UW Medicine

Financial update for SEIU 1199
FY20 and FY21 YTD Financial Results

May 20, 2021
Jacqueline Cabe, UW Medicine CFO
What is Net Income? Total Margin?

- What is Net Income? Margin?
  - Revenues – Expense = Net Income (if revenues are more than expenses)

- Net income/Total operating revenues = % Margin

- Why do we need Margin/Cash Flow?
  - Deliver on our Mission
  - Invest in people and program
  - Repair and replace equipment and buildings
  - Invest in new facilities and equipment
FY20 COVID-19 IMPACT TO UW MEDICINE

$9M Overall Performance ($14M favorable)

Non-emergent/Electives cancelled
Cost to preserve staffing, bed capacity, PPE
Paused FIT initiatives
Delayed strategic refresh

HMC Lost Revenue: ~$53M
ALNW Lost Revenue ~$14M

Aggressive pursuit of federal, state funds
$31M in CARES funds recognized at HMC
$1M in CARES funds recognized at ALNW
Donations of cash and supplies
Patient outreach regarding hospital safety
Costs reductions & cash preservation
↓ Reduced non-critical capital spending
↓ Reduced supply and labor costs
Overtime, agency, staffing to volume, pay cuts, furloughs
Ramp up elective procedures

SUCCESSFUL NWH INTEGRATION

Performance $9.8M favorable

Non-emergent/Electives allowed

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Overall, FY20 audited results were a combined $59M net income at UW Medicine as a result of recognition of Provider Relief Funds of $126M and non-cash accounting entries to reflect the state actuarial true-up of pension and post employment benefits of $36M. Without these entries, the combined loss was more than $100M.

The primary negative driver to financial performance related to the lost revenues due to the cancellation of electives and non-emergent procedures at the medical centers.
COVID-19 RECOVERY FUNDS

Provider Relief Funds (PRF):

- HHS guidance drives stimulus funding recognition. HHS guidance and reporting requirements have changed significantly over the months and UW Medicine continues to work through the requirements as they are updated.
  - Provider attestation of compliance with HHS requirements and reporting is required.
  - Compliance is subject to Federal audit.
  - UW Medicine’s goal is to retain all recovery funds received however, because of the evolving guidance from HHS, we have not yet recognized all PRF funds received by HMC into income. HMC recognized $31M of PRF funds at June 30, 2020 and has unrecognized PRF of $17M as of April 30, 2021. No PRF has been recognized into income in FY 21 yet. We expect to recognize additional PRF by year end.

FEMA:

- The COVID-19 disaster is new to FEMA. Compliance and recognition requirements continue to evolve:
  - UW Medicine will request and recognize FEMA recovery funds when we, with input from our consultant, believe we have adequately demonstrated the expenditure is “eligible”.
  - FEMA’s review of project “eligible” expenditures is a prolonged process. Compliance is subject to Federal audit.
FY21 Results – YTD

- Reminder: FY21 budgets reflect thin margins.

- Year to Date through March financial results compared to budget are favorable overall for UW Medicine, but unfavorable at HMC by more than $8M.
  - Volumes have not returned to pre-pandemic levels and were impacted by cancellation of non-urgent and elective procedures in February.
  - Length of stay increases at HMC are preventing ability to meet admission targets.
  - Contract pharmacy and operating expenses are a key driver in YTD favorability.
  - Furlough related favorability in first half of the year only.
  - Contract labor expenses are driving unfavorable expense variances.
  - D1 expense favorability in the first half of the year is reversing in the second half of the year as the project catches up. The D1 delay increased project cost – estimated at $12M for the system.
  - No stimulus funding recorded at any of the medical centers in FY21 to date.

- ALNW is experiencing lower than budgeted volumes which is the primary driver of the unfavorable financial results YTD.

