



# Teleconference June 27, 2013 3:00 p.m. Eastern

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# Teleconference June 27, 2013 3:00 p.m. Eastern

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## **Program Description:**

### **Healthcare Reform and Its Impact on Non-Profit Hospitals**

The Southern Municipal Finance Society (SMFS) sponsored teleconference on the impact of The Patient Protection and Affordable Care Act (ACA) on not-for-profit hospitals will take place on Thursday, June 27th at 3PM EDT. The duration of the call is scheduled for one hour and 15 minutes. There will be a presentation replay available.

### **Introduction:**

Julie Egan, Chair SMFS, Community Capital Management (speaker location: Charlotte)

### **Region Specific Impacts (FL):**

Ed Morton, Managing Director & Principal, Wasmer, Schroeder & Company Inc. (speaker location: Naples, FL)

### **Ratings Impact:**

Kevin Holloran, Director, Standard & Poor's Rating Services (speaker location: Dallas)

### **Market Impacts:**

Anu Singh, Senior Vice President, Kaufman Hall & Associates, Inc. (speaker location: Chicago)





WASMER, SCHROEDER & COMPANY  
INVESTMENT ADVISORS

ACA Healthcare Reform:  
Impacts on Florida Not-for-Profit Hospitals

June 27<sup>th</sup>

2013

Southern Municipal Finance Society

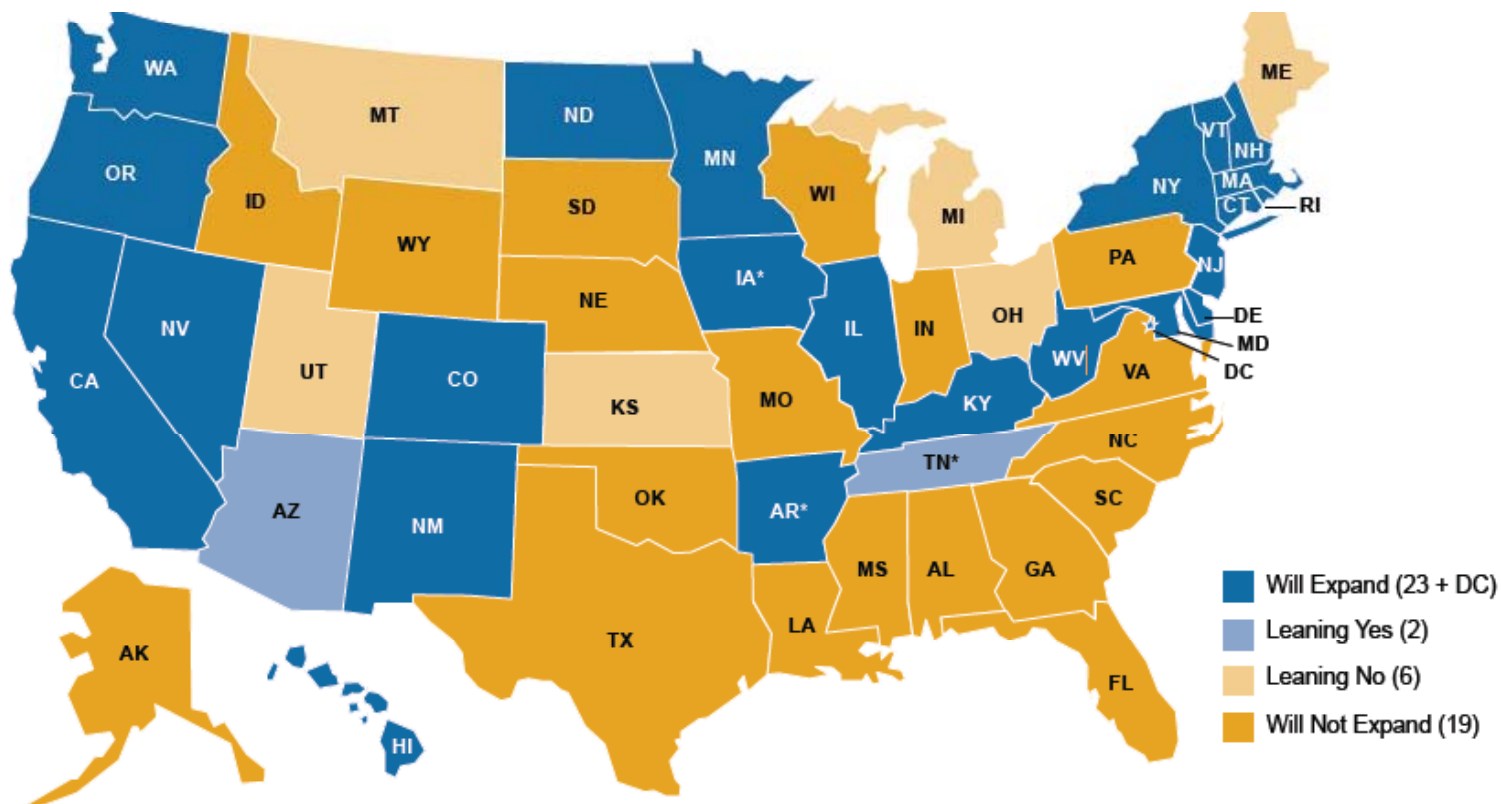
**Ed Morton**  
Principal & Managing Director  
Wasmer, Schroeder & Co.



