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Fitch: US Senate Bill A Risk for Governments, Health Providers.

Fitch Ratings-New York-26 June 2017: A proposed Senate healthcare bill, the Better Care and Reconciliation Act (BCRA), would have negative credit implications for US States and public non-profit hospitals, says Fitch Ratings. It would mean significant reductions in federal funding to states and changes in the payor mix and lower patient volumes for public hospitals. Higher uninsured rates would also act as a structural headwind for growth for corporate healthcare entities, though those issuers would benefit in the near term from the roll back of most of the industry taxes and fees that were implemented under the Affordable Care Act (ACA).

These outcomes are based on an unlikely total adoption of the BCRA and the Congressional Budget Office's (CBO) estimates of the impact of the previous House version of the bill, the American Healthcare Act (AHCA). The CBO will report on the BCRA in the coming days. That report will be seminal to when and how the Senate will vote on it. If BCRA passes the Senate, before going to the President's desk it will need to be passed by the House in its final Senate-approved form, or reconciled with the House's AHCA and then passed by both houses.

Federal aid for Medicaid currently represents approximately 20% of all state budgets. The CBO estimates that the AHCA would lower federal Medicaid spending by 24% by fiscal 2026. The speed and scale of that contraction could be difficult for states to manage and could affect both the states that expanded Medicaid under the ACA and those that did not. The 2020 and 2021 implementation dates for most Medicaid provisions would likely result in pressure on states to cut funding to local governments, public colleges and universities, and healthcare providers.

Amongst healthcare providers, acute care hospitals would be the most pressured by those state cuts and by the rise in uninsured patients. The CBO estimates that the AHCA would raise the uninsured rate of the non-elderly segment of the US population to 19% from its current 10%. That change would mean hospitals would have a higher percentage of uninsured patients and lower patient volumes as people will opt out of less critical care. Unless offset by cost savings or higher reimbursement from insured patients, this would pressure margins and could result in downward ratings pressure.

In the near term, acute care hospitals and other healthcare providers would get a reprieve from the pressures of a decline in the number of insured people as the bill includes federal appropriation for approximately \$7 billion (annually, through 2019) of cost-sharing subsidies for middle income enrollees to the individual health plan market. Healthcare companies would also benefit from the repeal of the taxes and fees imposed by the ACA. This will boost financial results for many companies in the near term since those taxes and fees mitigated much of the initial financial benefits of the ACA's insurance expansion.

However, that initial positive benefit will evaporate as higher uninsured rates will be an important structural headwind to topline growth for healthcare companies over the longer term.

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