El Camino Health

AGENDA

FINANCE COMMITTEE OF THE EL CAMINO HOSPITAL BOARD OF DIRECTORS

Friday, February 6, 2026 – 12:00 pm

El Camino Health | 2500 Grant Road Mountain View, CA 94040 | Sobrato Boardroom 2

THE PUBLIC IS INVITED TO JOIN THE OPEN SESSION PORTION OF THE MEETING LIVE AT THE ADDRESS ABOVE OR VIA TELECONFERENCE AT: **1-669-900-9128, MEETING CODE: 992 0415 8536#. No participant code. Just press #**

To watch the meeting, please visit: Finance Committee Meeting Link

Please note that the livestream is for meeting viewing only and there is a slight delay; to provide public comment, please use the phone number listed above.

NOTE: In the event that there are technical problems or disruptions that prevent remote public participation, the Chair has the discretion to continue the meeting without remote public participation options, provided that no Committee member is participating in the meeting via teleconference.

TIME ESTIMATES: Except where noted as TIME CERTAIN, listed times are estimates only and are subject to change at any time, including while the meeting is in progress. The Committee reserves the right to use more or less time on any item, to change the order of items and/or to continue items to another meeting. Particular items may be heard before or after the time estimated on the agenda. This may occur in order to best manage the time at a meeting.

A copy of the agenda for the Special Finance Committee Meeting will be posted and distributed at least twenty-four (24) hours prior to the meeting. In observance of the Americans with Disabilities Act, please notify us at **(650) 988-3218** 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
1.	**CALL TO ORDER / ROLL CALL**	Don Watters, Chair	Information	**12:00 pm**
2.	**POTENTIAL CONFLICT OF INTEREST DISCLOSURES**	Don Watters, Chair	Information	**12:00**
3.	**PUBLIC COMMUNICATION** a. Oral Comments *This opportunity is provided for persons to address the Committee on any matter within the subject matter jurisdiction of the Committee that is not on this agenda. Speakers are limited to three (3) minutes each.* b. Written Correspondence *Comments may be submitted by mail to the Finance Committee of the El Camino Hospital Board of Directors at 2500 Grant Avenue, Mountain View, CA 94040. Written comments will be distributed to the Board as quickly as possible. Please note it may take up to 24 hours for documents to be posted on the agenda.*	Don Watters, Chair	Information	**12:00**
4.	**CONSENT CALENDAR** a. Approve Minutes of the Open Session of the Finance Committee Meeting (11/07/2025) b. Approve Minutes of the Open Session of the Special Finance Committee Meeting (12/04/2025) c. Receive FY2026 FC Pacing Plan d. Receive Progress Against FY2026 FC Goals e. Receive Article(s) of Interest	Don Watters, Chair	**Motion Required**	**12:00 – 12:05**
5.	**FY2026 PERIOD 6 FINANCIAL REPORT**	Raju Iyer, CFO	**Motion Required**	**12:05 – 12:20**
6.	**RECESS TO CLOSED SESSION**	Don Watters, Chair	**Motion Required**	**12:20 – 12:21**

	AGENDA ITEM	PRESENTED BY	ACTION	ESTIMATED TIMES
7.	**REVIEW PROGRESS OF FY26 STRATEGIC GOALS** *Health and Safety Code Section 32106(b) for a report and discussion involving healthcare facility trade secrets*	Dan Woods, CEO Andreu Reall, VP, Strategy	Discussion	**12:21 – 12:36**
8.	**LOS GATOS CAMPUS REDEVELOPMENT – PROJECT UPDATE** *Health and Safety Code Section 32106(b) – for a report and discussion involving healthcare facility trade secrets regarding new services or programs*	Raju Iyer, CFO Tracey Lewis Taylor, COO	Discussion	**12:36 – 12:51**
9.	**FOUNDATION STRATEGIC PLAN UPDATE** *Health and Safety Code Section 32106(b) – for a report and discussion involving healthcare facility trade secrets.*	Andrew Cope, President, Foundation	Information	**12:51 – 1:01**
10.	**APPROVE MINUTES OF THE CLOSED SESSION OF THE FINANCE COMMITTEE** a. 11/07/2025 – Regular Finance Committee Meeting b. 12/04/2025 – Special Finance Committee Meeting *Report involving Gov't Code Section 54957.2 for closed session minutes*	Don Watters, Chair	**Motion Required**	**1:01 – 1:05**
11.	**RECONVENE TO OPEN SESSION**	Don Watters, Chair	**Motion Required**	**1:05 – 1:06**
12.	**CLOSED SESSION REPORT OUT** To report any required disclosures regarding permissible actions taken during Closed Session.	Gabe Fernandez, Governance Services Coordinator	Information	**1:06 – 1:07**
13.	**COMMITTEE ANNOUNCEMENTS**	Don Watters, Chair	Information	**1:10 – 1:15**
14.	**ADJOURNMENT**	Don Watters, Chair	**Motion Required**	**1:15 pm**

Upcoming Meetings: March 23, 2026 (Joint FC | IC), March 23, 2026, May 26, 2026

El Camino Health

Minutes of the Open Session of the
Finance Committee Meeting
Friday, November 7, 2025
El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040

Members Present
Don Watters, Chair
Wayne Doiguchi
Peter Fung, MD
Bill Hooper
Christina Lai *(joined at 12:03 p.m.)*
Cynthia Stewart**

Members Absent
None

Staff Present
Carlos Bohorquez, Chief Financial Officer
Dan Woods, Chief Executive Officer
Mark Adams, MD, Chief Medical Officer
Theresa Fuentes, Chief Legal Officer**
Ken King, Chief Administrative Services Officer
Tracy Lewis Taylor, Chief Operating Officer
Jeff Missad, Vice President, Facilities Development & Real Estate
Andreu Reall, VP, Strategy
Michael Walsh, Controller
Victor Cabrera, Senior Director, Decision Support & Business Analytics
Tracy Fowler, Director, Governance Services**
Gabriel Fernandez, Coordinator, Governance Services

**via teleconference

Agenda Item	Comments/Discussion	Approvals/ Action
1. AGENDA ITEM 1: CALL TO ORDER/ ROLL CALL	The meeting of the Finance Committee of El Camino Hospital (the "Committee") was called to order at 12:01 p.m. by Chair Don Watters. A verbal roll call was taken. Committee members Watters, Doiguchi, Fung, Hooper, and Stewart were present at roll call constituting a quorum. Ms. Lai was absent at roll call. Chair Watters opened the meeting by recognizing Mr. Bohorquez for his dedicated service to El Camino Health and leadership of the Finance Committee. Each Committee member shared reflections and best wishes, and Mr. Bohorquez expressed gratitude to the Committee for their partnership and collaboration over the years.	***The meeting was called to order at 12:01 p.m.***
2. AGENDA ITEM 2: CONSIDER APPROVAL OF AB-2449 REQUEST	Chair Watters asked if there were any AB 2449 requests and Ms. Stewart acknowledged that she was participating remotely under AB 2449 (Just Cause) provisions.	
3. AGENDA ITEM 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. AGENDA ITEM 4: PUBLIC COMMUNICATION	Chair Watters called for public comment on items not listed on the agenda. No public comments were made, and no written correspondence was received.	

5. AGENDA ITEM 5: CONSENT CALENDAR	**Motion**: To approve the consent calendar. **Movant:** Fung **Second:** Doiguchi **Ayes:** Doiguchi, Fung, Hooper, Lai, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** None **Recused:** None	***Consent calendar approved.*** *- Minutes of the Open Session of the FC Meeting (August 25, 2025)* *- Minutes of the Open Session of the Special FC Meeting (October 16, 2025)* *Received Items:* *- FY2026 Period 2 Financial Report* *-FY26 Committee Pacing Plan* *- Progress against FY2026 Finance Committee Goals* *- Article(s) of Interest*
6. AGENDA ITEM 6: FY2026 PERIOD 3 FINANCIAL REPORT	Mr. Bohorquez presented the FY2026 Period 3 Financial Report, highlighting financial results for September 2025 and year-to-date performance through the first quarter. Revenue for the month was approximately $150 million, reflecting strong outpatient volumes despite inpatient volumes below budget. Operating EBIDA continued to perform above plan—11% better than budget and 22% higher than the same period last year—driven by sustained revenue growth and expense control. Mr. Bohorquez noted that while labor costs remained elevated due to market pressures, the organization maintained a stable margin and a strong balance sheet position. The Committee discussed volume trends, payer mix, and the potential effects of site-neutral payment changes on long-term reimbursement. **Motion**: To approve the Period 3 Financial Report. **Movant:** Fung **Second:** Hooper **Ayes:** Doiguchi, Fung, Hooper, Lai, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** None **Recused:** None	***FY2026 Period 3 Financial Report approved.***

7. AGENDA ITEM 7: FC ASSESSMENT RESULTS & ACTION PLAN	Chair Watters and Mr. Bohorquez presented the results of the annual Finance Committee Assessment along with a proposed Action Plan responding to member feedback on meeting effectiveness and content delivery. The discussion emphasized the importance of simplifying management presentations to make them more accessible, enhancing communication of overall financial strategy, and drawing more actively on the expertise of Committee members to strengthen dialogue and decision-making. Members also noted the value of providing targeted education on complex topics and allowing additional time on the agenda for open discussion and strategic reflection. The Committee agreed that these improvements would help maintain a high level of governance oversight and reinforce the Committee's alignment with organizational priorities. **Motion**: To approve the Finance Committee Action Plan. **Movant:** Lai **Second:** Fung **Ayes:** Doiguchi, Fung, Hooper, Lai, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** None **Recused:** None	***Finance Committee Assessment Action Plan Approved***
8. AGENDA ITEM 8: COMMUNITY BENEFIT FY2027 POLICY GUIDANCE AND FY2026 GRANT PROGRAM UPDATE	Mr. Cowan presented an update on the FY2026 Community Benefit Grant Program and sought Committee input on preliminary policy guidance for FY2027. He reviewed the upcoming grant review timeline and the process for evaluating applications, noting that the application period would open November 12. Mr. Cowan discussed the ongoing focus on aligning community benefit funding with organizational priorities and population health needs. He also provided an overview of potential impacts from federal and state funding shifts, which may influence the range and volume of grant requests. Committee members commended the structured review process and emphasized the importance of visual transparency in illustrating how grant funds are allocated and acknowledged in the community.	

9. AGENDA ITEM 9: RECESS TO CLOSED SESSION	**Motion**: To recess to closed session at 12:28 p.m. **Movant:** Fung **Second:** Doiguchi **Ayes:** Doiguchi, Fung, Hooper, Lai, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** None **Recused:** None	***Recessed to closed session at 12:28 p.m.***
10. AGENDA ITEM 18: RECONVENE OPEN SESSION/ REPORT OUT	Ms. Fowler reported that the Finance Committee approved the closed session minutes of the prior meetings during the closed session.	***Reconvened to Open Session at 2:43 pm***
11. AGENDA ITEM 19: APPROVE CAPITAL REQUEST – OAK PAVILION, MOUNTAIN VIEW	**Motion**: To approve the capital request for Oak Pavilion, Mountain View. **Movant:** Lai **Second:** Hooper **Ayes:** Doiguchi, Fung, Hooper, Lai, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** None **Recused:** None	***Capital Request approved***
12. AGENDA ITEM 21: APPROVE CAPITAL REQUEST – MOB BUILD OUT – CUPERTINO	**Motion**: To recommend Board approval for the office build out in Cupertino. **Movant:** Fung **Second:** Hooper **Ayes:** Doiguchi, Fung, Hooper, Lai, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** None **Recused:** None	***Capital Request approved***
13. AGENDA ITEM 22: APPROVE CAPITAL REQUEST – MOB BUILD OUT – MILPITAS	**Motion**: To recommend Board approval for the office build out in Milpitas. **Movant:** Hooper **Second:** Fung **Ayes:** Doiguchi, Fung, Hooper, Lai, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** None **Recused:** None	***Capital Request approved***
14. AGENDA ITEM 20: APPROVE CAPITAL REQUEST – LOS GATOS REDEVELOPMENT	Ms. Fuentes asked Chair Watters for clarification on agenda item 20. Chair Watters removed agenda item 20 from the agenda.	

15. AGENDA ITEM 23: CLOSING COMMENTS	There were no additional comments from the Committee.	
16. AGENDA ITEM 24: ADJOURNMENT	**Motion:** To adjourn at 2:52 pm. **Movant:** Fung **Second:** Hooper **Ayes:** Doiguchi, Fung, Hooper, Lai, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** None **Recused:** None	***Meeting adjourned at 2:52 pm.***

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

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Don Watters
Chair, Finance Committee

Prepared by: Tracy Fowler, Director, Governance Services
Reviewed by: Carlos A. Bohorquez, Chief Financial Officer; Theresa Fuentes, Chief Legal Office

El Camino Health

Minutes of the Open Session of the
Special Finance Committee Meeting
Thursday, December 4, 2025
El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040

Members Present
Don Watters, Chair
Wayne Doiguchi
Peter Fung, MD
Bill Hooper
Cynthia Stewart

Members Absent
Christina Lai

Staff Present
Carlos Bohorquez, Chief Financial Officer **
Dan Woods, Chief Executive Officer
Theresa Fuentes, Chief Legal Officer
Ken King, Chief Administrative Services Officer
Tracy Lewis Taylor, Chief Operating Officer
Omar Chughtai, Chief Growth Officer
Mark Klein, Chief Marketing & Communications Officer **
AJ Reall, VP, Strategy
Alan Muster, MD, President, ECHMN
Michael Walsh, Controller
Víctor Cabrera, Sr. Dir. Decision Supp & Business Analytics
Jeff Missad, Vice President, Facilities Development & Real Estate
Tracy Fowler, Director, Governance Services **
Gabriel Fernandez, Coordinator, Governance Services

**via teleconference

Agenda Item	Comments/Discussion	Approvals/ Action
1. AGENDA ITEM 1: CALL TO ORDER/ ROLL CALL	The open session Special Meeting of the Finance Committee of El Camino Hospital (the "Committee") was called to order at 12:00 p.m. by Chair Don Watters. A verbal roll call was taken. Committee members Watters, Doiguchi, Fung, Hooper, and Stewart were present at roll call and attended in person, constituting a quorum.	***The meeting was called to order at 12:00 p.m.***
2. AGENDA ITEM 2: CONSIDER APPROVAL OF AB-2449 REQUEST	All members participated in person—no consideration of AB-2449 requests was needed.	
3. AGENDA ITEM 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. AGENDA ITEM 4: PUBLIC COMMUNICATION	Chair Watters called for public comment on items not listed on the agenda. No public comments were made, and no written correspondence was received.	
5. AGENDA ITEM 5: ARTICLES OF INTEREST	Committee Members emphasized the importance of the article of interest on site neutrality. Mr. Bohorquez summarized the article's key points, noting that the current federal administration is expected to continue advancing site-neutral payment policies. He	

	emphasized that while the exact timeline remains uncertain, the direction of policy change is clear. Committee members discussed the implications, noted that the information aligns with the Committee's prior planning assumptions, and identified no significant surprises. Committee members agreed that the developments described in the article are consistent with industry expectations.	
6. AGENDA ITEM 6: FY2026 PERIOD 4 FINANCIAL REPORT	Carlos Bohorquez, Chief Financial Officer, presented the FY2026 Period 4 Financial Report and highlighted the following: **Period 4 – October 2025 Results** • **Average Daily Census**: 295, which is 24 / 7.5% unfavorable to the budget and 22 / 7.0% lower than the same period last year. • **Adjusted Discharges:** 4,023, which are 58 / 1.5% favorable to budget and 170 / 4.4% higher than the same period last year. • **Emergency Room Visits: 7,168,** which are 596 / 9.1% favorable to budget and 523 / 7.9% lower than the same period last fiscal year. • **Outpatient Visits / Procedures:** 15,207 which are 600 / 4.1% favorable to budget and 1,370 / 9.9% higher than the same period last fiscal year. • **Total operating revenue** of $154.1M is unfavorable to budget by $1.6M / 1.0% and $4.9M / 3.3% higher than the same period last fiscal year. • **Operating EBIDA** of $26.3M is favorable to budget by $3.3M / 14.6% and $4.3M / 19.6% higher than the same period last fiscal year. • **Net income** of $72.7M is favorable to budget by $53.7M / 281.6% and $71.8M / 7,738.4% higher than the same period last year. **Motion**: To approve the FY2026 Period 4 Financial Report. **Movant:** Doiguchi **Second:** Fung **Ayes:** Doiguchi, Fung, Hooper, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** Lai **Recused:** None	

