

Sector Update: Sector View Remains Negative, But Signs Of Stability Are Emerging

We maintained our negative sector view at the start of calendar 2024 for the not-for-profit acute health care sector, given our uncharacteristically high percentage of negative outlooks, the unfavorable trend of rating and outlook actions, and limited improvement or uneven performance trends for many organizations (see "U.S. Not-For-Profit Acute Health Care Providers 2024 Outlook: Historical Peak Of Negative Outlooks Signals Ongoing Challenges," published Dec. 6, 2023). However, significant management actions, easing of labor cost growth, and some reimbursement improvements are showing positive effects on margins and cash flow, albeit at levels that are still low relative to historical trends and often with some one-time revenues related to the 340B settlement that many providers accrued for at the end of calendar 2023 or early calendar 2024. A preliminary view of interim 2024 operating margin medians on a very limited sample size (about 25% of our rated issuers) is near 1.8%, which would be a sound improvement from 2023 if that trend continues through the remainder of 2024 and into 2025.

Sector headwinds persist, but a broad array of both near- and long-term initiatives and opportunities for efficiencies and financial improvement are also in play. Our view of individual hospital or health system rating trends, which influence our sector view, along with consideration to revise our sector view, could be informed by:

- Underlying financial performance trends, including expense and revenue drivers as well as key assumptions in forward-looking forecasts;
- Magnitude of capital spending needs and funding sources, and ability to service debt;
- M&A and partnership trends that could support capital needs and broader enterprise investments; and
- Outlook revision trends and the pace and resolution of ratings that already carry a negative outlook.

There will likely continue to be a negative bias on our rating actions, given the higher percentage of negative outlooks, and it could take multiple years for the percentage of outlooks to return closer to historical levels as we still expect an extended performance recovery. That said, the favorable trends noted above, along with greater visibility and confidence from management on near-term financial performance and balance-sheet trends, could inform a return to a stable sector view.

Ratio Analysis

We view ratio analysis as an important tool in our assessment of the credit quality of not-for-profit health care organizations, in addition to other key considerations including our analysis of enterprise profile factors and forward-looking views relative to both the business and financial positions. The median ratios offer a snapshot of the financial profile and help in the comparison of issuers across rating categories. Tracking median ratios over time also presents a clearer understanding of industrywide trends and provides a tool to better assess the sector's future credit quality.

The audited financial statements used for medians and in our analysis include both obligated and nonobligated group members. For the medians, unrestricted reserves exclude Medicare advance payments, and total operating revenue includes all recognized stimulus funding, FEMA reimbursement, and 340B settlement funding.

Related Research

- U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios--2023, Aug. 7, 2024
- U.S. Not-For-Profit Health Care System Median Financial Ratios--2023, Aug. 7, 2024
- U.S. Not-For-Profit Health Care Children's Hospital Median Financial Ratios--2023, Aug. 7, 2024
- U.S. Not-For-Profit Acute Health Care Speculative Grade Median Financial Ratios--2023, Aug. 7, 2024
- U.S. Not-For-Profit Health Care Small Stand-Alone Hospital Median Financial Ratios--2023, Aug. 7, 2024
- U.S. Not-For-Profit Health Care Outstanding Ratings And Outlooks As Of June 30, 2024, July 18, 2024
- Economic Outlook U.S. Q3 2024: Milder Growth Ahead, June 24, 2024
- Preliminary 2023 Medians For U.S. Acute Health Care Providers Indicate Continued Operating Pressures For Many, April 30, 2024
- U.S. Not-For-Profit Acute Health Care Rating Actions, 2023 Year-End Review, Feb. 8, 2024
- U.S. Not-For-Profit Acute Health Care Providers 2024 Outlook: Historical Peak Of Negative Outlooks Signals Ongoing Challenges, Dec. 6, 2023

Glossary

- Glossary: Not-For-Profit Health Care Organization Ratios, March 19, 2018

Quarterly rating actions

- U.S. Not-For-Profit Health Care Rating Actions, June And Second Quarter 2024, July 12, 2024
- U.S. Not-For-Profit Health Care Rating Actions, March 2024, April 15, 2024

This report does not constitute a rating action.

