Dear Board of Directors,

Fiscal year 2021 (FY 2021) will be a challenging and inspiring year for Valleywise Health. While rising up to address the Coronavirus Disease 2019 (COVID-19), Valleywise will also open new care sites through Care Reimagined, with construction of the new hospital on the Roosevelt campus continuing in the background. Through its partnership with the Creighton University Health Education Alliance, Valleywise will expand its development and growth of future healthcare providers through the creation of the Family Medicine Residency program.

The notebook which follows provides essential details on the proposed FY 2021 financial plan for Valleywise, with some highlights below.

COVID-19

FY 2021 will be the first fiscal year after the introduction of COVID-19 to the world. Valleywise Health has stepped up to meet the challenges of COVID-19, including:

- Adding Incident Decision Units (IDUs) to isolate and treat patients with the disease;
- Establishing protocols for addressing positive Behavioral Health patients;
- Forming rapid testing capabilities,
- Acquiring personal protective equipment (PPE) despite disrupted supply chains;
- Creating telehealth visits for ambulatory care to provide safe patient access; and
- Implementing work from home options to provide social distancing for support staff.

These efforts have required increased costs while revenue has been lessened by fewer emergency department and ambulatory visits, and cancelled or forgone elective procedures. Though Congress created a provider relief fund to support hospitals and health care providers during the pandemic, this fund is intended to stabilize rather than fully restore hospitals to pre-COVID-19 levels.

While it is difficult to predict the exact impact of COVID-19 to Valleywise Health in FY 2021, its effect has been integrated throughout the FY 2021 Operating Budget. Some elements include:

- Surgical and emergency room volumes are forecasted to continue to be reduced in the first quarter, reducing revenue.
- Payer mix was adjusted assuming a decrease in commercial coverage due to rising unemployment.
- IDUs are projected to be open for the year, causing the absorption of the Pediatric Emergency Department into the Adult Emergency Department on the main campus.
- Additional nursing staff was added for the necessary higher nursing ratios and the need for observers to safeguard the safety of the workforce and patients in the IDUs.

- The Average Length of Stay for acute patients increased due to the high acuity of COVID-19 patients.
- Additional PPE costs were added due to increased usage and market price increases.
- Screeners for the main entrances were included for patient and provider welfare.

Care Reimagined

In FY 2021, Valleywise Health will continue its growth to provide healthcare to areas of need in Maricopa County as envisioned by "Care Reimagined" and supported by the Prop 480 referendum in 2014.

The planned expansion of the Behavioral Health service at the Maryvale hospital will increase its capacity to 168 inpatient beds. In late January, the Valleywise Comprehensive Health Center – Peoria (Peoria) will open to help address a void in a medically underserved area of our community. Peoria will include outpatient surgeries, specialty clinics and primary care. New Community Health Centers will also be opening in North Phoenix and South Phoenix.

Patient Activity and Revenue

Total Net Patient Service Revenue is expected remain flat over the February 2020 annualized (normalized current year) projection. This is a result of decreased patient volume assumptions from COVID-19 offset by payment increases from governmental and third-party payers.

Patient activity at Maryvale will continue to grow with 2,472 Behavioral Health inpatient admissions, anticipated to result in over 56,869 patient days. The growth in admissions is due to the opening of two new units, for 48 additional beds. In addition, 22,830 Emergency Department visits are planned at this location, with some initial decrease due to COVID-19 then anticipated recovery to previous levels.

On the Roosevelt campus, acute admissions are budgeted to increase by only 1.1%. This is due to the lower Emergency Department (ED) visit admissions and reduced inpatient surgery volumes projected for early FY 2021 due to COVID-19. Behavioral Health admissions at the Phoenix and Mesa campuses are projected to decrease by 16% due to lower occupancy in a unit at each location for the safe segregation of COVID-19 positive or suspected patients. Behavioral Health admissions at the Phoenix and Mesa locations are also impacted by the opening of the Maryvale courtroom in FY 2020, allowing for more direct admissions to the Maryvale campus. Total ED visits at Roosevelt campus are anticipated to decrease by 7.9%, with the continued lower ED volumes in the first quarter due to COVID-19.

Adjusted admissions are forecasted to decrease by 0.4% due to the decreased volumes from COVID-19 and increased Behavioral Health admissions. The Behavioral Health average length of stay is expected to decrease slightly due to the projected admission of non-Court Ordered Evaluation (COE) patients with shorter lengths of stay, once the COE admissions have been exhausted. The acute average length of stay is anticipated to increase to 5.2 days due to the significantly longer length of stay for COVID-19 inpatients.

Total Ambulatory Visits are projected to decline by -3.6%, due to some continued lower volumes from COVID-19, as well as temporary projected decreased volumes as the El Mirage, Glendale, Sunnyslope and South Central clinics relocate to newly constructed locations. The 7th Avenue clinic is planned to move into the South Central location to provide additional space for the new Family Medicine Residency program.