7. AGENDA ITEM 7: RECESS TO CLOSED SESSION	**Motion**: To recess to closed session at 12:13 p.m. **Movant:** Hooper **Second:** Fung **Ayes:** Doiguchi, Fung, Hooper, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** Lai **Recused:** None	***Recessed to closed session at 12:13 p.m.***
8. AGENDA ITEM 11: RECONVENE OPEN SESSION/ REPORT OUT	Gabriel Fernandez, Coordinator, Governance Services, reported that the Finance Committee did not take any reportable actions during the closed session.	***Reconvened to Open Session at 1:26 pm***
9. AGENDA ITEM 12: APPROVE CAPITAL REQUEST – LOS GATOS REDEVELOPMENT	**Motion**: To approve capital funding of an additional $19.7 million for the initial development of plans for the replacement hospital on the Los Gatos campus. **Movant:** Watters **Second:** Stewart **Ayes:** Doiguchi, Fung, Hooper, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** Lai **Recused:** None	
10. AGENDA ITEM 13: CLOSING COMMENTS	There were no additional comments from the Committee.	
11. AGENDA ITEM 17: ADJOURNMENT	**Motion:** To adjourn at 1:28 pm. **Movant:** Doiguchi **Second:** Watters **Ayes:** Doiguchi, Fung, Hooper, Stewart, Watters **Noes:** None **Abstentions:** None **Absent:** Lai **Recused:** None	***Meeting adjourned at 1:28 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: Gabriel Fernandez, Coordinator, Governance Services
Reviewed by: Carlos A. Bohorquez, Chief Financial Officer

El Camino Health

FY26 Pacing Plan - Finance Committee

AGENDA ITEM	Q1			Q2			Q3			Q4		
	JUL	AUG 8/25	SEP	OCT	NOV 11/7	DEC	JAN	FEB 2/2	MAR 3/23	APR	MAY 5/26	JUN
CONSENT CALENDAR ITEMS												
Prior Meeting Minutes		✓			✓			✓	✓		✓	
Period Financials		✓			✓			✓	✓		✓	
Progress Against Goals		✓			✓			✓	✓		✓	
Pacing Plan		✓			✓			✓	✓		✓	
Article(s) of Interest		✓			✓			✓	✓		✓	
APPROVAL/RECOMMENDATION FOR BOARD APPROVAL ITEMS												
Physician Contracts		✓			✓			✓	✓		✓	
Prior FY Results		✓										
Next FY Community Benefit Grant Program											✓	
Next FY Committee Governance: Goals, Dates, Pacing Plan									✓		✓	
Next FY Organization Finance Goals									✓		✓	
DISCUSSION ITEMS												
Financial Report (Pre-Audit Year-End Results)		✓										
Financial Performance JVs/ Business Affiliates		✓										
Progress on Opportunities/ Risks					✓							
Medical Staff Development Plan (odd years)												
Impact of Strategic Initiatives/Market Share								✓	✓			
Foundation Strategic Update								✓				
ECHMN Financials*		✓			✓			✓	✓		✓	
Community Benefit Grant Application Process					✓				✓			
Progress Against FY Strategic Plan								✓			✓	
Managed Care Update									✓			
Long-Range Financial Forecast (***Joint FC / IC Meeting***)									March 23 Mtg			
Next FY Budget and Preliminary Assumptions									✓			
Review FY Operational / Capital Budget for Recommendation to Board									✓		✓	
Summary Physician Financial Arrangements									✓			

**Included in Quarterly Enterprise Financials*

El Camino Health

FY2026 FINANCE COMMITTEE GOALS

PURPOSE:

The purpose of the Finance Committee (the "Committee") is 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 (ECH) Hospital Board of Directors ("Board"). In carrying out its review, advisory, and oversight responsibilities, the Finance Committee shall remain flexible in order to best define financial strategies that react to changing conditions.

STAFF: **Raju Iyer**, Chief Financial Officer (Executive Sponsor)

The CFO shall serve as the primary staff to support the Committee and is responsible for drafting the Committee meeting agenda for the Committee Chair's consideration. Additional members of the Executive Team may participate in the meetings upon the recommendation of the Executive Sponsor and at the discretion of the Committee Chair.

GOALS	TIMELINE	METRICS	STATUS
1. Summary of Physician Financial Agreements	Q3	March 2026	**In progress**
2. Review Progress on Opportunities / Risks identified by Management for FY2025 and Managed Care Update	Q2, Q3	Progress on Opportunities / Risks (November 2025), Managed Care update (March 2026)	**Completed** **In progress – Moved to March**
3. Review Strategy, Goals and Performance of ECHMN, Joint Ventures / Business Affiliates, Impact of Strategic Initiatives on Market Share and progress on Implementation of 2027 Strategic Plan	Q1	Overview & Financial Performance JVs / Business Affiliates (August 2025)	**Completed**
	Q3	Progress on 2027 Strategic Plan (February 2026), Foundation – Strategic Update (February 2026)	**In progress**
	Q3	Impact of Strategic Initiatives – Market Share Update (February 2026), ECHMN (February 2026), Hospital Community Benefits Program (February 2026),	**In progress**
	Q4	Progress on 2027 Strategic Plan (May 2026)	**In progress**
4. Fiscal Year End Performance Review	Q1	FYE 2024 Review of Operating, Financial and Balance Sheet Performance and KPIs (August 2025)	**Completed**

SUBMITTED BY: **Chair**: Don Watters | **Executive Sponsor**: Raju Iyer, Chief Financial Officer

El Camino Health

EL CAMINO HOSPITAL BOARD OF DIRECTORS
FINANCE COMMITTEE MEETING MEMO

To: El Camino Hospital, Finance Committee
From: Raju Iyer, Chief Financial Officer
Date: February 2, 2026
Subject: Articles of Interest

Purpose: To share with the Finance Committee relevant articles highlighting current healthcare financial, regulatory, and operational trends that may impact El Camino Health's strategic and financial outlook.

Articles of Interest:

Becker's Hospital Review
"CMS ups hospital outpatient rates 2.6%, expands site-neutral payments in 2026: 14 notes" (November 21, 2025)

This article summarizes CMS's finalized Hospital Outpatient Prospective Payment System and Ambulatory Surgical Center Payment System rule for 2026. Key takeaways include a 2.6% increase in outpatient payment rates for hospitals meeting quality reporting requirements, continued expansion of site-neutral payment policies, and further migration of procedures from inpatient to outpatient and ambulatory surgical center settings. The rule also strengthens hospital price transparency requirements and introduces changes to CMS Star Ratings that may affect reputational and financial performance.

Becker's Hospital Review / Kaufman Hall
"8 trends that shaped system performance in 2025" (December 10, 2025)

Based on Kaufman Hall's *2025 Health System Performance Outlook*, this article outlines eight operational and financial trends influencing hospital and health system performance. Highlights include continued growth in non-labor expenses, persistent workforce constraints, increased outsourcing of non-clinical services, access challenges driven by capacity constraints, elevated managed care denials, and ongoing uncertainty around cash balances and liquidity. The findings underscore the importance of disciplined cost management, access optimization, and liquidity planning heading into 2026.

McKinsey & Company
"What to expect in U.S. healthcare in 2026 and beyond" (January 2026)

This report provides a forward-looking assessment of financial pressures and growth opportunities across the healthcare sector. It projects continued near-term margin pressure for hospitals due to uncompensated care, site-neutral payment policies, labor and supply cost inflation, and payer mix shifts following Medicaid and ACA disenrollment. At the same time, it identifies growth opportunities in outpatient and ambulatory care, post-acute services, health services and technology, and specialty pharmacy. The analysis emphasizes the need for operational efficiency, technology adoption, and strategic portfolio decisions to navigate the evolving healthcare landscape.

Articles of Interest
February 2, 2026

These articles are provided for informational purposes and to support the Finance Committee's ongoing oversight of financial sustainability, reimbursement trends, and strategic risk considerations.

BECKER'S HOSPITAL REVIEW

Financial Management

CMS ups hospital outpatient rates 2.6%, expands site-neutral payments in 2026: 14 notes

Laura Dyrda and Alan Condon Friday, November 21st, 2025

CMS on Nov. 21 finalized its Hospital Outpatient Prospective Payment System and Ambulatory Surgical Center Payment System rule for 2026, enacting reforms to boost price transparency and expand outpatient access.

Fourteen things to know:

Hospital outpatient departments

1. CMS is phasing out the inpatient-only list over a three-year period and expanding the ASC covered procedures list. The agency will remove 285 procedures, mostly musculoskeletal, from the inpatient-only list and add 289 procedures to the ASC covered list next year. The policy does allow Medicare to pay for procedures in the HOPD when clinically appropriate.

"We are strengthening Medicare's foundation by protecting beneficiaries, eliminating fraud, and advancing medical innovation — all while maintaining strict provider accountability and responsible use of taxpayer funds," CMS Administrator Mehmet Oz, MD, said. "These comprehensive reforms expand patient choice and establish the price transparency Americans need for confident healthcare decisions."

2. CMS will continue its policy to exempt certain medical review activities related to the two-midnight policy for procedures removed from the inpatient only list throughout next year and into the future, until it's determined the procedure is more common in ASCs than HOPDs for the Medicare population.

3. The agency also will raise outpatient payment rates by 2.6% in 2026 for hospitals that meet quality-reporting requirements. The increase reflects a 3.3% market basket update, offset by a 0.7 percentage-point productivity cut.

4. Next year, the hospital market basket update will be applied to ASC payment system rates and CMS will continue to study the migration of outpatient procedures. CMS initially updated the payment factor for five years beginning in the 2019 calendar year, but extended the observation period during the COVID-19 public health emergency.

5. CMS also will align payment rates for certain outpatient services delivered at hospital outpatient departments and off-campus facilities. The goal of the site-neutral payments is to avoid higher copays for patients based solely on care location.

"We continue to advance Medicare payment reform by advancing policies that help prevent services from unnecessarily being performed in hospitals when they can be safely provided in less intensive settings, streamlining hospital billing systems, and ensuring patients receive transparent, accurate pricing information," said Chris Klomp, CMS deputy administrator and director of the Center for Medicare.

6. CMS will continue the two-tier payment system for intensive outpatient program services for mental illness or substance use disorder in HOPDs and community mental health centers. There will be one payment for days with three services per day and open for days with four or more services per day.

7. The agency projects the rule will save Medicare and beneficiaries $11 billion over the next 10 years by reducing unnecessary services and aligning payments with care costs.

Price transparency

8. Hospitals will now be required to post actual, consumer-friendly prices — not estimates — in standardized formats. Noncompliance will result in civil monetary penalties.

"This final rule from CMS closes the loopholes hospitals exploit to hide real prices and advances President Trump's demand for radical hospital price transparency," HHS Secretary Robert F. Kennedy, Jr., said in a Nov. 21 news release.

9. Beginning Jan. 1, 2026, hospitals will be required to include the median, 10th percentile and 90th percentile allowed amounts in their machine-readable files. They must also include the count of allowed amounts when changes are based on percentages or algorithms. CMS said it will delay enforcement of these requirements until April 1, 2026.

10. Hospitals must attest in their machine-readable files that the information provided is accurate, complete and current as of the date listed in the file. They must also include all payer-specific negotiated charges that can be expressed as a dollar amount and provide enough information for patients to calculate charges that cannot be directly expressed.

11. Hospitals will be required to include the name of their CEO, president or other leader who oversees the data encoding process to ensure accountability for the accuracy of the posted pricing data.

12. The agency is also mandating that hospitals encode their Type 2 national provider identifiers in machine-readable files to support comparison across healthcare datasets.

13. Hospitals that accept CMS' determination of noncompliance and waive their right to an administrative law judge hearing may receive a 35% reduction in civil monetary penalties. This is not available to hospitals that fail to publish a machine-readable file or consumer-friendly pricing tools.

CMS Star Ratings

14. Starting in 2026, hospitals in the lowest quartile for safety performance will be ineligible for a 5-star rating. In future years, these hospitals will be automatically downgraded to one star.

Click here for more details on the final rule.

More In:
Becker's Hospital Review

Average US family spent nearly $4K on healthcare in 2024: Report

Rural hospitals' plans for transformation funds — if and when they arrive

Trinity Health cuts revenue cycle workforce by 10.5%

Next Up in Financial Management

NC Children's receives $25M gift to create behavioral health center

Apex, N.C.-based NC Children's has received a $25 million gift from Charlotte-based Coca-Cola Consolidated to support the development of its...

By: **Ella Ruder** 45 minutes ago

AMA 'disappointed' in MedPAC for backing off deeper Medicare pay reform

The American Medical Association expressed disappointment after the Medicare Payment Advisory Commission voted Jan. 15 to recommend only a modest...

By: **Alan Condon** 47 minutes ago

Revenue cycle leaders' top priorities in 2026

Ask a Revenue Cycle Leader is a new series featuring insights from health system and hospital revenue cycle executives nationwide....

By: **Andrew Cass** 2 hours ago

Email*

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Financial Management

8 trends that shaped system performance in 2025: Kaufman Hall

By: **Madeline Ashley** Wednesday, December 10th, 2025

Health system leaders faced challenges in 2025 like rising financial strain, ongoing workforce challenges and mounting capacity constraints, according to *Kaufman Hall*'s "2025 Health System Performance Outlook."

The report surveyed leaders from 103 hospitals and health systems across the U.S., with 60% serving in executive roles, 16% in finance and representation from quality and operations as well. Ninety-six percent of respondents work in single hospitals or hospital-based systems, with the remainder from health plans. By area type, 20% were rural, 36% urban and 44% suburban.

The report also highlighted operational realities that shaped 2025 performance and could continue to influence health system strategy into 2026.

Here are eight things to know:

1. **Non-labor expenses continue to increase.** Nearly 60% of systems saw non-labor expenses increase between 6% to 10% this year, with 83% taking measures to quantify tariff impacts.

2. **Supply chain AI adoption remains limited.** More than half of organizations, 52%, report no use of AI in supply chain operations, despite increasing pressure to reduce waste, improve visibility and improve financial resiliency. However, the largest AI focus areas are 22% logistics and distribution efficiency, 20% demand forecasting and 17% supplier performance.

