Dear Maricopa County Special Health Care District Board of Directors,

As we enter the third year of the COVID-19 pandemic, the focus for fiscal year 2023 (FY 2023) will be on our workforce. To fulfill our mission, we need caregivers, providers and support staff. The investment in compensation included in this budget demonstrates our continued commitment to our Valleywise Health employees.

The notebook which follows provides essential details on the proposed FY 2023 operating budget for Valleywise, with some highlights below.

Workforce

The COVID-19 pandemic has deeply altered the healthcare workforce. Caregivers worked tirelessly to provide lifesaving care and protecting communities. Long before the second anniversary of the outbreak, staff was exhausted. Across the nation, many left healthcare having given their best. Demographic shifts and other broader economic trends intensified the issue, creating a national healthcare staffing shortage. This resulted in an increased reliance on contract labor from healthcare staffing firms who leveraged the staffing shortage to charge an exorbitant rate to hospitals just to have the staff needed to maintain care. Competitors offered sign-on bonuses and significant rate increases, challenging staff's commitment to Valleywise Health in a time of increasing inflation.

Support departments were also affected as they competed with other industries to fill non-clinical positions amidst the "Great Resignation." This has affected multiple departments including human resources, registration, scheduling, security and others.

The FY 2023 Operating Budget includes a significant investment in our staff to reduce rate-related turnover, support recruitment and taper the reliance on contract labor. The effect will not occur overnight, so an overlap of both higher employed labor costs and contract labor will occur during the transition. Total Compensation, including Salaries and Wages and Employee Benefits, are budgeted to increase by 4.3%, with employed FTEs increasing by 3.6%. Contract Labor is budgeted to decrease by 40% in costs and 50% in FTEs. (This reduction in Contract Labor also includes a decrease of 299.4 FTEs in EVS and Food Service as these will now be recorded in Purchased Services.)

COVID-19

The COVID-19 virus impact has been unpredictable due to its variants and the national polarization surrounding the vaccine. The FY 2023 Operating Budget includes fewer seasonal COVID-19 hospitalizations, and longer respite intervals with low COVID-19 census. This forecast, along with the continued staffing challenges, has been reflected in the FY 2023 budget causing very conservative growth.

- After significant recovery in FY 2022 over FY 2021, Surgical, Endoscopy and Emergency Room volumes for FY 2023 are forecasted to remain stable with only minor growth;
- The Average Length of Stay for both Acute and Behavior Health are forecasting improvements due to fewer extended COVID-19 stays;
- The COVID-19 census continues at a low level throughout the year, with a seasonal increase in January forecasted at less than previous January peak levels;
- With fewer COVID-19 admissions and the cessation of the COVID-19 Uninsured Program, the FY 2023 Payer Mix includes a lesser portion of Other Government revenue;
- The Payer Mix also includes an increase to Uninsured due to the projected end of the Public Health Emergency (PHE) in FY 2023. While the PHE is currently set to end on July 15, 2022, the Biden administration has not yet provided states with the promised 60-day notice at this time, leading to forecasts of a 90-day extension to October 13, 2022. The PHE has allowed for Medicaid continuous coverage, so its termination will result in disenrollments from AHCCCS, either temporarily through the re-enrollment process or permanently.
- The Federal Medical Assistance Percentage (FMAP) was temporarily increased in the Families First Coronavirus Response Act (FFCRA) in March 2020. This is projected to return to previous levels with the new federal fiscal year. This is expected to impact the Access to Professional Services Initiative (APSI) program, effectively increasing net Medical Services Fees.
- Savings are expected in COVID-19 related Supplies and Medical Equipment rentals due to the forecasted fewer COVID-19 hospitalizations.

Care Reimagined

Valleywise Health has continued its plans to provide healthcare to areas of need in Maricopa County as envisioned by "Care Reimagined" and supported by the Proposition 480 approval in 2014.

This year, new Community Health Centers opened in West Maryvale and Mesa, and both are steadily growing their patient panels. The Comprehensive Health Center – Peoria, which opened in FY 2021, has an 8% projected growth in ambulatory visits for FY 2023, while Surgeries and Endoscopies adjust with provider stabilization.

On the Roosevelt campus, the Support Services Building is expected to complete construction near the close of FY 2023. Construction will continue on the new hospital tower throughout the year, with operational planning intensifying. Operating budget impacts include increased Utilities costs and some additional Security and Facilities FTEs required to support the project.

