

Report to Nassau County Interim Finance Authority Assessing Nassau Health Care Corporation Liquidity

February 3, 2024

ALVAREZ & MARSAL



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Report to Nassau County Interim Finance Authority



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February 3, 2024

Mr. Richard Kessel
Chairman of the Board

Mr. Evan Cohen
Executive Director

Nassau County Interim Finance Authority
1305 Franklin Avenue, Suite 302
Garden City, New York 11530

Dear Mr. Kessel and Mr. Cohen:

Alvarez & Marsal Healthcare Industry Group LLC (“A&M”) was retained in late September 2023 to assist the Nassau County Interim Finance Authority (“NIFA”) with its evaluation of the liquidity and near-term (90 day) cash flow (through April 27, 2024) of Nassau Health Care Corporation (“NHCC”), a public benefit corporation established pursuant to New York State law, whose primary assets are Nassau University Medical Center and the A. Holly Patterson Extended Care Facility.

Background

NHCC is often referred to as a safety-net health system due to the large number of uninsured, underinsured and often undocumented patients. Many health systems in New York and around the country are similarly identified and virtually all depend on supplemental government funding or dedicated tax revenues (or both) to meet their operating budget.

NIFA previously retained A&M in early 2020 (pre-COVID pandemic) because it was concerned at that time with the sufficiency of NHCC’s liquidity. That liquidity concern was temporarily resolved when, in response to COVID, Federal, State, and local governments provided NHCC with substantial funding as part of their program to address COVID and assure that health systems could weather the COVID crisis and treat COVID patients. Those COVID funds received (in excess of \$120 million) have now been exhausted. The trajectory of NHCC’s cash utilization left little doubt at that time that a future liquidity shortfall could occur without substantial operating changes and/or additional New York State and Federal supplemental payments.

Current situation

NHCC has experienced sustained and cumulative losses of \$561 million over the last 5 years⁽¹⁾ and has now depleted its COVID funded excess liquidity. NHCC’s cumulative losses are inclusive of management’s projected 2023 loss in excess of \$150 million as reported to its board in December 2023. Looking forward, the NHCC board approved a 2024 budget reflecting a \$97

million loss. The 2024 budget is dependent upon an ambitious plan calling for a substantial \$84 million of combined revenue and expense improvements.

Findings

The end-of-week cash balance available for NHCC operations has fluctuated since late September from a low of \$19 million to a high of just over \$40 million. As of February 3, 2024, the balance available for operations reported by NHCC is approximately \$19 million. This amount represents 10 days cash on hand (“DCOH”), well below the levels reported by the lowest investment grade (“BBB+”) hospitals who on average report negative operating margins and 149 DCOH⁽²⁾ as per S&P Global Ratings. Furthermore, S&P Global Ratings reports hospitals with even lower speculative grade ratings (“junk”) averaged 74 DCOH⁽²⁾.

A&M’s review of NHCC’s cash forecast identifies significant risks of a cash shortfall in the 13-week period ending April 27, 2024, covered by this report. Available cash balances on April 27, 2024, are forecast to be precariously low, (-\$4 million) to +\$13 million, reflecting uncertainty surrounding the timing and amount of several governmental receipts; in the most optimistic circumstance DCOH will be 7 days. While NHCC management has options available to temporarily manage their liquidity, any stabilization or improvement of the cash outlook after April 27, 2024, is likely dependent on accelerated execution of NHCC’s performance improvement plan and securing additional state supplemental funding. Executing performance improvement is complex in hospital systems; NHCC does not have a record of achieving operating improvements of the magnitude called for in their performance improvement plan, as evidenced by audited financial results since 2019.

NHCC liquidity during the 13-week forecast period is also dependent on the continued forbearance of the New York State Insurance Program for State and Local Government (“NYSHIP”). NYSHIP is forecasted to allow NHCC to continue to defer health insurance premium payments of approximately \$7 million per month (\$21 million during the forecast period) above and beyond the over \$300 million that remains unpaid as of December 31, 2023. There is no assurance how long NYSHIP forbearance will continue - the NYS Department of Civil Services has been in communication with NHCC regarding both the forbearance and future payments.

