

Spectrum Health Grand Rapids

Community Commitments Report

November 2, 2020



Dear West Michigan Community,

There is no doubt that the global pandemic has had a significant impact across the world. COVID-19 has impacted the lives of millions of individuals, the global economy, stressed the entire health care infrastructure and will have permanent effects on life as we know it. Spectrum Health has not been immune to this. While COVID-19 has altered the financial results of Spectrum Health, we are unwavering in our commitments to the communities we serve and the commitments that were made in the Consent Decree related to the merger of Butterworth Health Corporate (including Helen DeVos Children's Hospital) and Blodgett Memorial Medical Center (collectively, Spectrum Health Grand Rapids).

As part of Spectrum Health's commitment to the community, and as part of our ongoing effort to share openly our compliance with the commitments we made in the Consent Decree, attached please find our demonstration of our financial compliance with

- our ongoing commitment to limit margins, and
- our ongoing commitment to the underserved and medically needy.

Spectrum Health Grand Rapids has committed to targeting a five-year rolling average total margin (which includes operating margin and investment income) that does not exceed the average of Moody's and Standard & Poor's upper quartile total margins for other health systems nationally. Spectrum Health Grand Rapids measures compliance with this commitment by comparing our five-year rolling average total margin to the Moody's Aa3 median total margin for freestanding hospitals, single-state & multi-state healthcare systems. We have included the most recent calculations, which demonstrate our compliance, in the attached report.

Spectrum Health Grand Rapids also has committed to establish a fund to provide quality healthcare programs for the underserved in the community, which is budgeted in the amount of \$6.0 million per year. While a separate Community Advisory Committee provides for the ongoing allocation of this fund, we continue to represent that at least \$6.0 million has been included in the calendar year 2021 budget for this commitment. In addition, we have met our annual \$6.0 million spending requirement for the years up to the year ending December 31, 2020. We have included our most recent calculations, which demonstrate our compliance, in the attached report.

We take our commitments to the community very seriously and are steadfast in our determination to provide the information necessary for all stakeholders to be confident that their healthcare system has consistently executed the commitments made in the Consent Decree and has demonstrated the value that was anticipated when the merger of Blodgett Memorial Medical Center and Butterworth Health Corporation created Spectrum Health Grand Rapids.

Sincerely,

A handwritten signature in blue ink that reads "Matthew E. Cox".

Matthew E. Cox
Chief Financial Officer

COMMITMENT TO THE UNDERSERVED

Spectrum Health Grand Rapids has agreed to establish a fund to provide quality healthcare programs for the underserved in the community. As part of this, Spectrum Health Grand Rapids has agreed to increase spending from a pre-merger level of approximately \$2.0 million per year to \$6.0 million per year.

Assertions

- Actual spending for programs to the underserved as of September 30, 2020 was \$5.2 million. Annualized to the calendar year 2020, this level of funding equates to \$6.9 million. Spectrum Health Grand Rapids is projecting actual expenditures for calendar year 2020 less than the annualized amount and is anticipating expenditures of approximately \$6.7 million as of December 31, 2020.
- As of September 30, 2020, Spectrum Health Grand Rapids has expended funds above the cumulative amounts related to the Commitment to the Underserved. The annual commitment spending of \$6.0 million per year from the merger date through September 30, 2020 totals \$138.0 million compared with actual spending by Spectrum Health Grand Rapids for the same period of \$147.7 million resulting in actual spending which is greater than commitments through September 30, 2020 of approximately \$9.7 million.
- The Healthier Communities Department provides services which are not specifically related to one particular program. These services are as follows:

Direct Program Administration includes goal and financial management, program oversight, reporting and community-wide committee participation.

Planning, Development and Management includes capacity building, program design and management. Administrative expenses primarily include salary and benefits for staff, maintenance expenses and administrative supplies.

Program Evaluation includes outcomes measurement for the programs. Rather than giving each program a budget to develop an outcomes measurement function, the function was centralized so that one department would coordinate, monitor and analyze outcomes to provide a more consistent and credible tracking and monitoring system.

Outcomes measurement expenses include salaries and benefits for staff that provide support, education, data collection and analysis to the various programs, along with computer equipment, supplies and evaluation materials.



Total program support, including Program Administration, Planning, Development and Management, and Program Evaluation represented 12.3% of actual total community commitment expenditures in 2020.