Patient Activity and Revenue

Total Net Patient Service Revenue is expected to have a slight decrease -0.6% over the FY 2022 projection. While the budget includes conservative growth, the changes to the Payer Mix outlined in the COVID-19 section of this summary will reduce reimbursement for services provided. Uncompensated Care, comprised of Charity and Bad Debt, is projected at 11.7% of Gross Revenue, an increase over the FY 2022 projection of 9.5% due to the forecasted increase in Uninsured.

Patient volume at Maryvale is projected to decrease to 39,435 Behavioral Health patient days due to continued closed units from the staffing shortage. In addition, 29,371 Emergency Department visits are planned at this location, continuing its steady recovery from the low pandemic volumes of FY 2021.

Behavioral Health days at the Phoenix and Mesa campuses are projected to increase by 10.8% and 4.0% respectively due to decreased blocked beds due to COVID-19, shorter average lengths of stay, and the completion of the unit renovations at the Phoenix campus. The Behavioral Health average length of stay is expected to decrease to 21.6 days due to fewer extended stays related to COVID-19.

On the Roosevelt campus, acute admissions are budgeted to increase by 3.4%. This is due to a slight increase in Emergency Department (ED) visits and return to a normal average length of stay of 5.1 days with the decrease in COVID-19 census. Total ED visits at the Roosevelt campus are anticipating only a slight increase of 0.6%.

Total Ambulatory visits are projected to increase by 2.1% due to growth in the Comprehensive Health Center – Peoria visits and Outpatient Behavioral Health, mostly Integrated Behavioral Health in the FQHCs.

Lastly, Other Operating Revenue is expected to be 13.1% higher next year driven by GME Revenue, Grants/Research Revenue and Provider Assessment Revenue.

In sum, Total Operating Revenues are projected to increase by only 1.8% due to the conservative volume growth and payer mix changes.

Expenses

Overall operating expenses are projected to remain a flat 0.1% over the current year projection.

Total Labor costs are projected to decrease -6.3%. The outsourced services for Dietary and EVS previously included in Contract Labor will now be accounted for in Purchased Services. If this accounting change was excluded, the Labor costs would be a decrease of -5.0% due to the decrease in Contract Labor. Employee benefits are projected to be 29.7% of salaries, including the decrease of ASRS from 12.41% to 12.17%. For productivity, FTEs/AOB will decrease to 4.7 excluding Residents, a 3.0% improvement.

Medical Service Fees are expected to increase 6% due to increases in providers for the FQHCs and Service Lines, and a projected decrease in Access to Professional Services Initiative (APSI) offsetting revenue forecasted to occur at the start of the next federal fiscal year.

Supply Expense will decrease by 7.8%, with most of the decrease due to an accounting change of supply expenses for outsourced services moving to Purchased Services. It also includes a decrease related to COVID-19 related supplies, offset by higher inflationary costs.

Purchased Services are estimated to increase by 84% next year, due to the accounting change for outsourced services. Repair and Maintenance are increasing by 9% due mostly to IT related expenses.

Utilities are increasing by 29% due the additional utilities required for the Roosevelt buildings under construction and inflationary increases. Rent is decreasing 13% due to fewer COVID-19 related rental equipment needs.

Other Expenses are increasing by 11%, due mainly to Web-based Subscription Software and Risk Premium Claim Expense. The annual Provider Assessment from AHCCCS is projected to decrease 75% with an exemption submission for the new federal fiscal year. Depreciation is budgeted to increase by 7.4%, mostly due to a full year of Depreciation for the FQHC clinics opened in FY 2022.

Non-Operating Revenue (Expense)

The Non-Operating Revenue (Expense) includes Grants/Research, the Match program, Interest Income/Expense, and Tax levies. For FY 2023, this budget includes $92.1M in operating tax support and $37.1M in bond levy support. Other Nonoperating Revenues (Expenses) will decrease due primarily to the absence of the COVID-19 Provider Relief that was received in late FY 2022. Investment Income is estimated to be $2.7M based upon average operating and bond cash on hand and current interest rate experience. Interest Expense will increase over normalized current year expense to $28.0M due to expected amortization costs.

FQHCs

Two new Community Health Centers opened in FY 2022, West Maryvale and Mesa. Visits are estimated for a 3.5% increase mostly due to the growth in Integrated Behavioral Health, offset by decreased visits in the newer locations in comparison to FY 2022 pre-opening levels. These clinics will be progressively increasing their visits throughout the year. The American Rescue Plan

grant supported the significant increase in the Integrated Behavioral Health program through new provider funding.