Contact List

PRIMARY CREDIT ANALYST

Patrick Zagar
Dallas
+ 1 (214) 765 5883
patrick.zagar@spglobal.com

PRIMARY CREDIT ANALYST

Suzie R Desai
Chicago
+ 1 (312) 233 7046
suzie.desai@spglobal.com

SECONDARY CONTACT

Stephen Infranco
New York
+ 1 (212) 438 2025
stephen.infranco@spglobal.com

SECONDARY CONTACT

Cynthia S Keller
Augusta
+ 1 (212) 438 2035
cynthia.keller@spglobal.com

SECONDARY CONTACT

Marc Bertrand
Chicago
+ 1 (312) 233 7116
marc.bertrand@spglobal.com

SECONDARY CONTACT

Anne E Cosgrove
New York
+ 1 (212) 438 8202
anne.cosgrove@spglobal.com

RESEARCH CONTRIBUTOR

Shrutika Joshi
CRISIL Global Analytical Center, an S&P affiliate,
Mumbai

RESEARCH CONTRIBUTOR

Akul Patel
CRISIL Global Analytical Center, an S&P affiliate,
Mumbai

RESEARCH CONTRIBUTOR

Kunal Salunke
CRISIL Global Analytical Center, an S&P affiliate,
Mumbai

ADDITIONAL CONTACT

Chloe A Pickett
Englewood
+ 1 (303) 721 4122
Chloe.Pickett@spglobal.com

U.S. Not-For-Profit Acute Health Care 2023 Medians: Remarkably Level With Prior Year, But Performance Remains Notably Below Historical Norms

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**EL CAMINO HOSPITAL BOARD OF DIRECTORS
FINANCE COMMITTEE MEETING MEMO**

To: Finance Committee
From: Carlos A. Bohorquez, Chief Financial Officer
Date: August 26, 2024
Subject: Financials: FY2025 - Period 1 (as of 07/31/2024)

Purpose:

To provide the Finance Committee an overview of financial results for FY2025 - Period 1 (July 2024) and approve financials.

Executive Summary – Period 1 (July 2024):

Patient activity / volumes remain consistent across the enterprise.

- **Average Daily Census:** 288 which is 11 / 3.8% unfavorable to budget and 18 / 5.8% lower than the same period last year.
- **Adjusted Discharges:** 3,543 which are 6 / 0.2% favorable to budget and 76 / 2.2% higher than the same period last year.
- **Emergency Room Visits:** 6,390 which are 22 / 0.4% unfavorable to budget and 584 / 10.1% higher than the same period last fiscal year.
- **Outpatient Visits / Procedures:** 12,091 which are 1,203 / 11.1% favorable to budget and 1,603 / 15.6% higher than the same period last fiscal year.

Financial performance for Period 1 was favorable to budget and higher than period last fiscal year. This is attributed to better than projected payor mix, strong ED and procedural volumes.

Total Operating Revenue (\$):	\$134.0M is favorable to budget by \$1.6M / 1.2% and \$16.3M / 13.8% higher than the same period last fiscal year.
Operating EBIDA (\$):	\$18.8M is favorable to budget by \$0.8M / 4.7% and \$1.7M / 10.1% higher than the same period last fiscal year.
Net Income (\$):	\$30.8M is favorable to budget by \$18.0M / 141.9% and \$2.5M / 8.7% higher than the same period last fiscal year.
Operating Margin (%):	7.7% (actual) vs. 6.9% (budget)
Operating EBIDA Margin (%):	14.0% (actual) vs. 13.6% (budget)
Net Days in A/R (days):	51.8 days are favorable to budget by 2.2 days / 4.1% and 7.3 days / 12.4% better than the same period last year.

Recommendation:

Recommend Finance Committee approve FY2025 - Period 1 financials.