## WHICH STATES ARE OPTING OUT OF ACA MEDICAID EXPANSION?



- Southern states rejecting expansion represent only 27% of total US population but 65% of the US population rejecting expansion

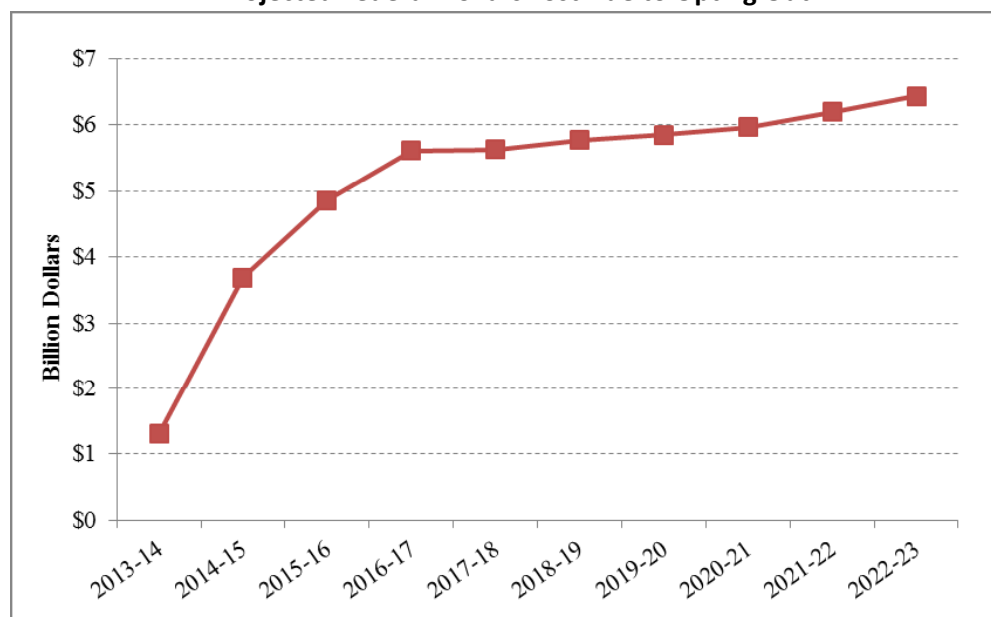


Source: Avalere Health, May 24, 2013



## REPERCUSSIONS OF FLORIDA OPTING OUT OF ACA MEDICAID EXPANSION

Projected Federal Dollars Lost Due to Opting Out



	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Cumulative 2013-23	Average Annual
Enrollment (cumulative)	455,756	656,862	870,480	1,020,192	1,032,274	1,044,192	1,055,934	1,067,491	1,078,855	1,090,018		937,205
State Cost (M\$)	\$22.55	\$116.53	\$154.50	\$315.18	\$509.49	\$593.06	\$746.66	\$877.82	\$914.40	\$953.02	\$5,203.21	\$520.32
Total Cost (M\$)	\$2,040.39	\$4,336.83	\$5,287.54	\$6,251.77	\$6,484.62	\$6,724.28	\$6,977.34	\$7,244.62	\$7,526.99	\$7,825.39	\$60,699.78	\$6,069.98
Net Federal Cost (M\$)	\$1,303.59	\$3,694.05	\$4,859.33	\$5,609.67	\$5,631.71	\$5,770.58	\$5,851.91	\$5,968.93	\$6,194.61	\$6,433.21	\$51,317.60	\$5,131.76

Total federal payments reflect total cost less state cost.

Values in millions dollars (M\$).

Source: Florida Legislature, Office of Economic and Demographic Research (EDR), Social Service Estimating Conference, March 7, 2013.