NHCC cash forecasts are subject not only to business risk, but also complexities surrounding the timing of state supplemental payments expected near the New York State March 31 fiscal year-end. The uncertainty surrounding federal payments anticipated in late March / early April further contributes to the significant risk of insufficient cash in the coming 13 weeks.



Report to Nassau County Interim Finance Authority - Continued

Longer-term considerations

This report only covers the immediate 90-day (through April 27, 2024) operating cash needs of NHCC.

Longer-term significant challenges for NHCC remain. In particular, there is currently no plan to address the significant capital asset funding requirements, the current deferring of NYSHIP premium payments that are estimated at \$80-90 million in 2024, funding the Other Post Employment Benefits (OPEB) Liabilities which are approaching \$1 billion (but which are payable over an extended period of time) or the resolution of NYSHIP arrearages of over \$300 million. This report does not address those challenges.

NHCC's historical performance coupled with a challenging operating environment indicates that future liquidity shortfall risks are likely and may require significant ongoing state or other external funding, absent substantial operating model changes.

The assumptions and estimates on which A&M forecasts have been made are subject to material change, both in amount and timing, which may significantly increase or decrease cash availability to NHCC during the period covered by this report.

We thank the management and staff of NHCC and the board members and staff of NIFA, who have worked with us throughout this assessment.

Respectfully submitted,

Martin E. Winter
Managing Director

Footnotes:

(1) 2019-2022 losses are from the audited financial statements. 2023 losses are based on the latest available NHCC projection provided to their board in December 2023

(2) (August 7, 2023) U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios—2022. S&P Global Ratings. Retrieved January 3, 2024, from <https://www.spglobal.com/ratings/en/research/articles/230807-u-s-not-for-profit-health-care-stand-alone-hospital-median-financial-ratios-2022-12811732>

Executive Summary

- Alvarez & Marsal Healthcare Industry Group LLC (A&M) was retained in late September 2023 to assist Nassau County Interim Finance Authority (NIFA) with evaluating the near-term (90 days) liquidity of Nassau Health Care Corporation (NHCC)

- NHCC will face significant risks of liquidity shortfalls in the near-term (next 90 days)
 - Minimum operating cash levels should optimally remain above \$15M; A&M assessment indicates and a range of cash on April 27, 2024, of (-\$4M) to +\$13M; NHCC management has taken limited steps to proactively manage its cash utilization despite its shortfall risks
 - New York State Insurance Program for State and Local Government (“NYSHIP”) is forecasted to allow NHCC to continue to defer health insurance premium payments of approximately \$7M per month (\$21M during the forecast period) and which is crucial to near term liquidity; there is no assurance how long NYSHIP forbearance will continue

- NHCC management has initiated a performance and cash improvement plan to increase liquidity and has included \$84M of anticipated improvements as a cornerstone in the board approved 2024 NHCC budget
 - Actual 2024 cash improvement is not yet assessable

- This report only covers an assessment of NHCC liquidity projections through April 27, 2024 – it does not address the remainder of 2024; actual collections and expenditures, and their timing is inherently variable and subject to change which may materially decrease or increase forecasted cash balances

Nassau Health Care Corporation Financial Trends

Key financial indicators have deteriorated since A&M's prior assessment in 2020

COVID supported liquidity has been depleted

(\$ in thousands)						FY 2023	FY 2024
	FY 2019	FY 2020	FY 2021	FY 2022	Estimated	Budget	
Revenue	575,047	594,464	523,612	545,755	553,637	595,105	
Net Income (Loss) (1)	(63,785)	(106,371)	(138,937)	(93,927)	(158,166)	(97,081)	
Ending Cash (2)	16,631	184,818	123,230	83,221	37,607		
Average Daily Census - NUMC (3)	322	294	312	321	314	316	
Occupancy - NUMC	59.42%	54.49%	59.36%	59.72%	58.44%	58.74%	
AHP Net Income (Loss)	(26,654)	(35,651)	(22,330)	(26,338)	(23,891)	(27,507)	
Total Net Position (4)	(810,752)	(917,123)	(1,057,054)	(1,151,013)	(1,309,179)	(1,406,260)	

