

## Peterson Regional Medical Center (TX)

1 City of Kerrville, Texas Health Facilities Development Corporation, Hospital Revenue Bonds (Peterson Regional Medical Center Project), Series 2015, \$55,195,000,  
Dated: November 24, 2015

Series 2015

### Utilization Statistics

For the Fiscal Year Ended June 30,

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Licensed Beds	124	124	124
Acute Care Beds in Service	98	98	98
Total Beds in Service	124	124	124
<b>Acute Care</b>			
Admissions	4,374	4,350	4,385
Patient Days	17,908	16,307	15,455
Average Length of Stay	4.10	3.74	3.50
Occupancy	50.0%	45.5%	43.0%
<b>Acute Rehabilitation Unit</b>			
Beds in service	26	26	26
Admissions	424	435	424
Days	5,669	5,583	5,363
<b>Deliveries</b>	482	504	510
<b>Surgical Procedures</b>			
Inpatient	1,067	1,061	1,157
Outpatient	2,837	3,024	3,075
<b>Ancillary Units of Service:</b>			
Emergency Department Visits	29,431	29,419	28,868
Outpatient Lab Tests	215,851	218,442	228,439
Outpatient Radiology	61,522	60,880	61,959
Procedures			
Outpatient Rehab Procedures	56,433	51,753	52,542

Series 2015

### Payor Mix

For the Fiscal Year Ended June 30,

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Percentage of Net Patient Service Revenue by Payor</b>			
Medicare	52%	51%	52%
Medicaid	6%	3%	3%
Commercial	4%	5%	5%
Blue Cross	14%	16%	17%
Managed Care	20%	18%	19%
Self Pay	3%	4%	3%
Other	1%	2%	1%
<b>Total Net Patient Service Revenue</b>	100%	100%	100%

Series 2015

### Liquidity

For the Fiscal Year Ended June 30,

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Cash, cash equivalents and short term investments	\$ 49,127	\$ 54,463	\$ 47,530
Assets Limited As to Use-Internally Designated	16,502	16,547	2,106
Investments	45,646	49,366	81,889
Total operating expenses	109,858	116,932	124,639
Less depreciation and amortization	7,750	9,129	7,940
Adjusted operating expenses	102,108	107,803	116,699
Days in period	365	366	365
Net operating expenses for one day	\$ 280	\$ 295	\$ 320
Days cash on hand	398	409	411

Series 2015

### Debt Service Coverage

For the Fiscal Year Ended June 30,

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Excess of Revenues Over Expenses	\$ 19,597	\$ 1,297	\$ 16,003
Unrealized investment (gains) losses	1,892	1,433	(5,164)
Interest Expense	3,460	2,842	2,532
Depreciation and Amortization	7,750	9,129	7,940
Available Revenues	\$ 32,699	\$ 14,701	\$ 21,311
Maximum Annual Debt Service ( Series 2015 Bonds)	\$ 4,514	\$ 4,514	\$ 4,514

Series 2015

### Debt to Capitalization

For the Fiscal Year Ended June 30,

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Current Portion of Long-Term Debt	\$ 1,930	\$ 1,950	2,030
Long-Term Debt	63,533	57,642	54,414
Total Indebtedness	\$ 65,463	\$ 59,592	56,444
Unrestricted Net Assets	\$ 144,746	\$ 142,725	155,457
Debt to Capitalization	31%	29%	27%

