American Hospital Association™
Advancing Health in America

COVID-19:

Executive Summary: The Impact of COVID-19 on Hospital Credit Ratings

As hospitals and health systems continue to respond to the COVID-19 pandemic, they're dealing with unprecedented demand on their resources and capacity. This has had a significant impact on provider organizations' financial situations. Recently, the AHA convened a members-only Town Hall with the three major credit rating agencies — Fitch, Moody's and S&P — to discuss the impact of COVID-19 on hospitals and health systems, the firms' perspectives on credit ratings, considerations for accessing capital, meeting bond covenants and other issues. Moderated by Doug Shaw, AHA senior vice president of field engagement, the program included: Suzie Desai, senior director, S&P Global Ratings; Lisa Goldstein, associate managing director, Moody's Investors Service; and Kevin Holloran, senior director, Fitch Ratings.

What follows is an executive summary of the session. AHA members also can listen to the webinar.

COVID-19 has had disparate impacts on health care organizations around the country, but the repercussions of the pandemic have been felt by all. As the costs of treating the virus skyrocket and revenues plummet due to deferring elective procedures, many hospitals have been left with difficult decisions about their investments, their staffs and their very survival. Amid this rapidly shifting landscape, rating agencies have shifted their outlooks for the field. Forecasts for many sectors of hospitals have turned negative due, in part, to the cancellation of elective procedures and the growing number of uninsured patients.

Short-term outlook

- The financial outlook is precarious and uncertain with COVID-19 and the recession. Declines and deferrals of outpatient care have caused immediate cash flow crunches. We will see operating losses, and the outlook will depend on recovery and watching how hospitals ramp up their volume. Stimulus funds are beneficial but may not be enough to offset financial challenges. To preserve positive credit ratings, access to liquidity is helping.
- The outlook is driven by the recession. Health care is somewhat recession-proof, although it may impact payer rates and operating margins.
- Top-line revenue will get hit (elective procedures, etc.), averaging a 40% hit to bottom lines. Agencies are seeing an impact even in hospitals that have no COVID-19 patients.

Long-term outlook

- For the medium term, COVID-19 could impact margins (margin pressure, nontraditional providers, etc.). How do you manage a system with fits, starts and surges?
- Reopening will be different by region. Will there be enough staffing? Will there be enough blood supply to handle a resurgence in surgeries?
- What will the payer mix look like after the pandemic? There could be a delayed impact on payer mix due to this crisis. If hospitals are taking out loans or lines of credit, it may weaken lines of credit and take longer to get back.

Where do we see the most financial risk?

- Once the pandemic is over, we will know what was more risky — a hospital overrun with COVID-19 cases or a hospital that was completely empty. The same goes for small, rural facilities vs. large urban facilities — only time will tell.

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- The immediate concern is liquidity. Rated hospitals are relatively wealthy and liquid — only a few invest in nonliquid investments. Hospitals quickly addressed concerns with Medicare payments and tapped all they were entitled to. Hospitals also have taken a number of steps to halt cash flow decline (furloughs, etc.) and turned from liquidity to the bottom line.
- The primary risk concern is possible technical defaults or breaches of financial covenants. Repayments will begin in August for funds received in April.
- Regarding meeting covenants, force majeure language will be tested by the industry in the May and June ends.
- Credit agencies fully expect that hospitals will have debt service covenant technical violations this year, and there is not a major threat of credit rating impact. Bond holders may offer waivers.

What are credit rating agencies looking at from hospitals?

- How early did you start to establish your emergency management/response system?
- How early did you start to save and retain personal protective equipment, designate beds, etc.
- What have you done to mitigate expenses?
- What funding are you applying for from the government and what are you doing with it? How is stimulus money coming in?
- What is your plan for reopening?

What are the immediate capital needs for hospitals?

- With health care organizations needing to access capital, those with higher credit ratings are having an easier time while those with lower credit ratings may experience delays or challenges. Overall, though, the agencies don't see significant obstacles to accessing capital.
- At lower end, it is more challenging to access debt market, causing delays in capital spending/routine spending. However, credit agencies are not seeing a huge block to accessing markets.

Do forecasts look different for different types of organizations?

- During recent calls with issuers, answers varied. Facilities are providing different levels of detail with various assumptions with case scenarios (mild, medium and severe). Integrated providers with health plans are seeing less negative impact. Forecasts for children's hospitals aren't in yet.
- Recommendations for forecasting: Don't be afraid to show numbers to bond issuers. Providing scenarios of mild/moderate/severe is helpful to understanding organizational key assumptions and how hospitals and health systems will respond operationally in different scenarios. It is best to reach out to bond holders (institutional holders, etc.) to have conversations and share mitigation and reactivation strategies.

Other takeaways

- With telehealth, hospitals and health systems may shift their thinking about how services can be delivered more efficiently.
- External disruptors, such as CVS and Amazon, aren't going anywhere. They may be on pause, but these companies are cash flush and don't have as many bricks-and-mortar facilities as do hospitals.
- Annual credit reviews will still occur and will be highly focused. Expect questions like: What does COVID-19 do to your organization and what is your response plan?
- The health sector will recover, but things will not go back to normal. We will emerge as different organizations — those that are focused more on community and health preservation. The COVID-19 pandemic has shown the importance of investing in public health moving forward.