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Uncertain Fate of Obamacare Causes Some Hospitals to Halt Projects, Hiring.

(Reuters) - Uncertainty surrounding the Republican plan to replace Obamacare is forcing some U.S. hospitals to delay expansion plans, cut costs, or take on added risk to borrow money for capital investment projects, dealing an economic blow to these facilities and the towns they call home.

Hospitals typically lay out multi-year operating plans that prioritize investments, such as new clinics, medical wings, technology or other projects that help draw in more patients and increase revenue. In addition to enhancing patient care, these projects are vital to the local economy as a driver of jobs ranging from construction and maintenance to restaurants and transportation.

Denver Health Medical Center, for example, opened a new \$26.9 million clinic in the city's southwest in 2016 to provide care to an area lacking in health services and saw more patients within six months than it had expected over two years. The health system planned to build or remodel five more facilities based on the new clinic's success.

But since November's election, when Republicans swept the White House and Congress, Denver Health has deferred \$73.7 million-worth of construction projects that had been planned to serve more low-income residents, many of whom were newly insured under Obamacare.

"We want to know what will happen with the Medicaid expansion population, and what will be the timeline for that," said Peg Burnette, Denver Health's chief financial officer. "Due to the uncertainty, we're not going to issue new debt. We have no plans for that in the near future."

Denver Health is not alone. Across the country, hospitals are shifting to a more conservative stance as they await sweeping changes to the nation's healthcare law that for the first time in U.S. history would reverse a government healthcare entitlement program. The Affordable Care Act, commonly known as Obamacare, provided coverage to 20 million Americans and brought higher revenues to many hospitals.

The law's likely overhaul puts many hospitals in a uniquely daunting position of being unable to predict how many of their patients will be insured and what type of coverage they will have in the future. As a result, many are more wary than in years past to invest in expensive capital projects, issue debt, or expand into new regions, said healthcare experts and hospital executives.

This is playing out in Arizona, where Kingman Regional Medical Center is taking cost-cutting measures by renegotiating medical supply and service contracts. The University of Alabama at Birmingham Health System, which includes six hospitals, is largely holding off hiring non-clinical staff, a trend also evident in national data.

Across the industry, hospital jobs so far in 2017 grew by 8,775 monthly on average, compared to 11,413 jobs for the same period last year, Bureau of Labor Statistics data shows.

The Republican-proposed bill, set to come before the U.S. House of Representatives on Thursday for

a vote, would unwind the Medicaid expansion, cap federal payments to states and replace Obamacare's income-based tax credits with flat age-based credits. The bill would still need approval in the Senate if it clears the House this week.

When asked about the early signs of hospitals putting spending on hold, a White House spokesperson expressed confidence that "the disastrous Obamacare law will be replaced with the American Health Care Act — the vehicle which will reform our broken healthcare system."

The nonpartisan Congressional Budget Office estimates the new proposal would cause 14 million people to lose health insurance next year and 24 million by 2026. The bill has divided House and Senate Republicans and sparked fierce criticism from Democrats and leading medical and hospital groups, including the American Medical Association and American Hospital Association.

"It's very challenging to plan for your future in an environment like this," said Beth Feldpush, senior vice president of policy and advocacy at America's Essential Hospitals, a group that represents safety-net hospitals nationally.

Not all hospitals are on hold. Some healthcare groups in areas with growing populations, such as Atlanta and Houston, are pushing ahead with capital expansion projects. Others, such as Maryland's Prince George's County, are still planning to move forward with construction plans, thanks in part to a partnership with the University of Maryland Medical System.

With the new medical center, Prince George's County hopes to end its long-time reliance on \$30 million annually from public subsidies to help cover operations. But that goal assumed Obamacare would remain intact, said Thomas Himler, Prince George's deputy chief administrative officer.

"It could be that three years out we are no longer making money, we are losing money," said Himler.

The uncertainty has seeped into the municipal bond market, where nonprofit hospitals access capital. The sector sold 36 percent less debt for new projects so far in 2017, compared to the same period last year, while the rest of the municipal market increased the amount of new money issued by 23 percent, Thomson Reuters data shows. While municipal analysts say it's too early to draw conclusions, the uncertainty surrounding Obamacare is a likely cause for the decline.

"There's a wait-and-see feeling," said Kevin Holloran, a senior director at S&P Global Ratings. "Hospitals are saying, we'll revisit this in six months or more."

REVENUES AND RESTRAINT

Since enrollment started in 2014, the Affordable Care Act brought significant changes to Denver Health Medical Center, a safety-net hospital with the busiest trauma center in Colorado. Historically, nearly two-thirds of patients were either uninsured or covered by Medicaid, the government health insurance program for the poor.

Almost immediately after Obamacare went into effect, rates of uninsured dropped and Medicaid coverage jumped to over half of all patients.

With so many more patients covered, hospital margins grew and days of cash-on-hand climbed. Such financial improvements enabled the hospital to invest in new projects, including the Pena Family Health Center in southwest Denver. The hospital planned to construct three more clinics, to expand two existing clinics, and to build a new parking garage to drive new revenues and expand its coverage.

But since November's elections, much of those plans have been deferred, including a \$24 million expansion of a second clinic, largely financed through bonds. The health system still plans to move forward with the construction of one clinic and the remodeling of another. But those plans could be bigger.

"There's great demand that we're concerned about not being able to meet in the future," said Burnette.

By REUTERS

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