NATIONAL ACADEMY FOR STATE HEALTH POLICY

NASHP Analysis of Atlanta Medical Center and WellStar Health System Financials

By: Marilyn Bartlett and Adney Rakotoniaina | October 2022

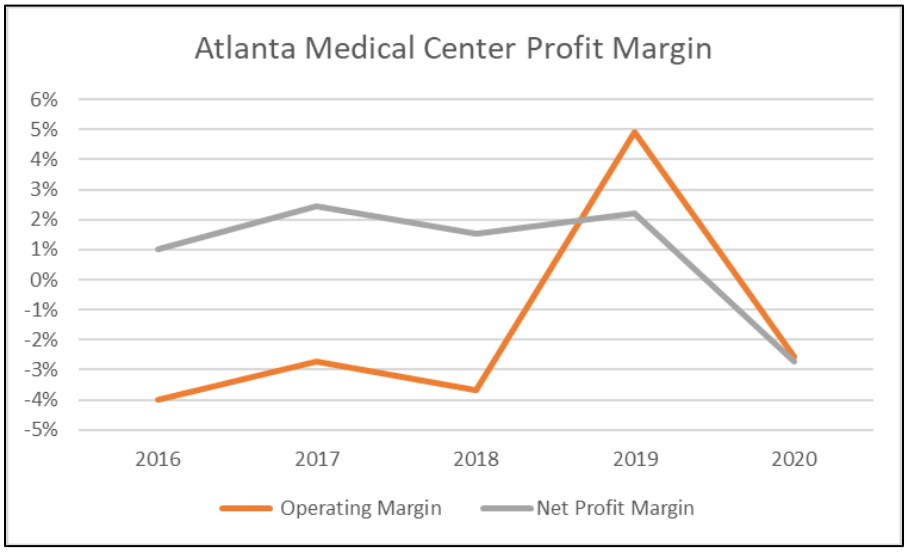
In late August, WellStar Health System announced plans to cease operations at Atlanta Medical Center (AMC) by Nov 1, 2022, citing "$107 million in losses in just the last 12 months, amid decreasing revenue and increasing costs for staff and supplies due to soaring inflation."

To help ensure data transparency for policymakers and others addressing the health access and equity implications of this planned safety-net hospital closure, the National Academy for State Health Policy (NASHP) offers the following analysis of the Audited Financial Statements of WellStar Health System and Medicare Cost Reports of its individual hospitals, including AMC.

Atlanta Medical Center

Each year, hospitals must document the dollar amount of their costs, have them certified by the Chief Financial Officer or Hospital Administrator, and submit them to the federal government in what is called a Medicare Cost Report (MCR). The following graphs and analysis of AMC are based on its MCRs.

On April 1, 2016, AMC changed ownership from Tenet Healthcare to WellStar Health System. In doing so, the hospital's ownership type changed from for-profit to non-profit. Since April 2016, AMC has averaged an operating margin[1] of negative two percent and net profit margin of one percent. In dollar amounts, total operating losses have been $26 million, with total net profit of $13 million.



[1] For a complete definitions list explaining how each variable is calculated, visit http://www.nashp.org/hospital-costs/

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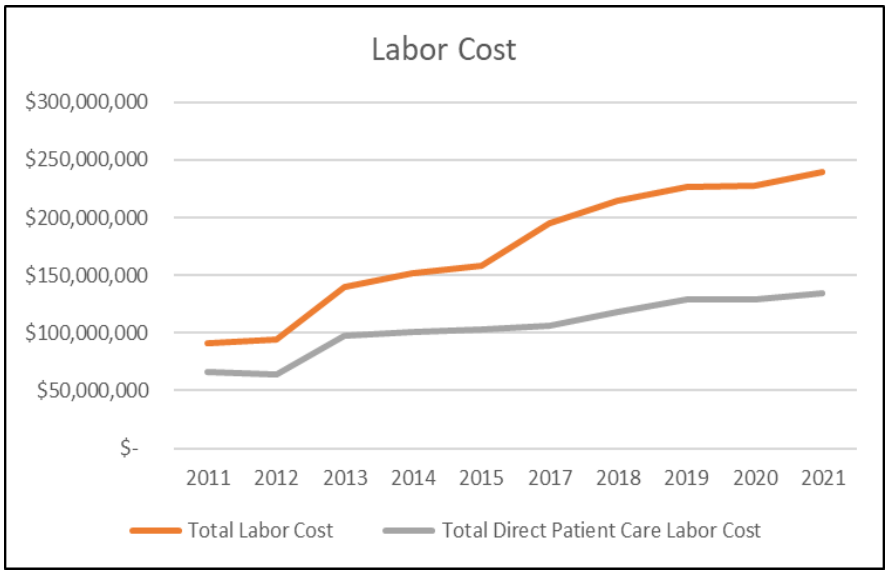
AMC has shown a higher increase in labor costs since WellStar assumed ownership, with total labor costs increasing 51 percent and direct patient care costs increasing 31 percent.