3. **Labor constraints forced health systems to rethink both staffing and recruitment in 2025.** At least 70% of health systems are working to optimize staffing, including adjusting staffing targets and reevaluating spans of control. Many are also turning to outsourcing in services, with 65% outsourcing food and nutrition, 58% outsourcing revenue cycle, 58% outsourcing IT and 58% outsourcing environmental services. Workforce recruitment efforts remain strong, with 83% of organizations raising starting wages, 81% offering signing bonuses amid competitive labor markets and 64% offering increased remote and hybrid work schedules.

4. **Many organizations struggle to offer timely access.** Ninety-one percent of leaders say they cannot consistently see patients within a timely manner, 42% report patients are waiting too long for appointments and 48% have mixed

performance results.

"Many healthcare organizations are leaning more heavily on physicians to support patient access," the report said. "Three-fourths of respondents report subsequent increasing subsidies, while only 45% say downstream margins are sufficient to offset these costs."

5. **APP value is inconsistent across systems.** While 42% of leaders say advanced practice providers clearly add value, an equal share report highly variable performance, underscoring a need for standardized, team-based care models.

"The number of APPs is expected to double within the next decade, forcing health systems to rethink how they integrate these clinicians into the workforce," the report said. "Incorporating APPs into perioperative care, new patient intakes and routine follow-up, for example, makes it possible for physicians to work at the top of their license and improves patient access."

6. **Emergency department boarding is a top capacity constraint.** Seventy-seven percent of respondents cited ED holds as their most significant bottleneck, with 73% saying capacity issues lead to ED boarding.

7. **Denials top managed care challenges.** When questioned about significant managed care challenges, 44% of respondents pointed to high denial rates and administrative burden, with 30% pointing to reimbursement rates not aligning with increasing costs and 11% citing struggles renegotiating commercial contracts.

8. **The financial outlook remains uncertain.** Only 30% of respondents expect cash balances to improve over the next 12 months, with 30% predicting lower levels and 40% seeing minimal change.

"The wide split highlights the relative uncertainty health systems have about the future, citing the competitive landscape; regulatory changes including the One Big Beautiful Bill, ACA tax subsidies and tariffs, reimbursement, and operational and workforce challenges," the report said. "Interviewees say they've also slowed down on capital spending and are closely monitoring regulatory changes to Medicaid. Ensuring adequate access to external working capital solutions can help bolster liquidity, especially in times of uncertainty."

Lance Robinson, managing director and operations improvement practice leader at Kaufman Hall, told *Becker's* that the report reinforces several core areas health systems should continue refining, such as strengthening supply chain relationships, evaluating purchased services, improving patient progression to reduce length of stay and addressing front-end billing breakdowns that drive denials.

"Being in position to sustain some of those headwinds is going to be important; don't take your eye off the ball," he said. "The 'no regret' is proactively managing your cost structure [and] doubling down, because you don't know what's around the bend."

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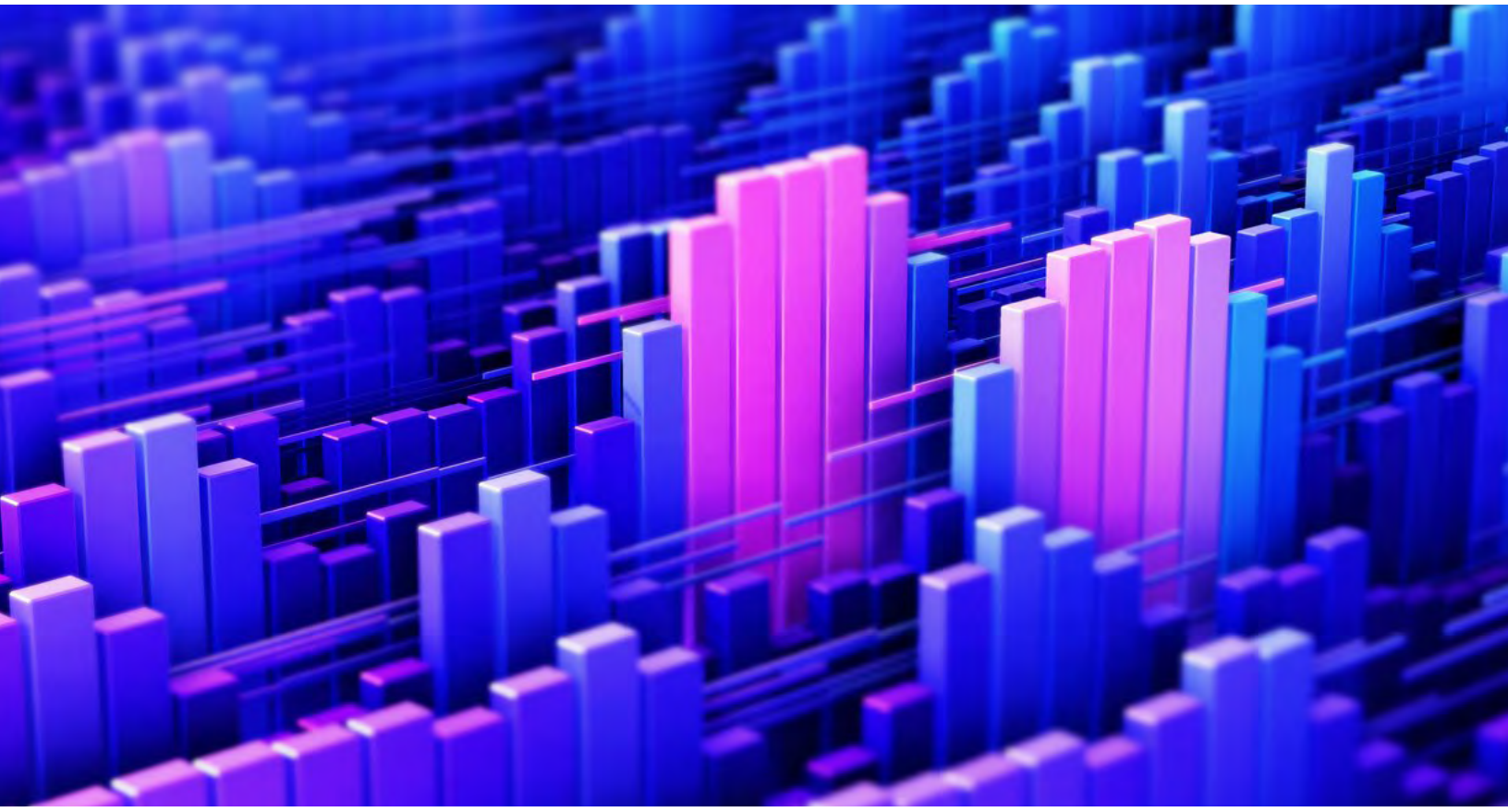
What to expect in US healthcare in 2026 and beyond

The healthcare industry faces successive waves of challenging trends, with glimmers of opportunity in select segments.

by Neha Patel and Shubham Singhal
with Ankit Jain



January 2026

The US healthcare system continues to face considerable financial strain, although there are pockets of opportunity. Industry EBITDA as a percentage of national health expenditures (NHE) fell from 11.2 percent in 2019 to 8.9 percent in 2024. In 2027, the picture is expected to worsen slightly, with industry EBITDA as a percentage of NHE expected to drop to 8.7 percent.

Payers and providers have borne the brunt of the decline to date and will continue to feel financial pressure in the immediate future. For example, payers are facing enrollment declines in Medicaid and Affordable Care Act (ACA) plans because of regulatory changes. Meanwhile, providers could experience an increase in uncompensated care and loss of reimbursement.

Looking ahead to 2028 and 2029, we anticipate stronger results underpinned by healthcare players' actions to buttress their financial position. They will likely move tactically to address pricing and costs and strategically to reallocate resources to growing market segments and pursue business portfolio and scale shifts through M&A and divestitures.

While the overall near-term outlook is somber, opportunities exist in several parts of the industry. Some segments of healthcare are continuing to grow rapidly, including health services and technology (HST), supported by advances in technology and AI; specialty pharmacy; and ambulatory care in the provider space.

For payers, group insurance is emerging as a bright spot as some members may be able to obtain insurance from their employers after disenrolling from ACA plans and Medicaid. In the acute care segment, attention to trends in working-age populations and demographic mix in geographies will be key to the growth of value pools.

Healthcare leaders must rethink traditional models, improve performance, and embrace technology to remain competitive. Those that do will be well positioned to lead the next chapter of US healthcare. In this year's report, we provide a perspective on how recent challenges have affected payers, providers, HST, and pharmacy services, as well as what to expect in 2026 and beyond.

Several healthcare segments are expected to face financial pressure

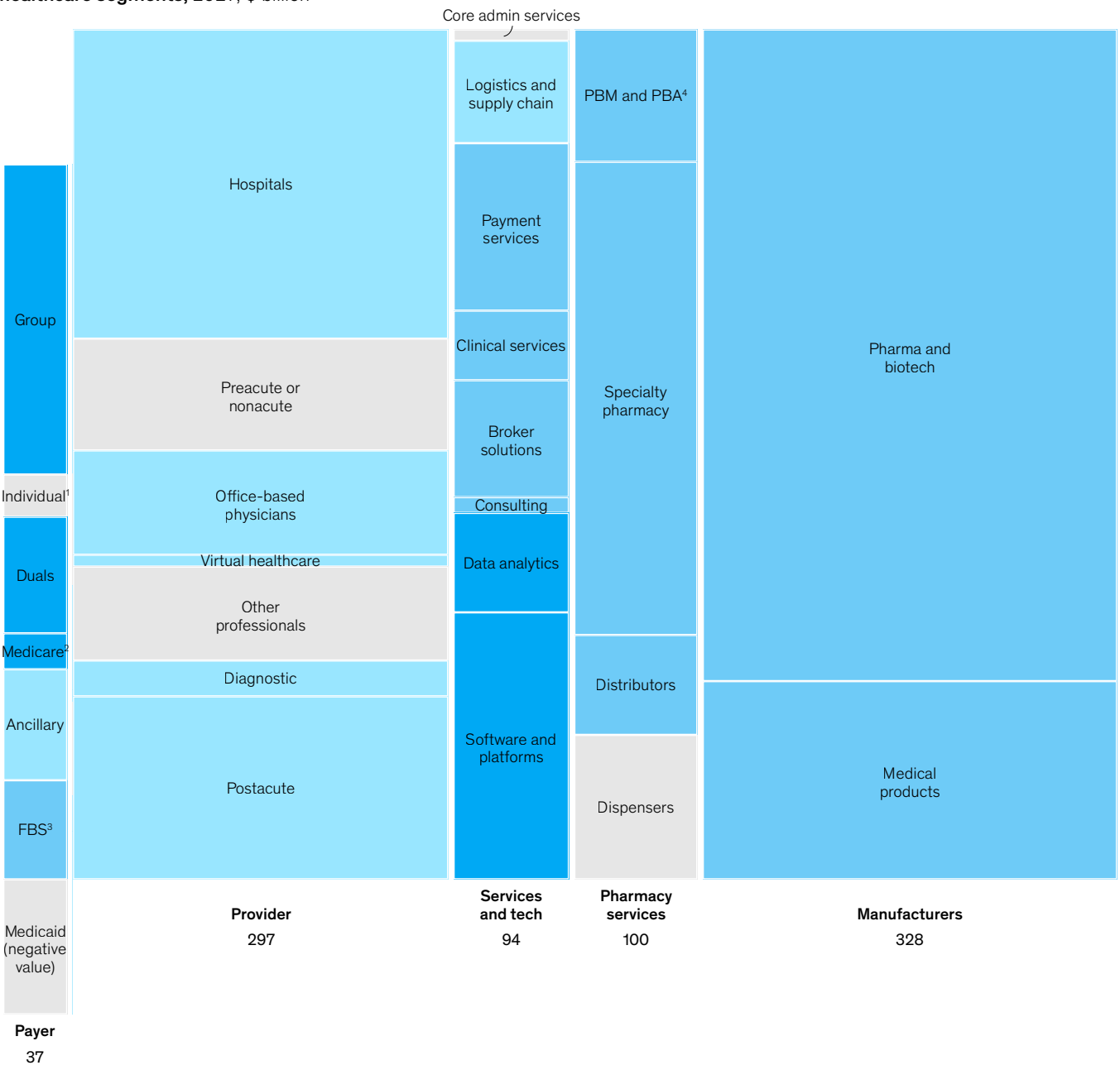
We estimate that overall healthcare EBITDA will grow annually at 5 percent in 2024–27 (Exhibit 1) and then at 10 percent annually in 2027–29 (Exhibit 2).[1] Certain segments are expected to increase more slowly in 2026–27 due to ACA disenrollment given expiration of enhanced subsidies and to policy-driven changes in Medicaid business under the One Big Beautiful Bill Act (OBBBA). Other areas, such as HST and specialty pharmacy, are likely to grow steadily throughout the 2024–29 period. Below, we summarize the changes we expect to see in the payer, provider, HST, and pharmacy segments.

[1] In this article, we use EBITDA as a measure of economic health of the industry. Only a fraction of EBITDA translates into net income for the industry, with net income margins in the low single digits after accounting for interest, taxes, depreciation, and amortization. EBITDA returns enable organizations to generate the capital necessary for investments, including those for enhancing capacity and access, building capabilities to offer new and improved treatments and patient experience, and facilitating technology-driven transformation.

Exhibit 1

Several healthcare segments are facing near-term financial pressure.

