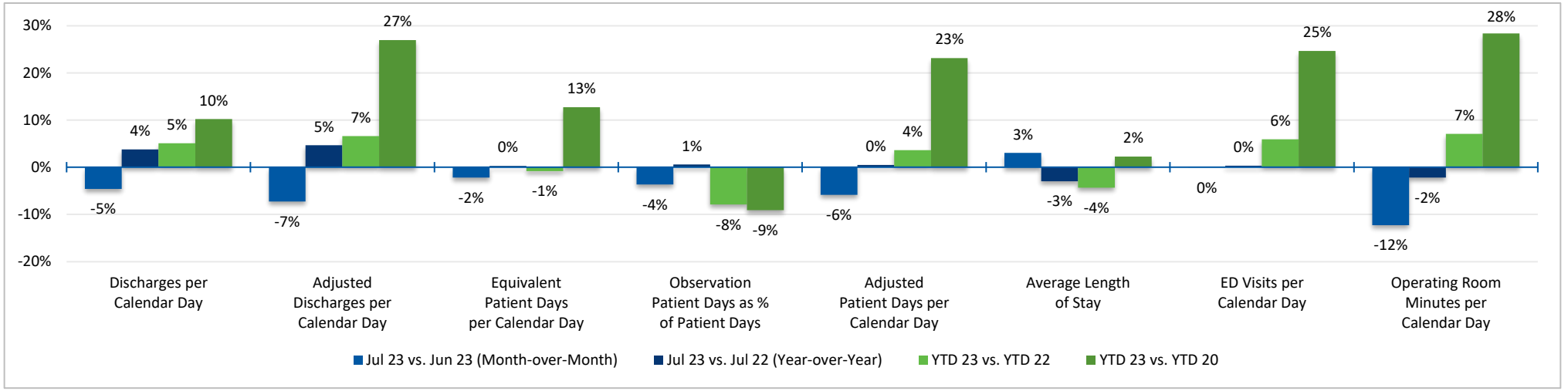


Regional Data: Northeast/Mid-Atlantic *(continued)*

Expense

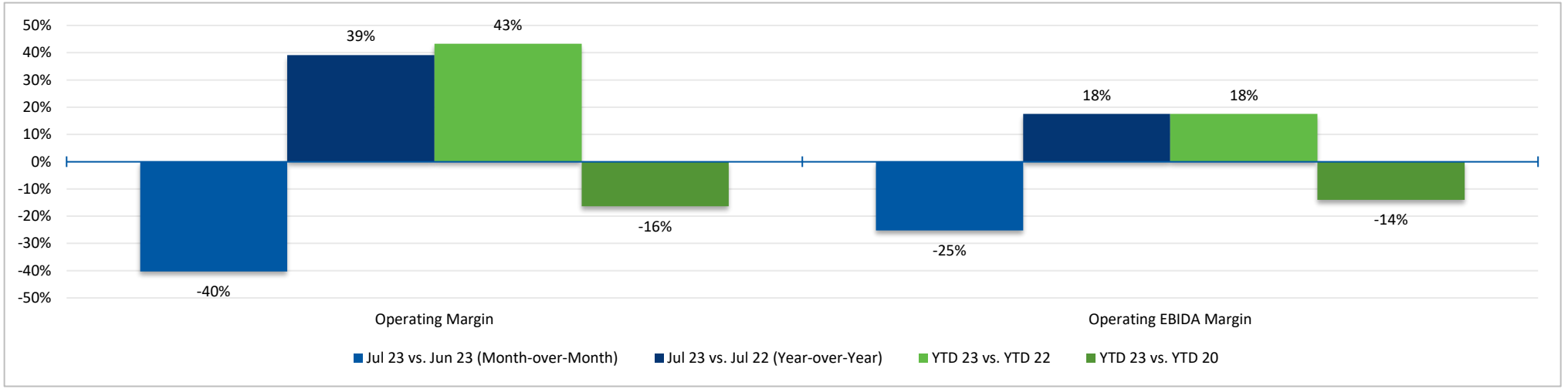


Volume

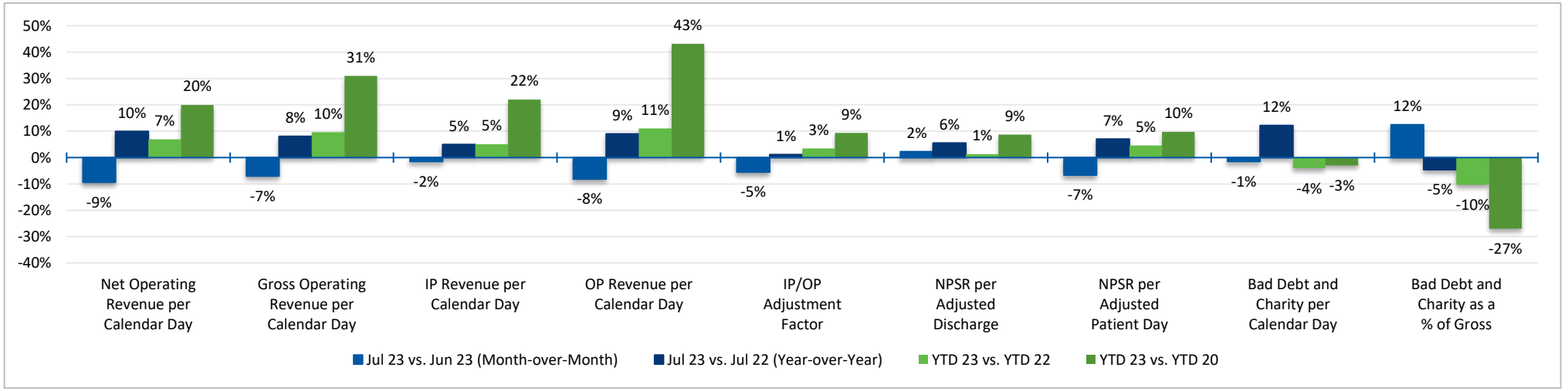


Regional Data: Great Plains

Profitability

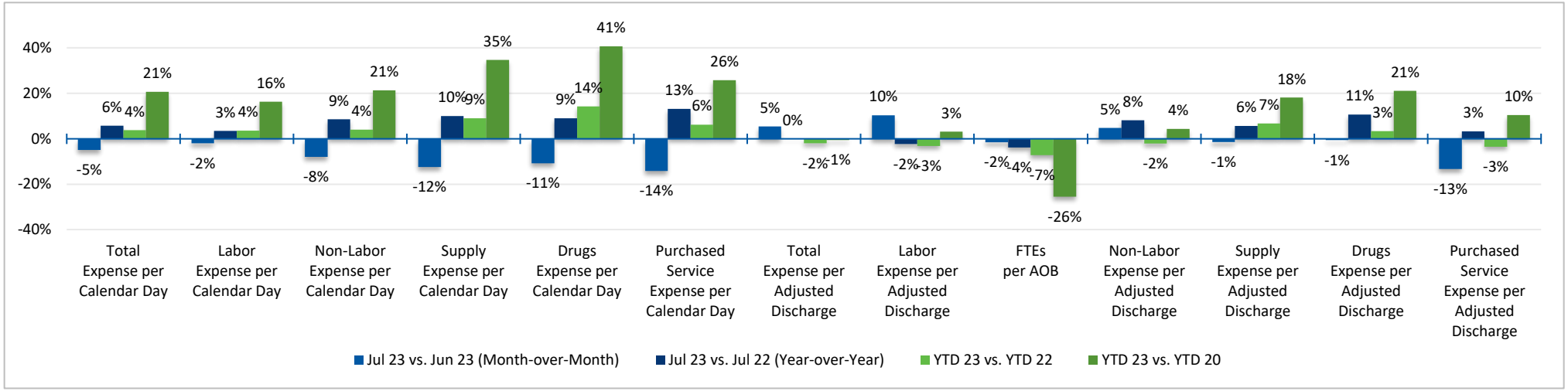


Revenue

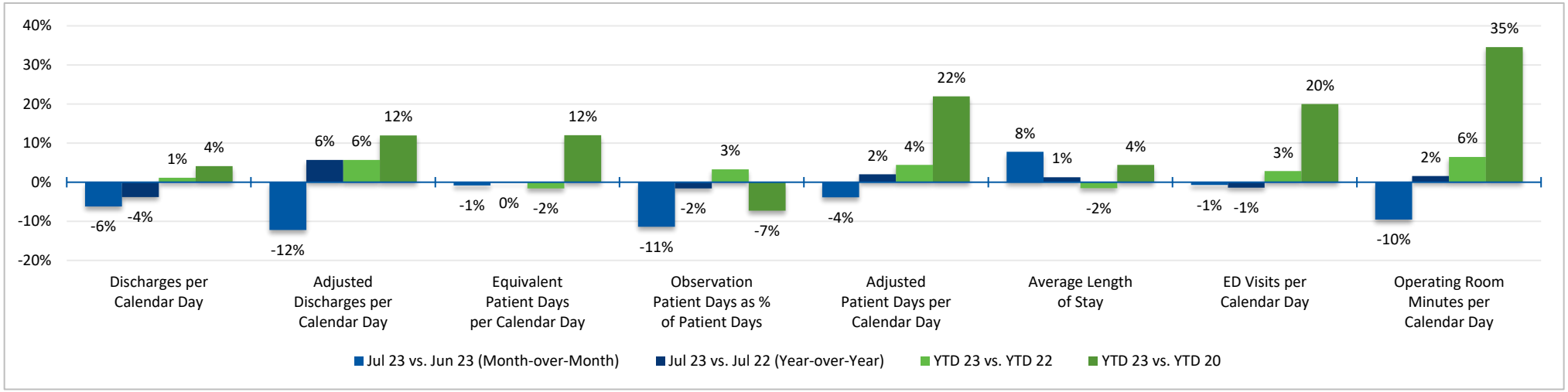


Regional Data: Great Plains *(continued)*

Expense



Volume



Data by Hospital Bed Size

Profitability, Revenue, Expense, and Volume

0-25 Beds

		Jul 23 vs. Jun 23 (Month-over-Month)	Jul 23 vs. Jul 22 (Year-over-Year)	YTD 23 vs. YTD 22	YTD 23 vs. YTD 20
Margin	Operating Margin	-43.3%	19.6%	13.4%	-2.3%
	Operating EBIDA Margin	-38.9%	6.4%	6.5%	-4.1%
Volume	Discharges per Calendar Day	-8.9%	-10.5%	-1.2%	-2.5%
	Adjusted Discharges per Calendar Day	-8.6%	6.2%	10.4%	29.6%
	Equivalent Patient Days per Calendar Day	-5.7%	-9.4%	-3.3%	7.3%
	Observation Patient Days as % of Patient Days	-20.5%	0.4%	2.6%	-19.6%
	Adjusted Patient Days per Calendar Day	-7.5%	-2.1%	7.0%	36.8%
	Average Length of Stay	9.6%	-3.1%	-4.9%	6.2%
	ED Visits per Calendar Day	0.5%	-2.1%	3.1%	19.6%
	Operating Room Minutes per Calendar Day	-17.8%	0.0%	7.1%	27.5%
Revenue	Net Operating Revenue per Calendar Day	-10.0%	5.1%	5.5%	17.7%
	Gross Operating Revenue per Calendar Day	-6.4%	6.9%	7.8%	31.2%
	IP Revenue per Calendar Day	-4.1%	-4.1%	-2.0%	8.6%
	OP Revenue per Calendar Day	-7.3%	7.9%	10.9%	46.8%
	IP/OP Adjustment Factor	-5.2%	5.8%	9.9%	23.4%
	NPSR per Adjusted Discharge	-2.8%	2.1%	-6.3%	1.1%
	NPSR per Adjusted Patient Day	-2.6%	1.9%	-2.9%	-6.0%
	Bad Debt and Charity per Calendar Day	-5.5%	-4.3%	1.4%	-6.9%
	Bad Debt and Charity as a % of Gross	2.2%	-13.0%	-7.0%	-31.6%
Expense	Total Expense per Calendar Day	-3.3%	3.4%	2.7%	18.4%
	Labor Expense per Calendar Day	-1.3%	2.0%	0.9%	19.0%
	Non-Labor Expense per Calendar Day	-6.4%	2.9%	4.6%	19.7%
	Supply Expense per Calendar Day	-15.3%	2.3%	5.4%	29.9%
	Drugs Expense per Calendar Day	-14.6%	8.8%	11.7%	35.8%
	Purchased Service Expense per Calendar Day	-10.6%	8.1%	5.1%	22.7%
	Total Expense per Adjusted Discharge	5.5%	-2.3%	-8.0%	-7.1%
	Labor Expense per Adjusted Discharge	8.0%	-7.1%	-10.3%	-7.9%
	FTEs per AOB	3.2%	-6.9%	-9.9%	-30.8%