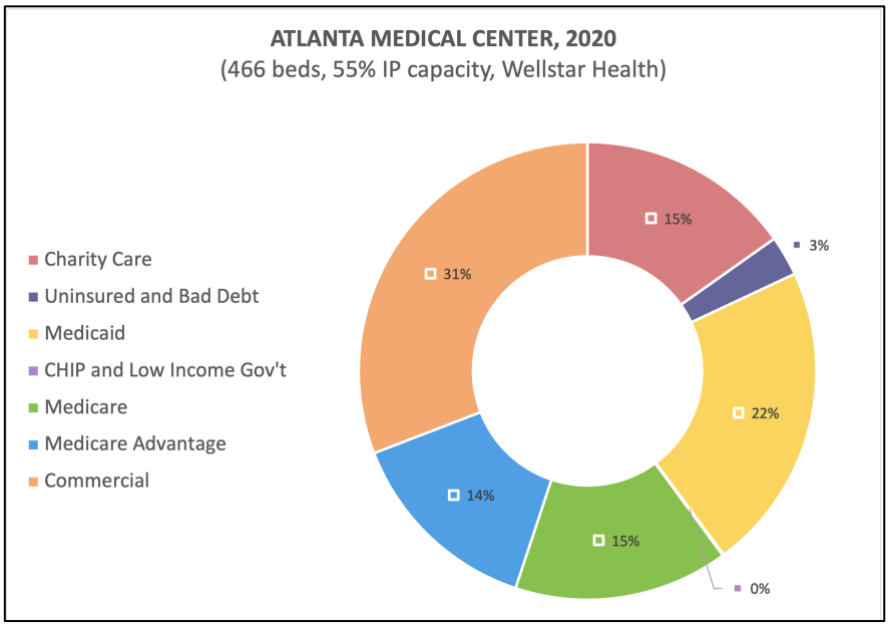
Atlanta Medical Center's Reimbursement from Payers

Though hospitals have multiple sources of revenue (such as investments, donations, and parking structures), payments for patient care services are often the focus of hospital cost discussions.

As shown in the adjacent chart, in recent years, AMC has generated mostly neutral or positive operating profit margins from its reimbursements from insurers. In 2020, it reported a 9 percent operating profit margin for commercial payers (privately insured, group health plan, or self-pay patients).

	Medicaid, SCHIP and other Low Income Gov't Program Profit Margin	Medicare Profit Margin	Medicare Advantage Profit Margin	Commercial Profit Margin
2017	-3%	0%	0%	11%
2018	-3%	-1%	-1%	12%
2019	-2%	-1%	-1%	16%
2020	2%	0%	1%	9%
2021	0%	1%	2%	10%

Important to consider as well is a hospital's payer mix – how much of its patient business is attributable to each payer type. For example, in 2020, AMC served primarily (31 percent) commercial patients.



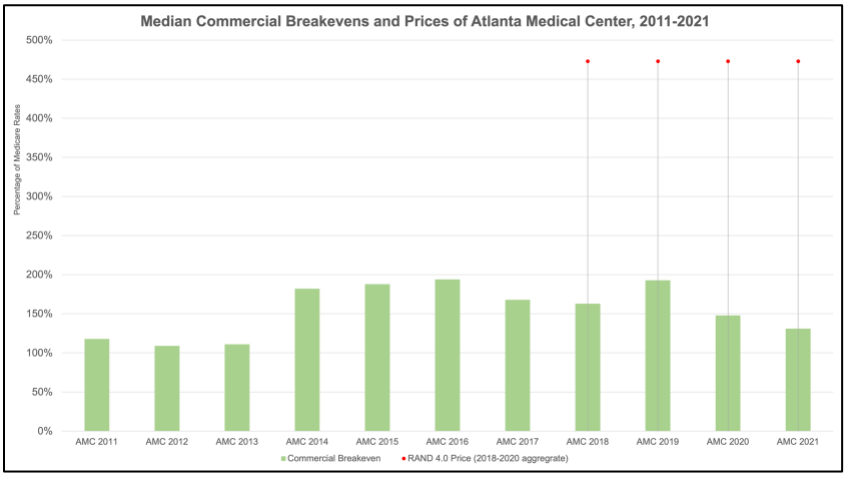
When payer-specific operating profit margin and payer mix are considered together, the data further emphasize AMC's profit from patient business since 2017,

as it has generated relatively large commercial profit.