Distribution of projected healthcare EBITDA across healthcare segments, 2027, $ billion



Note: Figures may not sum, because of rounding.
[1]Includes ICHRA (individual coverage health reimbursement arrangement).
[2]Includes Medicare Part C, MedSupp, and Medicare Part D.
[3]FBS = fixed-benefit and supplemental.
[4]PBM = pharmacy benefit manager; PBA = pharmacy benefit administrator.
Source: McKinsey Profit Pools Model

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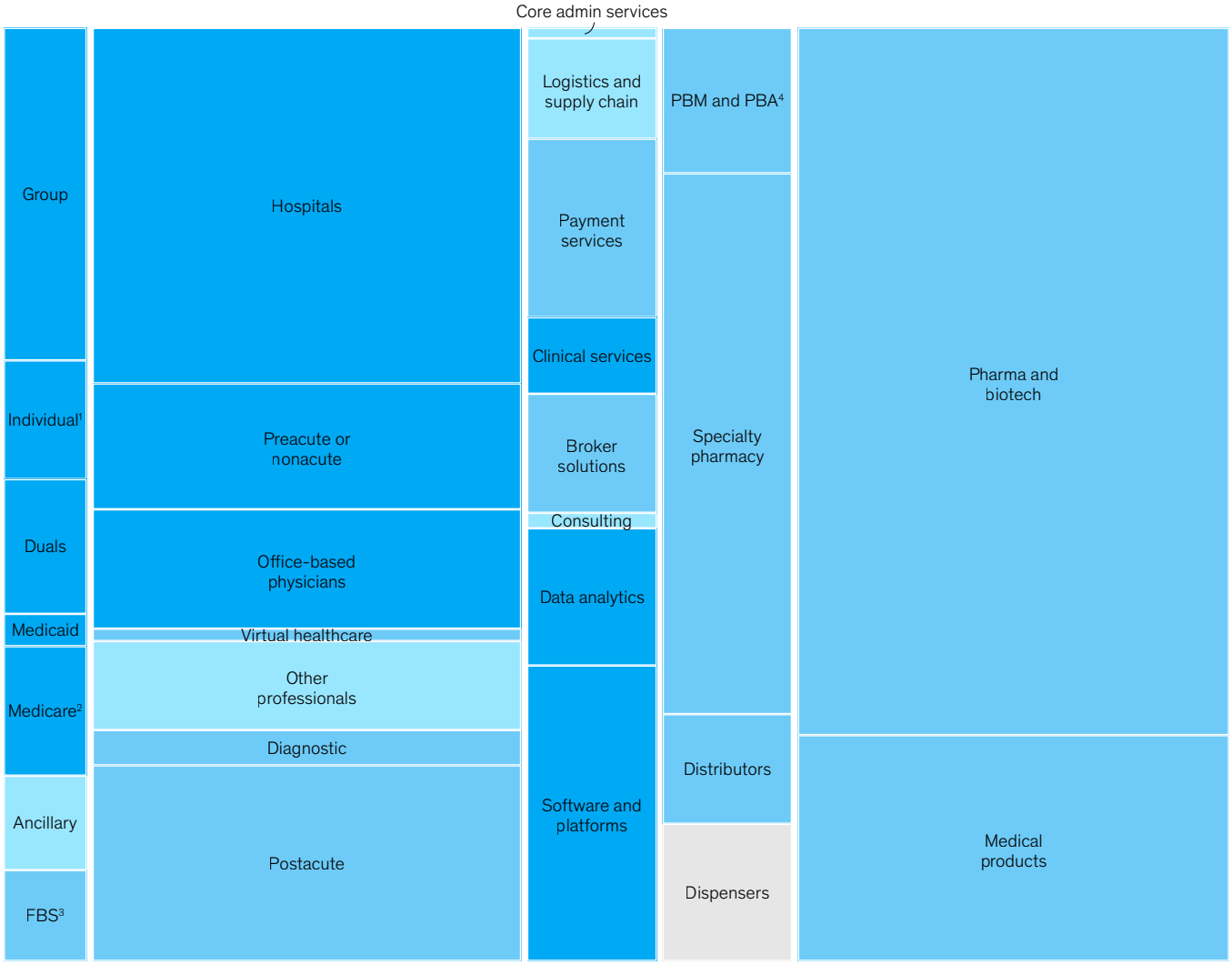
Exhibit 2

Most segments are projected to exceed 5 percent EBITDA growth.

Distribution of projected healthcare EBITDA across healthcare segments, 2029, $ billion

2027–29 growth rates: <0% 0–4.99% 5–10% >10%



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Source: McKinsey Profit Pools Model

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Payers

EBITDA levels in 2024 hit historic lows across payer markets, driven by factors such as increased utilization in the aftermath of the COVID-19 pandemic, rising GLP-1 adoption, and membership losses following the expiration of the pandemic-era public health emergency. But we expect performance to diverge across payer markets in the coming years.

Payers have experienced higher growth in claims costs for several reasons, including the aging Medicare population (Exhibit 3) and surging pharmacy costs. The proportion of the population aged 80 and above increased from 3.8 percent in 2017 to 4.2 percent in 2024 and is estimated to reach 5.2 percent by 2029, according to US Census Bureau data. This demographic shift is expected to contribute an additional 0.5 percent to 1.0 percent annual increase in claims costs.

Group commercial insurance is likely to emerge as the primary growth driver for payers, rebounding from historically low EBITDA margins in 2024. Meanwhile, Medicare Advantage margins are expected to stabilize at about 2 percent, remaining below historical levels.

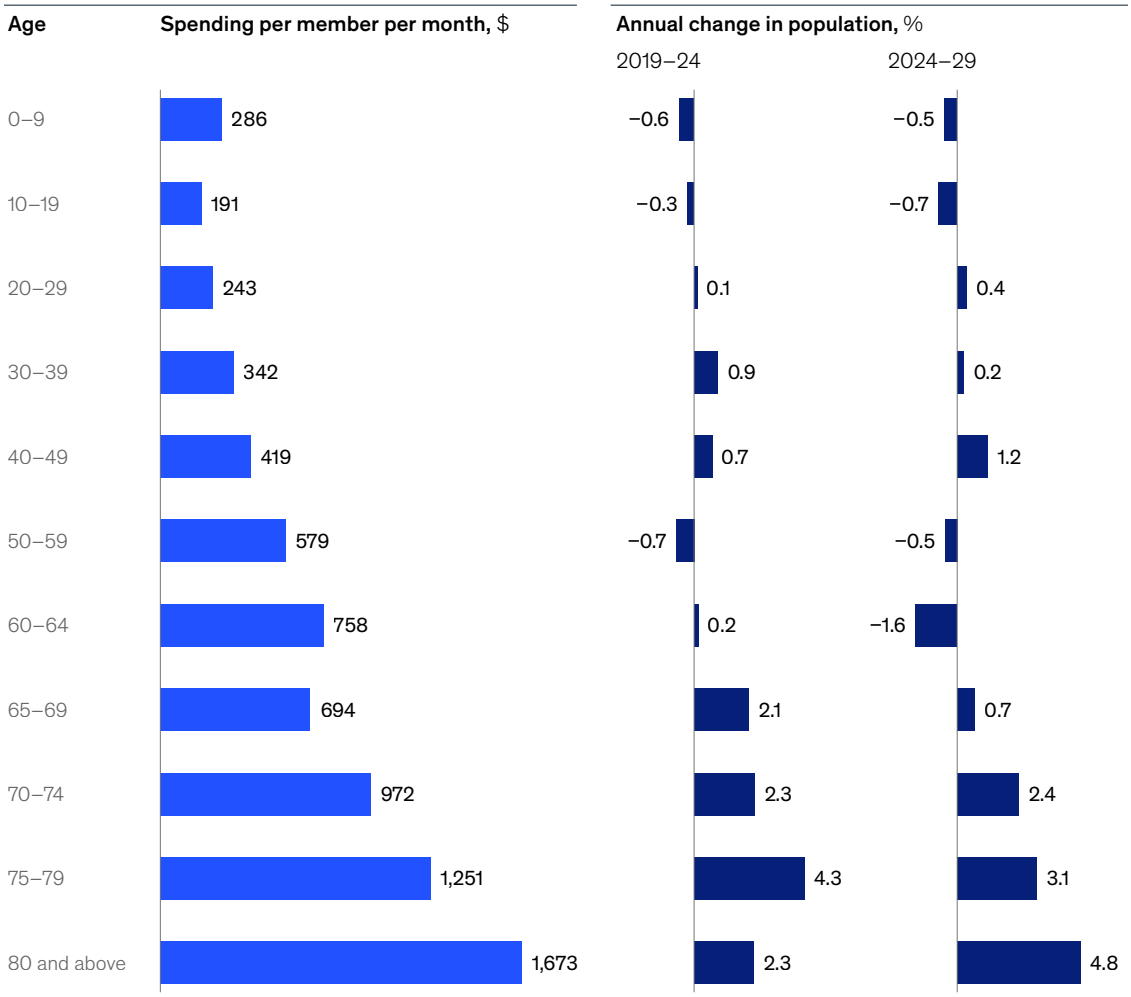
Medicaid margins will continue to erode due to adverse selection, delays in pricing revalidation, and member disenrollment following the expiration of the public health emergency, with additional disruption expected from member disenrollment from government policy changes in 2027–28. Similarly, the ACA segment will face margin pressures from member disenrollment when enhanced subsidies expire in 2026.

After 2027, payer recovery will depend on adoption of new care models, optimized pricing models, industry partnerships, and AI-enabled back end transformations to enhance efficiency and cost management.

After 2027, payer recovery will depend on adoption of new care models, optimized pricing models, industry partnerships, and AI-enabled back end transformations to enhance efficiency and cost management.

Exhibit 3

An aging population would have a meaningful impact on overall healthcare cost trends.



Source: CMS LDS claims data (2017–23); large commercial insurance dataset (2017–23); census data

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Providers

Healthcare providers are navigating a complex and uneven recovery. Following years of inflationary cost shocks and labor shortages, utilization has rebounded—but financial risks have also increased. Rising levels of uncompensated care, particularly from those who are uninsured, are expected to pressure EBITDA margins in 2027, with annual EBITDA growth from 2024 to 2027 estimated at just 1 percent.

Hospitals, in particular, may face further margin erosion from policy changes such as site neutrality, which is not yet reflected in current estimates. Beyond 2027, the shift of uninsured individuals into employer-sponsored coverage as they gain eligibility in their current roles or seek new employment with health coverage will support provider margin recovery. Providers are expected to adopt further cost-management measures to support margins.

Amid these challenges, overall non-acute care remains a strong growth area. Post-acute and outpatient care continue as bright spots supported by segments such as home health, hospice, and ambulatory surgery centers (ASCs), with an aging population and continued site-of-care shifts fueling growth. In contrast, other outpatient areas such as diagnostic imaging centers and dialysis clinics are expected to experience relatively low growth.

Health services and technology

HST is expected to continue as the fastest growing segment in healthcare. Software platforms have a growing role within the healthcare ecosystem, enabling providers and payers to become more efficient in an increasingly complex environment. Technological innovation (for example, gen AI and machine learning) is creating opportunities for stakeholders across segments by automating workflows, promoting data connectivity and interoperability, and generating actionable insights.[2]

As these innovations mature, providers and payers are likely to continue seeking outsourced services and technology platforms to capture efficiencies and cost savings. This could create large value pools for software and tech-enabled-services platforms and advanced data and analytics businesses that can offer healthcare-tailored services.

Federal policy changes, such as the Rural Health Transformation Program, are creating funding opportunities for technology use cases (for example, telehealth services and AI tools). HST players are well positioned to help states and rural health providers implement these innovative technologies, which may contribute to increased outsourcing. These policy changes, coupled with the pace of technological innovation with AI, may also accelerate a shift in value pools within HST segment toward software platforms and tech-enabled-services companies.

Federal policy changes, such as the Rural Health Transformation Program, are creating funding opportunities for technology use cases.

[2] Nikhil Sahni et al., *The potential impact of artificial intelligence on healthcare spending*, National Bureau of Economic Research working paper, number 30857, January 2023.

Pharmacy services

Pharmacy services are undergoing sweeping change. Specialty drugs, GLP-1 therapies, and new pricing models are reshaping the cost structure of pharmaceutical care. Cost-plus models and direct-to-consumer distribution are gaining traction as stakeholders seek greater transparency and affordability. Drug net spending rose by 11 percent from 2023 to 2024, largely due to innovative therapies such as GLP-1 agonists. US gross drug expenditure is anticipated to grow by about 8 percent annually from 2024 to 2029, potentially reaching $990 billion by 2029. Ambulatory infusion and hospital specialty pharmacy are expected to see the most rapid growth, exceeding 10 percent annually.

Regulatory and policy changes at both the federal and state levels are reshaping the pharmacy landscape. These changes may affect existing EBITDA margin drivers and could increase import costs amid global supply chain pressures. Furthermore, value chain pressure is heightening competition for prescriptions. Key competitive areas include the 340B discount value between providers and payers or pharmacy benefit managers, the rivalry between vertically integrated and independent pharmacies, the preference for ambulatory and home settings over hospital outpatient departments for complex infusions, and the expanding role of pharma-owned and -supported direct-to-consumer models.

Let's look more closely at subsector performance.

Payers: Group insurance is expected to become the largest payer segment

In 2024, overall payer EBITDA was about $29 billion, down from about $61 billion in 2023. Payers' results were affected by higher utilization, regulatory actions, and coverage shifts as people enrolled in Medicaid became uninsured. Because of these factors, EBITDA margins for commercial business fell from 3.4 percent to 1.8 percent; for government business, they fell from 2.9 percent to 0.5 percent.

Medical costs rose an average of 7 percent annually between 2021 and 2024. Pharmacy costs grew even faster at 9 percent annually.[3] This rise in pharmacy spending is largely the result of increased use of GLP-1 drugs and high-cost specialty injectables. We estimate that pharmacy spending will increase about 8 percent annually, driven by growth in infusion and hospital specialty pharmacy use. Besides pharmacy, utilization of categories such as behavioral health services and emergency departments has also increased, further contributing to rising claims costs.

Near-term payer EBITDA faces headwinds. While group commercial and Medicare businesses are expected to stabilize and recover between 2024 and 2027, the ACA and Medicaid segments face a 25 to 30 percent decline in EBITDA due to disenrollment, prompted by enhanced subsidy expiration and the impact of the OBBBA. These factors will slow revenue growth and compress margins through adverse selection. Recovery for the ACA and Medicaid segments is anticipated in 2028 and 2029, driven by pricing adjustments and enrollment shifts. Overall, we estimate payer EBITDA will see a phased recovery, with commercial growth partly offsetting near-term government segment pressures (Exhibit 4).

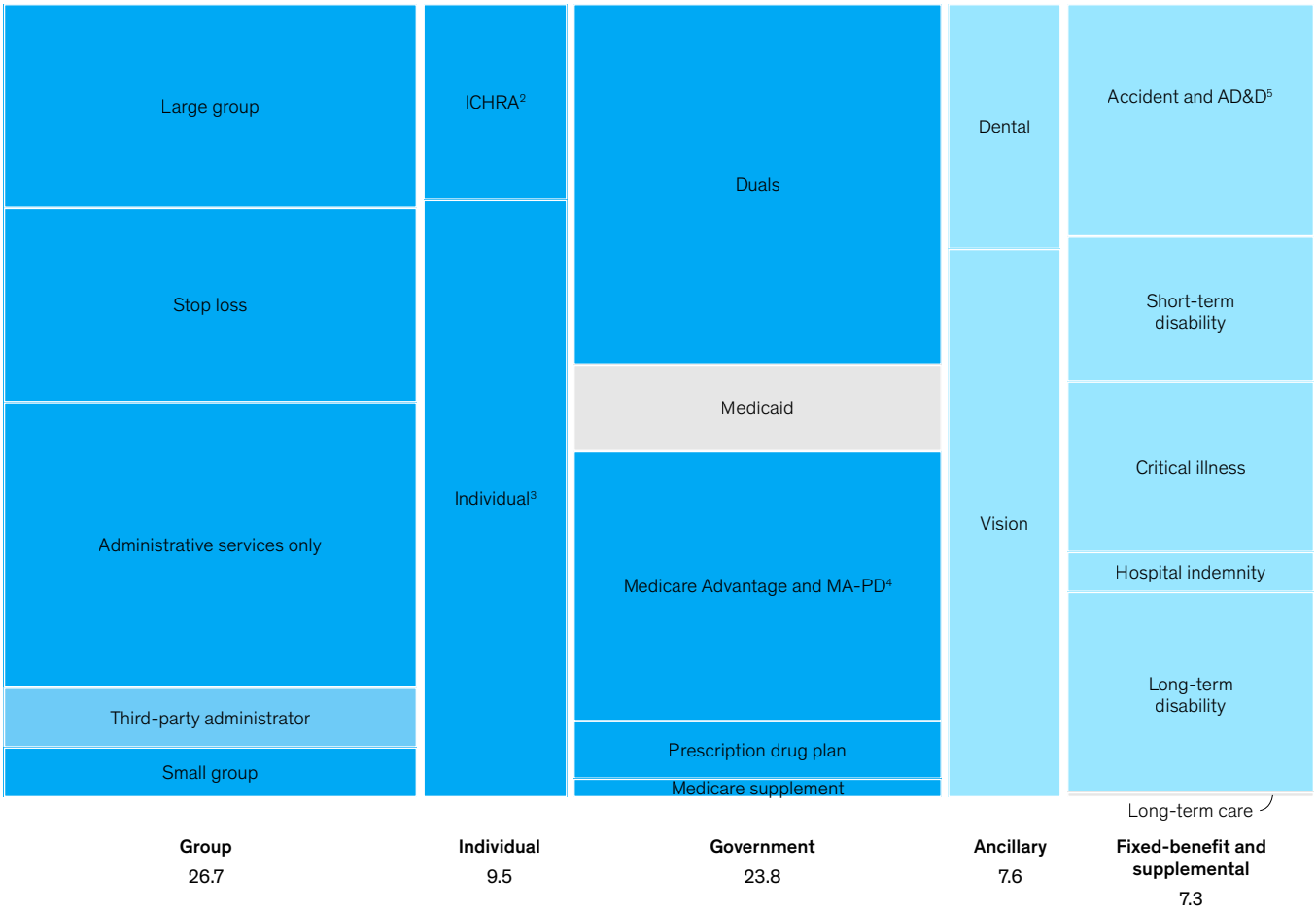
[3] National Association of Insurance Commissioners data on payer financial filings.