From a reimbursement standpoint, increases are anticipated for Medicare (1.5%) and Commercial payers (effective 3.2% increase). The overall payer mix is expected to change slightly with a slight decrease in Commercial expected due to the increase in unemployment. Medicaid and Uninsured approximate 59.4% of Gross Revenue. Uncompensated Care, which is comprised of Charity and Bad Debt, is projected at 9.6% of Gross Revenue, based on current experience.

Lastly, Other Operating Revenue is expected to be 1.0% higher next year. GME Revenue, Grants/Research Revenue and 340B Revenue are expected to increase, while Meaningful Use and Retail Pharmacy are projected for an offsetting decrease.

In sum, Total Operating Revenues are projected to increase by 0.3%.

Expenses

Overall expenses are projected to increase by about 2.5% over the normalized current year projection. Total Labor costs are projected to increase only 0.5%, including a 36% (54.4 FTE) decrease in Contract Labor mostly from Revenue Cycle, Information Technology, and Burn ICU. The opening of Peoria is projecting an increase in Labor of $3.7M, without which total Labor costs for Valleywise would be projected to decrease due to the lower volumes. Due to the projected financial results, Merit System increases have not been included in the budget.

Employee benefits will remain at about 28.3% of salaries including the increase in Pension Expense from ASRS from 12.11% to 12.22%, offset by Stop Loss savings. From a productivity perspective, FTEs/AOB will decrease to 4.6 including Residents, a 2.9% improvement.

Medical Service Fees are expected to decrease despite service expansion at Maryvale and Peoria. This decrease is due to the projected increase in APSI lump sum collections.

Supply Expense will increase by about 2.7%, caused mostly by increases in Pharmacy and PPE costs.

Purchased Services is estimated to increase by 6.7% next year, mostly due to the Election Costs of $1.67M.

Repair and Maintenance is increasing by 15.6% due partly to Maryvale and Peoria, with increases in expenses related to Medical Equipment, Software, and Facilities. This includes an additional $640k to Facilities for fire system upgrades.

Utilities is increasing by 7.5% mostly due to the addition of the Peoria site. Utilities also includes a decrease in electricity expense of $560k due to Central Utility Plant (CUP) becoming operational in October.

Rent is decreasing 7.6%, with a decrease in Building Rent due to the closure of 7th Ave and projected decrease in the Diablo campus square footage from new work from home capabilities for staff.

Other Expenses are increasing by 15.4% and are detailed on page 9 of 9 in tab 6. The increases are due mainly to Web-based Subscription software, Risk Premiums and Claims Expense and Grants/Research costs.

The annual Provider Assessment from AHCCCS will increase 58.9% or $4.6M. The Provider Assessment is used to fund the state share (non-federal) portion of Proposition 204 (Childless Adults) and Newly Eligible Adult Expansion populations. The assessment increase will be critical to funding higher than expected AHCCCS enrollment, especially due to the unemployment caused by COVID-19. This expense is offset by an increase in AHCCCS payer mix with the projected decrease in Commercial, which would have otherwise been Uninsured.

Depreciation is budgeted to increase by $4.9M or 13.8%. Of this, $3.5M is due to a full year of Depreciation for Peoria.

Non-Operating Revenue (Expense)

Please see the summary schedule on page 8 of 9 behind tab 4. Major areas include Grants/Research, Match program, Interest Income/Expense, and tax levies. For FY 2021, this budget includes $84.2M in operating tax support and $55.4M in bond levy support.

Investment Income is estimated to be $3.5M based upon average operating and bond cash on hand and current interest rate experience. Interest Expense will increase over normalized current year expense to $15.0M due to the 2018 Series C Bond premium amortization.

FQHC

Behind tab 7 is the presentation of the FY 2021 budget as approved by the Governing Council. Visits are assumed to decrease by about 0.7% from the current year. This is due mostly to the movement of the Glendale and El Mirage clinics to Peoria, Sunnyslope to North Phoenix, South Central to South Phoenix, and 7th Ave to South Central. Volumes are expected to temporarily decrease while the migration of existing patients and capture of new patients occurs. It also includes some decreases in Dental volumes related to additional patient and staff safety requirements due to COVID-19.

The payor mix includes similar decreases to Commercial and increases to AHCCCS reviewed above, and a slight increase in the AHCCCS qualified visit rate. Other Operating Revenue is increasing mostly due to a full year of the HRSA New Access Point grant and grants for the McDowell clinic. Expenses are budgeted to increase about 3%. Despite the volume decreases, the Operating Margin results in a $1.0M contribution before overhead. As the future of telehealth visit reimbursement is unknown after the temporary rules conclude, the proportion or volume of telehealth visits was not separately budgeted.