To help assess whether AMC is generating revenue greater than its costs at-large (rather than solely in patient care), NASHP calculates a hospital's breakeven point. That is, the payment required by a hospital from a commercial payer to cover:

- commercial patient costs,
- shortfalls from government payers,
- disallowed hospital costs
- charity care,
- uncompensated care,
- and other income/other expense

Breakeven considers a hospitals multiple revenue sources, not only net patient revenue. For example, in 2021, AMC reported $3,975,162 in revenue from renting out its hospital space; $3,975,162 in revenue from laboratory services; and $674,181 in parking lot receipts. These are all included in the calculation of breakeven.

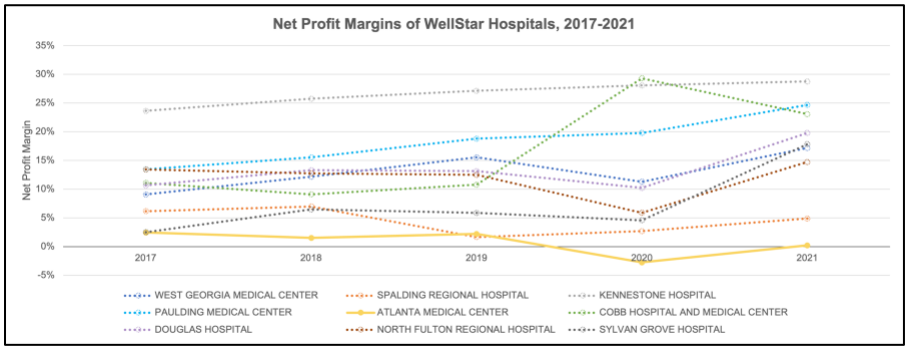


The adjacent graph illustrates the commercial breakeven for AMC, compared to the actual prices paid to AMC (calculated from the RAND 4.0 nationwide study of health care prices paid by employer health plan).

Essentially, this graph shows how much AMC needed to be paid to cover its expenses (its breakeven) versus how much it was actually paid (its price).

Atlanta Medical Center's reimbursements from private payers exceeded what the hospital needed to cover its expenses.

Lastly, the net profit margins of each WellStar hospital exceed the relatively small net profit margin of Atlanta Medical Center. In 2020, WellStar's other hospitals[2] generated a collective net income of $598,863,916, more than offsetting WellStar's net income of negative $9,950,664 at AMC.

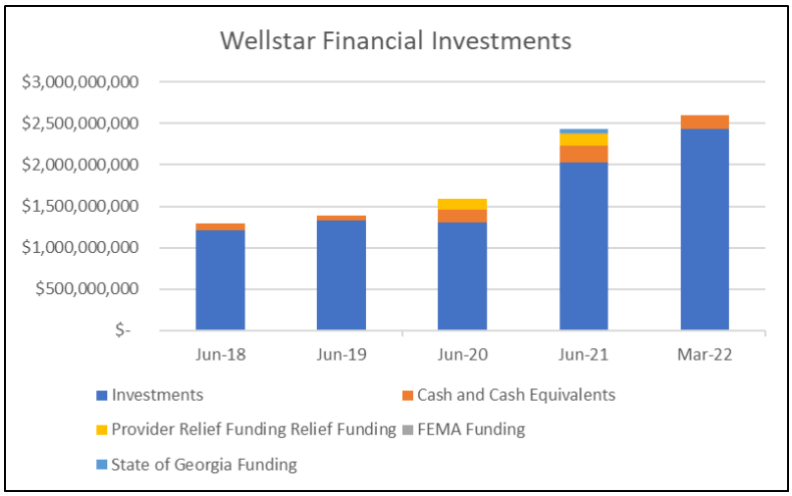


[2] Effective March 31, 2016, Tenet Healthcare sold Atlanta Medical Center, Spalding, North Fulton, and Sylvan Grove Hospitals to WellStar. WellStar's ceased operations at South Fulton Medical Center effective 2013.

