SAN GORGONIO
MEMORIAL HOSPITAL

AGENDA

REGULAR MEETING OF THE FINANCE COMMITTEE
A COMMITTEE OF THE BOARD OF DIRECTORS

Tuesday, July 30, 2024
9:00 AM
Administration Boardroom
600 N. Highland Springs Avenue, Banning, CA 92220

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Administration Office at (951) 769-2101. **Notification 48 hours prior to the meeting** will enable the Hospital to make reasonable arrangement to ensure accessibility to this meeting. [28 CFR 35.02-35.104 ADA Title II].

Darrell Petersen will participate the meeting remotely at 11234 Anderson Street, Loma Linda, CA 92354

TAB

I. Call to Order — S. DiBiasi

II. Public Comment

A five-minute limitation shall apply to each member of the public who wishes to address the Finance Committee of the Hospital Board of Directors on any matter under the subject jurisdiction of the Committee. A thirty-minute time limit is placed on this section. No member of the public shall be permitted to "share" his/her five minutes with any other member of the public. (Usually, any items received under this heading are referred to staff for future study, research, completion and/or future Committee Action.) (PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.)

On behalf of the San Gorgonio Memorial Hospital Board of Directors, we want you to know that the Board/Committee acknowledges the comments or concerns that you direct to this Committee. While the Board/Committee may wish to occasionally respond immediately to questions or comments if appropriate, they often will instruct the CEO, or other Administrative Executive personnel, to do further research and report back to the Board/Committee prior to responding to any issues raised. If you have specific questions, you will receive a response either at the meeting or shortly thereafter. The Board/Committee wants to ensure that it is fully informed before responding, and so if your questions are not addressed during the meeting, this does not indicate a lack of interest on the Board/Committee's part; a response will be forthcoming.

OLD BUSINESS

III. *** Proposed Action – Approval of Minutes** — S. DiBiasi
- June 25, 2024, regular meeting — A

San Gorgonio Memorial Hospital Board of Directors
Finance Committee – Regular Meeting
July 30, 2024

NEW BUSINESS

IV.	*** Proposed Action – Recommend Approval to Hospital Board** ▪ **June 2024 Financial Report (Unaudited)** ▪ **ROLL CALL**	D. Heckathorne	handout
V.	Status Update: FYE 2023 Audit Findings on Internal Control	S. Barron	verbal
VI.	Report on Managed Care Contracts Negotiations and DOFR Updates - Informational	D. Heckathorne	B
VII.	CHA Update and Repercussions of State 2024 Budget – Informational	D. Heckathorne	C
VIII.	Moody's Credit Rating Update – Informational	D. Heckathorne	D
IX.	Future Agenda Items		
X.	Next Meeting – August 27, 2024 @ 9:00 AM.		
XI.	Adjournment	S. DiBiasi	

*** Requires Action**

In accordance with The Brown Act, Section 54957.5, all public records relating to an agenda item on this agenda are available for public inspection at the time the document is distributed to all, or a majority of all, members of the Committee. Such records shall be available at the Hospital office located at 600 N. Highland Springs Avenue, Banning, CA 92220 during regular business hours, Monday through Friday, 8:00 am - 4:30 pm.

Certification of Posting

I certify that on July 26, 2024, I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of San Gorgonio Memorial Hospital - Finance Committee, and on the San Gorgonio Memorial Hospital website said time being at least 72 hours in advance of the regular meeting of the Finance Committee *(Government Code Section 54954.2)*.

Executed at Banning, California, on July 26, 2024

Ariel Whitley

Ariel Whitley, Executive Assistant

TAB A

MINUTES: Not Yet Approved by Committee

REGULAR MEETING OF THE
SAN GORGONIO MEMORIAL HOSPITAL
BOARD OF DIRECTORS

FINANCE COMMITTEE
June 25, 2024

The regular meeting of the San Gorgonio Memorial Hospital Board of Directors Finance Committee was held on Tuesday, June 25, 2024, in Classroom B, 600 N. Highland Springs Avenue, Banning, California.

Members Present: Susan DiBiasi (Chair), Darrell Petersen, Ron Rader, Steve Rutledge

Members Absent: None

Required Staff: Steve Barron (CEO), Daniel Heckathorne (CFO), John Peleuses (VP, Ancillary & Support Services), Ariel Whitley (Executive Assistant), Angela Brady (CNE)

<table>
<tr><th>AGENDA ITEM</th><th>DISCUSSION</th><th>ACTION / FOLLOW-UP</th></tr>
<tr><td>Call To Order</td><td>Susan DiBiasi called the meeting to order at 9:00 am.</td><td></td></tr>
<tr><td>Public Comment</td><td>No public present.</td><td></td></tr>
<tr><td colspan="3">OLD BUSINESS</td></tr>
<tr><td>Proposed Action - Approve Minutes