The following summarizes the breakdown between Administration and Evaluation:

	Actual 2019	Projected 2020	Budget 2021
Program Administration	\$133,760	\$138,306	\$142,455
Planning, Development and Management	237,796	245,878	253,254
Program Evaluation	338,265	355,178	355,178
Total Program Support	\$709,821	\$739,362	\$750,888

MARGIN COMMITMENT

Spectrum Health Grand Rapids has agreed to target a five-year rolling average total margin for the merged system not to exceed the average of Moody’s and Standard & Poor’s upper quartile total margins for other health systems nationally.

The source for this benchmark is Moody’s Outlook, where the median total margin based on 2019 data for freestanding hospitals, single state & multi-state healthcare systems with an Aa3 bond rating was used. The worksheet on page five was included to demonstrate Spectrum Health’s five-year rolling average total margin in comparison with the benchmark.

Assertions

- The actual total margin for Spectrum Health Grand Rapids as reflected in the 2020 statements as of September 30, 2020, is 4.9%. This includes \$52.3 million of Federal and State funding received related to the Coronavirus Aid, Relief and Economic Securities (CARES) Act.
- The five-year average total margin for Spectrum Health Grand Rapids for the period including fiscal years 2016 and 2017, calendar years 2018 and 2019, and the nine months ending September 30, 2020 is 6.3%. The five-year average median Moody’s total margin for freestanding hospitals, single state & multi-state healthcare systems with an Aa3 bond rating is 6.6%.

CALENDAR YEAR 2021 BUDGET REVIEW

Our proposed budget and supporting documentation is provided in support of our assertion that the financial commitment to the underserved is incorporated into the calendar year 2021 budget and that the total margin for Spectrum Health Grand Rapids is within the established benchmark per the Margin Commitments.

Assertions

- Spectrum Health Grand Rapids attests that at least \$6.0 million is included in the calendar year 2021 budget as part of our commitment to the underserved.
- Spectrum Health Grand Rapids' total margin as reflected in the calendar year 2021 budget is 4.2%. The five-year rolling average total margin including fiscal year 2017, calendar years 2018 and 2019, the nine months ending September 30, 2020, and calendar year 2021 budget is 5.2% compared to the five-year average median Moody's total margin for freestanding hospitals, single-state & multi-state healthcare systems with an Aa3 bond rating of 6.6%.

Spectrum Health Grand Rapids



Total Margin Calculation

Through Calendar Year Budget Ended 12/31/2021

(in thousands)

	Audited Fiscal Year ending 6/30/2016	Audited Fiscal Year ending 6/30/2017	Unaudited Calendar Year ending 12/31/18	Audited Calendar Year ending 12/31/19	Unaudited Nine Months through 9/30/2020	Proposed Calendar Year Budget 12/31/21 (A)	Five Year Average Moody's Median (E)	Actual Five Year Average Margin (B)	Budgeted Five Year Average Margin (C)
Total operating revenue	\$ 1,964,264	\$ 1,965,343	\$ 2,221,875	\$ 2,347,443	\$ 1,717,533	\$ 2,386,000		\$ 2,150,833	\$ 2,239,620
Federal and State funding (F)	-	-	-	-	52,335	-		11,018	11,018
Total non-operating income (expense)	1,435	(726)	2,180	(3,990)	2,020	(1,000)		193	(319)
Total revenue	1,965,699	1,964,617	2,224,055	2,343,453	1,771,888	2,385,000		2,162,045	2,250,319
Total operating expenses	1,776,092	1,864,622	2,101,800	2,197,443	1,684,951	2,284,000		2,026,296	2,133,224
Total margin	\$ 189,607	\$ 99,995	\$ 122,255	\$ 146,010	\$ 86,937	\$ 101,000		\$ 135,748	\$ 117,094
Total margin % before Federal and State Funding	9.6%	5.1%	5.5%	6.2%	2.0%	4.2%	6.6%	5.8%	4.7%
Total margin % (D)	9.6%	5.1%	5.5%	6.2%	4.9%	4.2%	6.6%	6.3%	5.2%

(A) Per Calendar Year 2021 Budget.

(B) Five year average margin based on actual results for fiscal years 2016 and 2017, calendar years 2018 and 2019 and calendar year 2020 results through September.

(C) Five year average margin based on actual results from fiscal year 2017, calendar years 2018 and 2019, calendar year 2020 results through September, plus Calendar Year 2021 Budget.

(D) The total margin % (or excess margin as referred to by Moody's) is calculated as follows based on Moody's formula:

(total operating revenue less total operating expenses plus non-operating income) divided by (total operating revenue plus non-operating income).

(E) Moody's represents the median excess margin for freestanding hospitals, single-state and multi-state healthcare systems with an Aa3 rating.

(F) Coronavirus Aid, Relief and Economic Securities (CARES) Act related government funding