El Camino Health

Summary of Financial Operations

*Fiscal Year 2025 – Period 1
7/1/2024 to 07/31/2024*

Executive Summary - Overall Commentary for Period 1

- **Results for Period 1:**

- Net Patient Revenue was favorable to budget by \$1.3M / 1.0%.
- Operating EBIDA Margin was favorable to budget by \$845K / 4.7%.
- Gross revenue favorable to budget by \$23.8M / 4.4%.
 - Driven primarily by:
 - Inpatient Charges: \$1.9M / 0.7% favorable to budget.
 - Outpatient Charges: \$20.5M / 8.2% favorable to budget.
 - Professional Charges: \$1.4M / 9.5% favorable to budget.
- Cost Management
 - When adjusted for volume, overall operating expense is 2.2% unfavorable to budget.
- Gross charges were favorable to budget by \$23.8M / 4.4% and \$78.8M / 16.3% higher than the same period last year.
- Net patient revenue was favorable to budget by \$1.3M / 1.0% and \$16.2M / 14.4% higher than the same period last year.
- Operating margin was favorable to budget by \$1.2M / 13.2% and \$1.5M / 17.4% higher than the same period last year.
- Operating EBIDA was favorable to budget by \$845K / 4.7% and \$1.7M / 10.1% higher than the same period last year.
- Net income was favorable to budget by \$18.0M / 141.9% and \$2.5M / 8.7% higher than same period last year.

Operational / Financial Results: Period 1 – July 2024 (as of 07/31/2024)

(\$ thousands)		Current Year	Budget	Variance to Budget	Performance to Budget	Prior Year	Year over Year change	YoY % Change	Moody's	S&P	Fitch	Performance to Rating Agency Medians
		'Aa3'	'AA'	'AA'								
Activity / Volume	ADC	288	299	(11)	(3.8%)	305	(18)	(5.8%)	---	---	---	---
	Adjusted Discharges	3,543	3,537	6	0.2%	3,467	76	2.2%	---	---	---	---
	OP Visits / OP Procedural Cases	12,091	10,888	1,203	11.1%	10,461	1,630	15.6%	---	---	---	---
	Percent Government (%)	57.5%	58.1%	(0.6%)	(0.9%)	59.8%	(2.3%)	(3.9%)	---	---	---	---
	Gross Charges (\$)	561,898	538,114	23,784	4.4%	483,085	78,813	16.3%	---	---	---	---
Operations	Cost Per CMI AD	20,478	20,032	445	2.2%	19,019	1,459	7.7%	---	---	---	---
	Net Days in A/R	51.8	54.0	(2.2)	(4.1%)	59.1	(7.3)	(12.4%)	48.1	49.7	47.5	
Financial Performance	Net Patient Revenue (\$)	128,476	127,192	1,284	1.0%	112,295	16,181	14.4%	297,558	564,735	---	
	Total Operating Revenue (\$)	134,012	132,434	1,577	1.2%	117,715	16,296	13.8%	389,498	610,593	268,739	
	Operating Margin (\$)	10,357	9,145	1,211	13.2%	8,821	1,535	17.4%	7,400	11,601	8,331	
	Operating EBIDA (\$)	18,804	17,959	845	4.7%	17,078	1,726	10.1%	26,400	39,689	22,574	
	Net Income (\$)	30,755	12,714	18,041	141.9%	28,305	2,450	8.7%	19,085	20,150	15,049	
	Operating Margin (%)	7.7%	6.9%	0.8%	11.9%	7.5%	0.2%	3.1%	1.9%	1.9%	3.1%	
	Operating EBIDA (%)	14.0%	13.6%	0.5%	3.5%	14.5%	(0.5%)	(3.3%)	6.8%	6.5%	8.4%	
	DCOH (days)	271	275	(4)	(1.5%)	266	5	1.9%	258	304	311	

Moody's Medians: Not-for-profit and public healthcare annual report; August 2024. 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 2024. Dollar amounts have been adjusted to reflect monthly averages.
Fitch Ratings: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios; August 2024. Dollar amounts have been adjusted to reflect monthly averages.

Notes: DCOH total includes cash, short-term and long-term investments.
 OP Visits / Procedural Cases includes Covid Vaccinations / Testing.

Unfavorable Variance < 3.49%
Unfavorable Variance 3.50% - 6.49%
Unfavorable Variance > 6.50%



Consolidated Balance Sheet (as of 07/31/2024)

(\$000s)

