

Bond Case Briefs

Municipal Finance Law Since 1971

Trump Obamacare Repeal Threat Seen Pressuring Hospital Bonds.

The municipal-bond market is facing headwinds from President-elect Donald Trump and more than \$250 billion in hospital debt is most at risk.

Yields on benchmark tax-exempt securities climbed the most Wednesday in more than three years after the stunning victory of the real estate developer and reality television star, who has proposed slashing income taxes, which will reduce the incentive to own the bonds. Trump and Republicans in Congress made the repeal of Obamacare a central point of the campaign, a possible one-two punch for hospital debt.

Under the Affordable Care Act, 20 million people obtained health insurance as 30 states expanded Medicaid, the joint federal-state health program for the poor, and others purchased insurance on exchanges. Repealing or scaling back Obamacare would reduce revenue for hospitals and nursing homes as Medicaid expansion is curtailed and private subsidies cut.

"There's a clear indication that Obamacare benefited a lot of hospitals," Mikhail Foux, head of municipal strategy at Barclays Plc. "You will probably see weaker systems, especially the ones that are mainly operating in states that have expanded Medicaid, come under some pressure."

Trump's victory was felt by some bondholders immediately. Tuesday, the risk premium on debt issued by Livonia, Michigan-based Trinity Health Corp. and maturing in 2045 rose to 1.77 percentage point more than top-rated bonds compared with 1.20 percentage point a month ago, according to data compiled by Bloomberg.

Spreads on bonds issued by Providence St. Joseph Health to refinance debt at hospitals in Washington state and California rose about 0.15 percentage point Tuesday from the day before.

Trump supports letting states administer Medicaid block grants, while promoting tax-free health savings account to encourage people to buy insurance. He also advocates allowing insurance companies to sell policies across state lines.

"The ACA is going to be under threat fairly early on. And that will probably impact more of the low grade standalone hospitals," said Triet Nguyen, a managing director at NewOak Capital, a New York financial-advisory firm. "The larger systems will be able to cope with any change."

The Affordable Care Act, which took full effect in January 2014, has been a boon to investors who hold tax-exempt bonds sold by hospitals: Hospital bonds returned 12.72 percent in 2014 and 4.09 percent in 2015, the best of 10 revenue-bond sectors, according to Bloomberg Barclays Indexes.

Performance has weakened this year as factors that have driven enrollment growth waned. States, including Texas and Florida, haven't expanded Medicaid and aren't likely to. Hospital bonds have returned 3.57 percent this year.

Political Will

Investors should shift to higher-rated and more diversified hospital systems such as AA- rated Cleveland Clinic and Memorial Sloan Kettering which have specialty clinics for cardiology and cancer, respectively, and that have cheapened recently, Foux said.

The new administration and congressional leaders can forge unity by repealing Obamacare quickly, loosening regulations and cutting taxes, said Dan Holler of the conservative group Heritage Action.

“They will succeed if they focus on the big-ticket items where they have agreement,” he said.

“Democrats showed extraordinary political will when they had complete control. I hope Republicans have learned that lesson.”

Not so fast, says Todd Sisson, a senior analyst in Charlotte, North Carolina, for Wells Capital Management, which manages more than \$40 billion in municipals.

While Republicans control the White House and Congress, they don’t have a supermajority in the Senate and Democrats can use the filibuster to block a repeal, Sisson said. Repealing Obamacare outright would also be difficult politically given how many Americans are now covered by it, he said.

“You’ve got a lot of people on insurance now, it’s hard to take that back,” Sisson said. “I’m looking for them to kind of tweak it and amend it but to flat out repeal it and replace it without a plan, I don’t have a crystal ball, but I’m thinking that will be difficult to do.”

Hospitals have already built an infrastructure based on Obamacare and transition to value-based reimbursements from a volume-based fee-for-service model, Sisson said.

Bloomberg Business

by Martin Z Braun

November 10, 2016 — 2:00 AM PST