- Nassau Health Care Corporation has experienced sustained and cumulative losses of \$561M over the last 5 years and has now depleted its COVID funded liquidity; cash balances have declined \$147M since the end of 2020
- A. Holly Patterson Extended Care alone reported cumulative losses of ~\$135M over the past 5 years
- The increase in Other Post Employment Benefits (OPEB) liabilities are a significant factor in the deterioration of net position (~\$1.3Bn in 2023) but are paid out over an extended period of time

Sources:

FY 2019-FY2022 as reported in NHCC audited financial statements

FY 2023 Financials are estimated by NHCC as presented to board on 12/7/2023

FY 2024 NHCC 2024 budget approved by NHCC Board of Directors on 12/7/2023

Notes:

(1) 2022 Net Loss as been reduced by \$75.6M CARES revenue recognized in 2022

(2) Ending cash balance as reported on NHCC 12/30/2023 bank available cash report

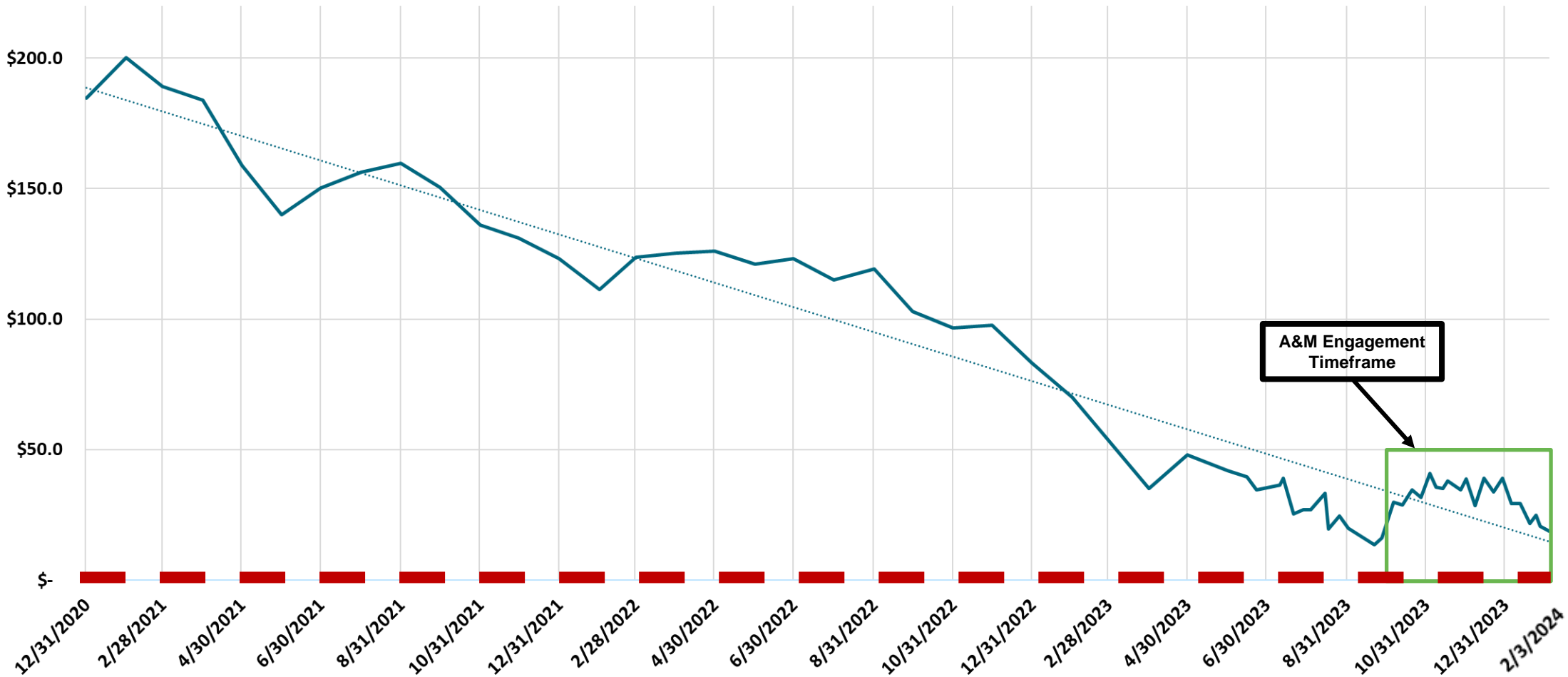
(3) Average daily census declined during peak COVID. ADC is only for NUMC

