

Bond Case Briefs

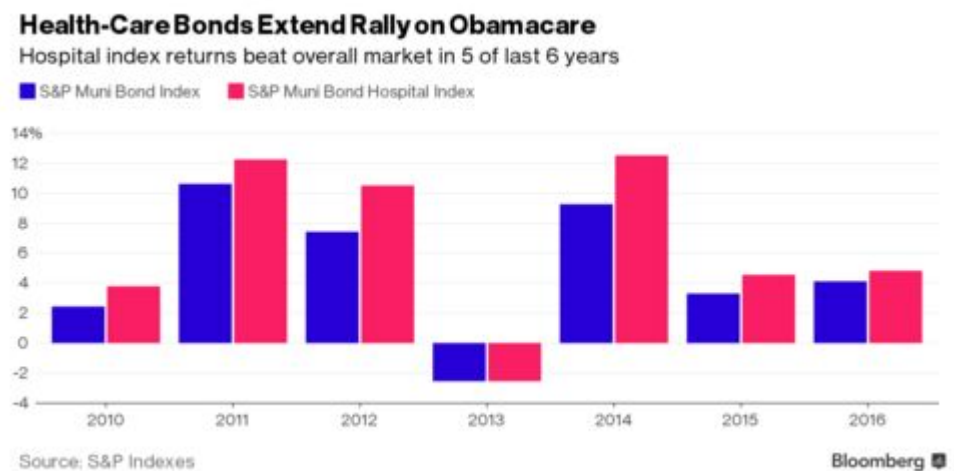
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Hospital Bond Rally Undeterred by Latest Threat to End Obamacare.

The \$250 billion municipal hospital-bond market is proving immune to Donald Trump's plan to eliminate Obamacare.

Sutter Health is among nonprofits tapping demand for the tax-free debt, with the California chain planning to sell \$850 million in new securities this week. Health-care bonds are beating the overall \$3.7 trillion municipal market for a third straight year as the federal law expanding medical coverage to Americans improves business. Despite the Republican presidential nominee's goal, the rally has been undaunted as investors hunt for yield while rates hold near record lows.

"There's lots of demand with all of the money pouring in," said Mike Quinn, a managing director at Chicago-based investment bank Ziegler, which underwrites bonds for hospitals. "This is a really great environment for health-care borrowers to issue tax-exempt money."



Borrowing costs have tumbled this year with money flooding into the securities amid turmoil in financial markets overseas, pushing the Bond Buyer's 20-year index to as little as 2.8 percent this month, the lowest since the data began in 1961. Debt issued for hospitals has returned 4.8 percent this year, outpacing the 4.1 percent gain for the market overall, according to Standard & Poor's indexes.

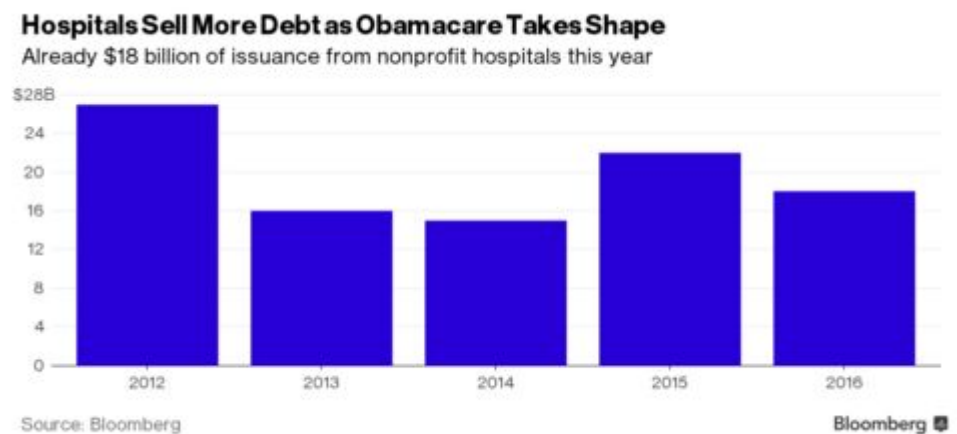
Much of the financial gains from President Barack Obama's overhaul have already emerged, with about 20 million people gaining coverage through private insurance plans or state Medicaid programs since the passage of the law in 2010. Hospitals are now facing the prospect of reduced reimbursements as the government aims to shift from a model where it pays for services to one where it rewards outcomes.

Republicans have repeatedly failed to repeal the law in Congress, and court challenges to its key provisions were turned away by the U.S. Supreme Court. While Trump has pledged to ask Congress to scrap it as soon as he takes office, doing so outright would be difficult politically given how many Americans are now covered by it, Morgan Stanley analysts said in a July 12 report.

For S&P Global Ratings and Moody's Investors Service, U.S. hospitals will manage the risks without undermining their credit ratings. Both companies have stable outlooks on the sector, meaning downgrades and updates will be roughly equal.

"We're about to enter a period with more uncertainty, but the organizations have very strong balance sheets and operations," said Kevin Holloran, an analyst at S&P. "The health-care system in America has proven over time to be very resilient and successful."

After sitting on capital plans as implementation of Obamacare started, hospitals ramped up borrowing last year to retire more costly debt, with sales this year already exceeding those in 2014 and 2013.



Sutter, which is issuing securities Tuesday through the California Health Facilities Financing Authority, is using the proceeds to refinance higher-cost debt and to help fund two new hospitals in San Francisco. Based in Sacramento, it runs 28 acute-care facilities, two recovery hospitals, four medical foundations and 15 home health-care locations.

"We have a consistent operating performance and excellent long-term stewardship of our balance sheet," said Svend Ryge, Sutter's treasurer.

Moody's ranks the debt Aa3, the fourth-highest grade, citing its stable cash flow and its strong presence in California.

The breadth of the company's business in California is a draw, said Todd Sisson, a debt analyst in Charlotte, North Carolina, for Wells Capital Management, which owns Sutter bonds among its \$40.5 billion in municipals. While the company may buy some of the new securities, it's limiting holdings of health-care debt because of the price run up and cuts providers face after reimbursement changes begin next year, he said.

"We've got considerable headwinds," Sisson said. "The sector's outperforming at the same time we're seeing the risk increase."

Sutter will see Medicare payments actually increase annually through 2019, bond documents show. Still, “estimates of future impact would not be reliable” from later calculations of reimbursements, according to the statement.

The industry has “immunity” to uncertainty, said S&P’s Holloran. “People still get sick, go to the doctor, get surgeries.”

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by Molly Smith and Romy Varghese

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