ASSETS	Unaudited		LIABILITIES AND FUND BALANCE	Unaudited	
	July 31, 2024	June 30, 2024		July 31, 2024	June 30, 2024
CURRENT ASSETS			CURRENT LIABILITIES		
Cash	221,231	202,980	Accounts Payable	74,529	71,017
Short Term Investments	105,854	100,316	Salaries and Related Liabilities	40,881	35,693
Patient Accounts Receivable, net	211,687	211,960	Accrued PTO	38,937	38,634
Other Accounts and Notes Receivable	25,208	25,065	Worker's Comp Reserve	2,300	2,300
Intercompany Receivables	21,467	17,770	Third Party Settlements	14,075	13,419
Inventories and Prepays	51,218	55,556	Intercompany Payables	13,850	13,907
Total Current Assets	636,664	613,647	Malpractice Reserves	1,830	1,830
			Bonds Payable - Current	10,820	10,820
BOARD DESIGNATED ASSETS			Bond Interest Payable	-	7,673
Foundation Board Designated	23,691	23,309	Other Liabilities	14,962	12,261
Plant & Equipment Fund	511,177	503,081	Total Current Liabilities	212,184	207,554
Women's Hospital Expansion	31,857	31,740			
Operational Reserve Fund	210,693	210,693	LONG TERM LIABILITIES		
Community Benefit Fund	15,307	17,561	Post Retirement Benefits	22,828	22,737
Workers Compensation Reserve Fund	12,811	12,811	Worker's Comp Reserve	12,811	12,811
Postretirement Health/Life Reserve Fund	22,737	22,737	Other L/T Obligation (Asbestos)	27,681	27,707
PTO Liability Fund	37,646	37,646	Bond Payable	439,497	441,105
Malpractice Reserve Fund	1,713	1,713	Total Long Term Liabilities	502,817	504,360
Catastrophic Reserves Fund	46,026	33,030			
Total Board Designated Assets	913,658	894,322	DEFERRED REVENUE-UNRESTRICTED	1,526	1,038
			DEFERRED INFLOW OF RESOURCES	92,261	92,261
FUNDS HELD BY TRUSTEE	18	18	FUND BALANCE/CAPITAL ACCOUNTS		
			Unrestricted	2,767,730	2,731,120
LONG TERM INVESTMENTS	664,575	665,759	Minority Interest	(1,159)	(1,114)
			Board Designated	214,178	216,378
CHARITABLE GIFT ANNUITY INVESTMENTS	983	965	Restricted	49,546	44,616
			Total Fund Bal & Capital Accts	3,030,295	2,991,001
INVESTMENTS IN AFFILIATES	35,951	36,663	TOTAL LIABILITIES AND FUND BALANCE	3,839,082	3,796,213
PROPERTY AND EQUIPMENT					
Fixed Assets at Cost	2,018,376	2,016,992			
Less: Accumulated Depreciation	(882,136)	(874,767)			
Construction in Progress	179,376	173,449			
Property, Plant & Equipment - Net	1,315,616	1,315,675			
DEFERRED OUTFLOWS	46,078	41,550			
RESTRICTED ASSETS	32,075	32,166			
OTHER ASSETS	193,462	195,447			
TOTAL ASSETS	3,839,082	3,796,213			

**EL CAMINO HOSPITAL BOARD OF DIRECTORS
FINANCE COMMITTEE MEETING MEMO**

To: Finance Committee
From: Don Watters, Chair, Finance Committee
Date: August 26, 2024
Subject: Community Member Recruitment Process

Purpose:

The Finance Committee's (FC) charter allows up to 4 appointed community members. Given the increased complexity of matters management will be requesting FC to review and recommend to Board of Directors, we should begin the recruitment process for one or two community members with specific areas of expertise in mind.

Executive Summary – Period 1 (July 2024):

In order to begin the process, we need to establish an ad hoc committee and appoint two members to work with management to complete the recruitment process. Below is the preliminary outline of the process with anticipated completion dates:

<u>Task</u>	<u>Completion Date</u>
• Initial Ad Hoc Committee Meeting	• First week of September
• Recruitment / Outreach Process	• September 16 th – October 18 th
• Application Due	• October 21 st
• Application Review	• Week of October 28 th
• Notification of Finalists	• November 4 th
• Interviews	• Week of November 11 th
• Evaluation / Selection	• November 18 th – November 28 th
• Recommendation & Approval by FC	• December 5 th
• Recommendation & Approval by ECHB	• December 11 th
• Notification of Candidates	• December 13 th

List of Attachments:

- None

Suggested FC Discussion Questions:

- Are there specific skills / competencies / areas of expertise we should focus on for new members?

Recommendation:

- Establish Ad Hoc Committee
- Appoint Chair and one additional member