Exhibit 4

By 2029, most lines of the payer sector are expected to recover from 2024 lows.

Distribution of projected healthcare EBITDA across payer segments,[1] 2029, $ billion

2024–29 growth rates: <0% 0–4.99% 5–10% >10%



Note: Figures may not sum, because of rounding.
[1]Figures exclude investment income.
[2]Individual coverage health reimbursement arrangement.
[3]Excluding ICHRA.
[4]Medicare Advantage Prescription Drug.
[5]Accidental death and dismemberment.
Source: McKinsey Profit Pools Model

McKinsey & Company

Group insurance

The group insurance segment is expected to be the largest contributor to EBITDA by 2029, reaching $27 billion (a 36 percent share), up from $9 billion in 2024. Growth will be supported by premium adjustments, stabilizing utilization, and a pickup in insured lives starting in 2027 as some disenrolled Medicaid members transition to employer-sponsored plans.

This situation presents an opportunity for group insurers. Of the approximately nine million members expected to disenroll from Medicaid, about six million are already employed either part or full time.[4] Insurers could consider collaborating with employers to facilitate the enrollment of these individuals into group plans. In addition, economic growth could create up to five million jobs between 2026 and 2029, according to McKinsey research. We estimate that the growth may comprise one million to two million individuals who face Medicaid disenrollment but who could transition into employer-sponsored insurance, especially in sectors such as construction, maintenance and repair, and personal care services.

About two-thirds of these roles are expected to be with employers with fewer than 1,000 employees, which could spur growth in both small group plans and larger group or self-insured offerings. However, within the small group market, there may be a shift of 200,000 members from traditional employer-sponsored plans to individual coverage health reimbursement arrangements under the ACA.

In the large group segment, revenue per member per year is expected to rise incrementally by 2 to 3 percent annually through 2027 to offset higher provider reimbursement costs, though plan buydowns could reduce revenue by 20 to 60 basis points. EBITDA margins are unlikely to return to the segment's historical 2 to 3 percent range due to limited pass-through of rate increases, reimbursement pressures, and increased GLP-1 utilization, settling at less than 2 percent by 2029.[5]

Self-insured membership

Self-insured membership is estimated to grow at 1 percent annually through 2029, with stronger growth from 2027 as some of those enrolled in Medicaid move into employer-sponsored plans as a result of the OBBBA. Margins should remain steady at 9 to 11 percent, supported by variable-fee models such as stop-loss models that sustain higher profitability than fixed-fee models. Within this segment, third-party administrator enrollment—currently 18 percent of total administrative-services-only membership—is expected to rise to 22 percent by 2029, with revenue per member growing 4 to 5 percent annually and EBITDA expanding 20 to 30 percent over the period.

ACA market

The expiration of enhanced ACA subsidies and OBBBA policy changes could create a challenging near-term environment; about nine million to ten million members are estimated to exit the individual market by 2026–27. This shift is likely to worsen the risk pool and compress EBITDA margins by 50 to 80 basis points between 2024 and 2027, resulting in a decline in revenue and EBITDA. Beginning in 2027, however, the market is expected to stabilize as ACA payers implement targeted pricing strategies and about one million Medicaid enrollees transition to ACA plans. With these actions, EBITDA margins are expected to gradually recover, normalizing at about 4 percent over the long term.

[4] Jennifer Tolbert et al., "Understanding the intersection of Medicaid and work: An update," KFF, May 30, 2025.
[5] The increased utilization of GLP-1s is expected to outpace any negotiated rate reductions because expanded access for newly eligible Americans raises overall spending.

Medicare Advantage

Medicare Advantage EBITDA margins were pressured in 2024, approaching breakeven overall, with about 72 percent of plans operating at a negative EBITDA. The decline was driven by lower Centers for Medicare & Medicaid Services (CMS) rate increases, tighter risk adjustment policies, and a rise in medical costs of about 7 percent due to increased utilization and the Inflation Reduction Act's impact on Medicare Part D drug expenses.

Medicare Advantage enrollment—particularly among dual-eligible populations—is expected to continue growing, albeit at a slower pace. Medicare Advantage enrollment rose by 8 to 9 percent annually from 2019 to 2024, but we estimate the growth rate will moderate to 4 to 5 percent annually from 2024 to 2029. The dual-eligible managed care segment is estimated to grow 2 to 3 percent annually between 2024 and 2029, driven by marketplace profitability pressures, reduction in supplemental benefits such as dental and vision, and a competitive shift to chronic-condition special-needs plans.

In 2026, margins are expected to begin a gradual recovery of 100 to 150 basis points and return to a long-term average of about 2 percent by 2029. Key drivers will include anticipated higher final CMS rate adjustments in 2026, payer-led product optimization initiatives, and market streamlining as unprofitable carriers exit. Additional tailwinds such as lower member acquisition costs (linked to CMS's proposed agent commission limits), stabilizing utilization, and the continued growth of value-based care (estimated at 2 to 4 percent annually) are also expected to support recovery. A modest 5 to 10 percent increase in member out-of-pocket costs through product optimization such as reductions in ancillary benefits—for example, over-the-counter health products and vision—may further strengthen margin performance.

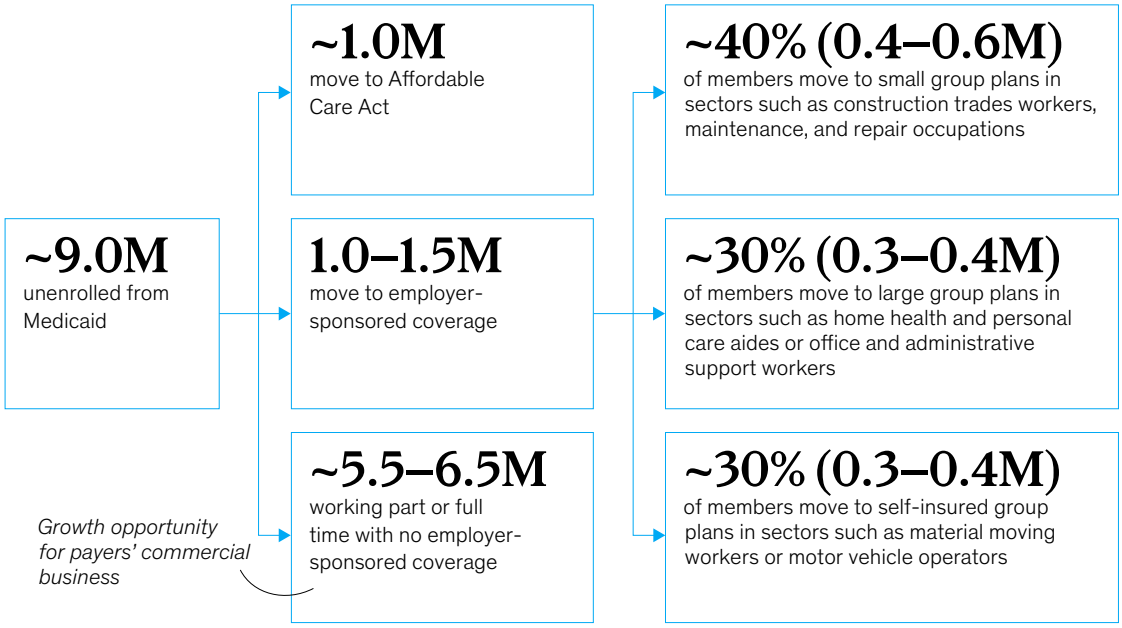
Medicaid

EBITDA in the Medicaid segment declined sharply from $14 billion in 2023 to $3 billion in 2024, primarily due to adverse selection following the expiration of the pandemic-era public health emergency. During 2027–28, overall Medicaid is expected to lose nine million to ten million members; managed care organizations are expected to lose seven million members, with a disproportionate number of healthier individuals exiting, leading to a deterioration in the risk mix. Given that rate adjustments typically lag behind 18 to 24 months, EBITDA is expected to decline further to negative levels in 2025 and 2026.

Looking ahead, the Medicaid segment will face continued challenges. Membership pressures driven by the implementation of the OBBBA could result in an additional six million to seven million disenrollments in 2027–28, potentially pushing EBITDA into negative territory—about negative $7 billion by 2028. A modest recovery is expected in 2029 as rate revalidations take effect and the risk mix stabilizes, bringing EBITDA slightly above breakeven to 1 percent. Some people losing Medicaid coverage could obtain coverage through their employer or the ACA (Exhibit 5).

Exhibit 5

Many who are being unenrolled from Medicaid could obtain coverage through their employer or the Affordable Care Act.



Note: Numbers are for the end of 2029. Figures may not sum, because of rounding.
Source: McKinsey Value Pools Model

McKinsey & Company

In 2026, [Medicare Advantage] margins are expected to begin a gradual recovery of 100 to 150 basis points and return to a long-term average of about 2 percent by 2029.

Providers: Pre- and post-acute segments are expected to grow

Provider EBITDA margins grew to 9.1 percent in 2024 from 8.9 percent in 2023, marking a recovery from the weak 2022–23 period that can be attributed to inflationary pressure and labor shortages. However, EBITDA margins remain below prepandemic levels. Increased utilization, incremental rate improvements, and easing inflation are the main factors fueling the rebound. The recovery in patient volumes following the postpandemic slowdown and the aging population has led to higher utilization across all care segments. Growth has been strongest in pre-acute settings such as ASCs and urgent care centers, driven by site-of-care shifts. Post-acute care segments—particularly home health and hospice—have also seen substantial growth, largely due to population aging.

After recovering in 2024–25, EBITDA is expected to decline by about 2 percent in 2027 compared with 2025. This drop will largely reflect the impact of ACA and Medicaid disenrollment. The disenrollment is expected to increase the uninsured population and lead to higher levels of uncompensated care along with a potential reduction in Medicaid reimbursement due to provider tax changes (not yet reflected in current estimates). From 2028 onward, however, we anticipate a recovery due to reimbursement increases and cost-management measures as well as when a portion of those disenrolled from Medicaid get jobs and transition to employer-sponsored insurance. Those developments would improve reimbursement levels for providers relative to Medicaid and reduce uncompensated care (Exhibit 6).

General acute hospitals

General acute hospital EBITDA margins are estimated to grow from 6.8 percent in 2024 to 7.6 percent by 2029, signaling an overall recovery spurred by rate increases and cost-management efforts. However, this recovery will be uneven. Between 2025 and 2027, hospitals will face headwinds from the impact of tariffs, subsidy expirationsd, and changes in federal policy, all of which are expected to reduce EBITDA margins by 40 to 100 basis points. There is also uncertainty about site neutrality policies, which could further reduce hospital revenue and EBITDA margins.

To counter these pressures, hospitals will likely seek above-average reimbursement rate increases from payers. Despite margin growth later in the decade, hospitals' share of overall provider profits is expected to decline from 41 percent in 2019 to about 38 percent by 2029. This decline will result from a shift in care delivery toward lower-cost, freestanding sites, reducing the relative profitability of hospital-based care.

Office-based physicians

Office-based physicians are experiencing mixed dynamics. Primary care EBITDA margins rose from a low base in 2024, driven by improved labor productivity. But margins face near-term pressures, with an estimated one- to two-percentage-point drop from 2025 to 2027. This decline is primarily due to a 2.8 percent Medicare fee schedule cut in 2025 and the impact of tariffs on medical supply costs.

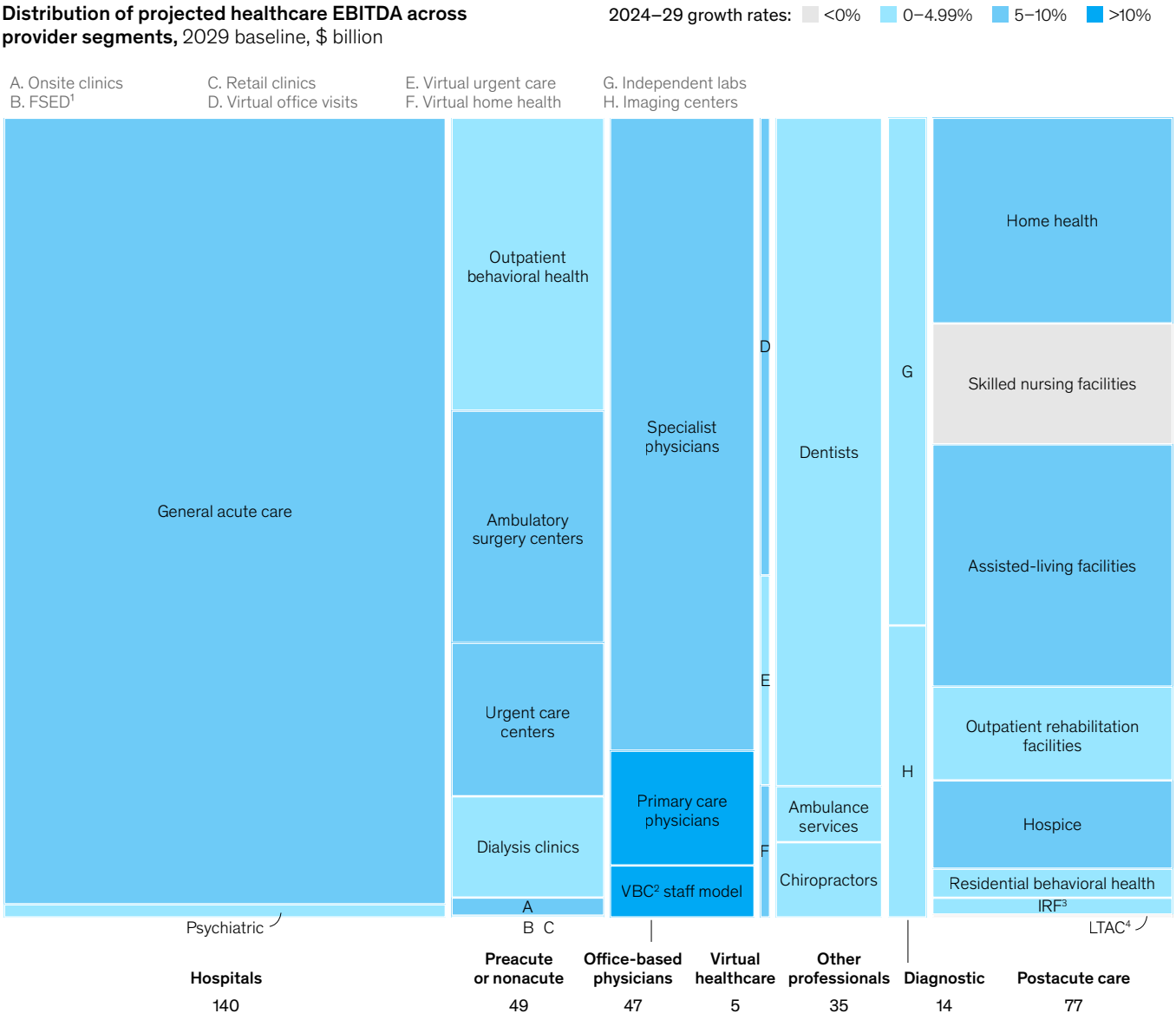
Meanwhile, specialty-care revenue is expected to grow 4 to 5 percent annually from 2024 to 2029, supported by demand for ancillary services such as diagnostics, imaging, and pharmacy. But tariffs will continue to be a headwind. Overall, office-based physicians' EBITDA margins are expected to increase from 5.7 percent in 2024 to 6.1 percent by 2029, underpinned by stable labor costs and incremental rate increases.