May 28, 2024, regular meeting</td><td>Susan DiBiasi asked for any changes or corrections to the minutes of the May 28, 2024, regular meeting. There were none.</td><td>The minutes of the May 28, 2024, regular meeting will stand correct as presented.</td></tr>
<tr><td>Status of FYE 23 Audit Findings on Internal Controls</td><td>Steve Barron, CEO, gave an update on the status of the FYE 23 audit findings on internal controls.</td><td></td></tr>
<tr><td colspan="3">NEW BUSINESS</td></tr>
<tr><td>Proposed Action – Recommend Approval to the Executive Committee of the Hospital Board
• Annual Insurance Renewals: Property and Casualty Programs</td><td>The Annual Insurance Renewals were presented to the committee by Dan Heckathorne, CFO. The Insurance Renewals include:
• Property and Casualty Programs

ROLL CALL:
<table><tr><td>DiBiasi</td><td>Yes</td><td>Petersen</td><td>Yes</td></tr><tr><td>Rader</td><td>Yes</td><td>Rutledge</td><td>Yes</td></tr></table>Motion carried.</td><td>M.S.C. (Rader/Rutledge), the SGMH Finance Committee voted to recommend approval of the Annual Insurance Renewals: Property and Casualty Programs to the Executive Committee of the Hospital Board.</td></tr>
</table>

<table>
<tr><th>AGENDA ITEM</th><th>DISCUSSION</th><th>ACTION / FOLLOW-UP</th></tr>
<tr><td>Proposed Action – Recommend Approval to Hospital Board of Directors - Monthly Financial Report (Unaudited) – May 2024</td><td>Daniel Heckathorne, CFO, reviewed the Unaudited May 2024 finance report as informational.

The month of May resulted in negative $1.21M EBIDA compared to budgeted negative EBIDA of $658K and a Flex Budget positive EBIDA of $1.52M. Overall, Surplus was a negative $1.52M compared to the budgeted negative $1.1M.

A few adjustments and items of note include:
Patient Days, Surgeries, Emergency Visits and Adjusted Patient Days all exceeded budget.
There was $1.15M of Supplemental Revenues in May including $421K of unplanned P4P.
The Line of Credit remained at -0- and will be drawn down during the last week of June.
ROLL CALL:

<table><tr><td>DiBiasi</td><td>Yes</td><td>Petersen</td><td>Yes</td></tr><tr><td>Rader</td><td>Yes</td><td>Rutledge</td><td>Yes</td></tr></table>Motion carried.</td><td>M.S.C. (Petersen/Rader), the SGMH Finance Committee voted to recommend approval of the Unaudited May 2024 Financial report to the Hospital Board of Directors.</td></tr>
<tr><td>Proposed Action – Recommend Approval to Hospital Board and Healthcare District Board of FYE 2025 Operating and Capital Budgets</td><td>Dan Heckathorne, CFO, presented the FYE 2025 Operating and Capital Budgets as it is an annual requirement.

ROLL CALL:

<table><tr><td>DiBiasi</td><td>Yes</td><td>Petersen</td><td>Yes</td></tr><tr><td>Rader</td><td>Yes</td><td>Rutledge</td><td>Yes</td></tr></table>Motion carried.</td><td>M.S.C. (Rutledge/Rader), the SGMH Finance Committee voted to recommend approval of the FYE 2025 Operating and Capital Budgets to the Hospital Board of Directors.</td></tr>
<tr><td>Future Agenda Items</td><td>None</td><td></td></tr>
<tr><td>Next Meeting</td><td>The next regular Finance Committee meeting will be held on July 30, 2024 @ 9:00 am.</td><td></td></tr>
<tr><td>Adjournment</td><td>The meeting was adjourned at 11:08 am.</td><td></td></tr>
</table>

In accordance with The Brown Act, *Section 54957.5*, all reports, and handouts discussed during this Open Session meeting are public records and are available for public inspection. These reports and/or handouts are available for review at the Hospital Administration office located at 600 N. Highland Springs Avenue, Banning, CA 92220 during regular business hours, Monday through Friday, 8:00 am - 4:30 pm.

Minutes respectfully submitted by Ariel Whitley, Executive Assistant

TAB B

San Gorgonio Memorial Healthcare District Hospital and San Gorgonio Memorial Hospital

To: Finance Committee, Board of Directors, and District Board

Agenda Item for July 30, 2024 Finance Committee and August 6, 2024 Board Meetings

Subject:

Report on Managed Care Contracts Negotiations and Division of Financial Responsibility (DOFR)

Key Issues:

From time to time, the Hospital enters new managed care Payor contracts and/or renews existing contracts that are in place. The Hospital has at least 23 major Payor contracts including Medicare and Medi-Cal. These contracts establish the payment rates which the contractor pays to the Hospital for services rendered to members of their respective health plan.