The AHCCCS qualified visit rate is expected to increase by 3.0%, based on an average of historical rate increases. Other Operating Revenue is increasing due to the American Rescue Plan grant. Expenses are budgeted to increase 12%, driven by compensation increases and number of providers. The Operating Margin results in a -$1.6M contribution before overhead.

Capital Plan & Cash Position

The capital budget plan of $10.0M includes $2.2M in contingency to provide for potential equipment replacements, as needed. The Capital Plan excludes "Care Reimagined" bond-supported capital which is accounted for separately.

This budget projects a decrease in the Valleywise Health cash position for FY 2023 due to the operating loss from the overlap of investment in compensation with gradual reduction in Contract labor, and the final repayment of the Medicare Accelerated Payment program and the Employer Federal deferred tax withholds. Operating days cash on hand at June 30, 2023, year-end is projected to be approximately 98.2 days**.**

Margin

The FY 2023 budgeted total margin is $-19,558,593, calculated as the Earnings before Interest, Depreciation and Amortization (EBIDA) offset by the Management & Operations subsidy. This negative margin is not taken lightly but is required for Valleywise Health to address the national workforce issues felt acutely in our facilities. The FY 2023 Operating and Capital budget is a responsible and conservative financial plan, reflecting the organization's priorities, supporting the operational requirements and linked to its strategic objectives.

I want to take this opportunity to thank the entire leadership team for their work and support, including the support of our CEO and President, Steve Purves, CCO, Dr. Michael White, and CAO, Lia Christiansen. A special thanks to Matt Meier, Christie Markos, and the Decision Support Team for their tireless efforts in building this Operating and Capital budget alongside our clinical and support leaders, and in developing our financial guide for next year.

Sincerely,

Claire Agnew, CPA, MBA
EVP, Chief Financial Officer

Valleywise Health

JUNE 22, 2022

Fiscal Year 2023 Budget Board Update

Claire Agnew, 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

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

April

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

May

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

June

16 - District Board Budget Hearing - Consideration of the FY2023 Operating and Capital Budget for approval.

22 - District Board Budget Meeting – Final Consideration of the FY2023 Operating and Capital Budget for approval.