	Non-Labor Expense per Adjusted Discharge	1.8%	3.9%	-6.3%	-7.3%
	Supply Expense per Adjusted Discharge	-7.1%	1.8%	-4.2%	5.6%
	Drugs Expense per Adjusted Discharge	-2.1%	3.8%	-0.3%	15.5%
	Purchased Service Expense per Adjusted Discharge	-6.7%	-3.9%	-10.6%	-9.0%

26-99 Beds

		Jul 23 vs. Jun 23 (Month-over-Month)	Jul 23 vs. Jul 22 (Year-over-Year)	YTD 23 vs. YTD 22	YTD 23 vs. YTD 20
Margin	Operating Margin	-19.9%	18.1%	21.6%	2.5%
	Operating EBIDA Margin	-19.1%	21.0%	14.5%	-2.7%
Volume	Discharges per Calendar Day	-3.2%	-0.6%	2.5%	5.8%
	Adjusted Discharges per Calendar Day	-5.0%	4.2%	10.8%	21.6%
	Equivalent Patient Days per Calendar Day	-1.5%	-4.6%	-4.1%	15.3%
	Observation Patient Days as % of Patient Days	-5.9%	5.5%	13.3%	-1.5%
	Adjusted Patient Days per Calendar Day	-4.2%	-2.2%	1.6%	27.9%
	Average Length of Stay	1.7%	-3.5%	-5.9%	-3.7%
	ED Visits per Calendar Day	-1.1%	-1.9%	4.2%	22.8%
	Operating Room Minutes per Calendar Day	-15.9%	-8.0%	0.4%	23.5%
Revenue	Net Operating Revenue per Calendar Day	-9.5%	7.0%	5.8%	23.5%
	Gross Operating Revenue per Calendar Day	-6.2%	7.3%	8.8%	37.7%
	IP Revenue per Calendar Day	-0.8%	6.0%	2.0%	18.6%
	OP Revenue per Calendar Day	-7.7%	7.2%	11.5%	50.6%
	IP/OP Adjustment Factor	-5.8%	1.1%	6.1%	13.0%
	NPSR per Adjusted Discharge	-3.3%	1.3%	-1.2%	8.4%
	NPSR per Adjusted Patient Day	-5.4%	9.5%	4.6%	7.0%
	Bad Debt and Charity per Calendar Day	-3.5%	-1.5%	0.5%	-2.0%
	Bad Debt and Charity as a % of Gross	2.2%	-9.9%	-6.3%	-25.4%
Expense	Total Expense per Calendar Day	-5.3%	2.1%	2.6%	21.0%
	Labor Expense per Calendar Day	-1.9%	-0.1%	0.4%	17.3%
	Non-Labor Expense per Calendar Day	-7.9%	4.3%	5.2%	19.3%
	Supply Expense per Calendar Day	-13.6%	3.9%	2.7%	28.6%
	Drugs Expense per Calendar Day	-12.6%	1.5%	1.6%	21.2%
	Purchased Service Expense per Calendar Day	-5.3%	3.4%	2.8%	18.9%
	Total Expense per Adjusted Discharge	-0.4%	-3.3%	-6.2%	-2.0%
	Labor Expense per Adjusted Discharge	3.4%	-3.5%	-10.6%	-3.8%
	FTEs per AOB	0.0%	-4.9%	-7.6%	-25.4%
	Non-Labor Expense per Adjusted Discharge	-3.2%	-0.5%	-1.9%	1.4%
	Supply Expense per Adjusted Discharge	-10.3%	2.6%	-3.4%	4.1%
	Drugs Expense per Adjusted Discharge	-12.4%	-10.3%	-8.7%	-5.5%
	Purchased Service Expense per Adjusted Discharge	0.7%	-9.3%	-4.7%	-11.4%

