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Hospitals Putting Bond Issues on Hold Amid COVID-19 Outbreak.

A number of not-for-profit health systems have postponed sizable new bond issuances given the significant uncertainty COVID-19 has thrown into the municipal bond market.

It's not just healthcare—the trend is happening across the municipal market. Volatility has prompted interest rates to skyrocket and has made pricing bond offerings extremely difficult. Billions in new issuances have been put on hold since last week.

"It happened pretty drastically," said Rick Kes, healthcare senior industry analyst with RSM. "This is unlike anything we've seen before."

Evanston, Ill.-based NorthShore University Health System, for example, is delaying a roughly \$400 million debt issuance. TriHealth in Cincinnati, Ohio is delaying its \$200 million issuance. Stanford Health Care has postponed issuances worth more than \$940 million.

It's a sharp departure from where the municipal bond market had been weeks ago. In November, health systems had been issuing bonds at a feverish pace to lock in historically low interest rates.

The municipal bond market is typically viewed as being one of the more secure options for investors, until now.

"In most previous downturns, municipal bonds are held off as an offset for market declines," said Sudip Mukherjee, a senior municipal credit strategist in UBS' Chief Investment Office. "In this one, pretty much all bets are off."

Mutual funds selling is lowering prices and driving up yields market-wide, which is making it more expensive to sell securities right now, Lisa Washburn, managing director and chief credit officer with Municipal Market Analytics, wrote in an email.

"It's just not a jumping in point right now for those that can wait until the market settles down a bit; there is too much uncertainty at this point," Washburn said.

Stanford's postponed issuances include about \$420 million tax-exempt debt and about \$520 million in taxable debt, said Howard Sitzer, senior municipals analyst with CreditSights. Stanford did not return a request for comment. Sitzer said the health system indicated it tentatively plans to access the market as early as next week on a day-to-day basis.

NorthShore said its delay is due to the national emergency related to COVID-19 and the related "turmoil" in the financial markets.

TriHealth planned to use the proceeds of its bond offering to refinance debt and build a new heart hospital on its Bethesda North campus, spokesman Rob Whitehouse wrote in an email. The health system has not yet determined when it will issue the debt. Administrators weren't available for an

interview because they were involved in COVID-19 planning, Whitehouse said.

Sitzer said he's not concerned about hospital finances because most of them have "exceptionally" liquid balance sheets due to the demands of bond analysts and rating agencies, which require they have lots of days cash on hand.

That said, until the number of new COVID-19 diagnoses peaks in the U.S., Sitzer said he doesn't expect to see much new issue activity in the municipal bonds market, including from healthcare providers.

"The market is such that it'll be extremely costly and difficult to price because you've got to have some sense on a daily basis of what the demand is," he said. "I just think the vast majority of municipal bond issuers are going to be on hold for a while now."

Despite the uncertainty facing healthcare more broadly, Mukherjee said he expects children's hospitals and large health systems with a national footprint and strong liquidity will remain financially stable through the downturn.

Not all health systems are holding off, however. Kevin Holloran, a senior director with Fitch Ratings, said Froedtert Health in Wisconsin is moving ahead with issuances. The health system did not return a request for comment.

Holloran said this is quite the switch for the municipal market, which had been a seller's market for the past decade.

"All of a sudden, in a period of weeks, pendulum may swing back to make it more of a buyer's market," he said. "I want more protections, more covenants, because there are more unknowns."

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by TARA BANNOW

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