March

S	M	T	W	T	F	S
		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		

April

S	M	T	W	T	F	S
					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

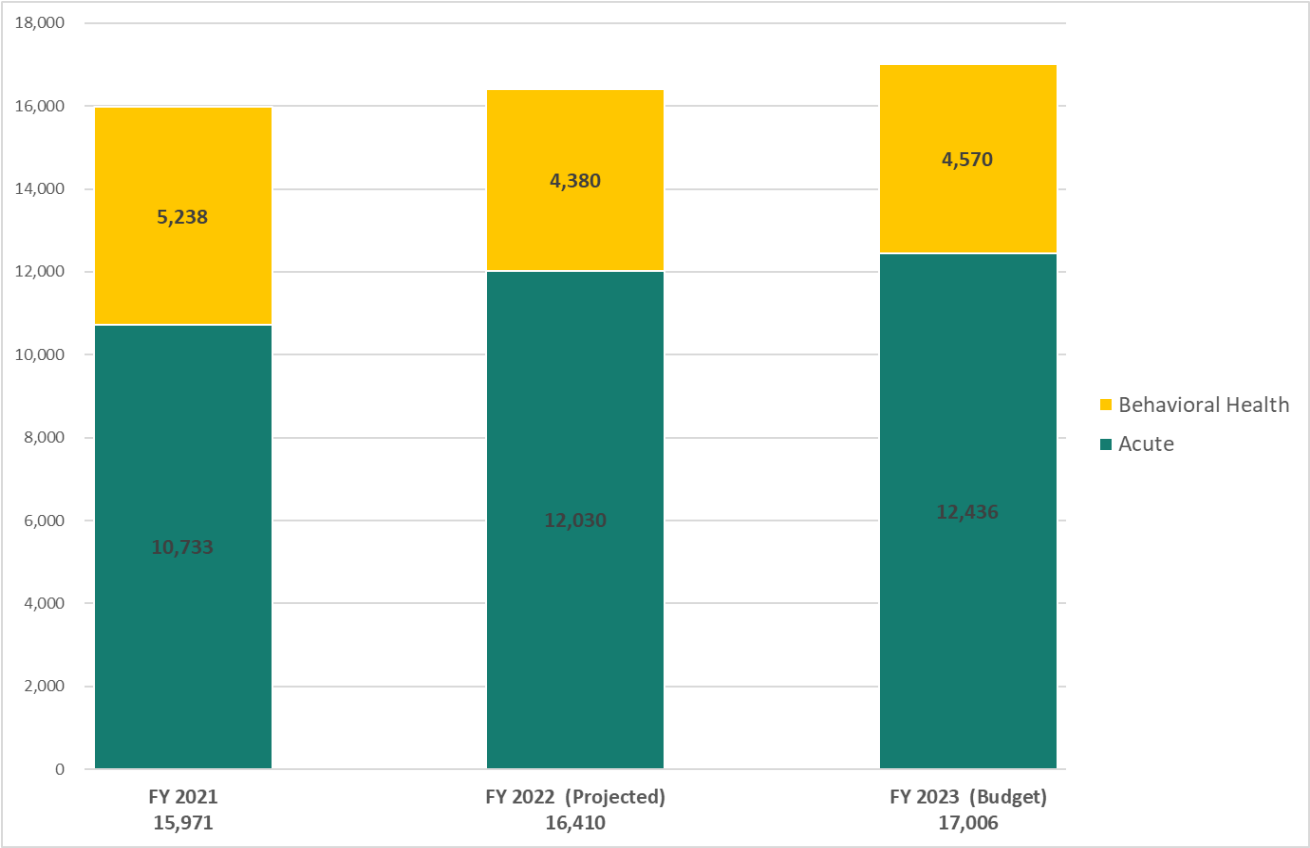
May

S	M	T	W	T	F	S
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				

June

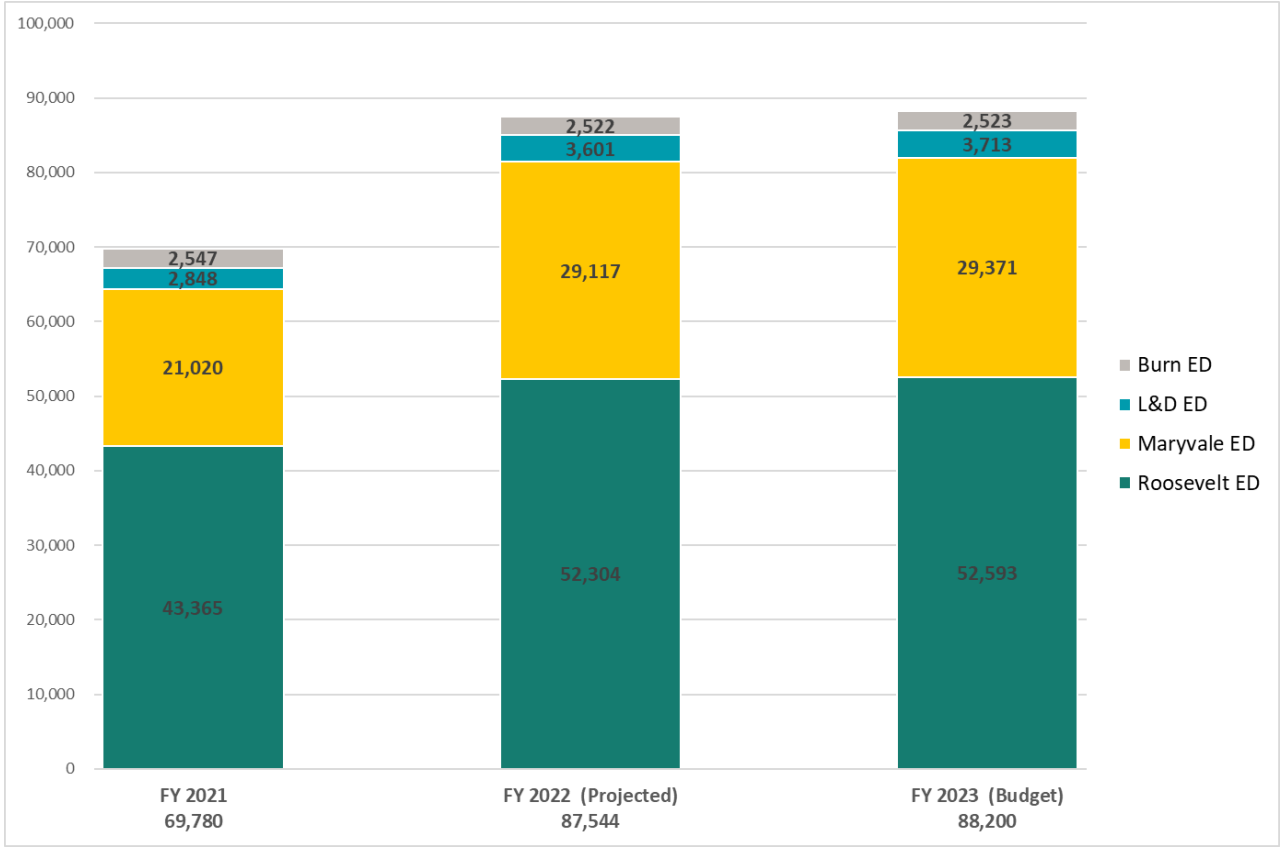
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