Capital Plan & Cash Position

The capital budget plan of $10M includes $3M in contingency to provide for potential equipment replacements, as needed. Clinical Capital includes $2M for the replacement of imaging equipment. The Capital Plan excludes Care Reimagined bond supported capital which is accounted for separately.

This budget projects a decrease in the Valleywise cash position for FY 2021 due to the Medicare Accelerated Payment Program repayment. Operating days cash on hand position at year-end is projected to be about 91.0 days, which is below the 2018 Moody's "A3" Rated Median of 183.5 days.

Margin

The FY 2021 budgeted total margin -15% is within $5.7M of a breakeven budget as compared to the Management & Operations tax. This should not be compared to the industry benchmarks for prior years due to the COVID-19 impact.

Considering the additional costs and lower revenues due to COVID-19, we have devised a responsible budget plan that may be used to guide us financially, reflects the organization's priorities, supports operational requirements and is linked to strategic objectives.

I want to take this opportunity to thank the entire leadership team for their work and support, and a special thanks to Claire Agnew, Matt Meier and the Decision Support Team in developing our financial blueprint for next year.

Sincerely,

Richard D. Mutarelli, CPA, MBA
EVP, Chief Financial Officer

JUNE 18, 2020

Fiscal Year 2021 Budget Board Update

Rich Mutarelli, Chief Financial Officer

Mission

Provide exceptional care, without exception, every patient, every time.

Vision

Be nationally recognized for transforming care to improve community health.

Values

They guide how we treat each other, our patients, families and visitors.

Accountability • Compassion • Excellence • Safety

Valleywise Health

Planning & Budget Calendar

MARCH						
Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31	1	2	3	4
5	6	7	8	9	10	11

March

25 Maricopa County Special Healthcare District Board of Directors (District Board) Meeting – Review calendar.

April

22 District Board Meeting – Review preliminary patient volumes and capital target.

APRIL						
Su	Mo	Tu	We	Th	Fr	Sa
29	30	31	1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	1	2
3	4	5	6	7	8	9

May

27 District Board Meeting – Review capital, volumes, revenue, expenses and other assumptions.

June

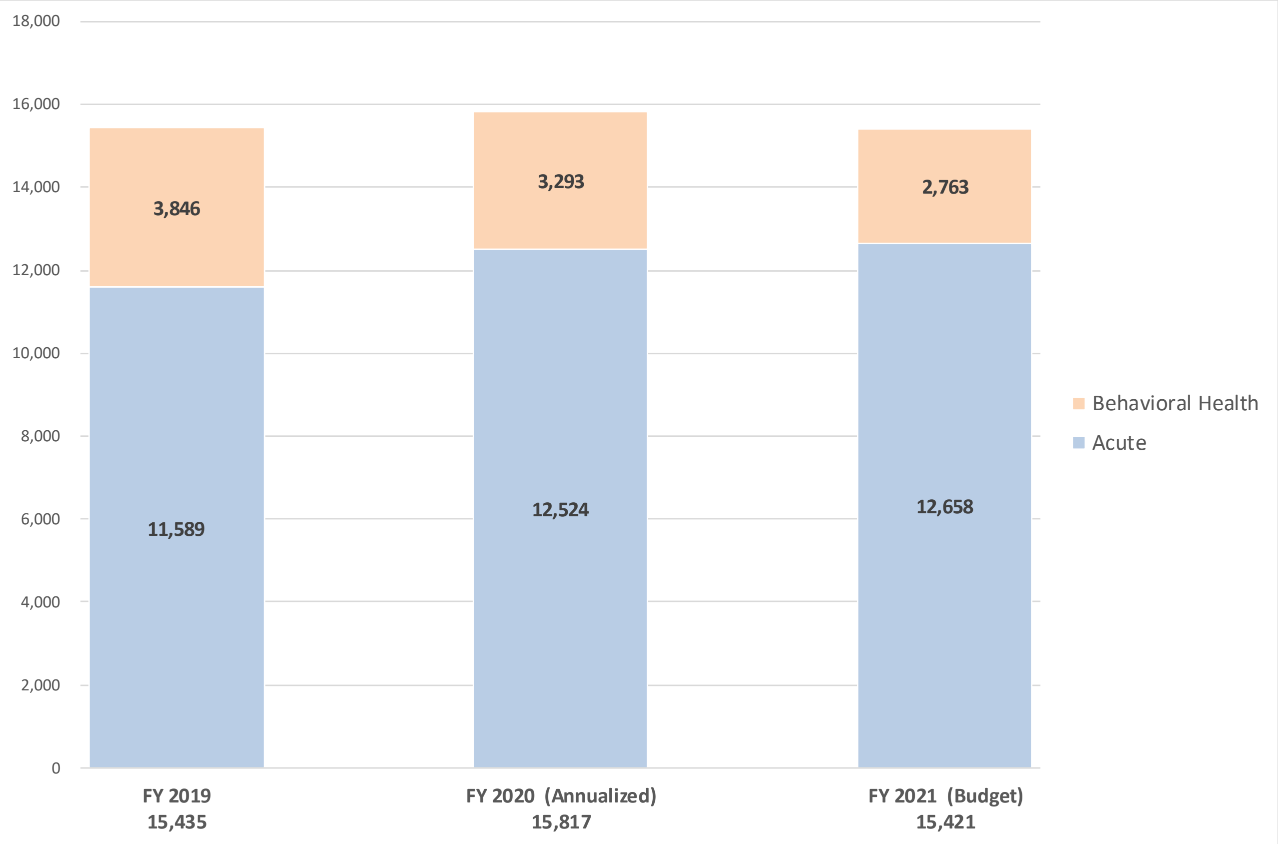
18 District Board Budget Hearing - Consideration of the FY2021 Operating and Capital Budget for approval.