WellStar Health System

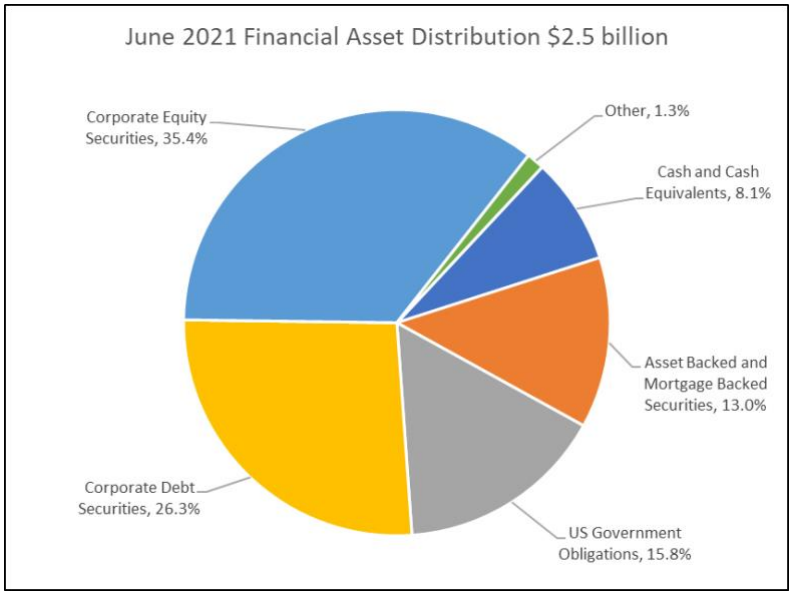
Since Medicare Cost Reports are submitted on an individual hospital level, NASHP also analyzed WellStar's Audited Financial Statements (AFSs) to gain a better understanding of its financial health on operations including at clinics and on investments.

An added benefit of analyzing AFSs, in contrast to Medicare Cost Reports, is that the Municipal Securities Reporting Board requires quarterly reports for non-profit hospitals holding municipal debt. AFSs are submitted by a health system during its efforts to secure financing. These documents are publicly available at https://emma.msrb.org.



As shown here, WellStar's financial assets have grown over 4 years and 9 months, particularly from its investments. Since 2018, its financials have more than doubled, surpassing $2.6 billion in March 2022.

Included in WellStar's financial assets is a collective $261,401,000 in COVID-19 provider relief funding from the federal government in 2020 and 2021, as well as $41,621,000 from the State of Georgia in 2021.



A breakdown of WellStar Health System's financial assets is also depicted. The largest share (35.4 percent) of its assets is held in corporate equity securities. Stock market fluctuations are reflected in the balances.

Stock market fluctuation is also evident in the March 2022 quarterly report shown on the next page.

For the three months leading up to March 31, 2022, WellStar shows a loss of $172 million, however $140 million of that net loss is attributed to unrealized losses on investments, due to declining stock market conditions. When taking a broader nine-month view, WellStar shows a net profit of $80 million.

Table 23 (Also Table 20). Combined Statement of Operations

Combined Statement of Operations
(in thousands)

	For the Three- Month Period Ended:		For the Nine-Month Period Ended:	
	March 31, 2021	March 31, 2022	March 31, 2021	March 31, 2022
Patient service revenue, net of contractual allowances and discounts	$1,009,001	$1,056,931	$3,020,666	$3,347,718
Other revenue	36,810	44,506	114,580	129,842
Total Revenue, gains, and other support	1,045,811	1,101,437	3,135,246	3,477,560
Expenses:				
Salaries and employee benefits	641,722	699,207	1,731,072	2,044,006
Supplies and other expenses	348,006	371,431	1,056,272	1,131,984
Depreciation and amortization	47,437	49,376	142,170	146,116
Interest	10,709	10,653	32,059	31,869
Total expenses	1,047,874	1,130,667	2,961,573	3,353,975
Operating income (loss), before Provider Relief Fund grant funding, FEMA funding for operating expenses, State of Georgia funding and impairment losses	(2,063)	(29,230)	173,673	123,585
Provider Relief Funds grant funding	22,588	11,925	142,778	26,030
FEMA funding for operating expenses	(6,442)	(26,746)	10,333	(16,176)
State of Georgia funding	11,819	3,642	30,050	18,779
Operating income (loss), before impairment losses	25,902	(40,409)	356,834	152,218
Impairment of long-lived assets	0	(486)	0	(1,248)
Operating income (loss)	25,902	(40,895)	356,834	150,970
Non-operating gains (losses)				
Investment income (loss), net	22,398	(139,560)	186,350	(93,563)
Other components of net periodic pension cost	(548)	6,389	(1,683)	19,432
Change in fair value of interest rate swap	6,606	1,426	10,822	2,207
Gain (loss) on disposal of property and equipment	2,101	101	2,609	323
Gain (loss) on extinguishment of long-term debt	338	305	338	305
Revenue, gains and other support in excess of (less than) expenses and losses	56,797	(172,234)	555,270	79,679