Valleywise Health - Admissions by Year



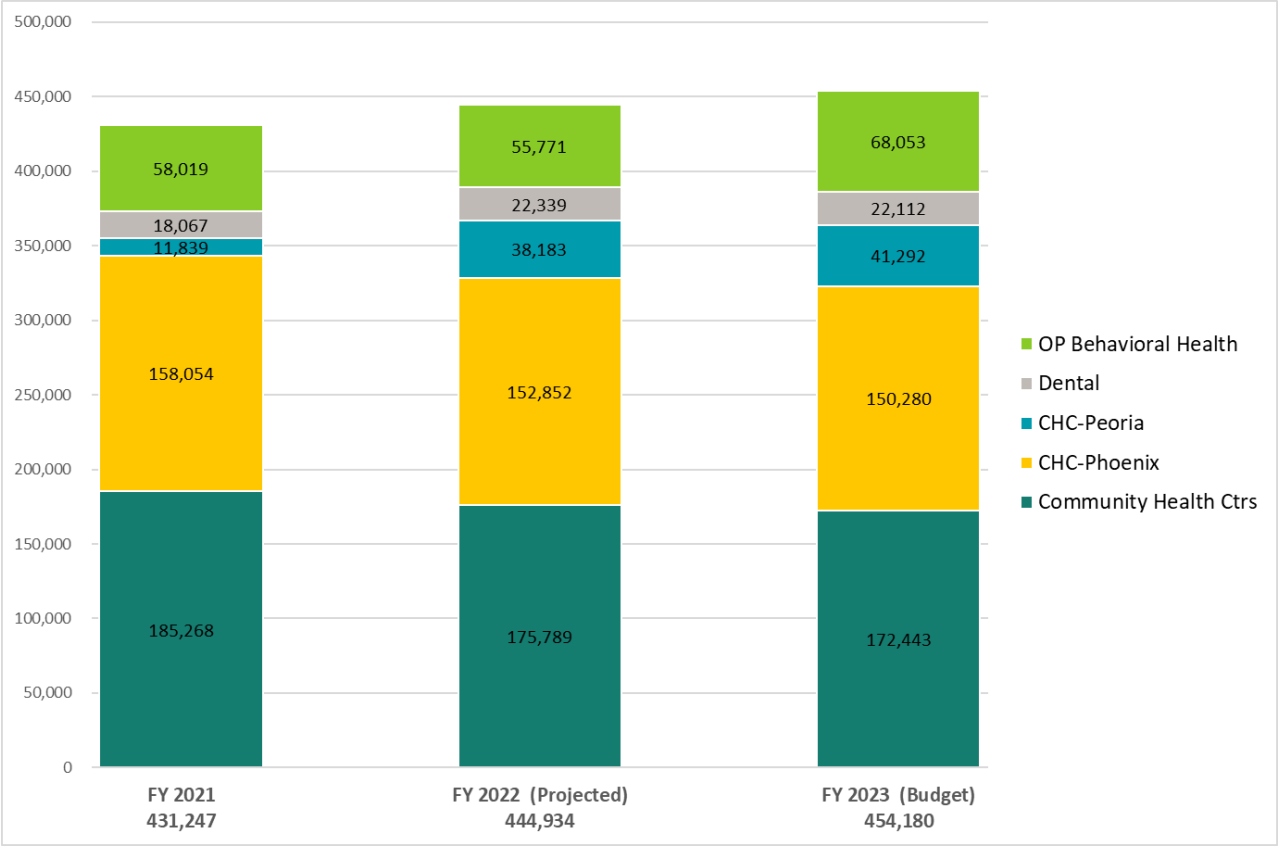
- FY 2022 is July 2021 through April 2022 Projected

