

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

COVID-19 Information

In response to the public health crisis created by COVID-19, the Governor of the State of Florida issued Executive Order No. 2020-52 on March 9, 2020, declaring a state of emergency in the State of Florida (the "State"). The declaration allowed for certain executive actions to respond to the increasing number of COVID-19 cases in the State. The Governor has subsequently issued numerous additional executive orders in response to COVID-19, in an effort to reduce community spread of the virus and protect Florida's most vulnerable citizens. These measures have included, among others, closing or restricting access to certain businesses and activities, restricting non-essential travel and screening persons traveling into the State, suspension of vacation rental operations, and limiting movement of all persons in Florida through April 30, 2020 to those necessary to obtain or provide essential services or conduct essential activities. Additionally, under Executive Order No. 2020-72, elective services, including surgeries and other procedures, were prohibited for so long as Executive Order 2020-52 was in effect. Effective on May 4, 2020, Executive Order 20-112 implemented the Governor's "Phase 1: Safe. Smart. Step-by-Step. Plan for Florida's Recovery" which amended Executive Order 2020-72 and allowed the resumption of elective services under certain conditions, which the Sarasota County Public Hospital District (the "District") has met.

As a result of the executive orders and generally in response to the concern for community spread, elective procedures and other non-emergency visits to District facilities were significantly curtailed beginning in March 2020 and the curtailment continued into May. The full impact of the public health crisis on the District cannot be estimated with any degree of certainty at this time and will depend upon the duration of the public health crisis and the State and federal response. As a result, the information contained in the Quarterly Report, while accurate for the period covered, may not be indicative of future results of operations.

The District continues to monitor the current crisis and plan and implement fiscal measures to limit the extent of the impact, however, no assurances can be made with respect to the effectiveness or success of any such measure that may be implemented. The District may, but is not required to, provide additional updates relative to COVID-19 as more information become available.

Nature of a Quarterly Report

This Quarterly Report is not intended to disclose all, and may omit, facts (including subsequent events, contingent liabilities, and other risks) that are material to an investment in the Bonds, the financial condition or prospects of the District, its ability to pay the Bonds or any other indebtedness when due, or the value of the Bonds. No person should rely on this Quarterly Report for a complete statement of such facts, nor does the filing of the interim statements imply that no facts material to an investment in the Bonds have been omitted. Reference is made to the previously provided audited financial statements for the years ending September 30, 2019 and 2018 (including the notes thereto) for important information necessary in order to provide a full understanding of the financial information contained in this Quarterly Report, particularly with respect to the description of the reporting entity and a summary of significant accounting policies.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Financial Statements
(Unaudited)

June 30, 2020 and 2019



SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis

June 30, 2020 and 2019

(Unaudited)

The period this report covers includes the initial months of the COVID-19 pandemic in Florida, including the period of time that Florida hospitals were prohibited by the governor's Executive Order #20-72 from performing "...any medically unnecessary, non-urgent or non-emergency surgery of procedure...", referred to herein as the "Moratorium". The first publicly disclosed COVID-19 case in Florida occurred on or around March 10, 2020. The Moratorium was in effect from March 20, 2020 through May 4, 2020.

Although the full impact of the public health crisis on the District cannot be estimated with any degree of certainty at this time and will depend on the duration of the public health crisis, and state and federal response, the District is providing the following information which includes known impacts and measures the District has taken in response.

For the nine months ended June 30, 2020, Sarasota County Public Hospital District (the "District") operating margin was 8.0% compared to 13.3% for the nine months ended June 30, 2019. The District's unrestricted cash and investments position, including Board designated investments that included \$146 million of Medicare Advance Payment funds, was \$1.231 billion as of June 30, 2020. Days cash on hand was 533 days (based on twelve months of expenses). The Medicare Advance Payment funds will be recouped by CMS by offsetting claims for the care of Medicare patients beginning in August 2020.

Revenues:

Total operating revenues decreased by \$19,866,000 or 2.7% compared to last year.

From October 2019 to mid-March 2020 the District continued to experience growth in inpatient census but volumes tapered off in mid-March due to the COVID-19 pandemic hitting Florida; overall hospital activity in the second half of March was approximately half of normal volume. April volumes were severely impacted by the public sheltering-at-home as well as by the Moratorium, and patient service revenue for April 2020 was \$23.6 million lower than in April 2019. Volumes in May recovered significantly resulting in patient service revenue being \$14.3 million lower than May 2019. June patient activity was strong resulting in patient service revenue being only \$82,000 lower than June 2019.