Payment rates for various services can be complex, difficult to analyze, and negotiations are quite time consuming, usually requiring several months to complete. As such, the Hospital contracts with an external Consultant who negotiates these rates and contract on behalf of the Hospital under the guidance of the CEO and CFO. Said Contractor also represents numerous (mostly smaller) hospitals throughout California, and is thus quite familiar with the marketplace.

Another major complexity in administering the contract relates to the DOFR. Many times Health Plans (Payors) will assign portions of payment responsibility to various other Payor groups or Providers. It can be very challenging for SGMH's Hospital staff to be able to ascertain and confirm which Health Plan or Payor will be responsible to authorize treatments along with confirming their financial responsibility to pay for the services provided. This creates a great level of conflict and frustration when it comes down to "who is responsible to pay the bill", and many times the Hospital is caught in the middle and has to fight to get a delayed payment, or possibly end up getting no payment at all.

Requested by Finance Committee:

To be provided with a summary of the contracts that have been negotiated or renegotiated in the recent past, and also to report on recent activity to obtain current DOFR's from the various Plans and Payors.

Attached is a listing of the Managed Care contracts negotiation activities as provided by Andy Werking, Managed Care Consultant. Mr. Werking is also helping "circle the wagons" as we attempt to get updated DOFR's.

IEHP (a major Payor) reached out to SGMH in February for the Joint Operations meeting and had its first meeting with Mayda Cox and Dylan Omens in May. Steve Barron has reached out

to OPTUM (including Beaver and PrimeCare) to request establishment of Joint Operations Reviews to address these issues and to obtain current DOFR's. We are also requesting Regal to follow suit on these matters.

Recommended Action:

To continue the establishment of Joint Operations Reviews with key Payors and to pursue access to timely DOFR's.

San Gorgonio Memorial Hospital

Below is a summary of rate negotiations for the hospital. This summary is dated July 19, 2024.

All agreements renew annually unless advanced notification of termination. Rates to not change unless renegotiated. For the agreements that are on a percentage of charges, we like to maintain these favorable rates.

Improving reimbursement rates have been challenging as it seems to take longer to obtain increases. Health plans have cut staff and added more layers to the contracting process. The rates are competitive to market so, at times, it is harder to get larger annual increases. However, as yearly premiums increase, we strive for obtain more than the annual inflation for medical care.

I do not have specific data on how the rates below improve the specific reimbursement net to the hospital. I am sure the hospital can share this information. But below, are improved rates and we continue to renegotiate increases in not only the commercial plans but also managed Medicare and managed Medi-Cal.

Aetna- CDM increases. Revised commercial rates dues to excessive CDM increases effective July 1, 2022.

Cigna- New improved rates. I have reached out to my Cigna Contract Manager to clarify the overall increase for the hospital. M/S current $1,600, new $1,852 (3rd year). ICU current $2,175, new $2,518 (3rd year). New rates effective January 1, 2024. Three-year deal with increases each year. Contract Manager is out until July 17, 2024.

Health Net- Newly negotiated three-year deal effective August 1, 2024.. Increases of 3%, 2.5% and 2.5% with a 6.5 CDM limit.

Anonymous Plan- Settlement amount of $850,000. I am reaching out to Lloyd Wilensky to verify current rates in place.

UHC- 3-year deal from 2022. Eff 8/1/2022 – 3 Year Renewal

Year 1 = 3% increase to the IP rates/ OP at PPR at 75%
Year 2 = 2% increase to the IP rates / OP at PPR at 75%
Year 3 = 1% increase to the IP rates / OP at PPR at 75%
CDM Pass Through Limit = 3%
Timely Filing – increased to 180 days

In addition, new Medicare Advantage products at 100% of Medicare for Choice Medical Group, and Providence.

I will update as I receive more info from the health plans but is this what you are wanting?

And, I will ask for updated DOFRs.

Thank you in advance.

Andy Werking
awerking@sbcglobal.net
3353 Bradshaw Road, Suite 208
Sacramento, CA 95827
(916) 366-5763
(916) 366-5764 fax

TAB C

Heckathorne, Daniel

From:
Sent: Monday, June 24, 2024 4:16 PM
To: Heckathorne, Daniel
Subject: Budget Deal Delays Minimum Wage, Redirects MCO Funds

A state budget agreement reached over the past 48 hours to solve a $45 billion deficit takes two significant actions related to hospital and health system finances and minimum wage laws:

- Retains the elimination in 2025 of over $1 billion from an assessment on managed care organizations (MCOs) to support health care providers. These funds were previously committed to provider payment increases. **For hospitals, this action eliminates almost $1.5 billion in new annual funding (including federal matching dollars).**
- Further delays the start of a new minimum wage for health care workers until one of two things occurs, whichever is first:
    - State cash receipts between July 1 and Sept. 30, 2024, exceed 3% more than the total General Fund revenue projected at the time of the Budget Act; **OR**
    - The Department of Health Care Services notifies the Legislature that it has begun pulling data for the submission of the next Hospital Quality Assurance Fee program (Hospital Fee Program 9); this could happen as soon as Oct. 1, 2024.