Valleywise Health – Emergency Department Visits by Year



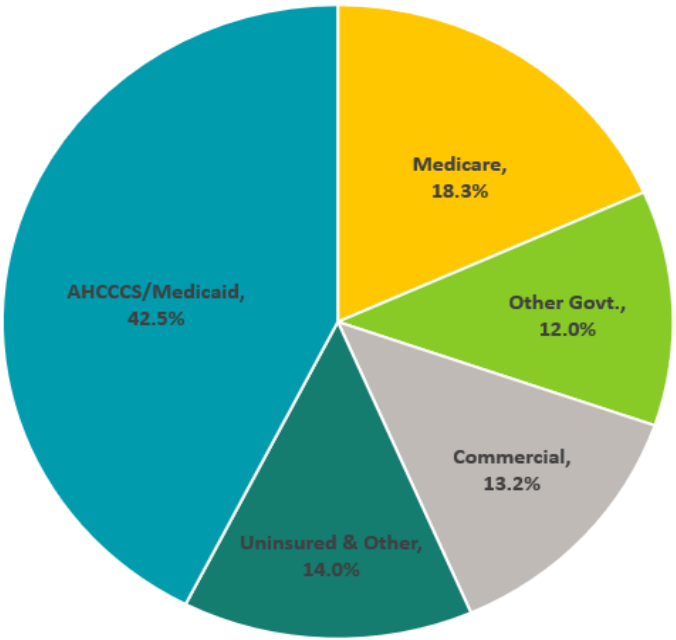
- FY 2022 is July 2021 through April 2022 Projected

Valleywise Health – Ambulatory Visits by Year

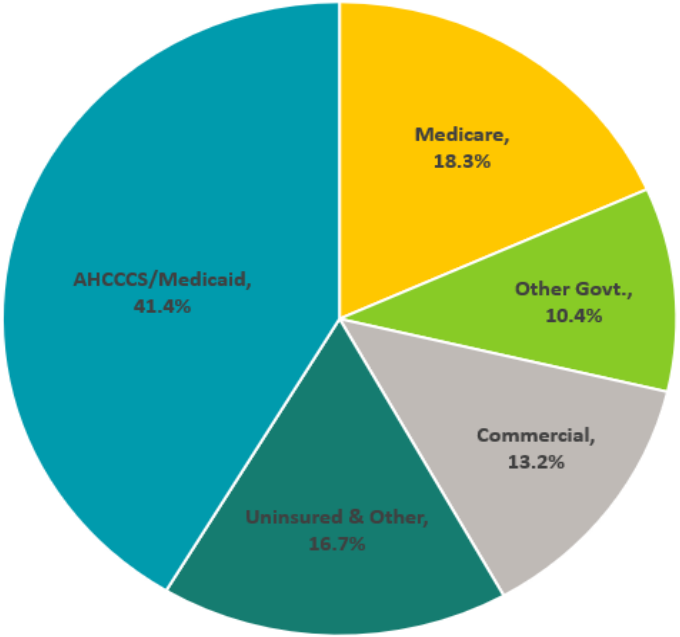


- FY 2022 is July 2021 through April 2022 Projected
- Telehealth visits are included