Care delivery will continue to shift from acute hospital settings to ASCs. ASCs will gain volume from newly approved procedures such as orthopedic (for example, reconstruction of shoulder and ankle joints) and cardiovascular (for example, percutaneous coronary intervention) surgeries. Despite this growth, ASC EBITDA margins are estimated to decline modestly from 24.1 percent in 2024 to 23.5 percent in 2029 due to evolving regulatory policies, cost pressures, and limited surgeon availability. However, potential implementation of site neutrality policies could expand volumes.

Exhibit 6

Provider EBITDA in the period from 2024 to 2029 is expected to grow from a low 2024 base.

Distribution of projected healthcare EBITDA across provider segments, 2029 baseline, $ billion



Note: EBITDA CAGR is based on growth in nominal dollar margins.
[1]Freestanding emergency department.
[2]Value-based care.
[3]Inpatient rehabilitation facilities.
[4]Long-term acute care hospitals.

McKinsey & Company

Visits to urgent care centers are expected to grow steadily, with EBITDA margins improving slightly from 15.2 percent to 15.5 percent from 2024 to 2029 as rising demand and expanding revenue offset reimbursement challenges. Across all pre-acute segments, headwinds from tariff impacts, subsidy expirations, and federal policy changes such as the OBBBA are expected to reduce EBITDA margins by 50 to 70 basis points from 2024 to 2029.

Post-acute care

Post-acute care is positioned for stronger performance over the next several years, with continued growth in home health and hospice but stagnation in skilled nursing facilities. EBITDA for home health is estimated to expand at 6 percent annually from 2024 to 2029 as care transitions to lower-cost, patient-preferred home settings, supported by aging demographics and increasing membership in Medicare Advantage. However, EBITDA margin expansion will remain constrained due to CMS reimbursement pressure.

Hospice is expected to see stronger overall growth of 9 percent annually from 2024 to 2029, driven by rising Medicare enrollment, greater awareness of hospice benefits postpandemic, and a supportive policy environment emphasizing quality and transparency. While revenue growth is solid, EBITDA margins are likely to remain stable given provider rate dynamics.

By contrast, skilled nursing facilities face structural challenges as payers direct patients toward shorter stays and home recovery, resulting in flat revenue and sustained pressure from higher labor and compliance costs, limiting EBITDA margin improvement. Overall, the post-acute segment is evolving toward home- and hospice-based models, while traditional institutional settings such as skilled nursing facilities remain under pressure from shifting payer and patient preference.

HST: Increased outsourcing and adoption of innovative solutions will spur continued growth

HST is estimated to continue as the fastest-growing sector in healthcare (Exhibit 7), driven by more outsourcing from payers and providers, a continued shift in value pools from services to software, and increased adoption of innovative solutions powered by gen AI to promote efficiencies. Looking ahead, we estimate 8 percent annual growth in HST revenue pools and a 9 percent annual growth in HST EBITDA pools from 2024 to 2029, with HST EBITDA estimated to exceed $110 billion by 2029.

The top 25 HST players are estimated to represent 29 percent of total HST revenue pools, up from 20 percent in 2019. A mix of M&A and organic growth of top players' core and acquired assets has driven the increase. Strategic owners, such as payers and providers, have invested in HST to reduce revenue leakage and participate in more areas of the healthcare value chain, including clearinghouses, utilization management, and revenue cycle management. Strategic owners have the scale to capture insights from discrete data points, accelerate capability development of subscale players, and create solutions more tailored to their unique use cases. The cumulative impact of these investments is expected to continue to spur HST M&A among scaled providers and payers.

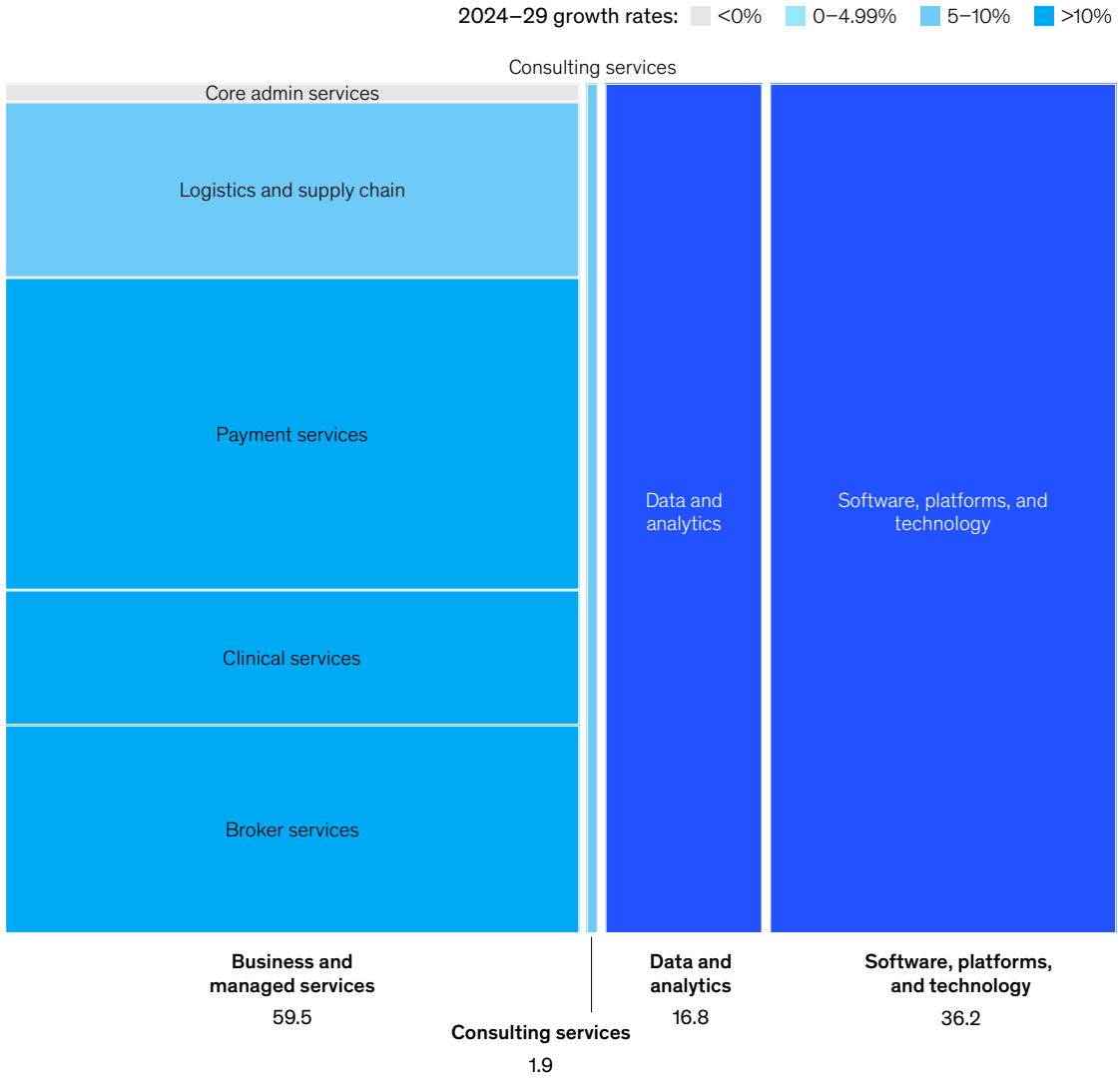
Despite consolidation, leading HST players still face pressure from innovators. While total HST venture capital deal volumes have not returned to peak 2021–22 values, the sector is still active, with more than $11 billion of annual investment in both 2023 and 2024. Investment activity accelerated in 2025, with $11.9 billion of venture capital investment as of the third quarter of 2025. The promise of gen AI solutions suggests investment activity in HST will remain strong.[6] This continued investment and innovation will be a key driver in HST segment growth through 2030. HST vendors are likely the players best positioned to enable widespread adoption of innovative solutions across the healthcare ecosystem.

[6] Aaron DeGagne, "Q3 2025 healthtech VC trends," Pitchbook, November 19, 2025.

Exhibit 7

Healthcare services and technology will continue to be the fastest-growing healthcare sector.

Distribution of projected healthcare EBITDA across healthcare services and technology segments, 2029, 100% = $114 billion



Note: EBITDA CAGR is based on growth in nominal dollar margins.
Source: McKinsey Profit Pools Model

McKinsey & Company

Four factors account for the anticipated growth in HST. First, as noted, increasing adoption of gen AI is expected to drive value creation, especially for workflow-heavy solutions (for example, ambient scribing for physicians) and scaled platforms that integrate point solutions (for example, AI-enabled claims management). Second, because payers and providers face ongoing EBITDA margin pressure, they will continue to outsource operations in search of efficiencies (for example, revenue cycle management and logistics and supply chain services). Third, there is an ongoing shift in value pools from services to technology and software platforms, with increasing demand for AI-based solutions to streamline processes and generate insights across vast data sources (for example, identifying clinical discrepancies and risk factors by synthesizing data from multiple providers and care settings). Last, ongoing consolidation of large HST players, especially those owned by providers or payers, could create value through greater scale and increased access to innovative solutions.

The increasing role of gen AI

Gen AI is shaping up to be one of the most disruptive innovations in healthcare technology in recent years. Unlike many prior healthcare technology innovations, healthcare organizations are showing a greater interest in and faster adoption of gen AI–powered solutions. As of 2024, some 85 percent of healthcare organizations that we surveyed are pursuing gen AI initiatives or have already implemented solutions.[7] Among respondents implementing gen AI, 61 percent intend to partner with vendors to develop customized solutions, creating an opportunity for HST players to meet their needs.

There are already concrete examples of payers and providers adopting gen AI solutions from vendors that have passed the pilot phase and reached full implementation, such as ambient AI medical scribing. This innovation—which began appearing in the late 2010s through several venture-backed start-ups and incumbent technology players—is already seeing rapid adoption. We estimate 10 percent or more of US physicians have adopted ambient scribing solutions, based on our survey of 184 provider purchasing decision-makers[8] and publicly reported deployment figures from large health systems[9] and several ambient scribing players.[10] Adoption of gen AI is expected to create outsized value in workflow-heavy point-solution areas where automation and predictive capabilities can generate measurable savings (for example, in administrative efficiency, clinical productivity, and patient engagement). In parallel, this will contribute to the continued shift of value pools from services to technology as manual workflows become automated and the need for outsourced services to fulfill legacy workflows is reduced.

Policy changes affecting HST

A section of the OBBBA, the Rural Health Transformation Program, will allocate $50 billion to states over five fiscal years with multiple approved use cases tied to technology to boost efficiency, enhance cybersecurity, and improve patient health outcomes (for example, through interoperable electronic health records, telehealth services, and AI tools).[11] HST companies are well positioned to help states and rural health providers implement these innovative technologies. The policy changes also may accelerate a shift in value pools within the HST segment toward software platforms and tech-enabled services companies based on use case funding eligibility and the value proposition of those players capable of supporting providers and patients working and living in rural areas.

Additionally, patient enrollment and utilization shifts that could result from recent regulatory policies may affect the ability and willingness of providers and payers to outsource services to HST players.

[7] McKinsey US gen AI healthcare survey, December 2024, n = 150 (60 payers, 60 health systems, 30 HST respondents); 29 percent of respondents were C-suite-level executives, and 37 percent were from organizations with more than $10 billion in revenue.
[8] Surveys of US healthcare providers conducted in summer 2024 (n = 100 health systems and physician groups) and in spring 2025 (n = 50 health systems), as well as interviews of US healthcare providers (n = 34 health systems and physician groups).
[9] "Ambient documentation technologies reduce physician burnout and restore 'joy' in medicine," Mass General Brigham, August 21, 2025; "Maria Ansari, chief executive officer and executive director of The Permanente Medical Group," *Becker's Hospital Review*, May 19, 2025; Laura Landro, "Why AI may be listening in on your next doctor's appointment," *Wall Street Journal*, May 27, 2025.
[10] Garrison Lovely, "Shiv Rao: Top 100 most influential people in AI 2024," Time, September 5, 2024; Madhumita Murgia, "Healthcare turns to AI for medical note-taking 'scribes,'" *Financial Times*, January 5, 2025.
[11] "Rural Health Transformation (RHT) Program," CMS, updated December 29, 2025.

If providers and payers see margin pressures increase, they may ask for discounts or decrease the scope or utilization of noncritical HST services. Ultimately, providers and payers are likely to raise the bar for outsourcing, but HST players that can demonstrate clear return on investment may see even further demand for their solutions.

Pharmacy services: Navigating transformation

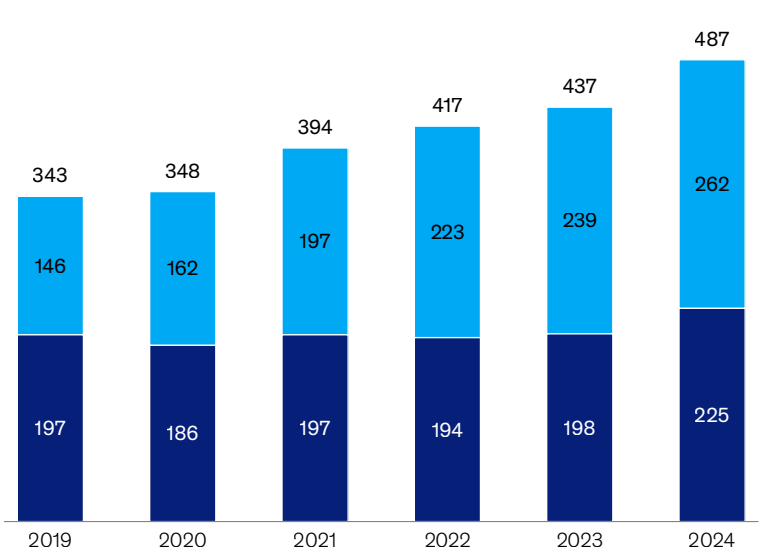
The US pharmacy sector is undergoing a profound transformation. One major factor is the rapid rise in drug spending, especially for innovative therapies and biologics. Overall spending increased by 11 percent in 2024 (Exhibit 8); GLP-1 therapies accounted for half the increase. US gross drug spending is expected reach $990 billion a year by 2029, increasing at 8 percent annually.[12]

We estimate EBITDA will grow at an annual rate of 6 percent from 2024 to 2029, reaching $114 billion by 2029. During this period, the ambulatory infusion and hospital specialty pharmacy segments are expected to be the fastest-growing areas, expanding at annual rates of 9 percent and 21 percent, respectively (Exhibit 9).