Series 2015

**Peterson Regional Medical Center**  
**Summary of Balance Sheets (\$000's)**

For the Fiscal Year Ended June 30,

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b><u>Assets</u></b>			
Current assets			
Cash and Cash Equivalents	\$ 24,055	\$ 27,081	\$ 35,322
Short-Term Investments	25,072	27,382	12,208
Assets Limited to use	2,389		
Patient Accounts Receivable, Net	11,905	12,486	10,727
Estimated amounts due from third-party payers	6,254		
Supplies	2,473	2,801	2,773
Receivable from property sale			
Prepaid expenses and other	5,930	4,672	4,976
<b>Total Current Assets</b>	<b>\$ 78,078</b>	<b>\$ 74,422</b>	<b>\$ 66,006</b>
Assets limited as to use-long-term			
Held by trustee, under indenture agreement	\$ 7,808		
Held by trustee, self-insurance funds	1,566	1,572	1,605
Internally designated	16,502	16,547	2,106
	\$ 25,876	\$ 18,119	\$ 3,711
Less amount required to meet current obligations	2,389	-	
	\$ 23,487	\$ 18,119	\$ 3,711
Investments	45,646	49,366	81,889
Property and Equipment, Net	78,926	77,033	75,738
Other Assets	1,679	1,611	299
<b>Total Assets</b>	<b>\$ 227,816</b>	<b>\$ 220,551</b>	<b>\$ 227,643</b>
<b><u>Liabilities</u></b>			
Current Liabilities:			
Current Portion of Long-Term Debt	\$ 1,930	\$ 1,950	\$ 2,030
Accounts Payable	4,739	2,569	3,482
Estimated Third-Party Payor Settlements Payable	628	4,897	795
Accrued Expenses	9,263	8,129	9,212
Estimated self-insured employee benefit costs	1,319	816	1,091
<b>Total Current Liabilities</b>	<b>\$ 17,879</b>	<b>\$ 18,361</b>	<b>\$ 16,610</b>
Estimated Self-Insured Professional Liabilities			
Costs	\$ 505	\$ 531	\$ 531
Deferred Compensation Obligation	894	886	142
Long-Term Debt, Net of Current Position	63,533	57,642	54,414
<b>Total Liabilities</b>	<b>\$ 82,811</b>	<b>\$ 77,420</b>	<b>\$ 71,697</b>
Net Assets			
Unrestricted	\$ 144,746	\$ 142,725	\$ 155,457
Temporary Restricted	259	406	489
<b>Total Net Assets</b>	<b>145,005</b>	<b>143,131</b>	<b>155,946</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 227,816</b>	<b>\$ 220,551</b>	<b>\$ 227,643</b>

Series 2015

**Peterson Regional Medical Center**

**Summary of Operations (\$000's)**

Fiscal Year Ended June 30,

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Unrestricted Revenues, Gains and other Support</b>			
Patient Service Revenue (net of contractual discounts and allowances)	\$ 124,829	\$ 131,004	\$ 151,848
Less provision for uncollectible accounts	(11,591)	(14,575)	(21,928)
Net patient revenue less provision	113,238	116,429	129,920
for uncollectible accounts	2,199	1,543	3,424
Other Revenue	\$ 115,437	\$ 117,972	\$ 133,344
Total Revenues			
<b>Expenses</b>			
Operating Expenses	\$ 98,648	\$ 104,961	\$ 114,167
Depreciation and Amortization	7,750	9,129	7,940
Interest	3,460	2,842	2,532
Total Expenses	\$ 109,858	\$ 116,932	\$ 124,639
<b>Operating Income</b>	\$ 5,579	\$ 1,040	\$ 8,705
<b>Other Income</b>			
Investment Income	\$ 1,374	\$ 1,046	\$ 7,298
Loss on extinguishment of debt		\$ (819)	
Impact of Reversal of Initial Treatment for Loss of Sole Community Provider Status	12,468		
Contributions	176	30	
Total Other Income	\$ 14,018	\$ 257	\$ 7,298
<b>Excess of Revenues over Expenses</b>	\$ 19,597	\$ 1,297	\$ 16,003
Net Assets Released from Restrictions used for purchase of property and equipment	150	10	0
<b>Transfer (to) from affiliates</b>	(2,211)	(3,327)	(3,272)
	(2,061)	(3,317)	(3,272)
<b>Increase in Unrestricted Net Assets</b>	\$ 17,536	\$ (2,020)	\$ 12,731
Contributions received – temporarily restricted	5	146	85
Investment Return - temporarily restricted			33
Net Assets Released from Restriction			(35)
<b>Increase in Temporarily Restricted Net Assets</b>	5	146	83
<b>Increase in Net Assets</b>	\$ 17,541	\$ (1,874)	\$ 12,814
Net Assets, Beginning of Year	127,464	\$ 145,005	\$ 143,131
Net Assets, End of Year	\$ 145,005	\$ 143,131	\$ 155,945

Series 2015

**Management's Discussion of Utilization and Financial Performance**

For the Fiscal Year Ended June 30, 2017

*Refer to attached Management Discussion of Utilization and Financial Performance*