For the nine months ended June 30, 2020, hospital admissions were down by 2.7% compared to last year. The inpatient average daily census was 555 compared to 552 last year; longer average length of stay for COVID-19 patients drove the census higher despite fewer admissions. Outpatient hospital registrations (excluding emergency care center visits) were lower by 9.7% compared to last year, and emergency care center visits were 12.0% lower. Surgery cases were 7.2% lower than the prior year period, and cardiac catheterization procedures were 16.9% lower, but electrophysiology cases were 6.2% higher than last year.

The proportion of payor categories, based on gross revenue, are relatively stable.

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Expenses:

Salaries, wages and fringe benefits increased by \$22,790,000 or 6.2% compared to last year. This increased to 55.2% of net patient service revenue compared to 50.5% last year. Salaries and wages increased by \$19,246,000 or 6.2%. Fringe benefits increased by \$3,544,000 or 6.2% primarily due to increased retirement plan costs and Social Security and Medicare employment taxes, partially offset by lower health insurance and workers' compensation costs.

Supplies increased by \$4,218,000 or 2.7% compared to last year, primarily related to increased costs related to COVID-19 for medical and laboratory supplies and pharmaceuticals, partially offset by decreased implant costs associated with lower general and orthopedic surgical volume.

Purchased services decreased by \$2,258,000 or 2.6% compared to last year, primarily due to cost reduction initiatives undertaken by management following the commencement of the Moratorium in late March, and a reduction in insurance expense resulting from a refund of prior period premiums.

Professional fees increased by \$111,000 or 0.5% compared to last year, primarily related to physician fees for COVID-19 consultation and extra stipends to staff the hospital.

Depreciation expense increased by \$1,560,000 or 4.2% compared to last year. Depreciation on recent additions more than offset the cessation of depreciation on assets that became fully depreciated.

Total operating expenses increased by \$26,214,000 or 3.9% compared to last year, which is reflective of higher wages and pharmaceutical inflation.

Nonoperating items:

Of note, the District received approximately \$24 million of grant funds from the Department of Health & Human Services ("HHS") Provider Relief Fund. As of June 30, 2020 the District has not recorded these funds as revenue, but instead as an unearned grant receipts liability due to the vagueness of the terms and conditions published by HHS. The District expects that HHS will publish clear terms and conditions, and that the District will document compliance with those terms and conditions, allowing the grant funds to be recorded as nonoperating revenue and the unearned grant receipts liability to be removed prior to September 30, 2020.

For the nine months ended June 30, 2020, nonoperating items decreased by \$2,191,000 in comparison to the same period last year. This decrease was primarily due to \$28,327,000 in unrealized gains in the fixed income investment portfolio (compared to \$33,334,000 in unrealized gains last year) which was driven by the impact of fluctuating interest rates, offset partially by a \$2,672,000 increase in ad valorem tax.

Investment income increased by \$340,000 or 2.2% due to higher rates of return on invested balances. The portfolio consists of highly liquid fixed income investments. The District's investment policy

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(Unaudited)

allows holdings of fixed income securities, with at least 90% rated "A" or higher, no more than 10% rated BBB or higher, and excludes equity investments from the portfolio. Approximately \$549.8 million of the \$1.231 billion of fixed income securities have an average maturity of 192 days and a duration of 211 days, while the remaining \$681.2 million have an average maturity of 4.47 years and a duration of 4.05 years.

As of June 30, 2020, upon the recommendation from its investment manager, the District has permitted specific temporary exceptions to the policy limits for corporate bonds. The Intermediate Fixed Income Separately Managed Account has an investment guideline rule which restricts corporate bonds to a maximum of 50% of the total value of the portfolio, and further restricts A-rated corporate bonds to a maximum of 25% of the total value of the portfolio. Due to value appreciation driven by market interest rate decreases driven by the COVID-19 pandemic, as of June 30, 2020, corporate bonds and A-rated corporate bonds comprise 50.41% and 25.16%, respectively, of the total value of the portfolio.

The change in value of the District's ineffective interest rate swap contracts was an increase of \$151,000 during the first nine months of this fiscal year. None of the swap contracts require collateral posting by the District, however, collateral postings are required of the counterparties when they are out-of-the-money at certain levels. The District holds termination rights on all of the swap contracts.

Certain prior year items have been reclassified to conform with current year classifications. The reclassifications had no effect on excess of revenues over expenses or changes in net position.