100-199 Beds

		Jul 23 vs. Jun 23 (Month-over-Month)	Jul 23 vs. Jul 22 (Year-over-Year)	YTD 23 vs. YTD 22	YTD 23 vs. YTD 20
Margin	Operating Margin	-39.3%	18.8%	26.4%	2.1%
	Operating EBIDA Margin	-33.1%	6.8%	13.3%	-1.2%
Volume	Discharges per Calendar Day	-2.8%	4.5%	4.9%	6.9%
	Adjusted Discharges per Calendar Day	-6.2%	6.2%	9.7%	16.9%
	Equivalent Patient Days per Calendar Day	-1.4%	-0.9%	-2.2%	7.8%
	Observation Patient Days as % of Patient Days	-1.7%	-1.9%	-4.9%	-12.5%
	Adjusted Patient Days per Calendar Day	-5.3%	0.1%	2.9%	22.8%
	Average Length of Stay	3.5%	-5.6%	-5.4%	-2.6%
	ED Visits per Calendar Day	-2.6%	-0.9%	3.6%	15.5%
	Operating Room Minutes per Calendar Day	-14.1%	0.9%	4.5%	21.4%
Revenue	Net Operating Revenue per Calendar Day	-9.8%	6.8%	7.3%	21.1%
	Gross Operating Revenue per Calendar Day	-6.5%	7.4%	9.6%	29.9%
	IP Revenue per Calendar Day	-2.0%	5.3%	3.7%	18.6%
	OP Revenue per Calendar Day	-8.7%	8.7%	12.5%	45.9%
	IP/OP Adjustment Factor	-4.2%	2.2%	5.1%	10.6%
	NPSR per Adjusted Discharge	-0.2%	5.3%	-1.4%	10.6%
	NPSR per Adjusted Patient Day	-4.3%	5.6%	3.5%	4.7%
	Bad Debt and Charity per Calendar Day	-4.5%	11.8%	2.8%	-16.3%
	Bad Debt and Charity as a % of Gross	5.3%	-2.6%	-4.8%	-32.0%
Expense	Total Expense per Calendar Day	-3.6%	3.6%	1.9%	20.3%
	Labor Expense per Calendar Day	-0.9%	3.0%	-0.6%	22.3%
	Non-Labor Expense per Calendar Day	-6.4%	4.9%	6.1%	17.8%
	Supply Expense per Calendar Day	-14.5%	3.8%	3.8%	26.1%
	Drugs Expense per Calendar Day	-11.1%	6.0%	0.5%	18.9%
	Purchased Service Expense per Calendar Day	-8.1%	8.3%	7.5%	14.6%
	Total Expense per Adjusted Discharge	3.8%	0.4%	-7.2%	-3.1%
	Labor Expense per Adjusted Discharge	5.2%	-0.1%	-8.2%	2.0%
	FTEs per AOB	1.9%	-4.3%	-4.6%	-16.2%
	Non-Labor Expense per Adjusted Discharge	1.2%	0.4%	-2.8%	-9.8%
	Supply Expense per Adjusted Discharge	-4.9%	1.0%	-1.4%	1.8%
	Drugs Expense per Adjusted Discharge	-4.4%	2.0%	-3.0%	-8.0%
	Purchased Service Expense per Adjusted Discharge	-0.5%	-5.7%	-6.4%	-24.4%

200-299 Beds

		Jul 23 vs. Jun 23 (Month-over-Month)	Jul 23 vs. Jul 22 (Year-over-Year)	YTD 23 vs. YTD 22	YTD 23 vs. YTD 20
Margin	Operating Margin	-15.5%	10.6%	13.8%	-27.1%
	Operating EBIDA Margin	-23.4%	8.9%	11.1%	-14.9%
Volume	Discharges per Calendar Day	-4.1%	2.8%	2.4%	5.3%
	Adjusted Discharges per Calendar Day	-7.1%	4.3%	7.6%	15.8%
	Equivalent Patient Days per Calendar Day	-3.6%	-2.8%	-0.9%	11.2%
	Observation Patient Days as % of Patient Days	-5.1%	1.0%	2.8%	-0.3%
	Adjusted Patient Days per Calendar Day	-4.4%	-0.6%	1.6%	19.1%
	Average Length of Stay	2.2%	-6.4%	-2.5%	-1.5%
	ED Visits per Calendar Day	-1.0%	1.5%	3.2%	17.0%
	Operating Room Minutes per Calendar Day	-12.2%	3.5%	3.7%	18.6%
Revenue	Net Operating Revenue per Calendar Day	-8.5%	5.3%	5.8%	21.0%
	Gross Operating Revenue per Calendar Day	-7.2%	9.5%	8.6%	31.0%
	IP Revenue per Calendar Day	-3.3%	6.6%	5.6%	22.1%
	OP Revenue per Calendar Day	-8.0%	10.5%	12.1%	45.6%
	IP/OP Adjustment Factor	-2.3%	2.4%	2.9%	9.8%
	NPSR per Adjusted Discharge	-0.8%	3.4%	-0.2%	9.1%
	NPSR per Adjusted Patient Day	-2.5%	6.2%	4.2%	8.7%
	Bad Debt and Charity per Calendar Day	1.6%	6.0%	4.6%	-13.4%
	Bad Debt and Charity as a % of Gross	8.8%	-3.8%	-3.5%	-30.9%
Expense	Total Expense per Calendar Day	-4.2%	4.3%	3.7%	23.3%
	Labor Expense per Calendar Day	-1.2%	1.5%	0.3%	23.0%
	Non-Labor Expense per Calendar Day	-7.2%	6.9%	6.4%	24.7%
	Supply Expense per Calendar Day	-13.0%	5.8%	7.4%	27.7%
	Drugs Expense per Calendar Day	-13.5%	1.2%	1.9%	16.1%
	Purchased Service Expense per Calendar Day	-11.7%	6.7%	9.0%	25.0%
	Total Expense per Adjusted Discharge	2.4%	-0.2%	-3.5%	1.5%
	Labor Expense per Adjusted Discharge	5.5%	-1.6%	-6.8%	5.9%
	FTEs per AOB	2.8%	-2.0%	-1.6%	-11.2%
	Non-Labor Expense per Adjusted Discharge	-3.9%	1.3%	-0.2%	-4.7%
	Supply Expense per Adjusted Discharge	-7.1%	1.7%	1.2%	-4.2%
	Drugs Expense per Adjusted Discharge	-5.8%	1.2%	-1.3%	-10.3%
	Purchased Service Expense per Adjusted Discharge	-10.1%	-4.9%	0.1%	6.2%

300-499 Beds

		Jul 23 vs. Jun 23 (Month-over-Month)	Jul 23 vs. Jul 22 (Year-over-Year)	YTD 23 vs. YTD 22	YTD 23 vs. YTD 20
Margin	Operating Margin	-29.9%	20.9%	13.7%	-25.9%
	Operating EBIDA Margin	-25.6%	10.4%	4.8%	-30.0%
Volume	Discharges per Calendar Day	-4.7%	1.1%	2.4%	2.4%
	Adjusted Discharges per Calendar Day	-7.4%	2.3%	4.8%	10.7%
	Equivalent Patient Days per Calendar Day	-1.4%	-1.1%	-2.2%	8.2%
	Observation Patient Days as % of Patient Days	-3.6%	0.6%	-0.4%	0.8%
	Adjusted Patient Days per Calendar Day	-4.1%	0.1%	1.5%	16.5%
	Average Length of Stay	3.0%	-3.4%	-2.1%	1.9%
	ED Visits per Calendar Day	-1.6%	0.7%	3.3%	14.7%
	Operating Room Minutes per Calendar Day	-11.0%	-1.2%	2.7%	22.5%
Revenue	Net Operating Revenue per Calendar Day	-8.9%	6.0%	6.0%	20.7%
	Gross Operating Revenue per Calendar Day	-6.1%	6.1%	7.3%	29.5%
	IP Revenue per Calendar Day	-2.6%	4.8%	3.8%	20.2%
	OP Revenue per Calendar Day	-9.0%	10.5%	12.6%	47.6%
	IP/OP Adjustment Factor	-3.8%	2.0%	3.5%	9.2%
	NPSR per Adjusted Discharge	0.8%	3.2%	2.1%	11.9%
	NPSR per Adjusted Patient Day	-4.5%	5.6%	4.2%	9.8%
	Bad Debt and Charity per Calendar Day	14.0%	7.0%	2.1%	-9.4%
	Bad Debt and Charity as a % of Gross	16.8%	0.0%	-6.0%	-28.1%
Expense	Total Expense per Calendar Day	-4.8%	3.6%	2.9%	22.2%
	Labor Expense per Calendar Day	-1.0%	1.8%	0.2%	20.2%
	Non-Labor Expense per Calendar Day	-6.7%	5.3%	7.2%	21.7%
	Supply Expense per Calendar Day	-11.9%	6.0%	7.1%	26.4%
	Drugs Expense per Calendar Day	-7.9%	4.8%	5.8%	20.1%
	Purchased Service Expense per Calendar Day	-9.5%	8.4%	8.7%	18.8%
	Total Expense per Adjusted Discharge	1.8%	-0.4%	-1.5%	9.9%
	Labor Expense per Adjusted Discharge	6.0%	-3.6%	-5.4%	7.1%
	FTEs per AOB	1.3%	-2.2%	-1.6%	-12.7%
	Non-Labor Expense per Adjusted Discharge	-0.7%	2.9%	2.6%	10.3%
	Supply Expense per Adjusted Discharge	-5.0%	3.6%	3.0%	13.5%
	Drugs Expense per Adjusted Discharge	-2.6%	3.5%	1.7%	9.0%
	Purchased Service Expense per Adjusted Discharge	-0.2%	0.1%	-0.7%	-0.9%

