

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **Nonprofit Hospitals in 2015: 15 Findings and Thoughts.**

Wells Fargo Securities, the capital markets and investment banking division of Wells Fargo & Company, recently released a [report on the state of nonprofit hospitals](#) and how they fared in the first half of 2015.

In the report, called “NFP Hospitals H2 2015 Update,” George Huang, municipal securities research director at Wells Fargo Securities, provided some thoughts on recent developments and looked ahead to the remainder of the year.

Here are 15 findings and thoughts from the report.

### **Political and legal challenges**

1. The Supreme Court decision in the King v. Burwell case to uphold subsidies on federal exchanges provides stability for hospitals’ strategic and operational planning.
2. The Affordable Care Act is a key issue in the 2016 presidential election. However, there is no consensus on Republican “repeal and replace” plans.
3. Congress is pursuing minor amendments to the ACA, but repealing the 2.3 percent medical device tax and the Independent Payment Advisory Board would require bipartisan compromises.

### **Health insurance exchanges**

4. Health insurance enrollment in 2015 under the ACA totaled 10.2 million at the end of March, down from an estimate given earlier that month of 11.7 million people and exceeding the 9.1 million HHS year end-target.
5. Further enrollment growth is likely as individual mandate penalties increase, according to the report. However, adverse selection risk remains, as there is a continued lack of consumer awareness and poor healthcare and health insurance literacy.

### **Medicaid expansion**

6. Although the optional nature of Medicaid expansion limited implementation, Wells Fargo believes most states will eventually opt in. Governors and legislatures in 29 states, plus Washington, D.C., have already made the decision to accept Medicaid expansion.
7. At least seven state governors (Ala., Alaska, Mo., S.D., Tenn., Utah, Va. and Wyo.) are currently open to expansion but may lack sufficient state legislative support. After failing to persuade his legislature to expand Medicaid, Alaska Gov. Bill Walker, a Republican-turned-independent, said he plans to unilaterally accept additional federal and Mental Health Trust Fund Authority money to expand Medicaid in his state.
8. If no other states expand Medicaid in 2016, the Washington, D.C.-based Urban Institute estimated

there would be 4.2 million people who otherwise could have gained coverage through expansion.

9. Member hospitals of St. Louis-based Ascension Health benefited more from Medicaid expansion than health insurance exchange enrollments, while hospitals in non-expansion states experienced noticeably less improvement in payer mix. Ascension Health hospitals located in states that expanded Medicaid saw 32 percent fewer uninsured patients in 2014 than in 2013, while the system's hospitals in non-expansion states only experienced a 4 percent decline during the same time period, according to a Kaiser Family Foundation study. Ascension Health hospitals in Medicaid expansion states also saw a 7.4 percent increase in Medicaid discharge volumes from 2013 to 2014. That compares to a 1.4 percent increase for hospitals in non-expansion states during the same time period. Additionally, Ascension Health hospitals in Medicaid expansion states saw an 8.2 percent increase in Medicaid gross revenues from 2013 to 2014 and a 63.2 percent decrease in revenue from self-pay, according to the study. Ascension Health hospitals in non-expansion states saw a 9.4 percent decline in Medicaid gross revenues from 2013 to 2014 and a 2.6 percent increase in revenue from self-pay.

### **Medicaid enrollment**

10. As of April 2015, there were 71.1 million total people enrolled in Medicaid.

11. As of that time, Medicaid enrollment was up 21.3 percent over average monthly enrollments prior to the ACA's 2014 open enrollment period.

### **Capital markets**

12. Hospital bonds continue to be high demand, and that demand has outpaced supply, even in a higher issuance year.

13. In the first half of 2015, hospital bond volume was up dramatically — 87.5 percent year-over-year.

14. About 80 percent of the hospital bond volume increase in the first half of this year was refunding/combined money deals, so issuance pace is likely to slow when rates rise.

15. Hospital bonds have still been good investments in the first half of 2015, as they are delivering positive returns in excess of other classes of municipal bonds. As of July 16, investing in hospital bonds would have earned an investor a total return of 0.83 percent for year-to-date 2015. By comparison, investing across asset classes as measured by broader indices like the Municipal Bond Index and the Revenue Bond Index, the year-to-date total return would have been 0.18 percent and 0.53 percent respectively.

### **Becker's Hospital Review**

Written by Kelly Gooch | July 22, 2015