The District is proceeding with the construction of the new Sarasota Memorial Hospital - Venice campus and phases one and two of a regional Cancer Institute. The Venice campus will consist of a 110-bed acute care community hospital with all private rooms, a central energy plant, and a medical office building. Phase one of the regional Cancer Institute will provide radiation oncology services and will be located at the District's ambulatory care center campus on University Parkway in northern Sarasota County. Phase two of the Cancer Institute will include a new 170,000 square foot bed tower on the existing main hospital campus with 56 private inpatient rooms and eight operating rooms. The combined cost of these projects is currently estimated at \$620 million, partially financed with the proceeds from \$350 million of Fixed Rate Revenue Bonds, Series 2018, issued by the District on September 24, 2018.

In response to the COVID-19 pandemic beginning in March 2020, the District undertook a variety of proactive measures to mitigate the financial and operational impact. These measures include:

- Leadership and Infrastructure:
 - Quickly established incident command center for coordinated leadership
 - Daily conference calls to share status reports from all areas of operation
 - CEO provides frequent email updates and bi-weekly video messages
 - 24/7 command center to respond to staff's questions
 - Continuous monitoring of CDC guidance
 - Moratorium on work-related travel

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Management's Discussion and Analysis

June 30, 2020 and 2019

(Unaudited)

- Developed contingency plans to enhance capacity for potential surge
- Created separate Emergency triage area to assess patients with COVID-19 signs
- Controlled access to hospital:
 - No visitors with very limited exceptions (i.e. NICU, birth support, end of life)
 - Taking temperature of everyone entering facility
 - Transitioned many staff into work-from-home
- Added equipment with funds donated by the Sarasota Memorial Health Care Foundation:
 - Ventilators, respiratory care and patient monitoring equipment
 - Lab equipment
 - Disinfection units
 - Telemedicine units
- Patient Care:
 - Quickly developed an aggressive COVID-19 testing process and worked with numerous external labs to improve turnaround times
 - Launched rapid in-house testing on our own platform once supplies became available
 - Increased clinical staffing for increased number of patients in isolation
 - Personal Protective Equipment (PPE):
 - Segregated inventories and established clinical criteria based on CDC guidance to ensure appropriate utilization
 - Developed alternative sources to obtain PPE
 - Worked with manufacturers to implement safe disinfection of N-95 masks
 - Expanded the use of telemedicine throughout the health system
 - Developed plan to expand ICU capacity from 62 to 100 beds, if needed
 - Joined three national clinical trials to test COVID-19 treatments, including a study of the antiviral drug remdesivir, a trial evaluating the use of convalescent plasma, and a clinical trial to assess REGN COV-2, a new antibody cocktail
 - Increased staffing of Employee Health Department to support staff
- Finance:
 - Modeled the financial impact of lost business due to sheltering-at-home and Governor DeSantis' moratorium on non-urgent/non-emergent surgeries and procedures. Based on the relationship of net patient revenues to budget from October 1, 2019 through February 2020, we estimated lost net patient revenues from March 1, 2020 through May 31, 2020, in the amounts of \$49.5 million at Sarasota Memorial Hospital and \$5.7 million for SMH Physicians Services, Inc. d/b/a First Physicians Group of Sarasota.
 - "Right-sized" staffing and reduced non-payroll expenses in response to the reduction in volumes. Approximately 640 staff members were furloughed in April, in May many returned to work, and by June no staff were on furlough.
 - Tracking COVID-19 expenses. Through June 30, 2020, there were \$4.1 million attributed to extra labor and other expenses directly related to the treatment of COVID-19 at Sarasota Memorial Hospital.

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(Unaudited)

- Received \$24 million grant during April 2020 from the Public Health and Social Services Emergency Fund. These receipts are included on the balance sheet as of June 30, 2020 in restricted cash and in unearned grant receipts, and are not included in the revenues of the District for the nine months ended June 30, 2020
 - Applied for and received CMS advance payments during April 2020 totaling \$146 million. These receipts are included on the balance sheet as of June 30, 2020 in board designated investments and in advanced payments from third parties. Beginning in August 2020, these funds will be paid back to CMS as an offset to future Medicare claim payments. All funds must be paid back within one year from receipt of payment.
 - Received \$1.2 million in grants from the Sarasota Memorial Healthcare Foundation to help offset the costs of equipment and supplies to fight COVID-19
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- Community:
 - Sarasota Memorial physicians and administrators participating in media briefings and updates on social media
 - Assisted Sarasota Department of Health in establishing community COVID-19 testing
 - Launched COVID-19 hot line to provide updates for the community

While the ultimate impact of this pandemic is largely unknown, the District has taken immediate and appropriate measures to deal with the crisis. Plans will be adjusted as warranted by the evolving circumstances.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Balance Sheets
June 30, 2020 and 2019
(Unaudited)