## PETERSON REGIONAL MEDICAL CENTER

### MANAGEMENT'S DISCUSSION OF UTILIZATION AND FINANCIAL PERFORMANCE

**General.** Peterson Regional Medical Center (PRMC) experienced a decrease in excess of revenue over expenses from \$19.6 million in 2015 to \$1.3 million in 2016 primarily due to the following: (1) a one-time adjustment recorded in 2015 of \$12.5 million for Sole Community Hospital (SCH) further explained below; (2) a \$3.2 million increase in contract labor in the nursing and rehab areas; and (3) a \$2.8 million increase in salaries and wages due to overall 3% wage increase and market adjustments primarily in the clinical areas to stay competitive. PRMC experienced a decrease in operating income from \$5.6 million in 2015 to \$1.3 million in 2016 primarily due to the following: (1) an approximate \$3.2 million increase in contract labor costs; (2) \$757,000 write-off of bond issue costs relating to the bond refinancing; (3) \$536,000 final cost report settlements and (4) \$432,000 correction of prior year's accumulated depreciation. Despite the decreases in excess revenue over expenses and operating income from 2015 to 2016, PRMC's day's cash on hand increased from 398 in 2015 to 409 days in 2016 primarily due to the focus of revenue cycle improvements. Moreover, this is reflected in the increase of collections as a percentage of net patient revenue from 97.0% in 2015 to 104% in 2016.

PRMC experienced an increase in excess of revenue over expenses from \$1.3 million in 2016 to \$16.0 million in 2017 primarily due to the following: (1) a \$11.3 million increase in net patient revenue (*net of \$4.2 million of DSRIP/UC revenue*), due to focus on revenue cycle initiatives; (2) \$2.1 million of insurance proceeds received for roof replacement due to hail damage, offset by loss on disposal of \$785,000; (3) a \$6.0 million increase in investment income; and (4) offset by increase of \$5.0 million in operating expenses (*net of \$2.5 million of DSRIP/UC expenses*) primarily due to increase in salaries and contract labor of \$3.0 million due to slight increase in FTE's and related merit and market adjustment increases. PRMC's operating income was \$8.7 million and \$1.0 million in 2017 and 2016, respectively.

During this same three-year period, inpatient volumes (acute care and acute rehab) slightly decreased from 4,798 in 2015 to 4,785 in 2016 with volume slightly increasing to 4,809 in 2017. Outpatient visits for laboratory tests, radiology exams, and rehabilitation treatments decreased from 333,806 in 2015 to 331,075 in 2016 with volume increasing to 342,940 in 2017. Emergency room visits slightly decreased from 29,431 in 2015 to 29,419 in 2016 with volumes decreasing to 28,868 in 2017 primarily due to increased usage of Peterson's offsite Urgent Care Center.

PRMC purchased equipment and performed renovations utilizing operating income, reserves and contributions. PRMC has not incurred any additional debt since the issuance of the Series 2015 Bonds and has been able to increase its cash and investments (which include cash and cash equivalents, short-term investments, and assets limited to use) by \$20.0 million over the past three fiscal years. As a result of the Series 2015 Bond refinancing, PRMC's long-term debt balances (excluding current maturities) have decreased from \$63.5 million in fiscal year 2015 to \$54.4 million in fiscal year 2017.

During the year ended June 30, 2012, PRMC was notified by CMS that PRMC's status as a Sole Community Hospital (SCH) was terminated. SCH status provides enhanced Medicare reimbursements for qualifying hospitals. The SCH status termination was initially deemed retrospective to all fiscal years for which the Medicare cost report had not been settled by CMS, which were fiscal years 2008 through 2011. The impact of the lost SCH status for those fiscal years was estimated to be approximately \$12.0 million. During the year ended June 30, 2015, CMS determined that the revocation of SCH status would be prospective from 2012 and agreed to reimburse PRMC for amounts previously repaid. As of June 30, 2015, PRMC has reversed the remaining liability related to this matter and recognized a receivable in the amount of approximately \$6.3 million, which is included in estimated amounts due from third-party payers.

