U.S. Hospitals Face Financial Reckoning as Federal Aid Dwindles.

- **Financial strains return with the retreat of the pandemic**
- **Costs for safety and labor surge while elective procedures lag**

More than a year after Saint John's Episcopal Hospital in Queens admitted the borough's first Covid-19 positive patient in March of 2020, life is returning to some semblance of normalcy. The three refrigerated tractor-trailers serving as morgues are gone and its halls — once at 150% of capacity — have quieted.

But with the retreat of the worst of the virus comes the reality that for many facilities, the finances never worked. The billions of dollars of aid the U.S. government distributed to hospitals during the pandemic — including advances in Medicare payments — kept struggling facilities afloat, but papered over longstanding problems.

The elective procedures that generate the most revenue haven't returned to pre-Covid levels. Now, a staffing crisis has emerged as a new challenge just as the final government disbursements are paid out — putting potentially thousands of hospitals at risk. "It does keep me up at night," said Jerry Walsh, chief executive officer of St. John's, a safety-net hospital that primarily treats patients that don't have private insurance.

Federal Support

These risks aren't yet reflected in the financial markets — an indication of the extent of the federal support. Junk-rated municipal hospital bonds are underperforming the overall high-yield muni index only slightly this year, with a 6.91% return, compared with 7.11% for the overall index. Still, concerns are growing about the added stress of rising labor, supply and interest costs on a system already rife with problems.

"We will see a significant number of failures post-pandemic," said Steven Shill, head of the health-care practice at advisory firm BDO USA. "All the risks are pointing to probably a tough 18 months."

Even before the coronavirus, many American hospitals were struggling to adapt to changing models of care, including the shift of even some complex procedures to outpatient settings. Weaker operators are still grappling with the same issues as before the virus, including poorer, sicker and often shrinking populations.

"There is no doubt that the CARES money kept the wolf from the door," said Ken Kaufman, chair and co-founder of health-care consultancy Kaufman Hall, which estimates that more than a third of the 6,000 or so hospitals in the U.S. are losing money. His group also forecast the pandemic has cost them close to $400 billion this year and last.

More than three dozen hospitals entered bankruptcy in 2020, compared with just two this year, according to data compiled by Bloomberg. That includes Chicago's Mercy Hospital and Medical

Center, which filed Chapter 11 in February and was sold for just $1.

Turnaround adviser Alvarez & Marsal calculated that operating expenses jumped 5% last year at the 25 largest hospital systems, and those have the benefit of scale. St. John's, for example, has been paying thousands of extra dollars a week to staffing agencies for certain positions to compete with larger systems for health-care workers, Walsh said.

"For safety-net hospitals, it's an issue," Walsh said. With enough state money to just survive under normal circumstances, "when you run a Medicaid business and they haven't raised Medicaid rates in New York in 13 years, it's a problem."

Hospitals received $178 billion through the Provider Relief Fund, with most funding distributed or about to be. But the remaining aid doesn't change the long-term problem that many don't bring in enough to pay their bills.

"The upcoming disbursements won't account for expenses and lost revenue from the spring and summer surges across the country due to the delta variant," American Hospital Association executive vice president Stacey Hughes said in a statement to Bloomberg.

After the pandemic abates, labor and supply costs will be permanently higher, chiseling margins for a well-run hospital to 1.5% to 2% from an already-modest 3%, according to Kevin Holloran, a senior director at Fitch Ratings.

And though defaults have been low, an uptick in interest rates could change that. Felicia Gerber Perlman, who co-heads the bankruptcy and restructuring group at law firm McDermott Will & Emery, expects the next wave of distress to hit in the second half of next year. Rural facilities, urban hospitals that rely on publicly-funded insurance and centers in communities that can't support more than one hospital are expected to be hot spots.

"Now the federal aid is ending, but you still have underlying issues that will be facing the system," Perlman said.

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