24 District Board Budget Meeting – If needed final Consideration of the FY2021 Operating and Capital Budget for approval.

MAY						
Su	Mo	Tu	We	Th	Fr	Sa
26	27	28	29	30	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31	1	2	3	4	5	6

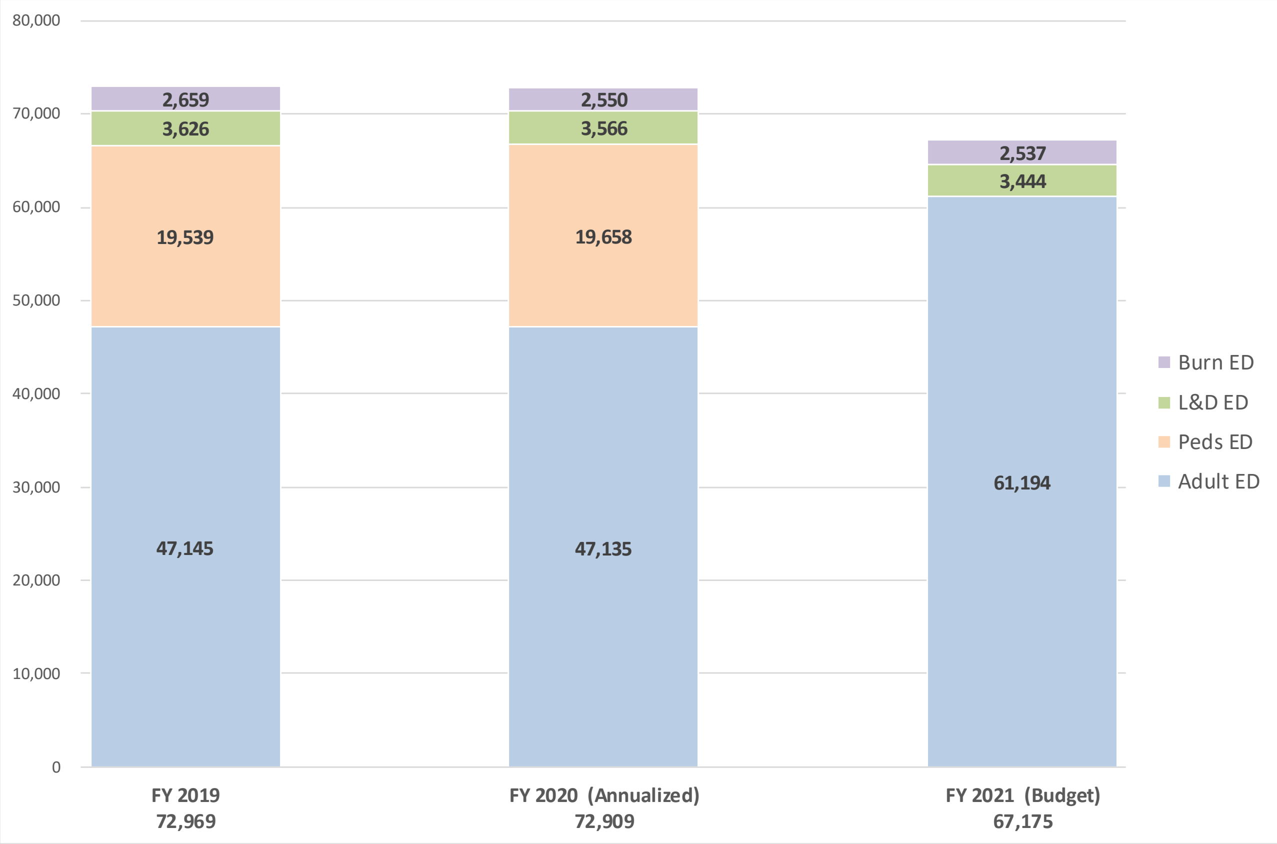
JUNE						
Su	Mo	Tu	We	Th	Fr	Sa
31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	1	2	3	4
5	6	7	8	9	10	11

