



U.S. Municipal Bond Market

Non-Profit U.S. Healthcare - Rising Costs of Care from the COVID-19 Pandemic

Behind the COVID-19 Numbers for Non-Profit U.S. Healthcare

The Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law by President Trump at the end of March allocated \$100 billion, or about 4.5%, of the CARES Act's \$2.2 trillion to a Public Health and Social Services Emergency Fund to help healthcare facilities respond to the coronavirus (COVID-19) pandemic. This averages to about \$108,000 per hospital bed in the U.S.,¹ which sounds like a substantial amount of aid at first glance until we dig into the details. Of course, the final financial impact to healthcare providers will depend upon how many people become infected and the number hospitalized.

Rising Costs of COVID-19

An analysis of the projected economic impact of COVID-19 found someone hospitalized with COVID-19 costs hospitals on average \$73,300 per case. The ultimate projections (which appear to be to the very high-end in our estimation) assume 66 million to 198 million Americans could become infected (U.S. population is currently about 329 million²) and between 5 million and 20 million of Americans may require inpatient care. The total cost of this inpatient care, again we think this is a high-end estimate at least for now, could cost the healthcare system between \$362 billion to \$1.449 trillion in charges, depending on the incidence rate of the infection and how well social distancing is maintained.³ There have been a total of 370,397 coronavirus cases reported in the U.S., 11,042 deaths, and 19,874 recoveries to date.⁴

Missed Revenue from Cancelled Service

Additionally, those potential expenses do not include what it is costing hospitals to cancel or postpone regular services. Early indications from Moody's are that delayed, postponed, or canceled services are likely to reduce hospital revenue by 25-40% per month on average.⁵ To some this looks like it could be underestimating the impact. An informal survey of hospitals taken at the end of March found revenues were down 40-60%.⁶

Financial Impact to Healthcare Sector

The outlined added burden could pressure a sector that was already under noteworthy strain. Even if the costs from the pandemic itself are not close to the above numbers, the lost revenue alone could meaningfully strain some providers and systems, especially those on the smaller side. Changes in market valuations have already erased about 30 days of operating cash for the median issuer in Fitch Ratings' healthcare portfolio.⁷ Fitch Ratings is also anticipating that debt service coverage will be dropping during 2020. There "will be 'technical' debt service violations and not payment defaults, and it is our expectation that waivers will be issued by bondholders."⁸ Therefore, it is mostly the larger providers and systems that will have the sizeable revenue base, liquidity, and access to outside liquidity that will allow them to absorb the potential pressures that are soon to come. The smaller providers need to be considered on a selective case-by-case basis and only with a deep understanding of how the potential exposure that is ahead could impact performance.

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Process and Other Traces of Federal Support

In order to allow hospitals to get a jumpstart on the financial side of responding to the COVID-19 crisis, the American Hospital Association urged the federal government to allocate at least \$25,000 to every hospital in the U.S. for a total upfront cost of about \$23 billion.⁹ That idea has not resonated enough to be put into action.

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The \$100 billion Public Health and Social Services Emergency Fund money is going to be dispersed in different ways, but mostly it will occur over time; this distribution will not occur immediately. Providers will need to apply after the COVID-19-specific services have been performed. The federal government will also accelerate Medicare reimbursements under CARES for providers. Providers will be eligible to receive six months of Medicare reimbursement in advance, but this will be netted out of future reimbursement. So, it offers near term liquidity at the penalty of future revenues. Another scheme allows employers to defer the employer portion of federal payroll taxes, but again this will need to be paid back too. The Medicare sequestration is being suspended (worth about 2% in reimbursements), and a 20% increase in Medicare reimbursement also offers some support as well.¹⁰ Healthcare providers could also be eligible to participate in Federal Reserve's emergency lending program that would fall under the purview of the available \$454 billion allocated to the Fed. Details have not been released from the Fed about how this program is set to work yet.¹¹

Healthcare Related Rating Agency Actions/Publications

- Moody's lowered non-profit healthcare sector outlook to "Negative," March 18, 2020;
- S&P lowered its outlooks on all other public finance sectors to "Negative" on Wednesday April 1, 2020;
- What Investors Want to Know, Coronavirus/COVID-19: USPF Healthcare; Fitch Ratings; April 7, 2020;
- Fitch lowered its non-profit healthcare sector outlook to "Negative," in March 2020.

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¹ \$100 billion divided by 924,107 total staffed beds in all U.S. hospitals per [AHA Fast Facts on US Hospitals, 2020](#).

² [U.S. and World Population Clock](#); U.S. Census; as of April 6, 2020.

³ Numbers are from [COVID-19 the Projected Economic Impact of the COVID-19 Pandemic on the U.S. Healthcare System](#); A FAIR Health Brief; March 25, 2020 via [How Much Will the COVID-19 Pandemic Cost Hospitals?](#) By Jacqueline LaPointe; March 31, 2020. FAIR Health is an independent nonprofit data collector for the health insurance industry.

⁴ Please see [Worldometers.info/coronavirus](#) for data updated hourly, last accessed 4/7/20 9:59am central time.