Based on this agreement, it is likely that the health care minimum wage requirements under Senate Bill 525 will be "triggered" back on in the last quarter of this year.

The administration and the Legislature have conveyed the additional revenue to hospitals (via the next fee program) could partially offset the upward pressure on Medi-Cal plan rates that the wage increase will generate. The administration and the Legislature believe that easing the overall pressure on Medi-Cal rates lessens the impact on the state budget.

The Legislature is expected to vote on the budget on Thursday, with the governor's signature coming that evening or Friday.

Three important points to offer before sharing additional details (a full summary is available here):

- First, this budget framework will create wage discrepancies throughout the state, given that some organizations started the new wage June 1, others are planning to start July 1, and others may now hold off until the new trigger goes into effect sometime later this year. This is especially troubling for organizations that have already shared wage increase plans with their workforces and may now be considering adjustments based on this new information.
- Second, this budget agreement came together in its final days very much the same way that it does in other years. Legislative leadership and the governor work through the parameters of the deal in closed sessions, and stakeholders are not involved in that process.
- Third, with regard to the MCO assessment revenue decisions, the failure to enhance Medi-Cal rates that have not been increased in over a decade elevates the importance of this November's ballot measure to create a stable stream of resources for Medi-Cal. Passage of the initiative would override these Medi-Cal budget decisions and bring as much as $4.4 billion in state funds annually and permanently to Medi-Cal providers to preserve and enhance the services they deliver to vulnerable Californians. If the initiative passes, the 2025 and 2026 provider payment increases and other investments approved in this budget would not be implemented.

In addition, the budget:

- Repurposes MCO assessment revenue that had previously been committed to hospitals for emergency department services, outpatient services, public hospitals, graduate medical education, and more; this is a reversal of the commitment of $1.5 billion annually to hospitals and, again, reinforces the need for the coalition-sponsored MCO initiative to be successful this fall
- Defers action on the real-time collection of hospital bed capacity data, though bills to advance this effort are expected later this year
- Provides $230 million for state-designated children's hospitals (including state and matching federal funds) that will lead to the California Children's Hospital Association pulling a revenue-enhancing measure from this year's ballot
- Eliminates over $1 billion in behavioral health funding; additional funds are being eliminated from the Behavioral Health Continuum Infrastructure Program, but are expected to be restored with funding from Proposition 1 (2024), the Behavioral Health Service Program and Bond Measure
- Eliminates $746 million in health care workforce development programs (retains previously awarded graduate medical education slots)

Please reach out with questions about this new information to any of the team members here at CHA.

This email was sent to CEOs, executive assistants, chief financial officers, government relations executives and staff, and human resources executives at CHA member hospitals and systems.

Summary of the 2024-25 State Budget
Over the weekend, the governor and Legislature reached a final agreement on the 2024-25 state budget. The agreement resolves the major differences between the branches of government. Numerous budget bills will be acted on by the Legislature and signed by the governor this week to ensure the spending plan is in place by July 1. Either Senate Bill (SB) or Assembly Bill (AB) 108 will be passed to incorporate final changes to the budget. SB or AB 159 will enact budget-related statutory changes to health care programs. As is typical, certain decisions and budget-related legislation will likely follow in July and August. This weekend's agreement resolves most of the major health care-related issues relevant to hospitals and health systems.

Big Budget Problem Addressed Through a Mix of Solutions. The state had a $28 billion budget shortfall to solve this year after accounting for actions taken earlier in the year to address $17 billion of the shortfall. In addition, state policymakers projected a $30 billion deficit the following year (2025-26). State revenues for the state's main operating account — the General Fund — are around $200 billion per year, meaning that major, difficult actions were needed to solve the record-setting deficit. The budget agreement addresses the upcoming year's budget problem with a mix of:

- Spending reductions - $16 billion
- Increased revenues - $13.6 billion
- Drawdown of reserves - $6 billion
- Other solutions - $11.2 billion

The budget also aims to solve the following year's budget deficit, resulting in balanced budgets for both 2024-25 and 2025-26. Should projections of state revenues and expenditures hold, this would prevent the state from having to make a new round of spending cuts or revenue increases in next year's budget.

