

June 20, 2024

LETTER TO THE COMMUNITY

Positive Financial Performance Results from Independent Review as a Florida Special District Financial Turnaround Continues

On April 19, 2024, I issued an internal memo to our family of Care Partners to communicate our financial performance and to recognize the positive gains already achieved. I shared that when our 2023 audited financial statements are released and published on our website (end of June), it will reveal a very difficult financial year for us last year. It (2023) was our post-Pandemic year of “strategic investments and recruitments.” We recruited new top-quality providers to replace the 25% that left during the Pandemic. We also invested in new equipment and technology, such as the DaVinci and Velys Robotic systems, to support the new providers. Collectively these investments and expenses, required more than \$20 million to be spent in 2023 above our budget. While it takes time for new providers to get established before generating revenue, our investments—together with our dedicated focus on quality, safety, access, efficiency, and patient experiences—are paying dividends today! I am pleased to share with the public, in full transparency, the positive financial performance results from the Independent Review as conducted by nationally top-ranked CPA and hospital/health system operating performance audit firm, PYA, P.C. (PYA).

Independent Review Engagement

In response to the 2021 Florida Legislature’s Uniform Special District Accountability Act (s. 189.0695, F.S.) (the Act), Parrish Medical Center (PMC/District) issued a request for proposals (RFP) and engaged PYA. All Florida Independent Special Districts (FISD), including public special district hospitals, like PMC, are required to conduct independent, objective third-party reviews of their operating performance. Following is a summary of our Financial Performance results contained in the PYA independent report, including healthcare industry perspectives.

Financial Performance Results

- Based upon PYA’s 40 years of relevant industry experience, deep familiarity with the state of Florida, and their detailed analysis, PYA offered **no statutory and/or budgetary recommendations** to improve PMC’s program operations at this time.
- PYA further observed that given PMC’s operating and financial performance trends, **resilience** in the face of industry and market challenges as well as an **ongoing rebound** from the COVID-19 pandemic, **the District has begun to strengthen** its overall position in the market.
- In PYA’s estimation, “PMC, given its market and operating circumstances, is a **well-managed, largely effective, and essential provider of healthcare services** to the residents of the District.”
- Even though PMC can tax its community, the **Board of Directors, in its desire to not burden local taxpayers, has chosen not to** seek tax support as a means of supporting hospital operations for the past 29 years. In contrast, since 2017, FISD hospitals throughout Florida have levied \$2.3 billion in *ad valorem* taxes collectively. Over the past 29 years, PMC, in its decision to not levy taxes on the community, has forgone a minimum of \$42 million in potential tax revenue.

- There are a variety of actions the District could take to improve its operating margin position, up to and including eliminating clinical services, many of which history indicates would not be filled by competing health systems. Given its purpose and mission, PMC has, however, chosen to provide the community with services based on a balance of need and financial realities, as opposed to basing programming decisions on economic considerations first, or only.

Health Care Industry Perspectives

- The past two decades the North Brevard County healthcare economy experienced a number of external macroeconomic shocks. The first was the Great Recession of 2009 that followed the US housing market implosion that hit Florida particularly hard. The second was the end of NASA's space shuttle program in 2011, resulting in over 20,000 job losses that are still being recouped to this day. Third, and most important, was the pandemic, which impacted health system demand in ways never previously experienced by the industry.
- As a result of the pandemic, and its ongoing aftermath, PMC and hospitals nationally suffered severe economic challenges...In PYA's experience, the impact is disproportionately represented in public, safety net, and non-urban providers—all of which apply to PMC. These entities lacked material financial and other resource "cushions" prior to their onset.
- It is our (PYA) belief that PMC's financial challenges were associated with longer-term impacts of the pandemic.
- The challenges faced by PMC and any associated unmet performance standards, are, in reality, more typical of health systems nationally, given the burdens of a challenging national and healthcare economic environment as well as escalating competitive pressures. These challenges are playing out in real-time in Brevard County, as illustrated by Steward Health, the corporate owner of Rockledge Regional Medical Center and Melbourne Regional Medical Center, which in May 2024 filed for federal bankruptcy protection, announcing its intention to sell all its hospital assets.

What all of this means is, that Parrish Medical Center's performance has been validated as strong and our strategic direction positive. The study also recognizes our strategy of partnering with local and national healthcare organizations. Our membership in the Cleveland Clinic Connected Network (the first hospital in the United States to become a member) and our partnerships with other local and regional hospitals have proven to be a cost-effective way to bring services to our community, while we remain an independent hospital.

We are proud of being Brevard's only public and only independent hospital and we look forward towards many more years of fulfilling our mission.

Sincerely,

George

George Mikitarian
President/CEO
Parrish Medical Center