⁵ [Federal coronavirus aid package provides modest relief; ratings reflect support](#); Moody's Investor Service; April 3, 2020.

⁶ Mathews, Anna Wilde and Melanie Evans; [Hospitals, Doctors Feel Financial Squeeze as Coronavirus Sweeps U.S.](#); The Wall Street Journal; April 2, 2020.

⁷ *Ibid.*

⁸ [What Investors Want to Know Coronavirus/COVID-19: USPF Healthcare](#); Fitch Ratings; April 7, 2020.

⁹ [AHA Urges HHS and CMS to Distribute Funds to Hospitals and Health Systems as Designated by CARES Act](#); Letter from American Hospital Association; March 31, 2020.

¹⁰ [Federal coronavirus aid package provides modest relief; ratings reflect support](#); Moody's Investor Service; April 3, 2020.

¹¹ [Special Bulletin: CARES Act Federal Reserve Emergency Lending Program](#); American Hospital Association; March 31, 2020.

Please see Select U.S. Non-Profit Healthcare Medians, FY18 on page 3.

Select U.S. Non-Profit Healthcare Medians, FY18

Health System	Moody's Rtg.	Org. Type	LT Debt (\$000)	Total Oper. Rev. (\$000)	Total Medicare (%)	Total Medicaid (%)	Total Commercial (%)	Lic. beds	Admissions	Cash on Hand (days)	Cash & Invest. to Total Debt (%)
Median (363)	A2	-	377,739	1,155,255	45.7	15.3	32.0	682	28,588	205.4	166.2
Adventist Health Sys/Sunbelt Ob Grp, FL	Aa2	Multi-State Sys	2,857,654	10,974,124	47.5	13.5	28.0	8,933	380,682	232.5	206.6
Advocate Health Care Network, IL	Aa3	Single-State	2,796,906	9,194,873	42.8	14.3	39.6	6,719	272,777	328.3	250.8
Ascension Health, MO	Aa2	Multi-State Sys	7,123,611	23,111,332	44.5	14.8	31.7	-	778,371	285.3	222.1
Baylor Scott & White Health, TX	Aa3	Single-State	3,087,064	9,476,624	41.2	7.2	42.4	5,125	233,237	213.3	143.9
Catholic Health Initiatives, CO	Baa1	Multi-State Sys	6,341,931	14,982,087	44.5	15.0	33.3	13,120	464,717	147.6	68.2
Catholic Healthcare West, CA	Baa1	Multi-State Sys	3,724,117	12,905,641	43.0	27.0	25.0	8,333	388,039	184.7	121.1
Cleveland Clinic Hlth Sys Obl Grp, OH	Aa2	Acad Med Sys	3,453,911	8,927,557	47.0	14.0	37.0	4,350	174,653	356.7	198.2
Duke University Health System, NC	Aa2	Acad Med Sys	1,732,570	3,590,607	44.2	10.8	37.7	1,512	68,699	436.1	226.2
Mayo Clinic, MN	Aa2	Acad Med Sys	2,800,000	12,168,000	45.7	8.5	40.7	4,319	129,056	197.1	178.1
Mem. Sloan-Kettering Cancer Cntr, NY	Aa3	-	2,348,600	4,758,381	38.8	6.5	53.7	514	24,243	332.5	170.3
New York U Hosp Center, NY	A3	Acad Med Sys	2,209,540	4,365,792	37.0	22.0	41.0	1,519	71,708	66.5	33.1
Northwell Health, NY	A3	Single-State	3,376,488	11,491,232	45.0	19.8	29.8	6,393	300,913	108.1	91.1
Partners Healthcare System, MA	Aa3	Acad Med Sys	4,945,968	13,293,557	40.4	11.8	43.3	3,041	168,959	212.2	138.5
Providence Health & Services, WA	Aa3	Multi-State Sys	6,258,000	24,428,000	43.2	18.2	34.3	13,507	513,841	175.8	172.6
RWJ Barnabas Health, NJ	A1	Acad Med Sys	2,089,281	5,351,308	45.3	20.9	27.5	4,893	197,636	261.4	173.5
Sutter Health, CA	Aa3	Single-State	4,626,000	12,120,000	43.0	19.0	34.0	4,393	187,713	177.6	128.2
The New York & Presb Hosp, NY, NY	Aa2	Acad Med Sys	2,737,844	8,483,896	38.3	25.4	33.9	2,813	138,125	253.6	187.5
Trinity Health Credit Group, MI	Aa3	Multi-State Sys	5,982,141	18,279,242	46.6	18.5	32.2	14,556	584,565	189.3	131.9
University of Penn, PA	Aa3	Acad Med Sys	2,274,859	6,782,151	42.8	13.7	41.9	2,992	127,209	261.6	202.6
U of Pittsburgh Medical Center, PA	A2	Acad Med Sys	4,237,859	18,777,344	47.0	18.1	29.3	7,560	287,026	103.5	109.5

Source: Moody's and HilltopSecurities.

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