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Fitch: Federal Aid, Local Markets Drive Uneven NFP Hospital Financials

Fitch Ratings-New York-30 October 2020: Not-for profit (NFP) hospitals that treated more coronavirus patients in the spring and received high-impact funding under the Coronavirus Aid, Relief and Economic Security (CARES) Act have generally seen stronger YTD financials than non-coronavirus hot-spot hospitals that had lower patient volumes earlier in the year, Fitch Ratings says. These disparities should dissipate in 2H20 as most hospital volume has rebounded throughout the country, although full-year 2020 financials will continue to be marked by uneven results in 1H20. The targeted supplemental aid, which particularly benefited large hospitals in the northeast, and management's ability to quickly flex labor costs, contributed in part to the disparity noted by Fitch in financial results through the end of June and July.

Timing and eligibility criteria for the targeted high-impact funding distributions favored larger hospitals due to the required caseload threshold. The first allocation totalled $12 billion for 395 hospitals in May, providing $76,975 per COVID-19 patient. The second distribution, totalling $10 billion in July, went to 695 hospitals and provided $50,000 per COVID-19 patient. These funds were in addition to payor reimbursement for COVID-19 patients and general CARES Act stimulus funds. Infections subsequently increased in areas not initially hard hit, but there has been no additional high-impact funding since the July distribution covering COVID-19 admissions through June 10.

High-impact funding was provided as part of the Provider Relief Fund, allocating $175 billion to hospitals and healthcare providers under the CARES Act and the Paycheck Protection Program and Health Care Enhancement Act. Over $120 billion has already been distributed, and providers are currently applying for the next $20 billion allocation as part of the phase 3 general distribution.

Hospitals in current surge areas will not likely see the level of targeted hot-spot funding that was initially distributed to hospitals in the first few months of the pandemic, and will instead need to manage their COVID-19 cases while remaining operational for their non-COVID-19 volume. Providers should be able to recover some portion, but not all, of their coronavirus-related losses with the phase 3 distribution. Other future funding would also help, although any additional federal aid beyond the current $175 billion program would need Congressional approval.

Besides high-impact funding, labor and geographic location also contribute to uneven financial results among hospitals. With current volumes settling around 95% of previously expected volumes, hospitals with greater labor flexibility are expected to report higher operating results as they better align cost structures to new lower revenue expectations. Staffing is a critical consideration during the pandemic, and many hospitals did not reduce staff in anticipation of an increase in coronavirus cases or because they operate in competitive markets where layoffs would endanger future recruiting and retention. Hospitals with a significant union presence may also have less flexibility to respond to changing staffing needs during the pandemic.

In terms of location, providers with a robust local market to sustain demand for services have done better during the pandemic than those that rely on out-migration from other areas or international

referrals, as travel has been disrupted. The sudden but temporary dislocation in residential patterns in high-cost, compact urban markets due to mostly younger residents and families riding out the pandemic in other locations has also contributed to market shifts. These factors highlight the impact of a hospital's local payor mix, which could deteriorate longer term if the high number of unemployed transition to Medicaid or uninsured status.

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