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In March 2022, WellStar issued bonds totaling $183 million through Cobb County Hospital Authority to "WellStar Health System, Inc. Project."

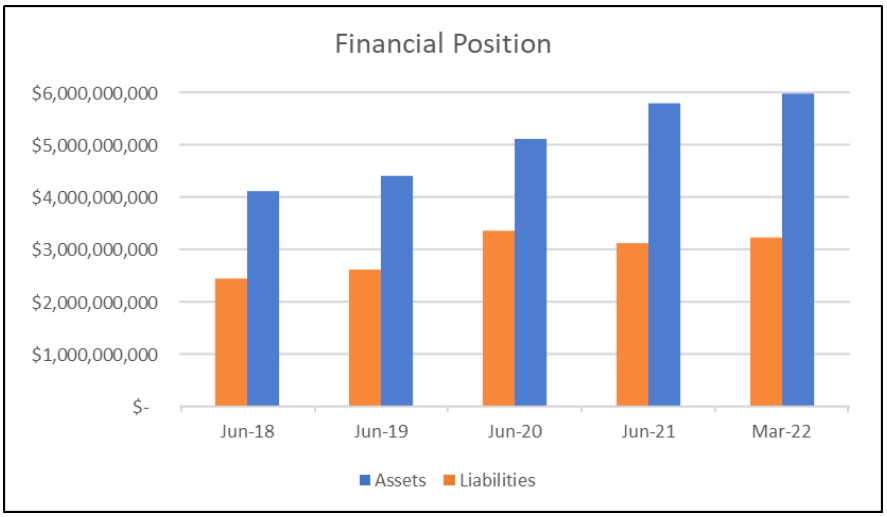
In December 2021, Standard & Poor's Rating Service upgraded the bonds from "A' to "A+", reflecting its assessment that WellStar had a very strong capacity to meet its financial commitments.

> **NOTICE IS HEREBY GIVEN** that, on December 17, 2021, Standard & Poor's Rating Services ("S&P") raised its rating or underlying rating to "A+" from "A" on the above-referenced Certificates and Bonds of Wellstar Health System ("WHS"), as applicable.
>
> The current underlying rating on the Certificates and Bonds reflects S&P's application of its assessment of the credit strengths and weaknesses, as may be applicable, of WHS. Any further explanation as to the rationale and significance of the rating on the Certificates and Bonds may be obtained only from S&P.

In January 2022, Moody's Investor Services revised its rating from stable to positive.