Exhibit 8

Half of the 2024 spending growth of more than 11 percent is due to GLP-1s.

Total drug spending at estimated net prices, $ billion



CAGR, %	2019–23	2023–24
Manufacturer net,[1] total	6	11
Manufacturer net, biologic[2]	13	10
Manufacturer net, small molecule	0	14

[1]Manufacturer net reflects recognized revenue after discounts, rebates, and price concessions are applied, as reported by IQVIA. IQVIA estimates rebates and uses CMS national health expenditure data, IQVIA audited sales, and IQVIA estimates of manufacturer invoice-level data.
[2]Biologics includes all products that are biologic in origin, including peptides (eg, GLP-1 agonists).
Source: *Understanding the use of medicines in the U.S. 2025: Evolving standards of care, patient access, and spending*, IQVIA, April 30, 2025

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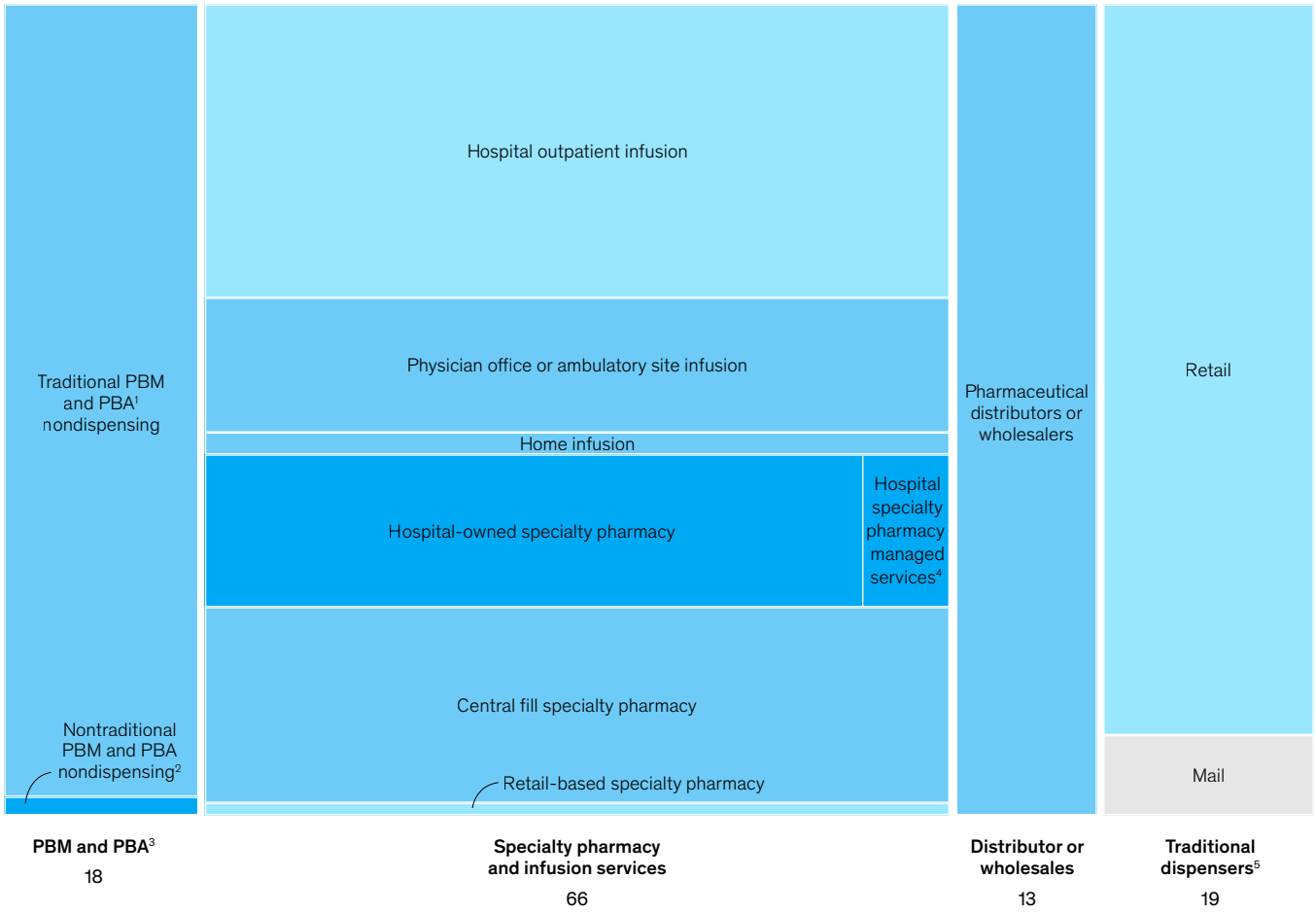
[12] US gross drug spending growth from the Drug Channel Institute.

Exhibit 9

In pharmacy services, specialty pharma will be the fastest-growing segment.

Distribution of projected healthcare EBITDA across the pharma value chain, 2029, $ billion

2024–29 growth rates: <0% 0–4.99% 5–10% >10%



Note: Figures may not sum, because of rounding.
[1]PBM = pharmacy benefit manager; PBA = pharmacy benefit administrator.
[2]Nontraditional PBM and PBA models encompass lives where revenue and EBITDA are primarily generated from administrative services rather than retained rebates or spreads.
[3]Excludes profit earned by PBM-owned specialty pharmacies and mail pharmacies, which is captured under central fill specialty pharmacy and mail, respectively.
[4]Specialty pharmacy services outsourced to vendors such as Shields or Trellis.
[5]Excludes specialty pharmacy (specialty dispensed through retail channels is captured under retail-based specialty pharmacy).
Source: McKinsey Profit Pools Model

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Regulatory and policy changes are affecting the pharmacy value chain. At the federal level, measures such as Section 232 tariffs, most-favored nation prescription drug pricing, and the Federal Trade Commission's scrutiny of prescription drugs could influence global launch and pricing strategies for manufacturers and increase import costs. In addition, states are enacting measures to enhance price transparency, prohibit certain rebates, and regulate network inclusion requirements.

The competitive landscape for prescriptions is intensifying, particularly between vertically integrated and independent pharmacies. Discounts through the 340B Drug Pricing Program grew 11 percent annually between 2020 and 2024 and have increased competition for prescriptions between providers and payers and pharmacy benefit managers. There is also a growing preference for ambulatory and home settings over hospital outpatient departments for complex infusions. Further, the rise of direct-to-consumer models supported by pharmaceutical companies is accelerating, intensifying competition and altering drug distribution and patient engagement dynamics.

Innovation in pricing models, such as cost-plus models, aims to enhance transparency in drug costs and reimbursement, reduce payment variations, and foster a more competitive environment among different pharmacy formats. These models align pharmacies to a common pricing index, potentially establishing a baseline for reimbursement and improving the overall sustainability of pharmacy operations.

In conclusion, the US pharmacy sector is at a critical juncture, driven by substantial growth in drug spending, regulatory changes, and competitive pressures. The industry's ability to adapt through innovative pricing models, increased transparency, and strategic partnerships will be crucial for success.

The US healthcare industry is navigating a period of profound transformation, marked by persistent financial pressures, regulatory shifts, and a changing care-delivery landscape. Payers and providers face substantial headwinds, but growth opportunities are emerging in HST, specialty pharmacy, and new care models. Resilience will depend on a sectorwide commitment to operational efficiency, technology adoption, and adaptive strategies. Organizations that innovate and collaborate across the value chain will be best positioned to capture value as the industry evolves.

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El Camino Health

EL CAMINO HOSPITAL BOARD OF DIRECTORS
FINANCE COMMITTEE MEETING MEMO

To: Finance Committee
From: Raju Iyer, CFO
Date: February 6, 2026
Subject: Financials: FY2026 – Period 6 (December 2025) & YTD FY2026 (as of 12/31/2025)

Purpose:

To provide the Finance Committee with an overview of financial results for Period 6 and YTD FY2026, including comparisons to Budget and Prior Year (PY), and to seek approval of the financials. This memo highlights key financial trends and governance-level considerations; detailed operational and variance analyses are provided in the attached materials.

Executive Summary – Period 6 (December 2025)

Overall Performance

Period 6 results reflect continued strength in outpatient and procedural activity, which more than offset modest inpatient volume softness. Revenue and operating margin performance exceeded budget expectations, supported by disciplined expense management and sustained labor productivity improvements. Net income significantly exceeded budget, driven mostly by favorable non-operating investment performance.

Key Volume Observations

- Inpatient average daily census (ADC) remained below Budget and Prior Year, consistent with ongoing utilization trends.
- Outpatient volumes, including emergency department visits and procedural cases, exceeded both Budget and Prior Year and were the primary contributors to favorable revenue performance.
- Detailed volume trends by service line are included in the **Detailed Volume and KPI Dashboard.**

Financial Performance

- **Total Operating Revenue:** $161.2M, favorable to Budget by $9.2M (6.1%) and higher than PY by $12.6M (8.4%).
- **Operating Margin:** $23.1M, favorable to Budget by $8.6M (59.3%) and slightly below PY by $0.7M (2.9%).
- **Operating EBIDA:** $31.2M, favorable to Budget by $8.2M (35.8%) and slightly below PY by $0.8M (2.5%).
- **Net Income:** $56.2M, favorable to Budget by $36.2M (180.6%) and higher than PY by $37.9M (207.4%).

YTD FY2026 Performance (as of December 31, 2025)

Year-to-Date Overview

Through December 31, 2025, financial performance remains ahead of Budget across all major operating metrics. Revenue growth continues to be driven by outpatient activity, while expense performance reflects effective management of labor productivity and premium pay. A portion of year-

to-date net income favorability is attributable to market-driven investment gains rather than recurring operating performance.

Key Results

- **Total Operating Revenue:** $917.9M, favorable to Budget by $16.6M (1.8%) and higher than PY by $71.0M (8.4%).
- **Operating Margin:** $100.3M, favorable to Budget by $25.8M (34.5%) and higher than PY by $15.2M (17.9%).
- **Operating EBIDA:** $151.6M, favorable to Budget by $23.8M (18.6%) and higher than PY by $16.3M (12.0%).
- **Net Income:** $227.9M, favorable to Budget by $122.4M (116.0%) and higher than PY by $70.6M (44.8%).

Key Volumes:

- **ADC:** CY 300.5 (1.8% unfavorable to Budget), PY 307.6 (2.3% lower)
- **Adjusted Discharges:** CY 23,316 (3.4% favorable to Budget), PY 22,239 (4.8% higher)
- **ED Visits:** CY 42,180 (6.0% favorable to Budget), PY 40,058 (5.29% higher)
- **OP Visits / Pr,ocedural Cases:** CY 84,704 (8.4% favorable to Budget), PY 75,523 (12.2% higher)

Recommendation: Management recommends the Finance Committee approve the Period 6 and YTD FY2026 financials.

List of Attachments:

1. Presentation: Period 6 & YTD FY2026 financials

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Summary of Financial Operations

Fiscal Year 2026 – Period 6

7/1/2025 to 12/31/2025

Financial Overview: YTD FY2026 (as of 12/31/2025)

Consolidated Financial Performance

- Operating EBIDA is $151.6 / 16.5% compared to the budget of 127.8 / 14.2% and $16.3M / 12.0% above prior year.
- Operating margin is $100.3M / 10.9% compared to the budget of $74.5M / 8.3% and $15.2M / 17.9% above prior year.
- Operating expense is $9.1M / 1.1% favorable to budget.
  - When adjusted for volume levels, Operating Expense per CMI Adjusted Discharge is $20,470 which is 5.7% favorable to budget.
    - **Note: Excludes depreciation and interest expense**
- Key operating drivers:
  - Year-over-year operating margin is $15.2M / 17.9% above the same period last year:
  - Favorable:
    - Continued strength in Interventional Services (12.1% fav to prior year), Outpatient Surgical Services (8.1% fav to prior year), and Outpatient Endoscopy Services (6.7% fav to prior year).
    - Expense management – Continued favorability in Labor Productivity and Premium Time.
  - Unfavorable
    - Uptick in Medicare Payor Mix: 0.2%
- Year-over-year net margin is $70.6M / 44.8% higher than the same period last year.

Operational / Financial Results: YTD FY2026 (as of 12/31/2025)

($ thousands)		Current Year	Budget	Variance to Budget	Performance to Budget	Prior Year	Year over Year change	YoY % Change	Moody's 'Aa3'	S&P 'AA'	Fitch 'AA'	Performance to Rating Agency Medians
Activity / Volume	ADC	301	306	(5)	(1.8%)	308	(7)	(2.3%)	---	---	---	---
	Adjusted Discharges	23,316	22,544	772	3.4%	22,239	1,077	4.8%	---	---	---	---
	OP Visits / OP Procedural Cases	84,704	78,152	6,552	8.4%	75,523	9,181	12.2%	---	---	---	---
	Percent Government (%)	58.6%	58.5%	0.1%	0.2%	58.4%	0.2%	0.4%	---	---	---	---
	Gross Charges ($)	4,061,750	3,899,307	162,443	4.2%	3,619,435	442,315	12.2%	---	---	---	---
Operations	Cost Per CMI AD	20,479	21,724	(1,245)	(5.7%)	19,822	657	3.3%	---	---	---	---
	Net Days in A/R	48.2	54.0	(5.8)	(10.7%)	50.4	(2.2)	(4.3%)	47.5	47.4	47.8	
Financial Performance	Net Patient Revenue ($)	887,992	867,282	20,710	2.4%	813,274	74,718	9.2%	2,178,271	4,016,609	---	
	Total Operating Revenue ($)	917,937	901,323	16,614	1.8%	846,939	70,998	8.4%	2,570,804	4,185,490	2,210,450	
	Operating Margin ($)	**100,281**	**74,543**	**25,738**	34.5%	**85,078**	**15,203**	17.9%	**51,416**	**146,492**	**75,155**	
	Operating EBIDA ($)	**151,600**	**127,778**	**23,822**	18.6%	**135,337**	**16,263**	12.0%	**149,107**	**339,025**	**187,888**	
	Net Income ($)	227,954	105,518	122,437	116.0%	157,404	70,551	44.8%	141,394	326,468	123,785	
	Operating Margin (%)	**10.9%**	**8.3%**	**2.7%**	32.1%	**10.0%**	**0.9%**	8.8%	**2.0%**	**3.5%**	**3.4%**	
	Operating EBIDA (%)	**16.5%**	**14.2%**	**2.3%**	16.5%	**16.0%**	**0.5%**	3.4%	**5.8%**	**8.1%**	**8.5%**	
	DCOH (days)	347	275	72	26.3%	276	71	25.8%	258	315	311	

Moody's Medians: Not-for-profit and public healthcare annual report; August 2025. 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 2025. Dollar amounts have been adjusted to reflect monthly averages.
Fitch Ratings: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios; July 2025. 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.

