

The MetroHealth System Board of Trustees

FINANCE COMMITTEE

November 8, 2022

Meeting held at MetroHealth & Via Zoom

Meeting Minutes

Committee Members Present: Mr. Moss

Other Trustees Present: Ms. Chappell, Mr. Corlett, Dr. Walker, Ms. Whiting

Staff Present: Dr. Bailit, Mr. Bernard, Dr. Boutros, Dr. Chehade, Ms. Jacono, Dr. Lewis, Ms. McCarthy, Ms. Morales, Ms. Platten, Ms. Rajki, Mr. Rentschler, Mr. Richmond, Mr. Sukalac

Guests Present: Mr. Sofyanos (Kaufman Hall)

Mr. Moss called the meeting to order at 8:19 am.

(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 August 10, 2022 and October 26, 2022 Finance Committee meeting were approved as submitted.

II. **Information Items**

Unaudited Financial and Operational Results for the Period Ended September 30, 2022 – Craig Richmond

Mr. Richmond began by providing an overview of the Unaudited Financial and Operational Results for the period ended September 30, 2022, compared to the



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same period in 2021, highlighting significant items which represented a change or variance from the prior year. Mr. Richmond reported that Adjusted Earnings before Interest, Depreciation and Amortization (EBIDA) for the nine months ended September 30, 2022, was \$96.0 million, a decrease of \$47.5 million or 33.1 percent over the same period in 2021, which had an EBIDA of \$143.5 million

Mr. Richmond reported operating income was \$12.5 million for the nine months ended September 30, 2022, compared with operating income of \$66.0 million in the same period of 2021, a decrease of \$53.5 million. The net investment loss for the nine months ended September 30, 2022, was \$61.3 million, compared with net investment income of \$24.7 million in the same period of 2021, a decrease of \$86.0 million.

Total operating revenue for the nine months ended September 30, 2022, was \$1,182.2 million compared to \$1,141.0 million in the same period of 2021, an increase of \$41.2 million or 3.6 percent. Net patient revenue decreased \$36.4 million or 4.1 percent due to the cost add-on and direct payments associated with the Hospital Franchise Fee program, and the System's participation in the new Centers for Medicare & Medicaid Services (CMS) Direct Contracting Entity (DCE) program. DCE is a value-based care model where the System is paid on a capitated model for patients aligned to the DCE. During the period, the System experienced a decline in volumes in various clinical services; however, improvements in the payor mix and case mix have minimized the impact on net patient service revenue. Other operating revenue increased \$77.6 million or 30.5 percent mainly due to the System's participation in the new 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.

Mr. Richmond noted the System recorded total operating expenses before interest, depreciation, and amortization of \$1,086.2 million for the nine months ended September 30, 2022, as compared to \$997.6 million for the same period in 2021, an increase of \$88.6 million or 8.9 percent. The increase in operating expenses was primarily driven by salaries, wages and benefits due to increased wages, overtime and contracted labor, including the associated benefits and employee health plan costs; pharmaceutical costs related to the continued growth in retail pharmacy operations; other expenses primarily due to the Hospital Franchise Fee assessment related to the Hospital Upper Payment Limit program reforms, transformation



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training, and reclass of retail pharmacy administration fees. The increase in total 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 discussed the Statement of Net Position as of September 30, 2022. Areas of note were (i) unrestricted cash and cash equivalents decreased \$96.0 million from prior-year-end balances primarily due to capital purchases and the repayment of advance payments; (ii) investments decreased \$58.0 million from prior year-end balances driven by unrealized losses due to market conditions; (iii) restricted assets under bond indenture agreements decreased \$146.1 million from prior year-end balances due to bond fund draws and interest payments made during the period; (iv) net capital assets increased \$171.7 million from prior year-end balances due to the ongoing campus transformation, with additional progress on construction of The Glick Center and Behavioral Health Hospital in Cleveland Heights; (v) implementation of GASB Statement No. 87 Leases, which resulted in net additional assets of \$86.9 million as compared to prior year-end.

Mr. Richmond reviewed MetroHealth's bond covenants, sharing that both days cash on hand and debt service coverage are within compliance as of September 30, 2022. Lastly, the Advisory Board Credit Rating Strength Diagnostic Tool was discussed which benchmarks the System's operating performance and capital structure metrics against the healthcare system medians of the major credit rating agencies.

III. Recommendation/Resolutions Approvals

- A. Recommendation to the Board of Trustees of The MetroHealth System Authorizing The Chief Financial & System Services Officer to Declare the Official Intent of The MetroHealth System to Reimburse Expenditures from Proceeds of Tax-Exempt Obligations

Mr. Richmond presented the resolution and explained that The MetroHealth System intends to finance certain capital projects on a long-term basis with proceeds of loans made to MetroHealth by a qualified issuer from proceeds of the bonds. After discussion the Committee members voted unanimously to approve recommending the resolution to the full Board.



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Mr. Moss indicated that all further matters to be considered at this meeting involved discussion of hospital trade secrets. Upon a motion and a second and a unanimous roll call vote, the Committee went into Executive Session to discuss such matters at 9:08 a.m.

Following executive session, the meeting reconvened in open session at approximately 10:04 am. There being no further business to bring before the Committee, the meeting was adjourned.

Craig Richmond
Executive Vice President, Financial & System
Services Officer