**Financial Results Fiscal Years 2015 and 2016.** PRMC experienced a decrease in excess of revenue over expenses from \$19.6 million in 2015 to \$1.3 million in 2016 primarily due to the following: (1) a one-time adjustment recorded in 2015 of \$12.5 million for SCH; (2) a \$3.2 million increase in contract labor in the nursing and rehab areas; and (3) a \$2.8 million increase in salaries and wages due to overall 3% wage increase and market adjustments primarily in the clinical areas to stay competitive. PRMC experienced a decrease in operating income from \$5.6 million in 2015 to \$1.3 million in 2016 primarily due to the following: (1) an approximate \$3.2million increase in contract labor costs; (2) \$757,000 write-off of bond issue costs relating to the bond refinancing; (3) \$536,000 final cost report settlements and (4) \$432,000 correction of prior year's accumulated depreciation. Despite the decreases in excess revenue over expenses and operating income from 2015 to 2016, PRMC's day's cash on hand increased from 398 in 2015 to 409 days in 2016. Moreover, this is reflected in the increase of collections as a percentage of net patient revenue from 97.0% in 2015 to 104% in 2016. Total net patient revenues increased 3% from \$113.2 million in fiscal year 2015 to \$116.4 million in fiscal year 2016 while total operating expenses increased 6% from \$98.6 million in fiscal year 2015 to \$104.7 million in fiscal year 2016. Operating expenses increased at a greater rate than operating income primarily because of increased labor costs. PRMC's unrestricted cash and investments (at market value) and internally designated funds were approximately \$111.3 million at June 30, 2015 and \$120.4 million at June 30, 2016. Total net assets decreased 1% from \$145.0 million at June 30, 2015 to \$143.1 million at June 30, 2016. This decrease resulted primarily from decreases in net income.

#### **Financial Results Fiscal Years 2016 and 2017.**

PRMC experienced an increase in excess of revenue over expenses from \$1.3 million in 2016 to \$16.0 million in 2017 primarily due to the following: (1) a \$11.3 million increase in net patient revenue (*net of \$4.2 million of DSRIP/UC revenue*), due to focus on revenue cycle initiatives; (2) \$2.1 million of insurance proceeds received for roof hail damage, offset by loss on disposal of \$785,000; (3) a \$6.0 million increase in investment income; and (4) offset by increase of \$5.0 million in operating expenses (*net of \$2.5 million of DSRIP/UC expenses*) primarily due to increase in salaries and contract labor of \$3.0 million due to slight increase in FTE's and related merit and market adjustment increases. PRMC's operating income was \$8.7 million and \$1.0 million in 2017 and 2016, respectively. PRMC's day's cash on hand increased from 409 in 2016 to 411 days in 2017. Total net patient revenue increased 12% from \$116.4 million in fiscal year 2016 to \$129.9 million in fiscal year 2017, while total operating expenses increased 9% from \$105.0 million in fiscal year 2016 to \$114.2 million in fiscal year 2017. PRMC's cash and investments (at market value) were approximately \$120.4 million at June 30, 2016 and \$131.5 million at June 30, 2017. Total net assets increased 3% from \$143.1 million at June 30, 2016 to \$155.9 million at June 30, 2017. This increase resulted primarily from favorable operating results and investment market conditions in fiscal year 2017.

In addition, on February 24, 2017 Standard & Poor's affirmed PRMC's 'BBB+' rating with outlook revised to positive.

**Subsequent Events.** Recent operating results in fiscal year 2017 (July 1 through September 30) reflect operating income of \$338,000. In addition, on October 19, 2017 Fitch affirmed PRMC's 'BBB+' rating with outlook revised to positive.

**Capital Expenditures and Liquidity.** Management anticipates that PRMC's capital needs for the next two years will be approximately \$28.3 million, with \$20.6 million funded from cash generated by operations and reserves. Capital needs will be for routine capital replacements and the following large projects: an estimated \$8.0 million new building to house the hospice and home health programs, updated imaging equipment, data center hardware refresh and disaster recovery to prepare for the Meditech 6.1 upgrade, and third floor build out of Peterson Medical Associates to house a service line. The new Hospice and Home Health building groundbreaking was on November 6, 2017 with anticipated completion in the first quarter of fiscal year 2019.

Peterson Health Foundation rolled out 'A Heart for Healing Major Gifts Campaign' in November 2015, with a goal of \$8.5 million, and proceeds going to the new Hospice and Home Health building, ccatheterization and interventional lab and imaging equipment. As of the current date, all of the monies have been raised.