CommonSpirit Health (“CommonSpirit”) Update on COVID-19 and Potential Impact on Health Care Services

COVID-19 Preparedness and System Actions

CommonSpirit is a nonprofit, Catholic health system dedicated to advancing health for all people. CommonSpirit is committed to creating healthier communities, delivering exceptional patient care, and ensuring every person has access to quality health care. As a faith-based health ministry, CommonSpirit’s mission of caring has always been unique and challenges like the COVID-19 pandemic are tests of our commitment to caring for all. The response to COVID-19 is rapidly evolving. Each day, we are learning new things about the pandemic and CommonSpirit is responding quickly to ensure we are ready and appropriately resourced to care for our patients, caregivers and other employees.

As a major U.S. health system, it is our responsibility to communicate relevant, accurate, and updated information to our communities and investors about our preparedness and ability to meet the health care needs of our communities while protecting our caregivers and staff. We want to assure people that we are currently prepared to treat suspected or infected patients who come to us for care. The situation is fluid and we are anticipating significantly more patients in the future. We are also taking precautions to ensure the safety of our 150,000 nurses, caregivers and other employees, and our 25,000 aligned physicians across the 21 states we serve.

In January 2020, when COVID-19 was first presenting, CommonSpirit convened a multidisciplinary national COVID-19 Task Force. This group has been coordinating clinical and operational readiness across our entire system to identify and resolve emerging issues within CommonSpirit’s acute care and non-acute care sites. The team is continuously assessing the readiness at CommonSpirit’s acute care and ambulatory care facilities with standard, updated protocols and algorithms for screening, triaging, testing, and isolating patients with potential or actual cases of COVID-19.

Some of our divisions are experiencing a higher number of suspected or confirmed patients, but it is likely that all of our facilities will be affected. For this reason, CommonSpirit continues to update our practices, procedures, guidelines and recommendations following the guidance of the CDC, state health, local public health and other federal agencies. CommonSpirit has added additional trainings and is closely monitoring supplies, especially personal protective equipment and ventilators. Additionally, to increase access to care, CommonSpirit will be expanding access to a range of virtual health options for our clinicians and patients. CommonSpirit will suspend sending bills to patients related to the patient portion of costs for testing and treatment of COVID-19. CommonSpirit will continue to work with payers and federal, state, and local officials to determine the cost-sharing associated with providing care related to COVID-19.

CommonSpirit has made significant preparations to safely identify and treat patients with COVID-19 across our health system. Some divisions, particularly in Washington and selected parts of California, either have admitted patients diagnosed with COVID-19 or are awaiting test results. In Washington, some fixed resources (e.g., negative airflow/isolation rooms) are at capacity. CommonSpirit will redistribute supplies between divisions as needed in the short-term and use its strong relationships with vendors to ensure ongoing availability of supplies.

Although it varies significantly by division, especially since the middle of March, there has been a slowdown in volumes. As communities heed guidelines to avoid hospitals for non-emergent
issues, appointment volume, especially for specialty practices, has been reduced and emergency department volume has declined during the last two weeks. At the same time we are expanding access to virtual care options for our clinicians and providers, and are beginning to promote virtual visits as a first option for any patient seeking care. As additional patients require hospitalization, we anticipate a significant increase in cases, but at the current time, our facilities have capacity for increased COVID-19 patient volume.

At this time, there has been a limited impact on staff productivity during this period, including additional training and preparatory costs and deployment of additional resources to staff patient entrances, including the emergency department. Because of the current lower volume, staff is being flexed off and/or reassigned to other units. CommonSpirit is managing some higher supply and equipment costs to ready CommonSpirit’s facilities and staff to serve our communities. These increased costs have been offset by reduced procedural expense related to the decline in elective and non-emergency volume. CommonSpirit anticipates that near-term operations will be negatively impacted by COVID-19.

*Financial Management During COVID-19 Pandemic*

The global investment markets and U.S. capital markets are experiencing significant volatility related to the COVID-19 pandemic. CommonSpirit has highly diversified investment and debt portfolios, providing some buffer during times of severe market stress. CommonSpirit is monitoring liquidity and cash flow daily and is taking prudent steps to protect our fiscal health, including a focus on maintaining sufficient liquidity and resources to meet all of its obligations. CommonSpirit is also focused on contingency planning should more severe operational, financial market or economic disruption continue for an extended period of time, including a review of capital spending and a focus on revenue cycle operations, accounts payable and other cash flows.

Regarding the long-term investment portfolio, CommonSpirit is experiencing portfolio losses, as expected during a severe market dislocation. Given the market volatility and lower rate environment, we anticipate that the funded status of our defined benefit plans will also be adversely impacted. CommonSpirit’s asset allocation targets and portfolio positioning incorporated expectations of an eventual market correction and significant diversification across asset classes and managers is helping to lessen some of the volatility experienced across major markets. We have a very seasoned in-house team managing the portfolio. The team is focused on the right long-term asset allocation and investment strategies for the organization, rather than timing daily markets. Staff has managed through previous market downturns and is prepared to manage through this current disruption.

Regarding the debt portfolio, the restructuring CommonSpirit completed in August 2019 helped to reduce risk and provides stability during this market disruption, including reduced exposure to near-term puts and renewals of shorter-term debt and an increase in long-term committed capital. CommonSpirit is monitoring its short-term debt portfolio and we continue to see our weekly variable rate debt and commercial paper trade or be supported by our dealers, although at higher rates. CommonSpirit has derivative products in place that offset the impact of rising interest rates during market volatility. CommonSpirit is monitoring its bond and bank covenants closely and we believe we have ample cushion at this time to meet all covenants.
CommonSpirit’s Q3 FY 2020 financials are expected to be available in mid-May, followed by our customary investor webcast and Q&A. CommonSpirit remains committed to maintain open communications with investors during this time and if any material information becomes available, we will provide as appropriate.