Increases Corporation Taxes Through the Suspension of Major Deduction and Credit - The budget suspends the net operating loss deduction and limits business tax credits to $5 million for the tax years 2024, 2025, and 2026, which is expected to increase state revenues between $10 billion and $20 billion over the next few years. This will affect many different types of businesses, including investor-owned hospitals. Implementation of these changes will begin and end one year earlier than the governor had previously proposed.

Backtracks on Last Year's Budget Agreement on the Managed Care Organization (MCO) Assessment - The governor and Legislature entered final budget negotiations in different places on the MCO assessment, with the governor having proposed a full elimination of future Medi-Cal provider reimbursement increases and the Legislature opting instead to delay them one year, from 2025 to 2026. The final agreement carves a new path and marks a retreat from the funding priorities agreed to last year:

- **Slows Implementation of Reimbursement Increases** - Rather than providing $2.6 billion in reimbursement increases starting in 2025 (accounting for state, but not matching federal Medicaid funds), the approved budget dedicates $133 million for this purpose in 2024-25, $728 million in 2025-26, and $1.2 billion in 2026-27.

- **Substantially Changes Which Providers Will Benefit** - Rather than funding the priorities agreed to last year, a new mix of providers and services would receive funding increases from the MCO assessment. For 2025, these include:
    - Abortion and family planning services
    - Emergency department physicians
    - Ground emergency transportation
    - Air ambulance
    - Community-based adult services
    - Community health workers
    - Congregate living health facilities
    - Pediatric day health centers

  Reimbursement increases would be extended to the following providers and services the following year (2026):
    - Primary care and specialist office visits, preventative services, and care management
    - Obstetric services
    - Non-specialty mental health
    - Vaccine administration
    - Optometry services
    - Federally qualified health centers and rural health clinics
    - Private duty nursing
    - Non-emergency medical transportation
    - Other evaluation and management services and procedures
- **Supports Additional Augmentations** - Starting in 2026, the agreement also provides funding to establish continuous Medi-Cal eligibility for children ages 0-5 and allocates $40 million for a workforce pool supporting labor management committees.
- **Makes MCO Assessment Spending Plan Inoperable If MCO Assessment Ballot Measure Is Approved by Voters** - The budget recognizes that in November voters will decide whether to approve a ballot measure that would direct MCO assessment dollars to be directed in ways that differ from the approved 2024-25 budget. To avoid these differences, statutory changes approved alongside the budget will make this new spending plan inoperable if the MCO assessment ballot initiative is approved this fall.
- **Approves Increase in the MCO Assessment** - In May, the governor proposed to increase the MCO assessment to bring in roughly $3 billion more in revenue over the next three years, and in addition to the "early action" MCO assessment increase enacted in March via SB 136. The final budget agreement agrees with this further increase and is included in separate budget-related legislation (AB/SB 160). Both changes will require federal approval and are not expected to substantially affect how much Californians pay in insurance premiums.

Health Care Minimum Wage (SB 525) Delay and Trigger - SB 525, signed by Gov. Newsom last year, required wage increases as early as June 1, 2024, and will reach a $25 minimum in 2026, 2027, or 2028 for the majority of California health care workers. The schedule for reaching the $25 minimum hourly wage depends on employer size and other characteristics. For example, the $25 minimum wage is required by July 2026 for large health systems with 10,000 full-time equivalent

employees or more, and not until 2033 for hospitals in rural areas and those predominantly providing care to Medi-Cal and Medicare patients.

SB 828, signed into law last month, delayed the minimum wage increases by one month from June 1 to July 1, in order to align with the state fiscal year. However, the budget agreement announced over the weekend further delays the effective date until one of two conditions are met or 12 months, whichever comes sooner. The two conditions that could "trigger" on the required SB 525 increases before July 1, 2025, include:

1) State cash receipts between July 1 and Sept. 30, 2024, exceed 3 percent greater than the total General Fund revenue projected at the time of the Budget Act (in which case the minimum wage requirements would start on Oct. 15, 2024); or

2) The Department of Health Care Services notifies the Legislature that it has initiated the data retrieval necessary to implement an increase to hospital fee program revenues in the upcoming program period effective Jan. 1, 2025, upon approval from the federal government (in which case the minimum wage requirements would start 15 days from the Department's notification to the Legislature or Jan. 1, 2025, whichever date is earlier).

Data retrieval for the hospital fee program is expected to be initiated in October. This means that, based on the budget agreement, it is likely that the health care minimum wage requirements under SB 525 will be "triggered" back on in the last quarter of this year.

The language included in the trigger does not make any reference to the content or parameters of the next hospital fee program, beyond contemplating an unspecified increase in hospital fee revenues and the resultant supplemental payments to hospitals. However, the language does indicate that the next fee program "will provide significant new revenues to hospitals." All of the work to develop the new fee program will take place as usual in negotiations with the state and federal government over the coming year.