500+ Beds

		Jul 23 vs. Jun 23 (Month-over-Month)	Jul 23 vs. Jul 22 (Year-over-Year)	YTD 23 vs. YTD 22	YTD 23 vs. YTD 20
Margin	Operating Margin	-50.9%	52.7%	75.8%	3.8%
	Operating EBIDA Margin	-39.8%	33.7%	53.4%	-6.5%
Volume	Discharges per Calendar Day	-3.5%	4.5%	5.6%	10.6%
	Adjusted Discharges per Calendar Day	-7.4%	7.9%	6.8%	18.3%
	Equivalent Patient Days per Calendar Day	-0.4%	1.9%	3.4%	12.4%
	Observation Patient Days as % of Patient Days	-3.3%	-6.8%	-4.4%	-6.2%
	Adjusted Patient Days per Calendar Day	-3.2%	3.8%	5.2%	23.3%
	Average Length of Stay	3.7%	-2.5%	-1.6%	5.1%
	ED Visits per Calendar Day	-2.7%	3.7%	3.7%	22.0%
	Operating Room Minutes per Calendar Day	-11.3%	3.7%	6.6%	27.1%
Revenue	Net Operating Revenue per Calendar Day	-9.1%	12.9%	9.8%	26.6%
	Gross Operating Revenue per Calendar Day	-6.1%	10.0%	11.5%	38.5%
	IP Revenue per Calendar Day	-2.9%	10.0%	9.1%	29.0%
	OP Revenue per Calendar Day	-9.6%	10.1%	12.2%	48.2%
	IP/OP Adjustment Factor	-3.5%	0.7%	1.5%	6.4%
	NPSR per Adjusted Discharge	-0.2%	5.7%	3.0%	19.7%
	NPSR per Adjusted Patient Day	-3.6%	7.3%	6.6%	12.9%
	Bad Debt and Charity per Calendar Day	4.5%	9.9%	5.5%	-1.9%
	Bad Debt and Charity as a % of Gross	10.7%	-6.8%	-3.1%	-23.5%
Expense	Total Expense per Calendar Day	-4.2%	8.2%	6.4%	27.7%
	Labor Expense per Calendar Day	-2.3%	4.3%	4.9%	27.9%
	Non-Labor Expense per Calendar Day	-6.9%	9.2%	9.5%	26.7%
	Supply Expense per Calendar Day	-11.7%	12.1%	10.9%	31.1%
	Drugs Expense per Calendar Day	-9.4%	17.6%	15.1%	35.8%
	Purchased Service Expense per Calendar Day	-11.4%	4.7%	7.8%	22.9%
	Total Expense per Adjusted Discharge	4.1%	-0.3%	-1.2%	7.3%
	Labor Expense per Adjusted Discharge	5.7%	-1.3%	-1.8%	7.3%
	FTEs per AOB	1.6%	-3.9%	-3.2%	-13.0%
	Non-Labor Expense per Adjusted Discharge	0.7%	-0.4%	-0.7%	8.3%
	Supply Expense per Adjusted Discharge	-4.9%	5.2%	5.0%	15.3%
	Drugs Expense per Adjusted Discharge	-0.3%	11.0%	10.0%	24.5%
	Purchased Service Expense per Adjusted Discharge	-0.3%	-2.3%	1.2%	1.6%

Non-Operating

National Non-Operating Results

Key Observations

- The consumer price index (CPI) edged higher 3.2% in July from a year ago, the first month in a year's time that the annual inflation rate accelerated month-over-month
- At the July Federal Open Market Committee (FOMC) meeting, Federal Reserve officials hiked interest rates by 25 bps to a new range of 5.25%-5.50%, continuing its rate increases after pausing at the June 2023 meeting
- Chair Powell reiterated the central bank's commitment to a 2% target inflation, stating that more rate hikes can be expected at the September meeting if the data warrants such action
- The Fed is now projecting for a noticeable slowdown in growth later this year. However, the Fed is no longer forecasting a recession
- The U.S. economy showed continued resilience in the face of higher interest rates, showing an unexpected 2.4% annual growth rate from April through June despite consumer spending slowing to a 1.6% annual rate, down from 4.2% during the first quarter of the year
- U.S. employers added 187,000 workers in July, which was fewer than the Dow Jones estimate of 200,000. Unemployment rate improved to 3.5% during the same period, beating consensus estimates of 3.6%.
- For the first time in more than 2 years, consumer prices in China fell in July; for 10 straight months, the wholesale prices generally paid by businesses to factories and producers have been down from the year prior
- The S&P 500 rose 3.1% in July, bringing its YTD and YoY returns to 19.5% and 11.1%, respectively

General Non-Operating Observations

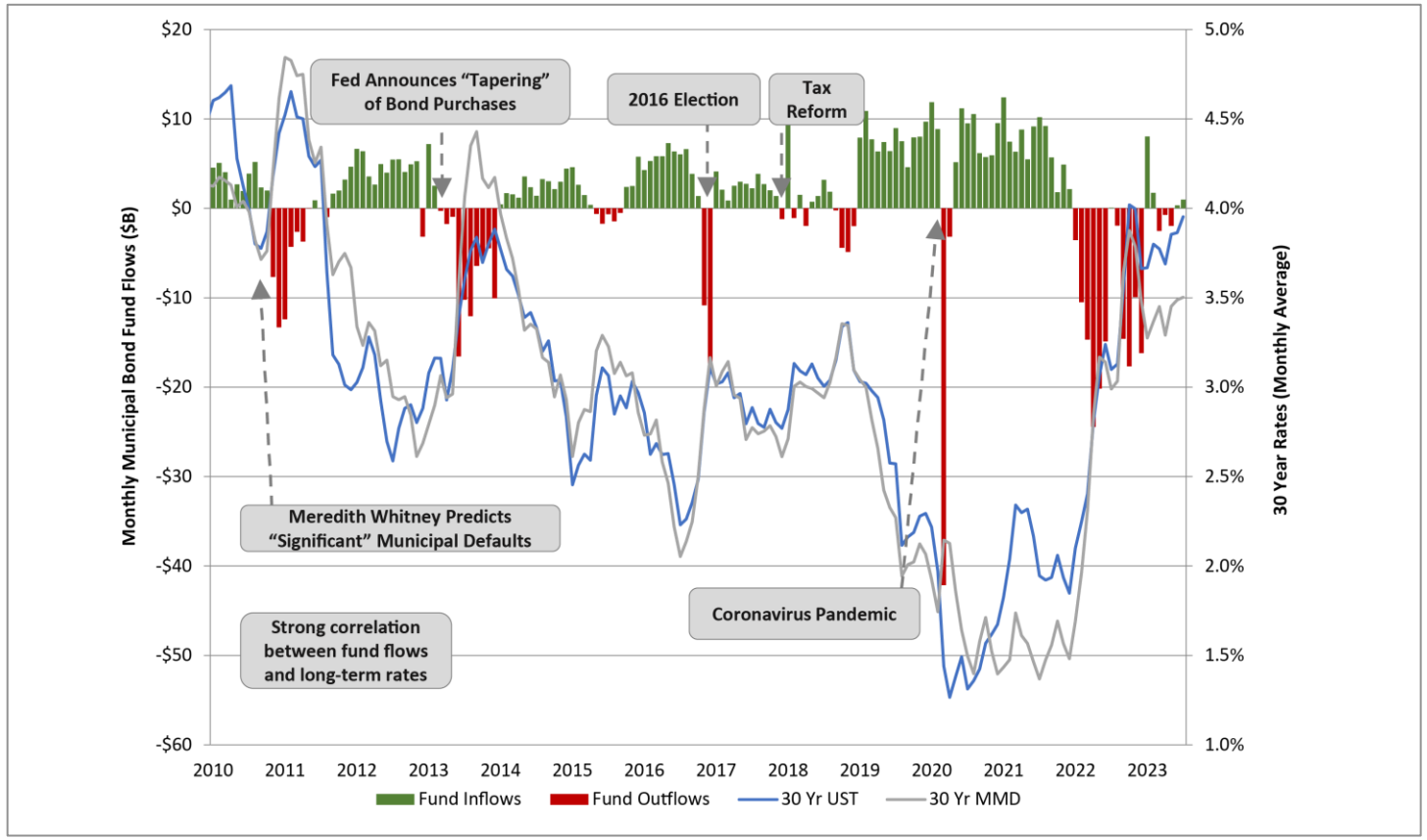
	August 2023	M-o-M Change	Y-o-Y Change
General			
GDP Growth*	2.4%	n/a	n/a
Unemployment Rate	3.5%	-0.1%	n/c
Personal Consumption Expenditures (YoY)	4.1%	n/c	-0.6%
Liabilities			
SOFR	5.31%	+22 bps	+304 bps
SIFMA	3.98%	-3 bps	+265 bps
30yr MMD	3.51%	+2 bps	+62 bps
30yr Treasury	4.01%	+15 bps	+100 bps
Assets			
60/40 Asset Allocation†	n/a	+2.1%	+4.9%