Assets	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 46,426,101	65,319,695
Restricted cash	24,385,014	-
Patient accounts receivable, less allowance for uncollectible accounts of \$162,985,853 in 2020 and \$172,021,307 in 2019	93,262,643	93,525,884
Inventories of supplies	15,150,589	14,386,049
Prepaid expenses and other assets	18,643,693	16,318,948
Due from related organizations	1,143,156	1,135,181
Total current assets	<u>199,011,196</u>	<u>190,685,757</u>
Noncurrent assets:		
Restricted investments	251,896,601	352,495,224
Board designated investments	1,231,485,416	934,382,386
Capital assets, net	842,860,766	668,977,848
Other assets	38,760,757	36,794,784
Interest rate swaps	26,120,676	24,397,068
Total noncurrent assets	<u>2,391,124,216</u>	<u>2,017,047,310</u>
Total assets	<u>2,590,135,412</u>	<u>2,207,733,067</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions and other postemployment benefits	28,967,190	14,261,217
Deferred amounts on debt refundings	25,491,251	27,303,006
Deferred effective interest rate swap outflows	10,198,264	4,590,684
Total deferred outflows of resources	<u>64,656,705</u>	<u>46,154,907</u>
Total assets and deferred outflows of resources	\$ <u>2,654,792,117</u>	\$ <u>2,253,887,974</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 62,572,827	31,014,817
Employee compensation and benefits payable	76,046,438	72,221,202
Other accrued expenses	33,580,908	32,282,682
Advanced payments from third parties	146,354,481	-
Estimated third-party settlements	34,299,277	20,804,781
Unearned grant receipts	24,385,014	-
Due to related organizations	-	196
Current portion of State of Florida medical assistance assessment	11,067,173	9,643,787
Current portion of long-term debt	15,775,000	10,375,000
Total current liabilities	<u>404,081,118</u>	<u>176,342,465</u>
Noncurrent liabilities:		
Long-term debt, less current portion	623,241,725	639,337,689
Long-term companion debt, less current portion	19,362,651	20,361,273
Net pension liability	21,501,550	4,665,031
State of Florida medical assistance assessment, less current portion	6,595,857	6,941,671
Other long-term liabilities	54,128,410	40,344,416
Interest rate swaps	36,839,110	21,273,693
Total noncurrent liabilities	<u>761,669,303</u>	<u>732,923,773</u>
Total liabilities	<u>1,165,750,421</u>	<u>909,266,238</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions and other postemployment benefits	7,402,607	9,758,723
Deferred effective interest rate swap inflows	19,922,847	27,697,116
Total deferred inflows of resources	<u>27,325,454</u>	<u>37,455,839</u>
Net Position		
Net investment in capital assets	478,102,643	394,576,801
Restricted for specific purposes	2,507,563	2,860,548
Unrestricted	981,106,036	909,728,548
Total net position	<u>1,461,716,242</u>	<u>1,307,165,897</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>2,654,792,117</u>	\$ <u>2,253,887,974</u>

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Nine months ended June 30, 2020 and 2019
(Unaudited)

	2020	2019
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$159,908,160 in 2020 and \$153,212,991 in 2019	\$ 702,767,629	724,350,439
Other revenue	17,684,392	15,967,791
Operating revenues	720,452,021	740,318,230
Operating expenses:		
Salaries, wages and fringe benefits	388,270,458	365,480,752
Supplies	158,888,212	154,670,477
Purchased services	82,977,414	85,235,418
Professional fees	21,197,874	21,087,187
State of Florida medical assistance assessment	8,560,647	8,767,453
Depreciation	39,019,435	37,459,123
Total operating expenses	698,914,040	672,700,410
Operating income	21,537,981	67,617,820
Nonoperating items:		
Ad valorem tax	46,184,275	43,512,205
Interest expense	(7,164,852)	(8,585,604)
Interest rate swap receipts, net	523,117	1,350,857
Investment income	15,766,930	15,426,741
Unrealized gains and losses on investments, net	28,326,697	33,334,232
Change in fair value of ineffective interest rate swaps	150,610	1,855,999
Other nonoperating income	1,144,671	227,546
Total nonoperating items	84,931,448	87,121,976
Excess of revenues over expenses	106,469,429	154,739,796
Other changes in net position:		
Contributions restricted for capital purposes	1,157,175	2,615,923
Increase in net position	107,626,604	157,355,719
Net position, beginning of year	1,354,089,638	1,149,810,178
Net position, end of period	\$ 1,461,716,242	1,307,165,897