Roosevelt Campus - Admissions by Year



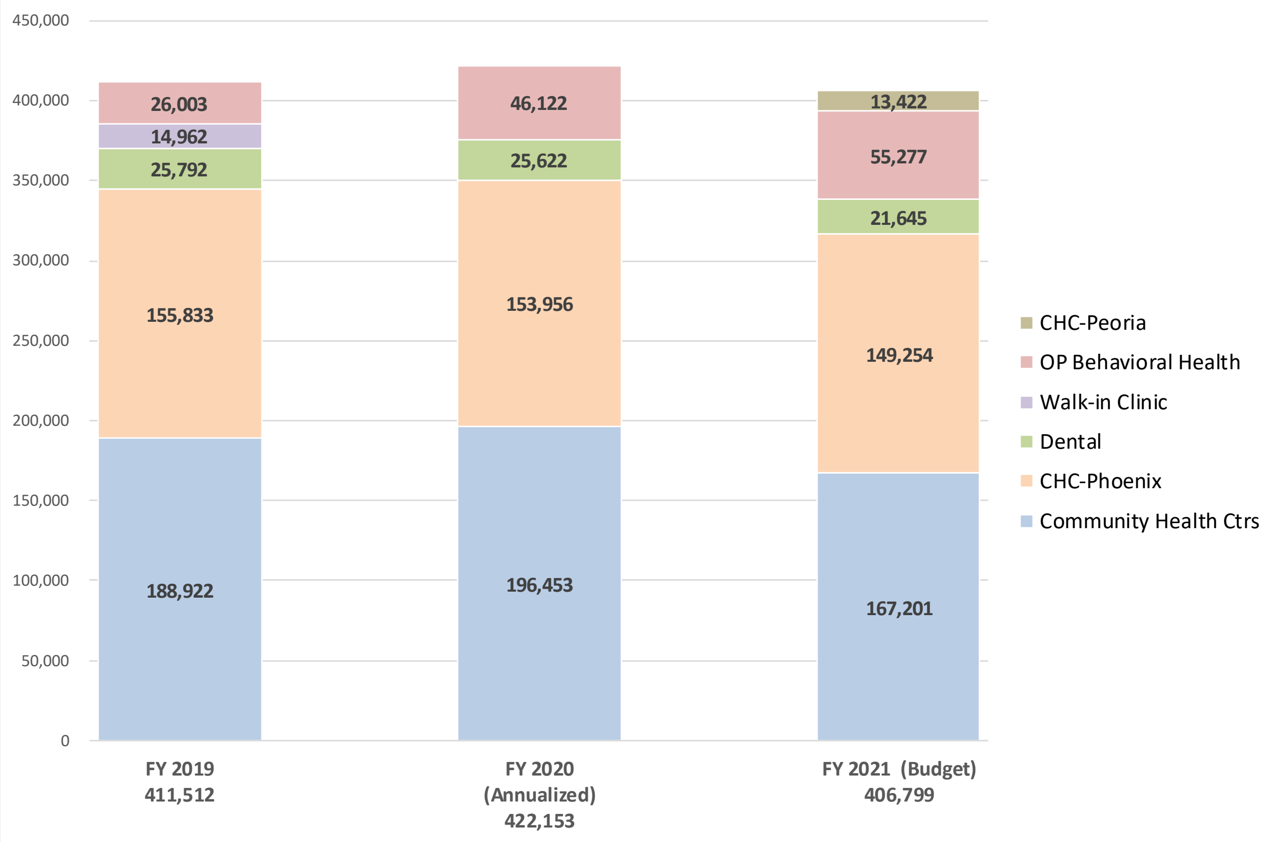
- FY 2020 is July 2019 through February 2020 Annualized
- Data excludes Maryvale Campus