*U.S. Bureau of Economic Analysis, Q2 2023 "Advance Estimate"

†60/40 Asset Allocation assumes 30% S&P 500 Index, 20% MSCI World Index, 10% MSCI Emerging Markets Index, 40% Barclays US Aggregate Bond Index

Non-Operating Liabilities

Long Term – Monthly Municipal Bond Fund Flows with 30-Year U.S. Treasury and 30-Year MMD



Kaufman Hall, *National Hospital Flash Report* (August 2023)

The tax-exempt 30-year MMD rate was relatively steady, increasing only 2 basis points in July, closing the month at 3.51%. Comparatively, 30-year Treasury rates rose 15 basis points over the last month, up to 4.01%. Both the AAA MMD and Treasury yield curves remain inverted with 2-year interest rates higher than 10-year rates – the 2-year Treasury is 73 basis points higher than the 10-year Treasury.

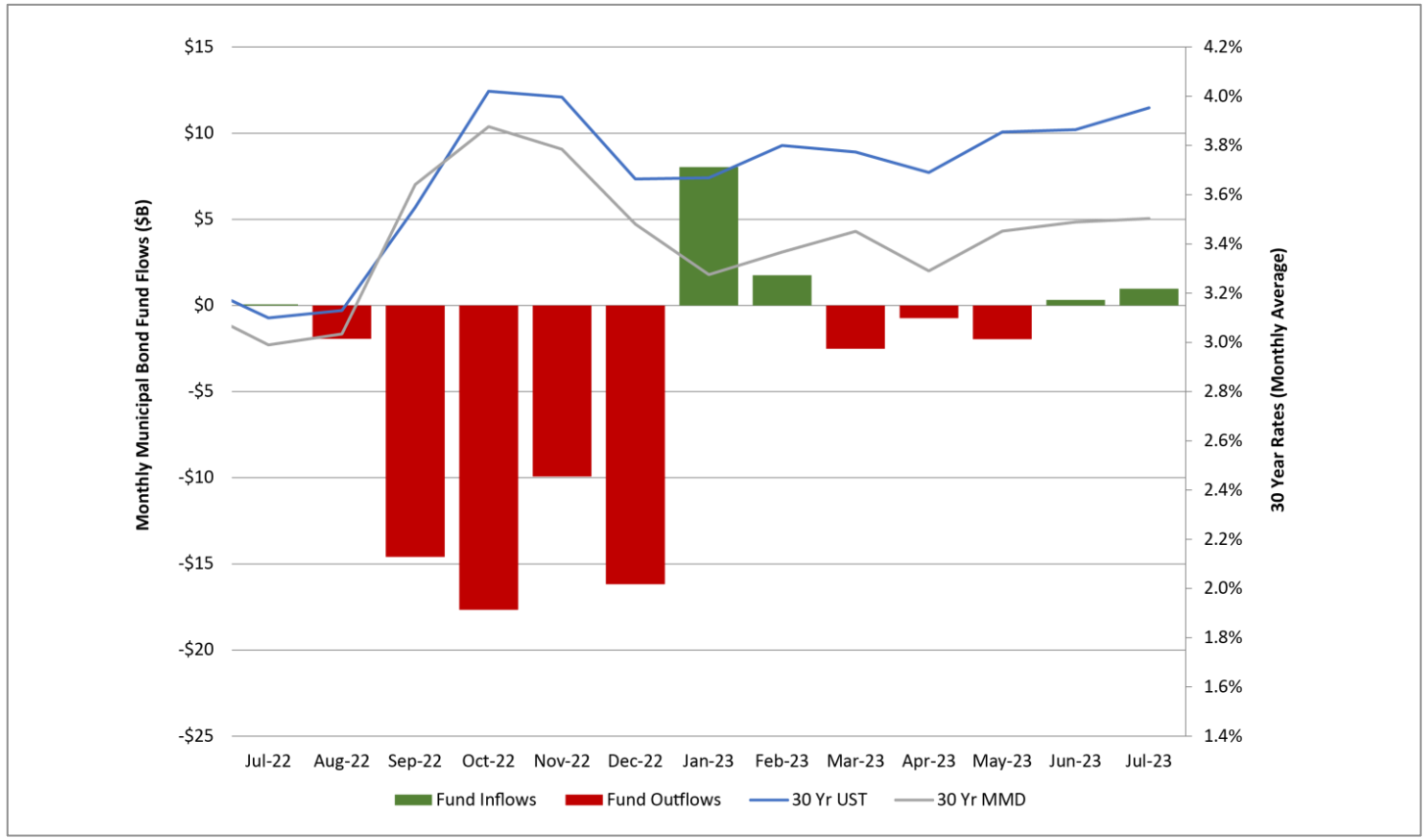
New issuance remained light in July despite a sense of elevated investor demand and a lack of major risk events. Municipal bond funds recorded their 2nd straight month of inflows. Investment grade corporate bond funds continued to see inflows for the 8th straight week bringing the YTD total to $29.9 billion of net inflows compared to $5.9 billion YTD of net outflows in municipal funds.

August's municipal redemption flows will be the heaviest of the year, with 95% of the principal getting paid out in the first half of the month – $29 billion on Aug. 1 and $9 billion on Aug. 15, according to CreditSights and Bond Buyer. Limited supply mixed with the surge in redemptions presents favorable dynamics for municipal issuers.

Taxable and tax-exempt debt capital markets, as approximated here by the '30-yr U.S. Treasury' and '30-yr MMD Index', are dependent upon macroeconomic conditions, including inflation expectations, GDP growth and investment opportunities elsewhere in the market. A key measure to track is bond fund flows, particularly in the more supply and demand sensitive tax-exempt market. Fund flows are monies moving into bond funds from new investment and principal and interest payments on existing and maturing holdings. Strong fund flows generally signal that investors have more cash to put to work, a boon to the demand. Fund inflows generally are moderate and consistent over time while fund outflows are typically large and sudden, as external events affect investor sentiment, resulting in quick position liquidation which can drive yields up considerably in a short amount of time.