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Statements of Cash Flows

Nine months ended June 30, 2020 and 2019

(Unaudited)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Received from patient care services	\$ 865,137,204	714,056,257
Received from nonpatient sources	19,946,603	18,349,290
Payments to employees	(382,913,190)	(354,729,950)
Payments to suppliers	(269,550,097)	(264,494,813)
Net cash provided by operating activities	<u>232,620,521</u>	<u>113,180,784</u>
Cash flows from noncapital financing activities:		
Ad valorem taxes	61,734,559	58,089,591
Grants and other subsidies	24,385,014	-
Net cash provided by noncapital financing activities	<u>86,119,573</u>	<u>58,089,591</u>
Cash flows from capital and related financing activities:		
Payment of bond issue costs	-	(13,457)
Proceeds from donations restricted for capital purposes	1,421,626	1,644,236
Interest rate swap payments paid, net	969,807	1,410,180
Interest received on bond funds held by trustee	2,920,663	5,346,196
Purchases of capital assets	(146,456,549)	(94,294,359)
Proceeds from disposals of capital assets	257,000	242,953
Interest payments	(14,452,210)	(12,092,332)
Net cash used in capital and related financing activities	<u>(155,339,663)</u>	<u>(97,756,583)</u>
Cash flows from investing activities:		
Investment income received	15,907,359	15,041,302
Purchase of investments	(448,802,949)	(412,501,239)
Proceeds from sales and maturities of investments	280,598,904	342,045,205
Net cash used in by investing activities	<u>(152,296,686)</u>	<u>(55,414,732)</u>
Increase in cash and cash equivalents	11,103,744	18,099,060
Cash and cash equivalents, beginning of year	<u>62,836,620</u>	<u>51,707,221</u>
Cash and cash equivalents, end of period	\$ <u>73,940,364</u>	\$ <u>69,806,281</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 46,426,101	65,319,695
Cash and cash equivalents in restricted investments	27,514,263	4,486,586
Total cash and cash equivalents	\$ <u>73,940,364</u>	\$ <u>69,806,281</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 21,537,981	67,617,820
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	39,019,435	37,459,123
Provision for bad debts	159,908,160	153,212,991
Changes in:		
Patient accounts receivable	(149,679,771)	(163,786,146)
Other current assets and noncurrent assets	(13,652,421)	4,204,162
Current liabilities and other liabilities	175,487,137	14,472,835
Net cash provided by operating activities	\$ <u>232,620,521</u>	\$ <u>113,180,784</u>
Noncash capital and related financing activities:		
Accrued purchases of capital assets	\$ 31,973,529	3,095,721
Unrealized gains and losses on investments, net	28,326,697	33,334,232
Change in equity investment	264,594	280,374

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT
SARASOTA MEMORIAL HOSPITAL
Utilization Statistics
Nine months ended June 30, 2020 and 2019
(Unaudited)

	<u>2020</u>	<u>2019</u>
Licensed beds	839	839
Beds in service	828	824
Average daily census (Note 1)	555	552
Patient days (Note 1)	151,460	150,737
Adjusted patient days	240,449	241,811
Admissions (Note 1)	31,705	32,571
Observation cases (Note 2)	4,948	5,711
Adjusted admissions	50,333	52,250
Average length of stay (Note 1)	4.78	4.63
Medicare case mix index	1.957	1.900
Outpatient registrations (excluding Emergency Care Center visits)	335,401	371,375
Emergency Care Center visits (Note 3)	84,347	95,851
Gross revenue percentage by payor class:		
Medicare	61.3%	60.4%
Managed care and commercial	24.6%	25.0%
Self-pay and other	6.2%	6.3%
Medicaid	7.9%	8.3%
	<u>100.0%</u>	<u>100.0%</u>

Note 1: Excluding Observation patients
Note 2: Excludes conversions to inpatient status

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Selected Ratios

Nine months ended June 30, 2020 and 2019

(Unaudited)

	<u>2020</u>	<u>2019</u>
Operating Margin (Note 1)	8.0%	13.3%
Total EBIDA % (Note 2)	15.8%	20.5%
Operating cash flow margin	13.9%	19.0%
Days cash on hand (Note 4)	533	439
Maximum debt service coverage ratio (Note 3)	4.8	5.6
Maximum debt service coverage ratio - Obligated group (Note 3)	5.0	5.6
Cash to debt	200%	154%

Note 1: Operating margin is computed consistent with the method used by the rating agencies.

Note 2: EBIDA - Earnings Before Interest, Depreciation and Amortization (before unrealized gains and losses).

Note 3: Income available for debt service is calculated using the most recent twelve month period. The obligated group excludes blended component units of the District.

Note: 4: Excludes \$24.4 million of COVID-19 Relief (CARES Act) funds classified as Restricted cash on the balance sheet as of June 30, 2020.