The MetroHealth System Board of Trustees

FINANCE COMMITTEE
January 25, 2023
3:30-5:00 pm
The Glick Center Room AC2-311A or Zoom https://us02web.zoom.us/j/82877117816

Meeting Minutes

Committee Members Present:	Mr. John Moss-I[1], Dr. JB Silvers-I
Other Trustees Present:	Ms. Inajo Davis Chappell-R, Mr. John Corlett-I, Ms. Maureen Dee-I, Dr. E. Harry Walker-R[2], Ms. Vanessa Whiting-I
Staff Present:	Dr. Airica Steed-I, Dr. Jennifer Bailit-R, Mr. Nicholas Bernard-I, Dr. Nabil Chehade-I, Dr. Olusegun Ishmael-I, Ms. Julie Jacono-I, Dr. William Lewis-R, Dr. Benjamin Li-R, Dr. Brian Mercer-I, Ms. Christina Morales-I, Ms. Sonja Rajki-I, Mr. Craig Richmond-I, Mr. Nicholas Sukalac-R
Guest(s) Present:	Ms. Suzanne Aral-Boutros-R

Mr. Moss called the meeting to order at 3:46 pm, in accordance with Section 339.02(K) of the Ohio Revised Code.

(The minutes are written in a format conforming to the printed meeting agenda for the convenience of correlation, recognizing that some of the items were discussed out of sequence.)

I. Approval of Minutes

The minutes of the November 8, 2022 Committee meeting were approved as submitted.

II. Information Items

A. Preliminary & Unaudited 2022 Financial and Operational Results – Craig Richmond

[1] I – In-person
[2] R - Remote

Mr. Richmond introduced two additional members of the team that have been very instrumental in collecting information: Nick Bernard, Associate Treasurer and Christina Morales, Executive Director Corporate Controller.

Mr. Richmond began by providing an overview of the Unaudited Financial and Operational Results for the period ended December 31, 2022, compared to December 2021, highlighting significant items which represented a change or variance from the prior year.

Mr. Richmond reported during 2020, MetroHealth received $92.3 million of accelerated and advanced payments from Centers for Medicare and Medicaid Services (CMS), Commercial payors, and Cuyahoga County. These advanced payments were for the purpose of increasing cash flow to healthcare providers impacted by the COVID-19 pandemic and are classified as Advance payments on the Statement of Net Position. Full repayment was completed in October 2022.

Mr. Richmond reported operating income before construction interest for the twelve months ended December 31, 2022, was $56.8 million, a $69.9 million decrease over the same period in 2021. The operating income was $14.4 million for the twelve months ended December 31, 2022, compared with operating income of $84.5 million in the same period of 2021, a decrease of$70.1 million.

Mr. Richmond shared the total operating revenues for the twelve months ended December 31, 2022, was $1.61 billion compared to $1.57 billion in the same period of 2021, an increase of $47.5 million or 3.0%. The net patient service revenue decreased $37.7 million or 3.1%, due to: a decrease in the cost coverage add-on and direct payments associated with the Hospital Franchise Fee program; the System's participation in the Centers for Medicare & Medicaid Services (CMS) Direct Contracting Entity (DCE) program. Under this value-based care model, the System is paid on a capitated basis and therefore revenue previously recognized as net patient revenue is now recognized as capitation income within Other Revenue.

Mr. Richmond explained a decline in volumes in various clinical services; however, improvements in the payor mix and service mix have minimized the impact on net patient service revenue. The decrease in net patient service revenue was partially offset by qualifying for the Care Innovation and Community Improvement Program (CICIP) Quality Incentive Payments (QIP) and other improvements in estimated amounts relating to third-party liabilities. Other revenue increased $90.7 million or

25.0%, mainly due to the System's participation in the CMS DCE program and the associated capitated payments, the continued growth in retail pharmacy operations, and shared savings related to total cost of care programs. For the twelve months ended December 31, 2022, the System experienced some improvement in payor mix as compared to the same period in 2021, which he reviewed.

Inpatient case mix index (CMI), a value used to measure patient acuity and the related resource consumption, for the twelve months ended December 31, 2022, was 1.73, consistent with the same period in 2021. Medicare CMI was 1.92 and consistent with prior year while Medicaid CMI was 1.62, an increase of 1.3% compared to the same period in 2021.

Mr. Richmond stated the EBIDA for the twelve months ended December 31, 2022, was $133.7 million, a decrease of$54.0 million or 28.8% over the same period in 2021, which had an EBIDA of $187.7 million. The EBIDA decrease was primarily due to: Hospital Franchise Fee program due to a decrease in the cost coverage add-on and direct payments; Salaries, wages and benefits due to overtime, premium pay programs, contract labor and wage increases; and one-time costs associated with the Glick Center activation including transition and relocation services, supplies, and operational training.