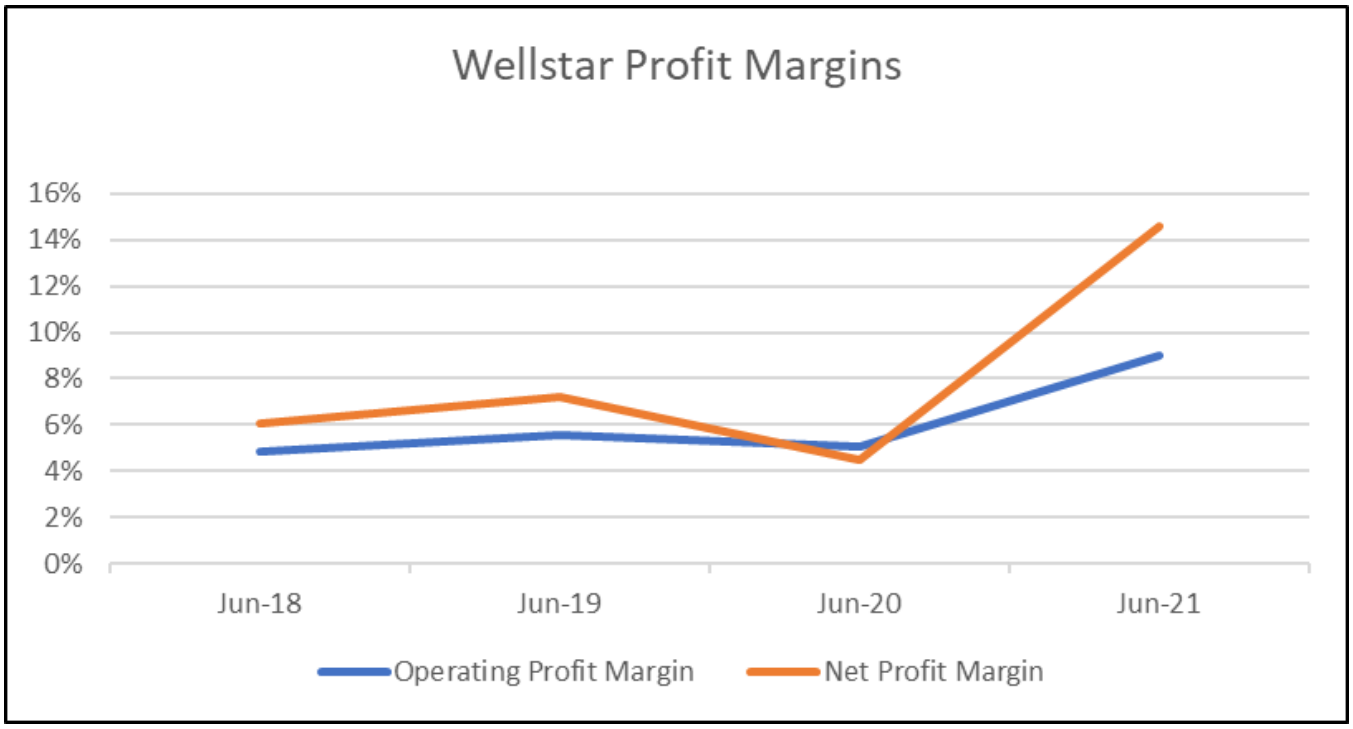
> **NOTICE IS HEREBY GIVEN** that, on January 11, 2022, Moody's Investor Services ("Moody's") revised its rating or underlying rating outlook to positive from stable on the above-referenced Certificates and Bonds of Wellstar Health System ("WHS"), as applicable.
>
> The affirmed underlying rating of A2 on the Certificates and Bonds reflects Moody's application of its assessment of the credit strengths and weaknesses, as may be applicable, of WHS. Any further explanation as to the rationale and significance of the rating on the Certificates and Bonds may be obtained only from Moody's.

Taken together, these ratings reflect WellStar's strong financial health as a health system and translates to lower interest rates for the system.



Additionally, WellStar's financial position is illustrated by comparing total assets to total liabilities. WellStar is in its best financial position over the past five years as of March 2022, with liabilities at 54 percent of assets.

As of March 2022, WellStar's assets minus liabilities equal $2,747,399,000.



Lastly, WellStar's AFS demonstrates that the system has sustained positive operating and net profit margins. In fiscal year 2021, WellStar reported its highest margins to-date: an operating margin of 9 percent and a net profit margin of 15 percent.

Takeaways from the Data

Since being acquired by WellStar in 2017, Atlanta Medical Center's financial position has fluctuated but (apart from a negative net income in 2020) has remained positive. From 2017 to 2021, its median net income – which includes net patient revenue, operating expenses, and other income/ expenses – was $5,207,324.

On a more holistic level, WellStar Health System reports its best financial health to-date, with $2.7 billion in assets minus liabilities as of March 2022 and a net profit of $80 million for the nine-months leading up to March 31. Despite this, and despite an influx of $261 million in federal COVID-19 relief ($43 million of which was reported by Atlanta Medical Center in 2020 and 2021 on its Medicare Cost Reports), WellStar cites financial conditions as the reasoning for the closure of Atlanta Medical Center.

Often, hospital financial reports raise questions for policymakers seeking to ensure access to quality, affordable care for patients. As states seek to better understand often complex and opaque hospital costs, NASHP's Hospital Cost Tool provides data on over 4,600 hospitals across the United States. These data, and supplemental resources, can be used to inform cost-containment strategies and discussions with hospitals.