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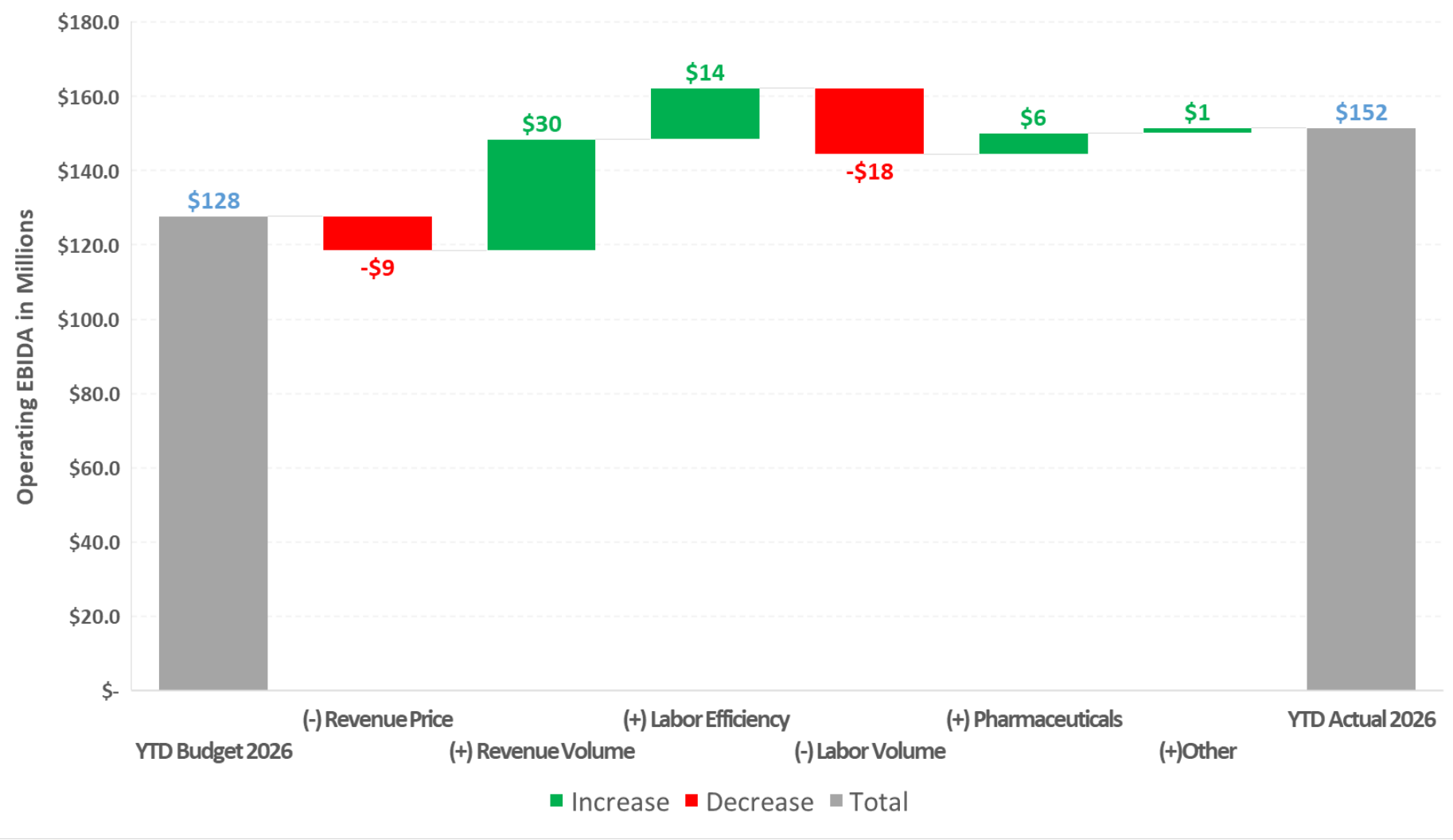
Unfavorable Variance < 3.49%
Unfavorable Variance 3.50% - 6.49%
Unfavorable Variance > 6.50%

FY2026 YTD P6: Factors driving favorable Operating EBIDA

(Dollars in Millions)

$152M (actual) vs. $128 (budget) = $24M / 18.6% favorable to budget



- **Revenue:**
  - Price: Change in IP/OP mix vs budgeted resulted in lower Revenue per Adjusted Discharge
  - Volume impact: Driven by 3.4% favorability to budget in hospital activity.
- **Labor:**
  - Efficiency: Consistent favorable performance versus budgeted productivity targets.
  - Volume impact: Driven by 3.4% favorability to budget in hospital activity.
- **Pharmaceuticals:** FY26 Budget was increased to account for specialty drugs used in new clinics. Utilization shifts, cost savings initiatives, and improved contracting has produced favorable results.

Operational / Financial Results: Period 6 – December 2025 (as of 12/31/2025)

($ thousands)

		Current Year	Budget	Variance to Budget	Performance to Budget	Prior Year	Year over Year change	YoY % Change	Moody's 'Aa3'	S&P 'AA'	Fitch 'AA'	Performance to Rating Agency Medians
Activity / Volume	ADC	307	300	7	2.2%	322	(16)	(4.9%)	---	---	---	---
	Adjusted Discharges	3,945	3,752	193	5.1%	3,898	47	1.2%	---	---	---	---
	OP Visits / OP Procedural Cases	14,167	12,029	2,138	17.8%	12,593	1,574	12.5%	---	---	---	---
	Percent Government (%)	56.9%	58.7%	(1.8%)	(3.0%)	59.1%	(2.2%)	(3.7%)	---	---	---	---
	Gross Charges ($)	676,772	651,828	24,945	3.8%	637,395	39,378	6.2%	---	---	---	---
Operations	Cost Per CMI AD	20,298	21,724	(1,426)	(6.6%)	18,201	2,097	11.5%	---	---	---	---
	Net Days in A/R	48.2	54.0	(5.8)	(10.7%)	50.4	(2.2)	(4.3%)	47.5	49.7	47.8	
Financial Performance	Net Patient Revenue ($)	155,733	146,329	9,404	6.4%	142,994	12,739	8.9%	363,045	669,435	---	
	Total Operating Revenue ($)	161,166	151,964	9,202	6.1%	148,611	12,555	8.4%	428,467	697,582	368,408	
	Operating Margin ($)	**23,053**	**14,474**	**8,580**	59.3%	**23,753**	**(699)**	(2.9%)	**8,569**	**24,415**	**12,526**	
	Operating EBIDA ($)	**31,236**	**23,003**	**8,233**	35.8%	**32,029**	**(793)**	(2.5%)	**24,851**	**56,504**	**31,315**	
	Net Income ($)	56,161	20,012	36,150	180.6%	18,271	37,891	207.4%	23,566	54,411	20,631	
	Operating Margin (%)	**14.3%**	**9.5%**	**4.8%**	50.2%	**16.0%**	**(1.7%)**	(10.5%)	**2.0%**	**3.5%**	**3.4%**	
	Operating EBIDA (%)	**19.4%**	**15.1%**	**4.2%**	28.0%	**21.6%**	**(2.2%)**	(10.1%)	**5.8%**	**8.1%**	**8.5%**	
	DCOH (days)	347	275	72	26.3%	276	71	25.8%	258	315	311	

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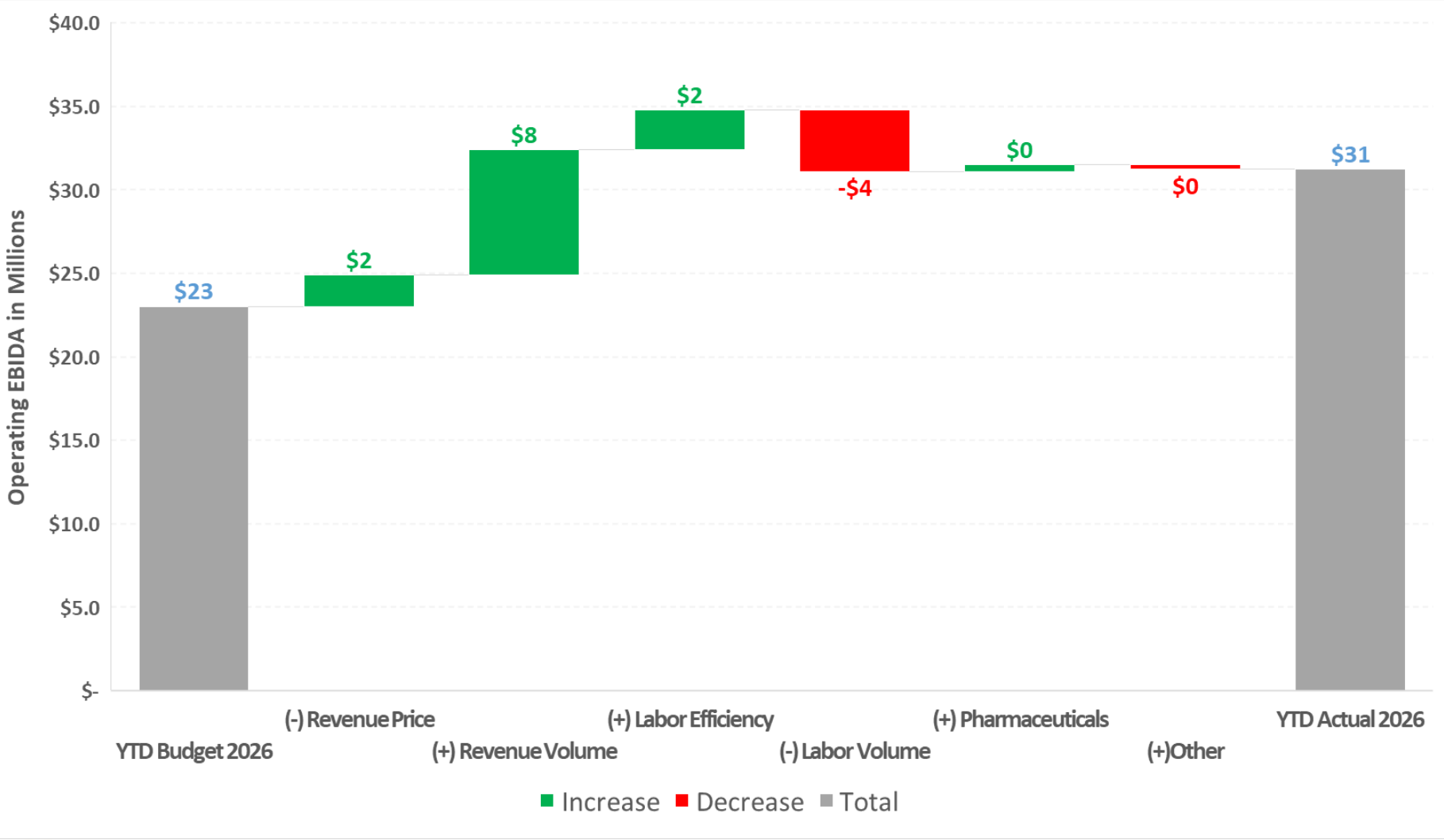
El Camino Health

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

FY2026 P6: Factors driving favorable Operating EBIDA

(Dollars in Millions)

$31M (actual) vs. $23 (budget) = $8M / 35.8% favorable to budget



- **Revenue:**
  - Price : Stronger IP activity drove Revenue per Adjusted Discharge up.
  - Volume impact: Driven by 5.1% favorability to budget in hospital activity.
- **Labor:**
  - Efficiency: Consistent favorable performance versus budgeted productivity targets.
  - Volume impact: Driven by 5.1% increase in hospital activity.

Consolidated Balance Sheet (as of 12/31/2025)

($000s)

ASSETS

CURRENT ASSETS	December 31, 2025	Audited June 30, 2025
Cash	448,295	407,140
Short Term Investments	162,617	98,926
Patient Accounts Receivable, net	241,477	240,895
Other Accounts and Notes Receivable	23,519	23,615
Intercompany Receivables	35,919	23,136
Inventories and Prepaids	55,768	54,047
Total Current Assets	**967,595**	**847,759**
BOARD DESIGNATED ASSETS		
Foundation Board Designated	16,798	18,467
Plant & Equipment Fund	541,377	541,377
Women's Hospital Expansion	60,725	45,895
Operational Reserve Fund	210,693	210,693
Community Benefit Fund	16,334	17,476
Workers Compensation Reserve Fund	12,374	13,086
Postretirement Health/Life Reserve Fund	19,813	23,009
PTO Liability Fund	45,365	41,558
Malpractice Reserve Fund	1,713	1,713
Catastrophic Reserves Fund	33,014	41,019
Total Board Designated Assets	**958,206**	**954,294**
FUNDS HELD BY TRUSTEE	-	-
LONG TERM INVESTMENTS	**804,484**	**753,548**
CHARITABLE GIFT ANNUITY INVESTMENTS	**1,335**	**1,279**
INVESTMENTS IN AFFILIATES	**53,780**	**51,293**
PROPERTY AND EQUIPMENT		
Fixed Assets at Cost	2,132,999	2,067,886
Less: Accumulated Depreciation	(1,001,266)	(959,828)
Construction in Progress	253,426	228,708
Property, Plant & Equipment - Net	**1,385,158**	**1,336,766**
DEFERRED OUTFLOWS	40,733	41,289
RESTRICTED ASSETS	63,222	50,154
OTHER ASSETS	216,726	217,190
TOTAL ASSETS	**4,491,238**	**4,253,573**

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES	December 31, 2025	Audited June 30, 2025
Accounts Payable	54,430	77,122
Salaries and Related Liabilities	51,215	39,837
Accrued PTO	75,871	71,612
Worker's Comp Reserve	2,300	2,300
Third Party Settlements	10,028	8,509
Intercompany Payables	31,242	18,745
Malpractice Reserves	1,713	1,713
Bonds Payable - Current	15,615	15,615
Bond Interest Payable	8,509	5,651
Other Liabilities	19,830	17,992
Total Current Liabilities	**270,752**	**259,096**
LONG TERM LIABILITIES		
Post Retirement Benefits	19,813	22,028
Worker's Comp Reserve	12,374	12,374
Other L/T Obligation (Asbestos)	25,755	25,939
Bond Payable	525,513	526,840
Total Long Term Liabilities	**583,455**	**587,180**
DEFERRED REVENUE-UNRESTRICTED	**1,471**	**1,538**
DEFERRED INFLOW OF RESOURCES	**80,563**	**88,430**
FUND BALANCE/CAPITAL ACCOUNTS		
Unrestricted	3,252,226	3,027,555
Minority Interest	-	-
Board Designated	235,758	225,482
Restricted	67,013	64,292
Total Fund Bal & Capital Accts	**3,554,997**	**3,317,329**
TOTAL LIABILITIES AND FUND BALANCE	**4,491,238**	**4,253,573**

El Camino Health