Other Actions Affecting Health Care Programs - The budget includes various other changes to health care programs, largely as solutions to reduce the deficit. Funding for core programs (eligibility, benefits, and reimbursement) is generally maintained. Major actions include:

- **Creates New Directed Payment Program for Children's Hospitals** - The budget provides $115 million General Fund ($230 million total funding including federal Medicaid funds) annually on an ongoing basis to create a new directed payment program that will increase Medi-Cal reimbursement for children's hospitals. Budget-related statutory language allows the state to reduce this funding by the amount children's hospitals receive under the MCO assessment ballot measure (if approved by voters), but not by more than $75 million (inclusive of federal funds).
- **Establishes New Fee on Public Hospital Directed Payment Programs** - The budget creates a new fee on intergovernmental transfers made by public hospitals that participate in the Enhanced Payment Program and Quality Incentive pool. The fee is expected to raise $111 million.
- **Eliminates Behavioral Health Funding** - The budget eliminates over $1 billion in funding previously committed to the Children and Youth Behavioral Health Initiative and the

Behavioral Health Bridge Housing Program. The budget additionally reverts funding for the Behavioral Health Continuum Infrastructure Program, but this is expected to be restored with funding from Proposition 1 (2024), the Behavioral Health Service program and Bond Measure, that voters approved in March of this year.

- **Reduces Health Care Workforce Funding but Protects Existing Awards** - The budget eliminates $746 million previously dedicated to health care workforce development programs at the Department of Health Care Access and Information. However, in contrast with the governor's May budget proposal, the final budget includes $109 million to protect existing awards in the Song-Brown Program, the Health Professionals Career Opportunity Program, and the California Medicine Scholars Program.
- **Eliminates Equity and Practice Transformation Payments** - The budget eliminates remaining funding for the program, saving the state $111 million.

Defers Action on Hospital Bed Capacity - Earlier this month, the Administration released proposed statutory changes directing the state to develop a hospital capacity data solution to collect, aggregate, and display information about the availability of beds in, at minimum, general acute care hospitals, emergency departments, and behavioral health facilities. This language was not included in SB or AB 159. If these changes are to move forward, they will be included in future legislation, potentially as part of budget-related bills acted upon later this year.

TAB D

CREDIT OPINION
2 July 2024

Send Your Feedback

Contacts

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San Gorgonio Memorial Healthcare District, CA

Update to credit analysis following downgrade to B1

Summary

San Gorgonio Memorial Healthcare District, CA's (B1) credit profile is characterized by ongoing weak financial performance and tenuous liquidity of 50 days at the end of fiscal 2023. The district secured interim financing of $9 million following the delayed receipt of intergovernmental transfers in fiscal 2022, however the long-term sustainability of district operations remains uncertain and heavily reliant on line of credit draws to support liquidity needs. The district's weakened credit profile also reflects persistently negative operating margins (-5.2% in fiscal 2023) are projected to remain negative through fiscal 2024 and 2025 balanced, to a degree, by recently improved patient volumes and utilization metrics that have stabilized following declines during the COVID-19 pandemic. District operating performance remains extremely weak, with a history of violating covenants including 1.5 times debt service coverage and 50 days' cash requirements on the district's $11.4 million outstanding revenue bonds and requiring the district to obtain a waiver from its loan provider. Positively, the district's strong $14.5 billion tax base will continue to grow supported by ongoing residential and industrial development

On July 2, 2024 Moody's Ratings downgraded the district's GOULT rating to B1 from Ba2 and removed the negative outlook.

Credit strengths

» Strong tax base growth with ongoing housing additions

» Favorable quality of receivables from government sources

» Voter reauthorization of parcel tax without sunset to support operations

Credit challenges

» Extremely narrow unrestricted cash position

» Weak finances with consecutive years of negative operating cash flow margins and violation of revenue bond covenants

» Declines in patient volumes with weak payor mix and reliance on intergovernmental transfers

Rating outlook

Moody's does not assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

» Sustained improvement in financial performance resulting in liquidity approaching 100 days

» Demonstrated improvement in net patient revenue and physician utilization

Factors that could lead to a downgrade

» Default on or acceleration of direct placement revenue bond or line of credit stemming from district's failure to meet covenants

» Inability to balance financial operations, leading to further deterioration in liquidity or negative cash flow margins below projections

