

# The MetroHealth System Board of Trustees

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## FINANCE COMMITTEE

April 21, 2021

### Meeting Minutes

**Committee Members Present:** Mr. Moss, Dr. Silvers

**Other Trustees Present:** Ms. Chappell, Ms. Dee, Ms. Kirk, Ms. Whiting

**Staff Present:** Dr. Boutros, Dr. Boulanger, Dr. Chehade, Mr. Himes, Dr. Li, Ms. Platten, Ms. Rajki, Mr. Richmond, Mr. Stern

Mr. Moss called the meeting to order at 8:02 a.m.

**1. Approval of Minutes**

The minutes of the January 20, 2021 Committee meeting were approved as submitted.

**2. Information Items**

**Unaudited Financial and Operational Results for the Three Months Ended March 30, 2021 –  
Craig Richmond**

Mr. Richmond began by providing an overview of the First Quarter 2021 Unaudited Financial and Operational Results for the period ended March 31, 2021. Mr. Richmond reported that Adjusted Earnings before Interest, Depreciation and Amortization (EBIDA) for the three months ended March 31, 2021 was \$32.8 million, an increase of \$8.6 million or 35.5 percent over the same period in 2020, which had an EBIDA of \$24.2 million.

Mr. Richmond stated the increase in EBIDA was a result of New Hospital Franchise Fee funding via directed payments and the Continuous Improvement and Care Innovation Program (CICIP), and growth in both retail and contract pharmacy operations and increases in contract and grant income related to COVID-19 response.

Mr. Richmond further reported that total operating income before construction interest (excludes GASB 89 impact) for the three months ended March 31, 2021 was \$17.6 million, a \$7.8

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million increase over the same period in 2020. Mr. Richmond stated operating income was \$7.2 million for the three months ended March 31, 2021, compared with operating income of \$9.8 million in the same period of 2020, a decrease of \$2.6 million or 26.9 percent. This overall decrease in operating income is mainly due to the implementation of GASB 89 in which interest expense incurred during construction, considered a capital cost under prior authoritative guidance, is now expensed in the period incurred.

Mr. Richmond stated net investment income for the three months ended March 31, 2021 was \$9.1 million, compared with net investment loss of \$19.4 million in the same period of 2020, an increase of \$28.5 million.

Total operating revenue for the three months ended March 31, 2021 was \$359.2 million compared to \$329.2 million in the same period of 2020, an increase of \$30.0 million or 9.1 percent. The increase in operating revenue was attributable to: Net patient revenue was \$276.9 million compared to \$257.9 million in the same period of 2020, an increase of \$19.0 million or 7.4 percent; Hospital Franchise Fee funding increase of \$18.2 million resulting from program reforms that includes Cost Coverage Add-on (CCA) payments and new directed payments associated with SB 310; CICIP increase of \$2.7 million resulting from changes in the funding distribution model. The other operating revenue increased \$11.0 million or 15.4 percent, mainly due to the continued growth in retail and contract pharmacy operations, and contract and grant income related to COVID-19 response. For the three months ended March 31, 2021, the System experienced a modest improvement in payor mix as compared to the same period in 2020.

Mr. Richmond noted the System recorded total operating expenses before interest, depreciation, and amortization of \$326.4 million for the three months ended March 31, 2021 as compared to \$305.0 million for the same period in 2020, an increase of \$21.4 million or 7.0 percent. The increase in operating expenses was primarily driven by salaries, wages and benefits due to wage increases including the associated benefits, employee health plan costs, and lower vacation usage; purchased services related to travel nurses staffing, pathology core lab testing, textiles, diversity and inclusion strategic initiatives; medical supplies increase due to COVID-19 response and recovery costs including medical equipment and testing supplies, as well as implants and prosthetics resulting from a 6.6 percent increase in surgical volumes; pharmaceutical costs related to the continued growth in retail and contract pharmacy operations; and other expenses increase is driven by an increase in the Hospital Franchise Fee assessment.

Mr. Richmond provided a review of the Statement of Net Position as of March 31, 2021. Areas of note were (i) unrestricted cash and cash equivalents decreased \$14.4 million from prior year-end balances primarily due to a transfer to investments, and the timing of payroll payments; (ii) other receivables increased \$23.5 million mainly due to increases in supplemental program funding for the Hospital Franchise Fee and Care Assurance programs, additional contract revenue and expanded retail pharmacy operations; (iii) investments increased \$11.3 million from prior year-

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end balances due to strong investment performance and money market transfers into investments by Select Assurance Captive; (iv) restricted assets under bond indenture agreements decreased \$62.4 million from prior year-end balances due to bond fund draws and interest payments during the period and (v) net capital assets increased \$54.8 million from prior year-end balances due to the ongoing campus transformation, with additional progress on construction of the new hospital.

Mr. Richmond reviewed MetroHealth's bond covenants, sharing that both days cash on hand and debt service coverage are within compliance as of March 31, 2021. Lastly, the Advisory Board Credit Rating Strength Diagnostic Tool was discussed which benchmarks the System's operating performance and capital structure metrics against the hospital medians of the major credit rating agencies.

### **GASB Updates: Statement No. 87, Leases and Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period – Geoff Himes**

Mr. Himes Provided the Committee a Governmental Accounting Standards Board update. Mr. Himes provided an update on GASB 87 Leases stating due to the COVID-19 pandemic, GASB delayed the effective date to 2022 and that expense currently classified as lease or rent expense will be classified as depreciation and interest. Mr. Himes also provided an update on GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period. This GASB has been implemented beginning in 2021 and resulted in increased interest expense as compared to the prior year.

### **3. Recommendation/Resolutions Approvals**

#### **A. Recommendation to the President and Chief Executive Officer for the Continued Engagement of Clearstead as the System's Investment Advisor**

Mr. Richmond explained how MetroHealth solicited competitive sealed proposals consistent with MetroHealth's procurement policies and how Clearstead was selected because of their deep and relevant experience of MetroHealth's governmental and organizational structure and investment approach. The Committee unanimously approved the recommendation for full Board action

#### **B. Recommendation to the President and Chief Executive Officer for Capital Improvements to the Rammelkamp Pavilion**

Mr. Richmond explained the capital improvement work includes design and construction renovation work to allow for the buildout of space for clean room laboratories in the Rammelkamp Pavilion. The Committee unanimously approved the recommendation for full Board action

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There being no further business to bring before the Committee, the meeting was adjourned at approximately 9:21 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Craig Richmond', with a large, stylized flourish extending to the right.

Craig Richmond  
Executive Vice President, Chief Financial and System  
Services Officer