Mr. Richmond indicated the net investment loss for the twelve months ended December 31, 2022, was $44.2 million, compared with net investment income of $36.6 million in the same period of 2021, a decrease of $80.8 million due largely to market decline stemming from rising inflation and interest rates. While the net loss for the twelve months ended December 31, 2022, was $23.5 million, compared with net income of $122.0 million in the same period of 2021, a decrease of $145.5 million due to the net investment loss, rising labor costs, elevated inflation, and one-time costs associated with the Glick Center activation.

The System recorded total operating expenses before interest, depreciation, and amortization of $1.48 billion for the twelve months ended December 31, 2022, as compared to $1.38 billion for the same period in 2021, an increase of $101.5 million or 7.4%. The increase in operating expenses was primarily driven by: Salaries, wages, and benefits due to overtime, premium pay programs, contract labor and wage increases including the associated benefits and employee health plan costs; Pharmaceutical costs related to the continued growth in retail pharmacy operations; Purchased services due to Glick Center transition and relocation services, data center backup/recovery solutions, expanded life flight operations, and various professional services; Medical and non-medical supplies related to implants and prosthetics, supplies for new hospitals (Glick Center and Behavioral Health Hospital), and food services; Other expenses primarily due to the Hospital Franchise Fee assessment related to the Hospital Upper Payment Limit program reforms, Glick Center operational training, the System's share of newly-created joint ventures' operations, and the reclass of retail pharmacy administrative fees. The increase in operating expenses was partially offset by a decrease in plant operations driven by reduced lease/rent expense resulting from the implementation of GASB Statement No. 87 Leases.

Mr. Richmond stated as of December 31, 2022, total assets were $2.6 billion, an increase of $95.3 million from the prior year-end. The change in assets was driven mainly by the following: Unrestricted cash and cash equivalents decreased $120.8 million from prior year-end balances primarily due to capital purchases and the repayment of advance payments; Investments decreased $38.0 million from prior year-end balances driven by unrealized losses due to market conditions; Restricted assets under bond indenture agreements decreased $179.6 million from prior year-end balances due to bond fund draws and interest payments made during the period; Net capital assets increased $261.2 million from prior year-end balances due to the ongoing campus transformation, with the opening of The Glick Center and the Behavioral Health Hospital in Cleveland Heights in 2022 as well as ongoing construction of the new outpatient building at main campus; Implementation of GASB Statement No. 87 Leases, which resulted in net additional assets of $88.5 million as compared to prior year-end.

As of December 31, 2022, total liabilities were $1.8 billion, a decrease of $144.8 million from the prior year-end balance. The current liabilities were $320.1 million which represents an increase of $4.6 million from prior year-end balances. The increase is largely attributable to the timing of payments related to long-term debt obligations and suppliers, offset by the repayment of advance payments. Long-term liabilities were $1.5 billion which represents a decrease of $149.4 million from prior year-end balances. The decrease is primarily related to the OPERS actuarial pension adjustment as well as long-term debt obligations, partially offset by the implementation of GASB Statement No. 87 Lease.

Ms. Morales reported on the 2022 Governmental Accounting Standards Board (GASB) Update which included OPERS-Pension Obligations, OPERS-Summary Data Employers, OPERS-Pension Fund Status, OPERS-Contribution Data, Net Pension & OPEB Summary, Sensitivity of Net Pension Liability, Sensitivity of Net OPEB Liability.

Ms. Morales spoke about the GASB Statement No. 87 Leases, has been implemented starting in 2022. Most leases are now classified as financing leases resulting in the recognition of a lease liability and corresponding right-of-use asset on the Statement of Net Position. Additionally, expense associated with leases are now recognized as amortization and interest expense as compared to the prior year in which lease/rent expense was recognized within the Plant Operations line of the Statement of Revenues, Expenses, and Changes in Net Position.

GASB Statement No. 89 Accounting for Interest Cost Incurred before the End of a Construction Period was implemented in 2021, resulting in increased interest expense as compared to prior years. As a result, management has presented construction-related interest separately in the Statement of Revenues, Expenses, and Changes in Net Position to define the impact of the implementation of this standard.

Mr. Richmond ended with thanking Ms. Morales and the team for an outstanding presentation.

III. **Recommendation/Resolutions Approvals**

A. No items at this time

Mr. Moss stated there was no further business to bring before the Committee, the meeting was adjourned at approximately 4:59 pm.

John Moss,
Chair of Finance Committee