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Moody's: Supply Chain Changes Due to COVID-19 to Cause Hospital Costs to Increase

Hospital systems will not just have to pay higher costs for personal protective equipment and other medical supplies but also for public construction projects, a new analysis from Moody's said.

The analysis found that higher costs for materials and public spending constraints are going to likely increase the price tags for new construction projects for hospitals. At the same time, hospitals will face higher costs for PPE and other supplies as the supply chain shifts to more domestic manufacturing.

"Increased costs for essential medical supplies and building materials would impact not-for-profit hospitals and healthcare providers as well as public finance sectors with significant capital expenditure programs," the analysis, released Tuesday, said.

The costs for construction projects are likely to rise due in part to higher costs for imported building materials as the global supply chain gets more fragmented due to the pandemic.

"Beyond major producing regions in the global construction supply chain such as Chinese copper and steel, Canadian lumber, Italian marble and ceramic tile from Brazil, Spain and Turkey, a range of other materials and equipment are sourced globally, including paving stones, lighting, electrical equipment and elevators," the analysis said.

State and local governments, which are contributors to hospital spending projects, are also facing major demands to improve infrastructure and are pressured by pension liabilities.

Hospitals are also trying to recover from a massive hit to their patient volumes in March and April at the onset of the pandemic. The financial crisis has caused systems to preserve any liquidity to keep afloat as patient volumes remain below pre-pandemic levels.

This means that some cash-strapped hospital systems have paused construction projects. Michigan Medicine announced back in May that it will hold off on a \$920 million, 12-story hospital construction project, according to the Detroit Free Press.

Hospital system ProHealth Care in Wisconsin suspended construction back in April of a new hospital in Mukwonago in the state. The hospital was supposed to be opened this summer.

Hospitals aren't just struggling with how to move forward with infrastructure projects.

Throughout the pandemic, systems have faced higher costs for PPE and other supplies as demand has surged to unprecedented levels.

Moody's report said that COVID-19 is likely to accelerate a more fragmented international trade and supply chain. The pandemic caused a major disruption to the overseas supply chain, especially in China where most PPE production is centered and massive delays occurred.

Some U.S. lawmakers have called for more production to shift to domestic manufacturers. Premier and 15 U.S. health systems invested in domestic PPE manufacturer Prestige Ameritech.

This trend likely means supply chains will get shorter as production moves to more local and domestic markets.

“A shift away from globalization has the potential to reshape or even reverse the build-up of production bases concentrated in China and other emerging markets,” Moody’s said.

However, any adjustments are going to require new costs like building new factories and training workers.

“A greater focus on local production would likely increase inventories, raise costs and lower margins,” Moody’s said.

These realignment costs will likely be passed on to hospitals.

“Higher production costs and more fragmented supply chains will increase costs for hospitals and procurement teams sourcing essential medical supplies,” Moody’s said.

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