Roosevelt Campus – ED Visits by Year



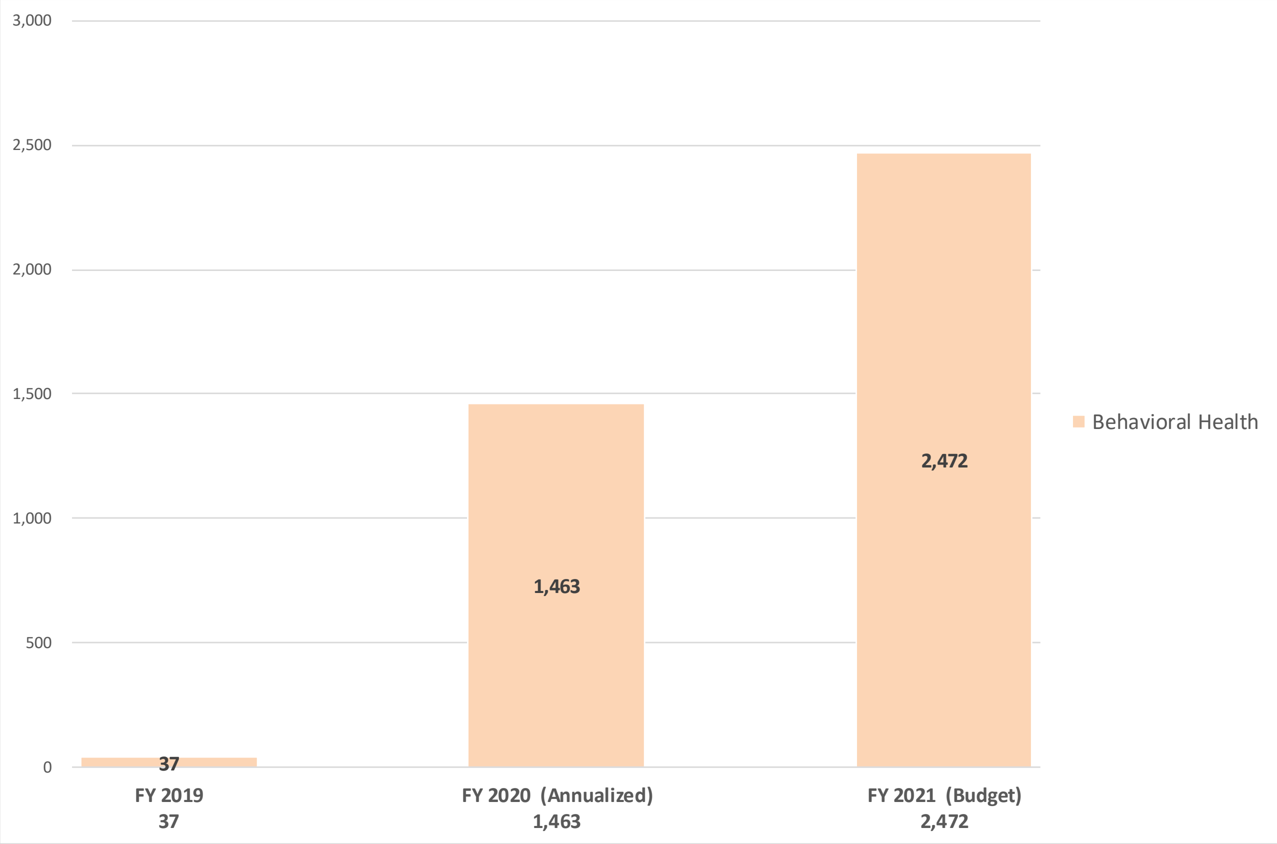
- FY 2020 is July 2019 through February 2020 Annualized
- Data excludes Maryvale Campus

Valleywise Health – Ambulatory Visits by Year



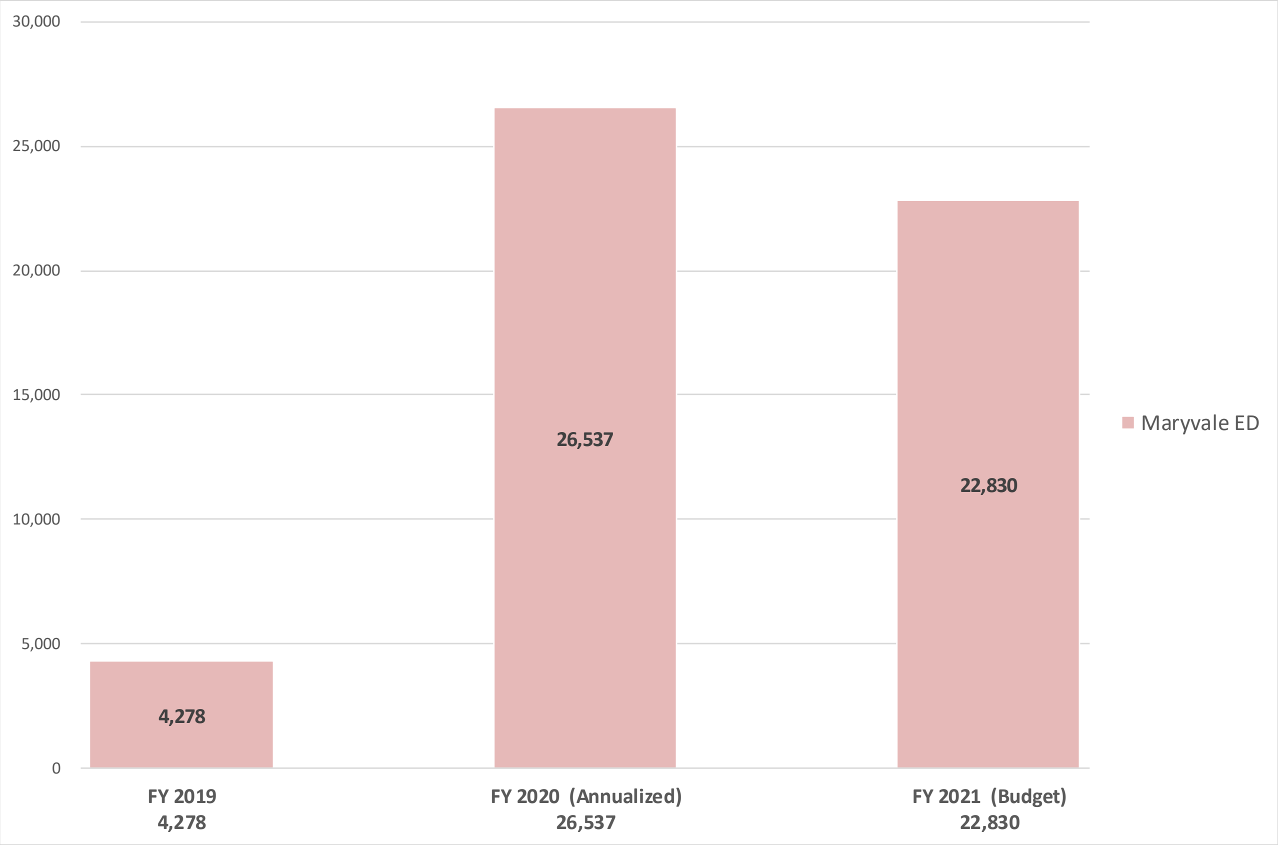
- FY 2020 is July 2019 through February 2020 Annualized
- Telehealth visits are included