Non-Operating Liabilities *(continued)*

Last Twelve Months – Monthly Municipal Bond Fund Flows with 30-Year U.S. Treasury and 30-Year MMD

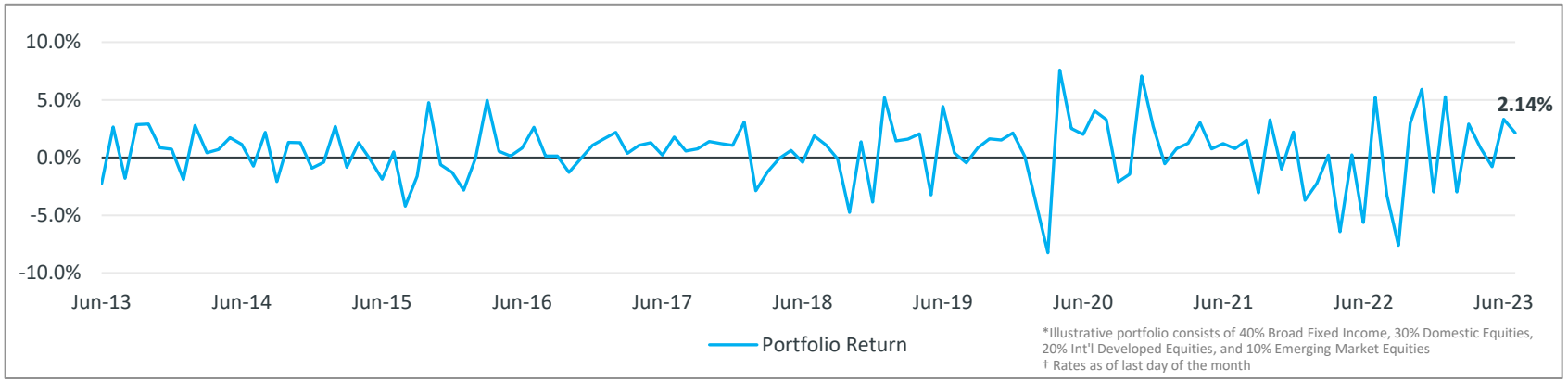


Kaufman Hall, *National Hospital Flash Report* (August 2023)

Taxable and tax-exempt debt capital markets, as approximated here by the '30-yr U.S. Treasury' and '30-yr MMD Index', are dependent upon macroeconomic conditions, including inflation expectations, GDP growth and investment opportunities elsewhere in the market. A key measure to track is bond fund flows, particularly in the more supply and demand sensitive tax-exempt market. Fund flows are monies moving into bond funds from new investment and principal and interest payments on existing and maturing holdings. Strong fund flows generally signal that investors have more cash to put to work, a boon to the demand. Fund inflows generally are moderate and consistent over time while fund outflows are typically large and sudden, as external events affect investor sentiment, resulting in quick position liquidation which can drive yields up considerably in a short amount of time.

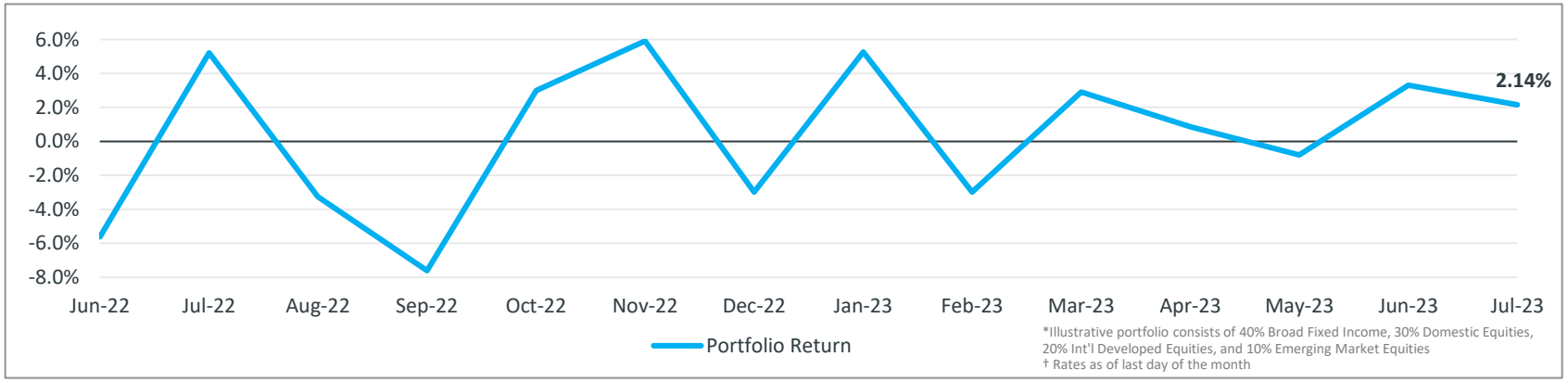
Non-Operating Assets

Long Term – Illustrative Investment Portfolio Returns, Month-over-Month Change



Kaufman Hall, National Hospital Flash Report (August 2023)

Last Twelve Months – Illustrative Investment Portfolio Returns, Month-over-Month Change



Kaufman Hall, National Hospital Flash Report (August 2023)

Equities continued to defy expectations as the S&P 500 continued to rise through July, growing 3.1% month-over-month and reaching nearly 20% YTD. Tech services and financial sectors continue to lead the way as stocks have continued an upward trajectory as recession fears cooled. The "noticeable slowdown" as quoted by Fed Chair Powell has been offset by an improved economic outlook fueled by strong earnings and resilient consumer confidence.

The blended 60/40 asset allocation finished July 2.1% higher with the MSCI World Index up 3.3% and MSCI Emerging Markets up a considerable 5.8%. The Barclays Aggregate Bond Index finished the month 0.1% lower.

Contacts

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Talk to us

Have a comment on the Kaufman Hall *National Hospital Flash Report*? We want to hear from you. Please direct all questions or comments to flashreports@kaufmanhall.com

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El Camino Health

Summary of Financial Operations

Fiscal Year 2024 – Period 2

7/1/2023 to 8/31/2023

Executive Summary - Overall Commentary for Period 2

- **Results for Period 2:**
  - Operating results for P2 were favorable to P1 driven by improved revenue and continued expense management
  - Overall gross revenue favorable to budget by $31.1M / 6.1%
    - Driven primarily by Outpatient activity
      - Inpatient Charges $9.1M / 3,5% favorable to budget
      - Outpatient Charges $23.8M / 10.0% favorable to budget
      - Professional Charges: $1.8M / 15.4% unfavorable to budget
  - Cost Management
    - When adjusted for volume, overall operating expense is favorable to budgeted levels
    - Labor: Continued sustained improved in Contract Labor and Overtime usage
- Gross charges were favorable to budget by $31.1M / 6.1% and $48.6M / 9.9% higher than the same period last year.
- Net patient revenue was unfavorable to budget by $1.2M / 1.0% this attributed to lower than expected commercial payor mix and $5.4M / 4.6% higher than the same period last year.
- Operating margin was favorable to budget by $368K / 3.3% and $2.1M / 15.6% lower than the same period last year.
- Operating EBIDA was favorable to budget by $362K / 1.9% and $1.6M / 7.6% lower than the same period last year.
- Net income was unfavorable to budget by $16.5M attributed to negative investment income and $6.1M higher than the same period last year.

Operational / Financial Results: FY2024 Period 2 – August 2023 (as of 08/31/2023)

PERIOD 2 - RESULTS

($ thousands)		Current Year	Budget	Variance to Budget	Performance to Budget	Prior Year	Variance to Prior Year	Variance to Prior Year	Moody's 'Aa3'	S&P 'AA'	Fitch AA-	Performance to Rating Agency Medians
Activity / Volume	ADC	299	292	7	2.2%	304	(6)	(1.8%)	---	---	---	---
	Total Acute Discharges	1,940	1,857	83	4.5%	1,867	73	3.9%	---	---	---	---
	Adjusted Discharges	3,821	3,550	271	7.6%	3,546	275	7.7%	---	---	---	---
	Emergency Room Visits	7,053	6,249	804	12.9%	6,061	992	16.4%	---	---	---	---
	OP Procedural Cases	11,762	12,548	(786)	(6.3%)	12,931	(1,169)	(9.0%)	---	---	---	---
	Gross Charges ($)	541,360	510,210	31,150	6.1%	492,667	48,693	9.9%	---	---	---	---
Operations	Total FTEs	3,321	3,382	(61)	(1.8%)	3,245	77	2.4%	---	---	---	---
	Productive Hrs. / APD	28.5	30.3	(1.9)	(6.1%)	28.2	0.3	1.1%	---	---	---	---
	Cost Per CMI AD	18,358	19,005	(647)	(3.4%)	17,709	649	3.7%	---	---	---	---
	Net Days in A/R	58.4	54.0	4.4	8.1%	60.4	(2.0)	(3.3%)	47.9	49.7	45.9	
Financial Performance	Net Patient Revenue ($)	123,779	122,596	1,183	1.0%	118,341	5,438	4.6%	329,311	115,267	---	
	Total Operating Revenue ($)	129,039	127,670	1,369	1.1%	121,556	7,483	6.2%	373,348	142,369	146,668	
	Operating Margin ($)	**11,634**	**11,266**	**368**	3.3%	**13,777**	**(2,143)**	(15.6%)	**4,066**	**6,122**	**1,613**	
	Operating EBIDA ($)	**19,843**	**19,481**	**362**	1.9%	**21,467**	**(1,623)**	(7.6%)	**24,030**	**13,952**	**9,533**	
	Net Income ($)	(2,409)	14,098	(16,507)	(117.1%)	(8,508)	6,099	71.7%	16,237	9,681	4,107	
	Operating Margin (%)	**9.0%**	**8.8%**	**0.2%**	2.2%	**11.3%**	**(2.3%)**	(20.5%)	**1.1%**	**4.3%**	**1.1%**	
	Operating EBIDA (%)	**15.4%**	**15.3%**	**0.1%**	0.8%	**17.7%**	**(2.3%)**	(12.9%)	**6.4%**	**9.8%**	**6.5%**	
	DCOH (days)	253	325	(72)	(22.1%)	267	(14)	(5.3%)	262	336	243	

