



November 20, 2022

Dear Executive Constantine and Members of the King County Council,

In response to Harborview Medical Center’s dire financial situation and its potential impact on the provision of health care services to some of the most vulnerable residents of King County, Harborview’s Board of Trustees unanimously voted to request that King County suspend Harborview’s \$5 million mission support payment for the next two years.<sup>1</sup> As King County-appointed Trustees, we do not submit this request lightly. However, we were required to take this action as the governing body responsible for Harborview’s immediate and long-term viability.

On behalf of the Trustees, I would like to express our deepest appreciation for your support and commitment to Harborview Medical Center. As a King County-owned and University of Washington-operated facility, Harborview serves as a vital resource for King County as both the only Level I Adult and Pediatric Trauma Center serving a four-state region and as a safety net hospital dedicated to providing care for all residents, regardless of their insurance status or ability to pay. Harborview also serves as the disaster preparedness and disaster control location for Seattle and King County. During this last fiscal year, King County residents were the primary beneficiaries of Harborview’s services:

- Primary Care visits: 85,605 (78.2%) of the 109,431 encounters were King County residents
- Specialty Care visits: 108,909 (64.4%) of the 169,117 encounters were King County residents
- Surgeries: 8,660 (48.4%) of the 17,909 surgeries were performed on King County residents

Harborview also provides an average of \$2 million per year in unreimbursed health care services to the King County Jail population.

Pursuant to the 2016 Hospital Services Agreement (“HSA”) between the Trustees, King County, and the University of Washington, the Trustees make a mission support payment of \$5 million—from Harborview’s revenues or reserves—to King County each year. The Trustees understand that the funds are directed to certain King County Public Health clinics, which provide services to the mission population. Harborview’s \$5 million mission support payment comes directly from its cash on hand, which is maintained separately from the University of Washington. The University of Washington does not assist Harborview with the \$5 million mission support payment. The Trustees, in strong support of Harborview’s mission to provide services to the most vulnerable residents of King County, have issued \$30 million in mission support payments to King County over the last six years.

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<sup>1</sup> Unanimous Motion of the Harborview Board of Trustees on October 27, 2022:

Pursuant to Section 6.4.4 of the Hospital Services Agreement, the Harborview Board of Trustees move to submit its request to the King County Executive and the County Council to suspend all of the \$5 million mission support payment until such time as Harborview is able to maintain a minimum of 120 days cash on hand for at least 1 year. If approved, the Board will reevaluate these extraordinary circumstances again in 24 months.

Harborview, like hospitals across the region and the country, is facing significant financial challenges. We have already lost approximately \$24 million in the first four months of this fiscal year and anticipate millions in additional losses. Our current financial model is no longer feasible as costs across the board are increasing while reimbursements associated with our dedicated services to our mission population are not increasing at the same rate. Competition for recruiting and retaining staff is unprecedented, and it is imperative that we continue to attract and support our nurses and other high-demand health care workers. Approximately 20% of Harborview's inpatients no longer require hospitalized care but have high medical and psychosocial complexities and face other barriers to discharge. Harborview already invests approximately \$8 million per year into its bed readiness program which supports 85 beds in third-party skilled nursing facilities to address these challenges.

As volunteers with a passion for Harborview's mission, the Trustees are deeply committed to our critical governance role in overseeing Harborview's finances and ensuring the viability of this vital hospital. The Trustees are extremely concerned about Harborview's projected days cash on hand, which is a key indicator of financial stability and dictates Harborview's ability to respond to unforeseen circumstances. Harborview currently has 99 days cash on hand, which recently dropped from 130 days cash on hand (operating expenses are approximately \$3.2 million per day). Moody's Investors Service recommends 150–200 days cash on hand as a median range for nonprofit hospitals. Harborview is projected to be at 75 days cash on hand by June. With only 75 days cash on hand, a single significant financial event could mean that Harborview would be forced to significantly scale back its existing services to our mission population.

As required by the HSA, the Trustees provide the following summary of actions that we have taken to address these extraordinary financial circumstances. Please note that this request comes directly and independently from the Trustees. Harborview, and not the University of Washington, is solely responsible for the \$5 million mission support payment under the HSA.

- LTGO Bond. The Trustees recently approved funding an outpatient surgery center in the Ninth and Jefferson Building (NJB), by obtaining an LTGO bond through King County, rather than paying for the project by using cash on hand. The estimated cost of this project is \$20 million. The Trustees weighed the need to preserve cash on hand against the impact of the LTGO interest payments and determined that the LTGO would allow Harborview time to focus on strengthening its cash position. The additional four operating rooms are expected to generate a positive contribution margin and a rapid return on investment when the project is completed in 2024. The Trustees greatly appreciate King County's assistance with the LTGO bond.
- Strategic Planning Committee. The Trustees' Strategic Planning Committee has devoted significant time to develop a strategic plan to address Harborview's short-term and long-term financial challenges. The Committee has developed five strategic imperatives, which focus on Harborview's mission and financial performance, including 1) More Effectively Serve Mission Populations, 2) Engage External Partners to Improve Care, 3)

Strengthen Hospital Partner Trauma Programs, 4) Resource Strategic Programs to Ensure Financial Sustainability, and 5) Drive to Higher Levels of Efficiency.

- Financial Turnaround Efforts. Harborview maintains an independent profit and loss statement—our finances are not integrated with the University of Washington. Like King County, the University of Washington has centralized certain services—including payroll, physician, and shared services—to gain efficiencies and standardize operations. Harborview’s participation in these shared purchased services expenses represent 15% of Harborview’s total budgeted operating expenses for FY23. The Trustees review these expenses each year as part of our approval of the annual operating budget. Additionally, Harborview, in partnership with UW Medicine, has embarked on a financial turnaround project led by an independent third-party to restore long-term financial stability. As part of this project, the Trustees have requested detailed periodic updates, as well as further analysis of Harborview’s shared services expenses to identify potential additional cost reductions. In the meantime, the Trustees have recently verified that Harborview transfers funds to the University of Washington only to pay for Harborview’s payroll and benefits, physician, and shared services expenses.
- Legislative agenda. The Trustees have been developing a plan for coordinated advocacy in Olympia. The Trustees’ advocacy will focus on supporting policy and budget efforts that address challenges with Harborview’s difficult-to-discharge patients. The Trustees, jointly with UW Medicine, also intend to seek permanent biennial appropriations to support safety net and teaching functions, one-time additional funding to support Harborview’s operations, and approval of an Inpatient Directed Payment Program to draw down additional federal dollars for Medicaid reimbursement. However, Harborview’s challenges are not unique. Hospitals all over the state are struggling and the State itself may face deficits, so there is no guarantee that all or any of Harborview’s legislative requests will be granted.

As Trustees, we are grateful for and inspired by your engagement and commitment to Harborview. The relationship between Harborview leadership and King County has never been stronger and the Trustees look forward to future partnership opportunities that may support Harborview during these challenging times. Please feel free to contact me if you have any questions or concerns.

Sincerely,



Steffanie Fain  
President of the Harborview Medical Center Board of Trustees