- April results are in the process of being published, which is why March YTD is being shared today. YTD through April, it is anticipated HMC will remain unfavorable to budget.
### UW Medicine – FY21 March YTD

#### UW Medicine | Total Income (in $000's)

<table>
<thead>
<tr>
<th></th>
<th>Month Actual</th>
<th>Month Margin %</th>
<th>Month Budget</th>
<th>Variance To Budget</th>
<th>Month Prior Yr Actual</th>
<th>YTD Actual</th>
<th>YTD Margin %</th>
<th>YTD Budget</th>
<th>Variance To Budget</th>
<th>YTD Prior Yr Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>UWMC</td>
<td>$9,910</td>
<td>6%</td>
<td>$9,898</td>
<td>$12</td>
<td>$(20,045)</td>
<td>$21,140</td>
<td>1%</td>
<td>$(6,734)</td>
<td>$27,874</td>
<td>$(34,970)</td>
</tr>
<tr>
<td>ALNW</td>
<td>$(905)</td>
<td>-25%</td>
<td>$201</td>
<td>$(1,106)</td>
<td>$(1,357)</td>
<td>$(1,130)</td>
<td>-3%</td>
<td>$(993)</td>
<td>$(137)</td>
<td>$(5,495)</td>
</tr>
<tr>
<td>UWNC</td>
<td>$672</td>
<td>7%</td>
<td>$377</td>
<td>$295</td>
<td>$(717)</td>
<td>$563</td>
<td>1%</td>
<td>$(2,520)</td>
<td>$5,703</td>
<td>$1,375</td>
</tr>
<tr>
<td>UWP¹</td>
<td>-</td>
<td>0%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>SUBTOTAL CCE</td>
<td>$9,677</td>
<td>4%</td>
<td>$10,476</td>
<td>$(799)</td>
<td>$(22,119)</td>
<td>$20,573</td>
<td>1%</td>
<td>$(10,247)</td>
<td>$30,820</td>
<td>$(39,090)</td>
</tr>
<tr>
<td>HMC</td>
<td>$1,502</td>
<td>1%</td>
<td>$1,930</td>
<td>$(428)</td>
<td>$1,262</td>
<td>$(8,169)</td>
<td>-1%</td>
<td>371</td>
<td>$(8,540)</td>
<td>10,123</td>
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<tr>
<td>VMC</td>
<td>$3,933</td>
<td>5%</td>
<td>$3,741</td>
<td>$3,192</td>
<td>$(7,797)</td>
<td>$(3,405)</td>
<td>-1%</td>
<td>$(6,629)</td>
<td>5,226</td>
<td>$(2,418)</td>
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<tr>
<td>SoM</td>
<td>$14,180</td>
<td>8%</td>
<td>$10,518</td>
<td>$3,662</td>
<td>$7,461</td>
<td>$90,900</td>
<td>6%</td>
<td>$(15,333)</td>
<td>$106,233</td>
<td>19,231</td>
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<tr>
<td>TOTAL</td>
<td>$29,292</td>
<td>5%</td>
<td>$23,665</td>
<td>$(5,627)</td>
<td>$(21,193)</td>
<td>$99,901</td>
<td>2%</td>
<td>$(31,838)</td>
<td>$131,739</td>
<td>$(12,154)</td>
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¹ Results for UWP are shown after amounts available to the School of Medicine.

Through March, HMC is unfavorable to budget by $8.5M, due primarily to expense variances
- Labor expenses are running higher than budget due to additional contract labor
- Medical supply expenses are unfavorable to budget

ALNW is unfavorable to budget by $137K, due primarily to lower than budgeted volumes
HMC FY21 MARCH RESULTS

Net Income (in 000's)