Moody's Medians: Not-for-profit and public healthcare annual report; September 7, 2023. Dollar amounts have been adjusted to reflect monthly averages.
S&P Medians: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios; August 7, 2023. Dollar amounts have been adjusted to reflect monthly averages.
Fitch Medians: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios; August 7, 2023. Dollar amounts have been adjusted to reflect monthly averages.
DCOH total includes cash, short-term and long-term investments.

El Camino Health

Unfavorable Variance < 0.99%
Unfavorable Variance 1.00% - 4.99%
Unfavorable Variance > 5.00%

Operational / Financial Results: YTD FY2024 (as of 08/31/2023)

YTD FY2024 - RESULTS

($ thousands)		Current Year	Budget	Variance to Budget	Performance to Budget	Prior Year	Variance to Prior Year	Variance to Prior Year	Moody's 'Aa3'	S&P 'AA'	Fitch AA-	Performance to Rating Agency Medians
Activity / Volume	ADC	302	284	18	6.4%	293	9	3.0%	---	---	---	---
	Total Acute Discharges	3,794	3,597	197	5.5%	3,613	181	5.0%	---	---	---	---
	Adjusted Discharges	7,288	6,906	382	5.5%	6,946	342	4.9%	---	---	---	---
	Emergency Room Visits	12,859	12,409	450	3.6%	11,406	1,453	12.7%	---	---	---	---
	OP Procedural Cases	22,198	23,795	(1,597)	(6.7%)	24,564	(2,366)	(9.6%)	---	---	---	---
	Gross Charges ($)	1,024,445	975,482	48,963	5.0%	934,408	90,037	9.6%	---	---	---	---
Operations	Total FTEs	3,320	3,330	(10)	(0.3%)	3,232	88	2.7%	---	---	---	---
	Productive Hrs. / APD	28.6	30.6	(2.0)	(6.7%)	28.3	0.3	1.0%	---	---	---	---
	Cost Per CMI AD	18,671	19,005	(334)	(1.8%)	17,559	1,112	6.3%	---	---	---	---
	Net Days in A/R	58.4	54.0	4.4	8.1%	60.4	(2.0)	(3.3%)	47.9	52.6	45.9	
Financial Performance	Net Patient Revenue ($)	236,074	241,238	(5,164)	(2.1%)	226,850	9,224	4.1%	658,622	230,534	---	
	Total Operating Revenue ($)	246,754	251,325	(4,571)	(1.8%)	234,122	12,632	5.4%	746,696	284,739	146,668	
	Operating Margin ($)	**20,455**	**22,063**	**(1,608)**	(7.3%)	**27,669**	**(7,213)**	(26.1%)	**8,131**	**12,244**	**1,613**	
	Operating EBIDA ($)	**36,921**	**38,517**	**(1,596)**	(4.1%)	**43,192**	**(6,271)**	(14.5%)	**48,059**	**27,904**	**9,533**	
	Net Income ($)	25,896	27,427	(1,531)	(5.6%)	40,913	(15,017)	(36.7%)	32,474	19,362	4,107	
	Operating Margin (%)	**8.3%**	**8.8%**	**(0.5%)**	(5.6%)	**11.8%**	**(3.5%)**	(29.9%)	**1.1%**	**4.3%**	**1.1%**	
	Operating EBIDA (%)	**15.0%**	**15.3%**	**(0.4%)**	(2.4%)	**18.4%**	**(3.5%)**	(18.9%)	**6.4%**	**9.8%**	**6.5%**	
	DCOH (days)	253	325	(72)	(22.1%)	267	(14)	(5.3%)	262	336	243	

Moody's Medians: Not-for-profit and public healthcare annual report; September 7, 2023. Dollar amounts have been adjusted to reflect monthly averages.
S&P Medians: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios; August 7, 2023. Dollar amounts have been adjusted to reflect monthly averages.
Fitch Medians: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios; August 7, 2023. Dollar amounts have been adjusted to reflect monthly averages.
DCOH total includes cash, short-term and long-term investments.

El Camino Health

Unfavorable Variance < 0.99%
Unfavorable Variance 1.00% - 4.99%
Unfavorable Variance > 5.00%

Consolidated Balance Sheet (as of 08/31/2023)

($000s)

ASSETS

CURRENT ASSETS	August 31, 2023	Unaudited June 30, 2023
Cash	145,503	230,539
Short Term Investments	229,920	129,402
Patient Accounts Receivable, net	222,426	218,528
Other Accounts and Notes Receivable	19,080	20,411
Intercompany Receivables	15,528	15,186
Inventories and Prepaids	44,980	45,037
Total Current Assets	**677,437**	**659,102**
BOARD DESIGNATED ASSETS		
Foundation Board Designated	21,041	20,731
Plant & Equipment Fund	423,107	407,526
Women's Hospital Expansion	30,942	30,735
Operational Reserve Fund	207,898	207,898
Community Benefit Fund	17,453	17,743
Workers Compensation Reserve Fund	13,498	13,498
Postretirement Health/Life Reserve Fund	24,332	24,242
PTO Liability Fund	35,853	35,252
Malpractice Reserve Fund	1,849	1,885
Catastrophic Reserves Fund	29,064	28,042
Total Board Designated Assets	**805,039**	**787,551**
FUNDS HELD BY TRUSTEE	**-**	**-**
LONG TERM INVESTMENTS	**458,711**	**472,514**
CHARITABLE GIFT ANNUITY INVESTMENTS	**1,000**	**948**
INVESTMENTS IN AFFILIATES	**33,796**	**33,262**
PROPERTY AND EQUIPMENT		
Fixed Assets at Cost	1,867,138	1,862,363
Less: Accumulated Depreciation	(805,042)	(791,528)
Construction in Progress	177,841	168,956
Property, Plant & Equipment - Net	**1,239,937**	**1,239,791**
DEFERRED OUTFLOWS	57,104	57,204
RESTRICTED ASSETS	37,124	36,339
OTHER ASSETS	154,782	153,023
TOTAL ASSETS	**3,464,930**	**3,439,734**

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES	August 31, 2023	Unaudited June 30, 2023
Accounts Payable	39,733	50,629
Salaries and Related Liabilities	39,709	24,408
Accrued PTO	36,987	36,104
Worker's Comp Reserve	2,300	2,300
Third Party Settlements	11,388	11,295
Intercompany Payables	12,404	12,362
Malpractice Reserves	1,863	1,863
Bonds Payable - Current	10,400	10,400
Bond Interest Payable	1,578	7,890
Other Liabilities	14,356	11,968
Total Current Liabilities	**170,717**	**169,217**
LONG TERM LIABILITIES		
Post Retirement Benefits	24,423	24,242
Worker's Comp Reserve	13,498	13,498
Other L/T Obligation (Asbestos)	29,402	29,543
Bond Payable	452,217	454,806
Total Long Term Liabilities	**519,540**	**522,088**
DEFERRED REVENUE-UNRESTRICTED	**1,192**	**1,103**
DEFERRED INFLOW OF RESOURCES	**74,491**	**74,491**
FUND BALANCE/CAPITAL ACCOUNTS		
Unrestricted	2,447,169	2,419,180
Board Designated	206,488	209,043
Restricted	45,333	44,611
Total Fund Bal & Capital Accts	**2,698,989**	**2,672,834**
TOTAL LIABILITIES AND FUND BALANCE	**3,464,930**	**3,439,734**

El Camino Health

El Camino Health

EL CAMINO HOSPITAL BOARD OF DIRECTORS
COMMITTEE MEETING MEMO

To: Finance Committee
From: Ken King, CASO
Date: September 25, 2023
Subject: Capital-Funding Request – MV Nurse Call System Replacement

Recommendation:

To recommend Board Approval of the purchase and installation of a replacement Nurse Call System in the Main Hospital in Mountain View at a cost not to exceed $7.2 million.

