



Board Informational Report

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Dear Chair and Members of the Board.

It is hard to believe this is the last report to share for calendar year 2023! This calendar year has gone by very quickly.

As we look at our health system through October, as the November financials aren't complete as of the above date, we are seeing a slowing year over year, overall volume growth for the health system of about 7.6%. It had been a year over year growth rate earlier of 10% but this level of increase is declining.

Our bottom lines have been slightly negative in September and October. Even with the bottom lines, just cited for September and October, year to date we are about \$700,000 higher than budget in Net Income and \$1,700,000 higher than this same period of the prior year.

We are grateful for this positive team performance when 17 rural hospitals and many urban hospitals in California and Nevada are having severe struggles right now. Thirty six percent of rural hospitals in America are on the verge of closing now. Every week we read of a closure or bankruptcy.

As our team really works hard all year long and they provide 24/7 coverage rain or shine, it is also appropriate to play hard. It was great to see the smiles and hear the chatter of our medical staff at their annual medical staff meeting and dinner and from our team at our annual holiday party this past week.

We are one of the few healthcare companies in California and in the US that has a workforce-housing agency that we actively participate in each year. Being a quality employer here suggests we also reflect on the living conditions that are available for our team as well! We thank all those who have supported us in this Workforce Housing Agency important work!

We continue on our important journey of Management Systems improvement work focusing first on patient access to care and our mental health services. These efforts will last many months and there will be transitions to other topics and areas of the health system. These change steps allow front line staff to acknowledge that a status quo future is not sustainable and it does not honor our patients or our team either. The beauty of this Management Systems change process is after our front line team acknowledges that status quo is not ok, then they get to propose changes to make it much better.

California is experiencing a growing deficit and currently the largest deficit in the history of the state! I can remember when the Total General Fund budget of the state was around 100 billion per year when I was working in Salinas, CA just a few years back and right now, the deficit is expected to be 68 billion. These state losses will likely touch every entity who receives disbursements from the state including us in some way. The State is now relooking at the huge healthcare minimum wage increase the Governor signed into law at the last minute to see if the state can modify or back out of this arrangement.

One of our many major improvement efforts this year is to greatly improve our annual investment income, making sure the hospital and all subsidiaries have strong cash and investment strategies in place. We hope to talk about this a bit more after this fiscal year ends.

We do need to talk a bit more granularly about the early intentions of the California Office of Healthcare Affordability. Crystal has spoken in the past about some of their growing involvement dates and micromanagement dates for all California hospital systems. Again, it appears they are keeping hands off on healthcare payors and healthcare suppliers including drug companies and only focusing on physician and hospital type providers.

The desire of the CA Office of Healthcare Affordability is to assign all residents of the state to each health system and to drop down further, the state wishes to assign all residents assigned to a hospital system to each appropriate medical staff member in that health system. Further, they wish to identify a total cost figure for this patient population assigned to each health system and the number of residents. So they will attempt to then identify what is the total healthcare cost for those residents assigned to us on a per member per month basis and contrast this with other health system performance.

We are not paid on any capitated basis like Medicare Advantage programs, Kaiser, Anthem, United, Cigna or Aetna and our patients have great freedom where they go for care. Therefore, with this “reality back drop” of no capitated contracts and great freedom by our patients as to where they receive care, the math results from the CA Office of Healthcare Affordability should be all over the board.

We continue to be active on many fronts with the Town, State and the Feds.

Keeping you informed.