Maryvale Campus – Admissions by Year



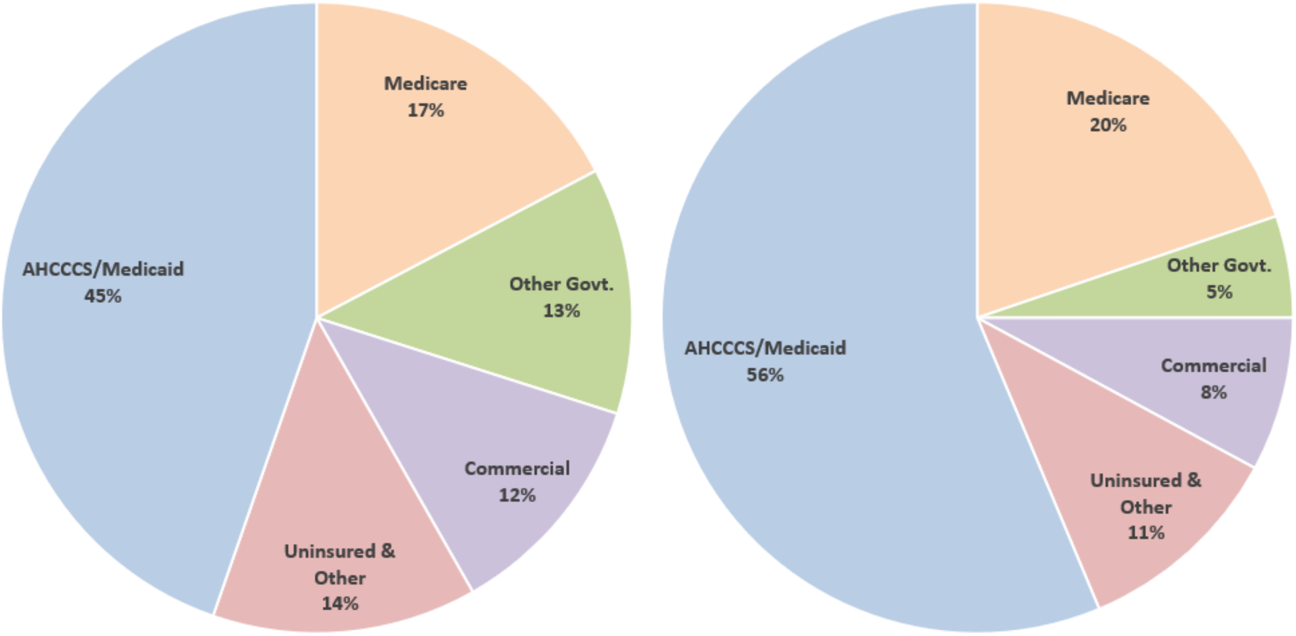
- FY 2020 is July 2019 through February 2020 Annualized

Maryvale Campus – ED Visits by Year



- FY 2020 is July 2019 through February 2020 Annualized

Valleywise Health – Gross Revenue Payor Mix Assumption



Valleywise Health
(Excludes Maryvale Campus)