(4) Total Net Position reflects substantial and increasing OPEB liabilities

NHCC Available Cash Balances Trend

NHCC reports that cash has declined from a high \$200M in January 2021 to critically low levels as of February 2024

NHCC Cash Balances: December 31, 2020 to February 3, 2024
(\$ in millions)



Notes:

NHCC received over \$120M of COVID related emergency funding in 2020

Available cash balances based on NHCC bank cash reporting, NHCC internal monthly and audited annual financial statements

A&M Latest Thinking Forecast (LTF) 13-Week Cashflow

LTF indicates cash balances declining below \$10M as soon as late March 2024 leaving NHCC at significant risk for cash shortfall

Cash Flow Forecast (\$ in thousands)	WE 2/3	WE 2/10	WE 2/17	WE 2/24	WE 3/2	WE 3/9	WE 3/16	WE 3/23	WE 3/30	WE 4/6	WE 4/13	WE 4/20	WE 4/27
Beginning Cash Balance:	20,700	18,770	22,363	21,894	21,876	19,559	19,741	12,269	14,366	1,298	8,664	1,093	3,092
Operational Cash Inflows:	13,600	5,505	8,547	5,505	13,600	5,505	8,547	5,505	8,547	10,558	8,547	5,505	8,547
Operational Cash Outflows:	15,747	41,912	19,016	5,523	16,134	5,323	16,019	3,408	21,615	3,408	16,118	3,507	18,118
Supplemental Cash Inflows:	217	30,000	20,000	-	217	-	-	-	-	217	-	-	2,550
Net Captive Financing:		10,000	(10,000)										
CF Excess/(Deficit)	(1,930)	3,593	(469)	(18)	(2,317)	182	(7,472)	2,097	(13,068)	7,367	(7,571)	1,998	(7,021)
Baseline Ending Cash Balance:	18,770	22,363	21,894	21,876	19,559	19,741	12,269	14,366	1,298	8,664	1,093	3,092	(3,929)
NHCC Targeted Performance Improvements:	-	-	200	-	200	-	200	-	200	235	435	235	435
Other Funding:	-	-	-	-	-	-	-	-	-	-	4,703	-	11,500
Other Scheduled NHCC Vendor Payments:	-	-	-	-	-	-	-	-	-	(1,133)	-	-	-
Potential Upside Ending Cash Balance	18,770	22,363	22,094	22,076	19,959	20,141	12,869	14,966	2,098	8,566	6,133	8,367	13,281

Cash balances below \$10M represent great risk of cash shortfall

Key assumptions include:

- Operational Cash Inflows: forecast based on actual weekly patient service collections (October 23 – December 23) for NHCC; 2023 Managed Medicaid increases are not included in the forecast due to ongoing payor negotiations
- Operational Cash Outflows: forecast based on regularly occurring and specific expenditures identified by NHCC including salaries, fringe benefits, supplies, purchased service, utilities, pension payment, and monthly partial NYSHIP payments
- Supplemental Cash Inflows: forecast includes several New York State intergovernmental transfers (IGT)
- NHCC targeted performance improvements have not been vetted; no amounts have been targeted by NHCC prior to WE 2/17
- Other Funding of \$4.7M related to FEMA and \$11.5M related to NYS IGT reconciliation have a high degree of uncertainty in timing and/or amounts; the receipts are outside the control of NHCC

Sources & Notes:

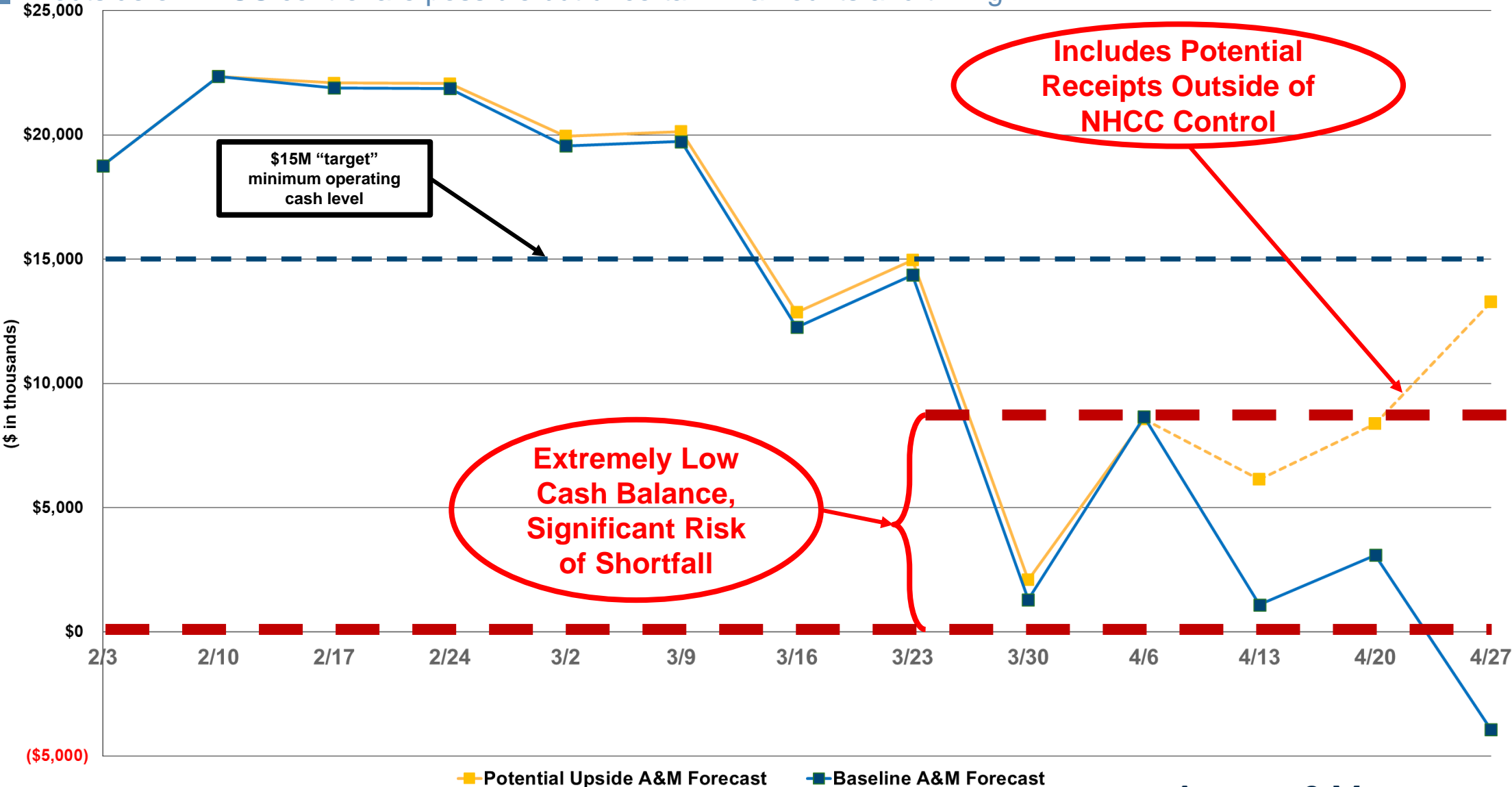
A&M LTF cashflow forecast as of 02/03/2024

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Net Captive Financing: reflects net short-term borrowing from captive insurance company

A&M LTF 13-Week Ending Cash Balances

A&M forecasts liquidity to decline significantly, increasing the risk of a cash shortfall; \$18M of potential receipts outside of NHCC control are possible but uncertain in amounts and timing



Sources:
A&M LTF cashflow forecast as of 02/03/2024



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