» Failure to stabilize patient volumes and net patient revenues

Key indicators

Exhibit 1

San Gorgonio Memorial Healthcare District, CA	2019	2020	2021	2022	2023
Economy/Tax Base					
Total Full Value ($000)	$8,787,544	$9,482,256	$10,476,248	$11,337,079	$12,716,142
Population	95,000	95,000	95,000	95,000	95,000
Full Value Per Capita	$92,500	$99,813	$110,276	$119,338	$133,854
Median Family Income (% of US Median)	100.2%	100.2%	100.2%	100.2%	100.2%
Finances					
Operating Revenue ($000)	$79,977	$80,518	$73,076	$88,123	$98,337
Fund Balance ($000)	$11,252	$13,995	($3,680)	($17,876)	($46,932)
Cash Balance ($000)	$12,846	$22,199	$12,267	$23,808	$23,624
Fund Balance as a % of Revenues	14.1%	17.4%	-5.0%	-20.3%	-47.7%
Cash Balance as a % of Revenues	16.1%	27.6%	16.8%	27.0%	24.0%
Days Cash on Hand	22.2	57.8	10.6	43.2	49.7
Operating Cash Flow Margin (%)	4.2%	-5.5%	-32.2%	-7.6%	1.5%
Debt/Pensions					
Net Direct Debt ($000)	$112,834	$106,565	$103,045	$106,497	$115,517
3-Year Average of Moody's ANPL ($000)	$0	$0	$0	$0	$0
Net Direct Debt / Full Value (%)	1.3%	1.1%	1.0%	0.9%	0.9%
Net Direct Debt / Operating Revenues (x)	1.4x	1.3x	1.4x	1.2x	1.2x

*Days cash on hand reflects Moody's adjustments. District was in compliance with 50 days cash on hand covenant requirement in fiscal 2023.
Source: US Census Bureau, San Gorgonio Memorial Healthcare District's financial statements and Moody's Ratings

Profile

Located in northwestern Riverside County (Aa2 stable), the district includes the cities of Banning, in which it is located, along with Beaumont, part of the City of Calimesa and neighboring unincorporated areas of Cabazon, Cherry Valley and Whitewater. The permanent resident population of the district is estimated at 95,000 residents. The San Gorgonio Memorial Hospital, located in Banning, is a 79-bed general acute care hospital.

Detailed credit considerations

Economy and tax base: expanding tax base with moderate income levels

The district's sizable $11.3 billion tax base is poised for additional growth supported by continued additions to the local housing stock. Over the past decade, the district's assessed valuation (AV) has increased an exceptionally strong 6.9% annually since AV reached a recession low of $5.8 billion. Rapid AV growth is largely supported by the availability of affordable housing within Riverside County relative to many other California housing markets. District officials also expect continued population growth. The tax base continues to diversify, with the top 10 taxpayers now accounting for 6.7% of the district's AV. The largest taxpayer, comprising 2.6% of AV, is a shopping center consisting of outlet stores.

The district's resident income profile is relatively modest. The City of Banning has the lower wealth level of the district's two primary cities, with median family income equal to 62.3% of the US, which has weakened over time, and a relatively high poverty rate of 18.9%. Beaumont's median family income is generally in line with that of the US.

Financial performance and revenue: impacts from COVID-19 and delays in intergovernmental transfer payments have eroded cash and weakened operating performance

The district's finances and cash position extremely narrow and will remain so, weakened by unpredictable delays in state payments and cost pressures. Lower patient volumes, a weak payor mix and reliance on government reimbursement all contribute to uneven payments and extremely weak liquidity.

Audited results for fiscal 2023 reflect a positive cash flow margin of 1.5%, up from -7.6% in fiscal 2022, largely resulting from increases in emergency department (ED) visits following a drop off in patient volumes during the pandemic. Patient utilization metrics across all service categories were significantly impacted through the COVID-19 pandemic, but have improved in fiscal 2023 and are projected to stabilize through fiscal 2025. Surgeries have improved from 855 in fiscal 2022 to 1,433 in fiscal 2023 and are projected at 1,215 in fiscal 2024. Similarly, ED visits, which make up the vast majority of patient visits, grow from 39,374 in fiscal 2022 to 41,821 in fiscal 2023, and is expected to grow to 42,357.

Despite a recovery in patient volumes in fiscal 2023, the district's financial position remains tenuous and uncertain against a backdrop of rising costs, particularly labor costs. The district's most recent salary increase was 3% in fiscal 2024, however no salary increases are included in the fiscal 2025 budget despite competitive considerations with neighboring health care providers. The district additionally incurred an unexpected $2 million expense related to California's sick leave policy, which contributed to a -5.2% operating margin in fiscal 2023.

Additionally, the district's payor mix remains a hurdle to strengthened financial performance. As a safety net provider, government receivables are solid and represent a balance sheet strength. Nevertheless government reimbursements account for a significant share of revenues, with Medicare and Medicaid payments comprising 78% of gross patient service revenue in fiscal 2023. The payor mix remains a challenge both to the hospital's profitability and ability to attract additional physicians and specialists.

District officials report a positive working relationship with its physician group, Optum. The group's commitment to the hospital is also evidenced by its leasing of five floors of a new 50,000 square foot office building adjacent to the hospital. However challenges remain in maintaining and building upon the district's roughly 30% market share.