Maryvale Campus

Valleywise Health Income Statement

	FY 2019 Total Actual	FY 2020 Total Budget	FY 2020 YTD FEB Annualized	FY 2021 Total Budget	Variance Fav / (Unfav) Budg 21-Ann 20	% Variance Fav / (Unfav) Budg 21-Ann 20
OPERATING REVENUE						
Net Patient Service Revenue	$ 429,851,934	$ 480,190,008	$ 503,506,122	$ 504,190,561	$ 684,439	0.1 %
Other Revenue	85,375,007	84,845,608	89,602,758	90,454,553	851,794	1.0 %
Total Operating Revenue	**515,226,940**	**565,035,616**	**593,108,880**	**594,645,113**	**1,536,233**	**0.3 %**
OPERATING EXPENSES						
Salaries and Wages	242,211,381	267,552,086	269,608,482	278,318,507	(8,710,025)	(3.2 %)
Contract Labor	21,453,895	16,708,330	25,326,343	16,251,181	9,075,162	35.8 %
Employee Benefits	48,286,608	77,985,456	76,524,626	78,700,505	(2,175,879)	(2.8 %)
Medical Service Fees	77,409,340	76,537,395	79,816,194	74,875,069	4,941,125	6.2 %
Supplies	79,134,622	82,309,020	93,972,547	96,524,195	(2,551,648)	(2.7 %)
Purchased Services	22,315,718	28,208,816	28,959,627	30,905,766	(1,946,139)	(6.7 %)
Repair and Maintenance	16,725,790	18,163,504	17,720,064	20,485,250	(2,765,186)	(15.6 %)
Utilities	7,274,254	8,728,157	7,841,698	8,431,914	(590,216)	(7.5 %)
Rent	5,186,907	5,399,706	5,968,658	5,512,265	456,394	7.6 %
Other Expenses	16,889,648	18,707,405	18,901,912	21,816,140	(2,914,228)	(15.4 %)
Provider Assessment	6,761,532	7,824,401	7,824,401	12,429,983	(4,605,581)	(58.9 %)
Depreciation	27,902,991	36,618,825	35,424,674	40,322,336	(4,897,662)	(13.8 %)
Total Operating Expense	**571,552,686**	**644,743,101**	**667,889,225**	**684,573,108**	**(16,683,883)**	**(2.5 %)**
Operating Income (Loss)	**(56,325,746)**	**(79,707,486)**	**(74,780,345)**	**(89,927,995)**	**(15,147,650)**	**(20.3 %)**
NONOPERATING REVENUES (EXPENSES)						
NonCapital Grants	10,790,941	13,041,005	11,011,796	13,690,180	2,678,383	24.3 %
NonCapital Transfers from County/State	3,547,896	3,547,896	3,547,896	3,547,896	0	0.0 %
Investment Income	10,325,302	7,500,001	9,366,554	3,555,696	(5,810,858)	(62.0 %)
Other NonOperating Revenues (Expenses)	(19,913,359)	(23,929,376)	(28,506,097)	(27,640,417)	865,680	3.0 %
Interest Expense	(13,477,470)	(18,963,494)	(12,751,467)	(15,030,264)	(2,278,797)	(17.9 %)
Tax Levy	119,074,910	143,303,021	143,303,021	139,606,198	(3,696,823)	(2.6 %)
Total NonOperating Revenues (Expense	**110,348,220**	**124,499,052**	**125,971,703**	**117,729,288**	**(8,242,415)**	**(6.5 %)**
Excess of Revenues over Expenses	**$ 54,022,474**	**$ 44,791,566**	**$ 51,191,358**	**$ 27,801,293**	**$ (23,390,064)**	**(45.7 %)**
Bond-Related Revenues and Expenses	(35,337,426)	(48,296,477)	(53,172,940)	(41,868,163)	11,304,777	21.3 %
Increase in Net Assets (normalized)	**$ 18,685,048**	**$ (3,504,911)**	**$ (1,981,582)**	**$ (14,066,869)**	**$ (12,085,287)**	**(609.9 %)**

Valleywise Health – Capital Budget by Category

Capital Category	Amount
Clinical	$ 4,280,000
IT	1,262,000
Infrastructure	1,070,000
FQHC	100,000
Other	288,000
Emergency/Contingency	3,000,000
Total	**$ 10,000,000**

Valleywise Health – Projected Cash from Operations

	Actual Projected * FY 2020	Budget FY 2021
Sources of Cash		
Operations	$ (33,101,822)	$ (14,066,869)
Bond Funds	48,296,477	41,868,163
Debt Service Funds	13,693,319	0
Medicare Accelerated Payment Program	23,368,000	0
Depreciation - Non Cash Operating Expense	36,618,825	40,322,336
Total Sources of Cash	$ 88,874,799	$ 68,123,630
Uses of Cash		
Debt Repayments - Misc Other	$ (812,677)	$ (793,306)
Debt Repayments - Bond	(62,822,294)	(55,365,219)
Debt Repayments - Medicare Accelerated Payment Program	0	(23,368,000)
Capital - Emergency/Contingency	(17,111,333)	(10,000,000)
Total Uses of Cash	(80,746,304)	(89,526,525)
Fiscal Year - Changes in Cash Flow	$ 8,128,495	$ (21,402,895)

** - Based on May 2020 YTD and projected June*