Summary:

1. Situation: The manufacturer no longer supports the existing Nurse Call System and parts are extremely difficult to source. The analog circuit boards and the R-Net server and software is outdated and not compliant with current cyber security standards. There are several potential points of failure that could severely affect this critical communication system. The replacement system is digital and comes with enhancements that will improve communications between nurses and patients.

Rauland-Borg's description of the new Responder 5 Nurse Call System:

Rauland-Borg's Responder 5 is a complete and easy-to-use communication system that offers VoIP technology to nurse patient communications. Our Ethernet backbone allows seamless integration into a facility's local area network with open integrations to complementary systems including, wireless telephones, real-time location systems, admit, discharge and transfer (ADT) systems, pocket paging, and staff scheduling. The Responder 5 is enhanced by a complete suite of powerful – yet simple user interface software solutions that offer quick and easy staff sign-on and staff assignments that maximize the time nursing staff can devote to their patients.

2. Authority: Capital expenditures exceeding $5 million require approval by the Board of Directors with the recommendation from the Finance Committee.

3. Background: The existing Rauland-Borg Responder 4 system was considered the best Nurse Call System available at the time we were constructing the new main hospital building in 2008. However, the analog components are now only available from third parties who have repurposed parts from decommissioned systems. In the past two and a half years we have averaged approximately 50 system issues per month according to our maintenance records.

We have installed the new digital Responder 5 system in the Sobrato Pavilion and the Women's Hospital and the head end components are already in place to support the Main Hospital.

4. Assessment: The cost of the project is as follows:

Nurse Call System Components & Installation	$5,098,300
Construction/Electrical Requirements	$840,000
Soft Costs (Design, Permits, Inspections, PM)	$934,766
Contingency @ 5%	$326,934
Total Project Cost	**$7,200,000**

The installation includes nearly 2,200 devices with new cabling required to connect each device. A carefully organized approach will be used to transition from the existing system to the new system without disrupting more than two patient rooms at a time, with a plan to complete four rooms per week.

5. Other Reviews: This project has been reviewed and is recommended by the Nursing and Information Systems divisions and the Executive Capital Committee.

6. Outcomes: The lead-time to receive the new components is four to six months. Once received, we anticipate the installation to take a year to complete in all units and departments. Because this is strictly a replacement system there is no firm Return on Investment, however we do expect to achieve greater cyber security and increased patient satisfaction with the new digital technology.

List of Attachments: None

El Camino Health

EL CAMINO HOSPITAL BOARD OF DIRECTORS
COMMITTEE MEETING MEMO

To: Finance Committee
From: Ken King, CASO
Date: September 25, 2023
Subject: Capital Funding Request – Property Purchase 2500 Hospital Dr. - Building 8

Recommendation:

It is recommended that the Finance Committee authorize management to purchase the medical office building located at 2500 Hospital Drive, Building 8 in the City of Mountain View at a cost not to exceed $2.85 million, which includes anticipated closing costs.

Summary:

1. Situation: Fourteen individual properties make up the medical office-building complex at 2500 Hospital Drive in Mountain View. El Camino Health purchased Building 14 in 2008 and since that time we have purchased seven more of these properties for a total of eight. We have been master leasing space in Building 8 since 2014 and we have a first right of refusal to purchase the property which consists of .27 acres of land and a building of approximately 4,177 gross square feet. The building owner offered the property at $3.1 million and we have negotiated a price of $2.77 million.

2. Authority: the Finance Committee must approve capital expenditures exceeding $1 million.

3. Background: It has been a strategy for many years for the hospital to purchase properties within the Mountain View Medical Park Precise Plan zone. These properties are future re-development opportunities and provide needed space for physicians and hospital support services.

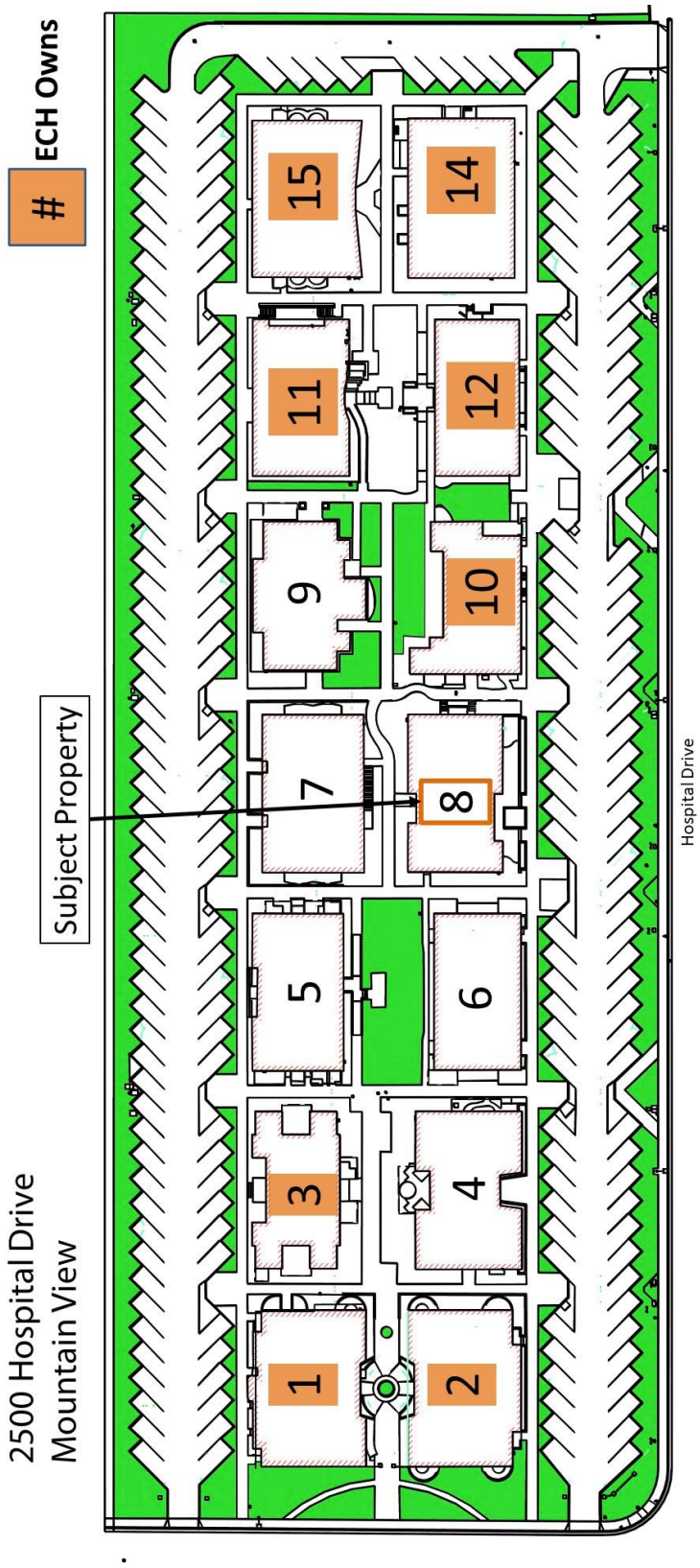
4. Assessment: The purchase price of $2.77 million equates to $664 per square foot of building area. The previous property acquisitions ranged from $460 to $641 per square foot of building area. The cost per square foot of $664 is 13% greater than the cost per square foot paid for Building 15 (the most recent purchase) in June 2016. All of these factors and the property appraisal prepared by Valbridge Property Advisors support the purchase price for this property.

5. Other Reviews: The Executive Capital Committee has reviewed and approved this property purchase. Cox, Castle, Nicholson our real estate attorneys, prepared the LOI and Purchase Agreement. A physician does not own the property so a compliance review is not required.

6. Outcomes: Upon a fully executed Purchase Agreement there will be a 45-day Feasibility Review of the Property and the Close of Escrow to be within 30 days after the effective date of the Feasibility Period.

List of Attachments:

1. Site Plan


ECH Owns
Subject Property
2500 Hospital Drive
Mountain View
Hospital Drive
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