District management anticipate the opening of a family and women's clinic and stroke center ER designation in the near future, which could both contribute to improved financial performance. Going forward, the ability of the district to stabilize financial performance, add physicians and specialty practices and identify beneficial partnerships and alternative capital financing sources each represents a key component of stabilizing the district's credit profile. However, the risks associated with successfully executing on these initiatives remains high, especially in a highly competitive health care market in which the district is not a dominant player.

Liquidity

The district's liquidity is extremely weak at 50 days as of in 2023 fiscal year end, driven by weak operating performance and reliance on loans. Total cash of $23.6 million includes $9.2 million in bridge financing loan proceeds given a previous delay in intergovernmental transfer funds.

As of fiscal 2023 the district has a $12 million line of credit against which $6 million was drawn and has secured around $2.6 million in bridge financing through state programs. The District expects to draw the entire $12 line of credit by the end of fiscal 2024 to support cash requirements. Poor liquidity represents a significant vulnerability to the district's long-term solvency and future viability.

Debt and pensions: failure to comply with covenants of direct bank loan represent another vulnerability

In addition to $97 million in outstanding GOULT debt, the district has $11.4 million in revenue supported direct placement bank loans, $4.8 million in direct borrowings, and a $12 million line of credit, all as of the end of fiscal 2023. Additionally, in January 2024 the district has received a $9.8 million California Health Facilities Financing Authority (CHFFA) loan through its Distressed Hospital Loan Program.

Significantly, in fiscal 2021 and fiscal 2022, the district failed to comply with covenants of 1.5 times debt service coverage and 50 days' cash on the bank loan. The district failed to comply with the 1.5 times debt service coverage covenant only in fiscal 2023 and expects to do so again in fiscal 2024. The district was successful in obtaining a waiver from the provider of its bank loan in the past, but failure to obtain a similar waiver again in fiscal 2024 could potentially lead to acceleration or cross default with the district's line of credit, further straining liquidity.

At less than 1% of AV, the district's direct debt burden remains very modest. However, the district will need to secure additional financing to complete Phase 2 of its large capital plan, which includes required seismic improvements. Phase 2 consists of building a six-story patient tower. The estimated cost for the project is around $100 million.

Legal security

The district's GOULT bonds are payable from ad valorem taxes that may be levied in an amount sufficient to pay debt service against all taxable property within the district without limitation as to rate or amount. The district's board has executed a deposit and transfer agreement pursuant to which Riverside County will forward ad valorem property tax collections directly to US Bank as Trustee for subsequent transfer to the paying agent for the GOULT bonds.

Debt structure

The district's debt profile consists mostly of fixed-rate, general obligation debt with approximately $103 million currently outstanding. The district also has a $12 million line of credit with $6 million outstanding. The line of credit must be repaid in full for 30 days each fiscal year. Absent bridge financing, it is doubtful that the district will be able to comply with this requirement.

Debt-related derivatives

The district is not a party to any interest rate swaps or other derivative agreements.

Pensions and OPEB

The district does not offer any defined benefit plans to its employees.

ESG considerations

Environmental

The district's service area, in common with many other areas of California, is subject to drought, and the district's location within Riverside County is at high risk for future water stress. This consideration is mitigated to some extent by available water supplies from outside of its service area, and environment considerations do not represent a primary credit driver at the present time. While long-term limitations on water supplies may slow future growth, the district's market share remains weak at 30%, and it will be hindered in capturing a greater market share of future growth absent the addition of services and physicians.

Social

Social considerations represent a critical credit factor as government reimbursements and regulations are key drivers of revenue growth and costs, respectively. The district's high reliance on government payors has contributed to its financial pressures and weak liquidity.

Governance

Historical management and board turnover has previously contributed to the district's weaker longer-term planning, however current stable management is expected to improve multi-year planning. The district's Chief Medical Officer recently resigned in order to set up

an emergency room physicians group and remains involved with the district, however the position will not be replaced in the near term given budgetary concerns.

Hospital Districts have an Institutional Framework score of Baa, which is weak. The sector's major revenue sources are patient care revenue, property taxes, supplemental funding (which is often awarded to compensate for the financial burden of treating the uninsured) and other related business activity revenue (rent, cafeteria sales, etc.). The relative proportion of revenue sources varies significantly among the hospital districts. Districts have moderate ability to influence patient care revenue. They can expand services, locations and pursue growth, but are subject to the competitive dynamic and other characteristics of their local market. Rural districts are limited by population constraints whereas urban districts often face heavy competition. Patient care reimbursement from Medicare and Medicaid is determined by the relevant government agencies whereas commercial reimbursement is subject to negotiation with insurance companies.

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