Valleywise Health – Gross Revenue Payor Mix Assumption



FY 2022
Projected



FY 2023
Budget

Valleywise Health Income Statement

	FY 2021 Total Actual	FY 2022 Total Budget	FY 2022 Projected Full Year	FY 2023 Total Budget	Variance Fav / (Unfav) Budg 23-Proj 22	% Variance Fav / (Unfav) Budg 23-Proj 22
OPERATING REVENUE						
Net Patient Service Revenue	$ 489,209,495	$ 501,615,211	$ 525,760,368	$ 522,474,936	$ (3,285,432)	(0.6 %)
Other Revenue	117,889,439	117,648,724	113,421,345	128,272,476	14,851,132	13.1 %
Total Operating Revenue	**607,098,933**	**619,263,935**	**639,181,712**	**650,747,412**	**11,565,699**	**1.8 %**
OPERATING EXPENSES						
Salaries and Wages	278,443,621	275,603,288	291,738,348	303,877,813	(12,139,466)	(4.2 %)
Contract Labor	24,706,444	34,362,127	79,821,084	47,935,783	31,885,301	39.9 %
Employee Benefits	105,599,319	84,983,018	85,881,167	90,149,121	(4,267,954)	(5.0 %)
Medical Service Fees	85,573,526	100,834,210	97,481,997	103,644,932	(6,162,935)	(6.3 %)
Supplies	95,262,465	99,112,364	101,489,265	93,579,490	7,909,775	7.8 %
Purchased Services	34,080,775	30,575,788	29,361,263	54,023,625	(24,662,361)	(84.0 %)
Repair and Maintenance	20,731,750	23,513,082	21,800,682	23,751,268	(1,950,586)	(8.9 %)
Utilities	8,378,566	7,508,519	7,178,544	9,248,627	(2,070,083)	(28.8 %)
Rent	6,054,456	5,729,610	6,728,445	5,877,183	851,262	12.7 %
Other Expenses	18,542,731	21,594,912	21,958,386	24,407,573	(2,449,187)	(11.2 %)
Provider Assessment	18,864,906	23,447,424	23,423,408	5,891,876	17,531,532	74.8 %
Depreciation	58,845,414	46,518,287	44,428,208	47,710,480	(3,282,272)	(7.4 %)
Total Operating Expense	**755,083,972**	**753,782,628**	**811,290,797**	**810,097,772**	**1,193,025**	**0.1 %**
Operating Income (Loss)	**(147,985,038)**	**(134,518,693)**	**(172,109,085)**	**(159,350,360)**	**12,758,725**	**7.4 %**
NONOPERATING REVENUES (EXPENSES)						
NonCapital Grants	5,890,625	6,120,309	5,739,561	4,913,584	(825,977)	(14.4 %)
NonCapital Transfers from County/State	3,547,896	3,547,896	3,547,896	3,547,896	(0)	(0.0 %)
Investment Income	2,031,886	3,121,000	3,320,963	2,686,925	(634,038)	(19.1 %)
Other NonOperating Revenues (Expenses)	3,212,369	(16,232,376)	(4,901,926)	(8,699,909)	(3,797,984)	(77.5 %)
Interest Expense	(15,027,454)	(28,041,130)	(17,150,599)	(29,330,857)	(12,180,258)	(71.0 %)
Tax Levy	139,606,198	145,022,045	145,022,046	129,214,055	(15,807,991)	(10.9 %)
Total NonOperating Revenues (Expense	**139,261,520**	**113,537,743**	**135,577,941**	**102,331,693**	**(33,246,248)**	**(24.5 %)**
Excess of Revenues over Expenses	**$ (8,723,518)**	**$ (20,980,950)**	**$ (36,531,144)**	**$ (57,018,667)**	**$ (20,487,523)**	**(56.1 %)**
Bond-Related Revenues and Expenses	(39,442,823)	(30,118,582)	(42,150,864)	(9,478,792)	32,672,072	77.5 %
Increase in Net Assets (normalized)	**$ (48,166,341)**	**$ (51,099,532)**	**$ (78,682,008)**	**$ (66,497,459)**	**$ 12,184,549**	**15.5 %**

Valleywise Health – Capital Budget by Category

Capital Category		Amount
Clinical	$	2,760,260
IT		2,896,949
Infrastructure		1,938,679
FQHC		100,000
Other		88,316
Emergency/Contingency		2,215,796
Total	**$**	**10,000,000**

Valleywise Health – Projected Cash from Operations

	Actual Projected * FY 2022	Budget FY 2023
Sources of Cash		
Operations	$ (78,682,008)	$ (66,497,459)
Bond Funds	53,921,790	37,132,768
Depreciation - Non Cash Operating Expense	44,428,208	47,710,480
Total Sources of Cash	$ 19,667,990	$ 18,345,789
Uses of Cash		
Repayments - Employer Tax deferral	$ (5,650,000)	$ (5,650,000)
Debt Repayments - Medicare Accelerated Payment Program	(15,646,520)	(5,445,734)
Debt Repayments - Bond	(58,892,291)	(55,270,600)
Capital - Emergency/Contingency	(10,000,000)	(10,000,000)
Total Uses of Cash	(90,188,811)	(76,366,334)
Fiscal Year - Changes in Cash Flow	$ (70,520,821)	$ (58,020,545)

** Based on April 2022 YTD Annualized*

Valleywise Health