<table>
<thead>
<tr>
<th></th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>MAR YTD</th>
</tr>
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<tbody>
<tr>
<td>FY 2020</td>
<td>2692</td>
<td>7076</td>
<td>-482</td>
<td>3408</td>
<td>-1102</td>
<td>-2272</td>
<td>5307</td>
<td>-5767</td>
<td>1262</td>
<td>1027</td>
<td>-6854</td>
<td>22750</td>
<td>10124</td>
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<tr>
<td>FY 2021</td>
<td>4945</td>
<td>1342</td>
<td>6695</td>
<td>595</td>
<td>1025</td>
<td>-3117</td>
<td>-4901</td>
<td>-16255</td>
<td>1502</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>8169</td>
</tr>
<tr>
<td>FY 2021 Budget</td>
<td>3281</td>
<td>2786</td>
<td>-969</td>
<td>705</td>
<td>-2166</td>
<td>-1542</td>
<td>819</td>
<td>-4473</td>
<td>1930</td>
<td>1451</td>
<td>1014</td>
<td>2631</td>
<td>371</td>
</tr>
<tr>
<td>Working Days</td>
<td>22</td>
<td>21</td>
<td>21</td>
<td>22</td>
<td>18</td>
<td>22</td>
<td>19</td>
<td>19</td>
<td>23</td>
<td>22</td>
<td>20</td>
<td>22</td>
<td>187</td>
</tr>
</tbody>
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Confidential Information
## HMC FY21 Forecast As of March 2021

<table>
<thead>
<tr>
<th></th>
<th>FY 2021 Low End Forecast</th>
<th>FY 2021 High End Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET PATIENT SERVICE REVENUE</strong></td>
<td>$999,093</td>
<td>$1,005,936</td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>116,991</td>
<td>116,991</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING REVENUES</strong></td>
<td>$1,116,084</td>
<td>$1,122,927</td>
</tr>
<tr>
<td>Total Labor Expenses</td>
<td>584,874</td>
<td>585,242</td>
</tr>
<tr>
<td>Total Net SOM Clinical Department Funding</td>
<td>33,628</td>
<td>33,628</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>168,767</td>
<td>169,934</td>
</tr>
<tr>
<td>Purchased Services</td>
<td>241,261</td>
<td>240,172</td>
</tr>
<tr>
<td>Other Non Labor Expenses</td>
<td>54,035</td>
<td>54,035</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>31,216</td>
<td>31,216</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>$1,113,781</td>
<td>$1,114,227</td>
</tr>
<tr>
<td><strong>INCOME/(LOSS) FROM OPERATIONS</strong></td>
<td>$2,303</td>
<td>$8,700</td>
</tr>
<tr>
<td>Total Nonoperating Revenues (Expenses)</td>
<td>(13,950)</td>
<td>(13,950)</td>
</tr>
<tr>
<td><strong>NET INCOME (LOSS)</strong></td>
<td>$(11,647)</td>
<td>$(5,250)</td>
</tr>
<tr>
<td><strong>BUDGETED NET INCOME (LOSS)</strong></td>
<td>$5,467</td>
<td></td>
</tr>
</tbody>
</table>

*The projection does not include the following: Provider Relief Funds ($17M has yet to be recorded), FEMA recovery funds or donations income beyond budgeted levels.*
Despite improvements in margins, we have not increased our cash position to the levels we need to support our strategic investments.

The graph below shows our days cash on hand with and without Medicare Advance Payments which began repayment in April 2021.
LOOKING FORWARD

YTD March performance reflects the amazing work of our UW Medicine community. THANK YOU! We still have more work to do in order to achieve sustainable financial performance:

• We exceeded our FY20 targets, but it was primarily driven by Provider Relief Funds and an actuarial accounting true-up (non-cash). While we are exceeding FY21 targets March year to date, we forecast the next few months to be challenging. We still have work to do.

• Our cash position is too low. We must rebuild it. Rebuilding cash is only possible by meeting budgeted margin targets on a sustained basis over time. Margin targets reflect small incremental improvement, reaching a minimum sustainable margin of 3% at the end of 5 years.

• Critical investments need to be made to support our strategic goals and maintain our infrastructure. We held back on these investments to try to preserve cash during the years we lost money.

• Our overall UW Medicine margins are approximately 2.0% on a revenue base of more than $4.7 billion as of March 2021. HMC has recorded a YTD loss through March of $8.2M or -1% margin. ALNW has recorded a YTD loss of $1.1M or -3% margin.

• As we move into FY22 we must remain focused on delivering exceptional care but at the same time meet our margin targets (HMC’s target is 1.6% margin and ALNW target is 1% margin). This is necessary to invest in our people and programs and deliver on our mission to improve health.
THANK YOU