Source: Florida Hospital Association



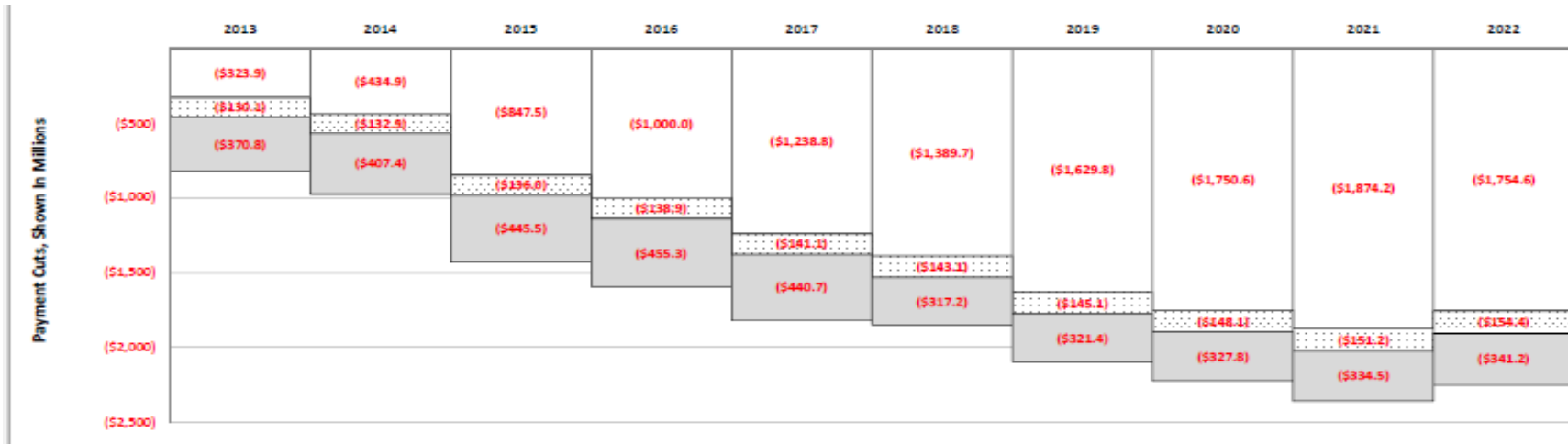
### Financial & Economic Losses to the State:

- Over 1 million uninsured Floridians would have had access to health insurance
- 1.2 million high-wage jobs would have been created with an average annual salary of \$50,700 and with \$61.8 in total labor income
- \$146.4 billion in healthcare industry revenues would have been generated
- \$5.4 billion in tax income for local and state governments would have been generated
- \$89.7 billion in gross domestic product would have been generated

Source: Florida Hospital Association



## OTHER CHALLENGES TO FLORIDA UNDER ACA: STEEP MEDICARE CUTS



Existing Legislative Medicare Cuts <sup>(1)</sup>	
Ten-Year Impact (2013-2022)	
ACA Cuts (all provider settings)	(\$10,104,478,300)
Sequestration Cuts (all provider settings)	(\$2,052,925,800)
Bad Debt Payment Cuts (all provider settings)	(\$86,606,600)

Existing Regulatory Medicare Cuts <sup>(2)</sup>	
Ten-Year Impact (2013-2022)	
Coding Adjustment Cuts (inpatient/home health)	(\$1,420,942,600)
<b>Total Impact of Existing Cuts</b>	<b>(\$13,664,953,300)</b>

Additional Medicare Cuts Under Consideration <sup>(3)</sup>	
Ten-Year Impact (2013-2022)	
Outpatient E/M Cuts (outpatient hospital)	(\$523,292,000)
Coding Adjustment Cuts (inpatient hospital)	(\$697,528,600)
Indirect Medical Education Cuts (inpatient hospital)	(\$1,222,106,400)
Direct Medical Education Cuts (inpatient hospital)	(\$213,968,500)
Bad Debt Payment Cuts (all provider settings)	(\$910,131,400)
SCH Program Elimination (inpatient hospital)	(\$187,790,000)
CAH Payment Cuts (inpatient/outpatient hospital)	(\$6,954,000)
<b>Total Impact of Cuts Under Consideration</b>	<b>(\$3,761,770,900)</b>

\*Footnotes to be provided upon request



## HOW ARE DIFFERENT TYPES OF FLORIDA HOSPITALS POSITIONED FOR ACA?

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- Research Based/Academic Affiliated Institutions (Shands, University of Miami)
- Dominant Community Care Systems (NCH, Miami Baptist, Lee Memorial)
- Tertiary/Quaternary Safety Net Hospitals (Jackson Memorial)



## DISCLOSURES

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### About the Firm

Wasmer, Schroeder & Company, Inc. (WSC) is an independent and employee-owned Florida S-Corp. WSC was incorporated in 1987 and registered as an investment advisor on July 29, 1988 with the U.S. Securities and Exchange Commission. The Firm's corporate headquarters are in Naples, Florida, where the tax exempt Portfolio Management team, Client Services, Operations, IT, Accounting, Compliance, Marketing and Administration reside; our taxable Portfolio Management team is located in Cleveland, Ohio; and Client Relationship offices in Exton (Philadelphia area), Pennsylvania and Portland, Oregon. Specializing in fixed income separate account portfolio management for high net worth individuals, wealth management groups and institutions, including foundations, endowments and retirement plans, WSC has \$4.59 billion in assets under management, as of 3/31/13. The Firm works with clients and their advisors to provide taxable and tax exempt fixed income portfolio solutions to meet their needs.



# SOUTHERN MUNICIPAL FINANCE SOCIETY



## Ratings Impact on NFP Hospitals/Health Systems in Non-Medicaid Expansion States

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June 27, 2013

**Kevin Holloran**

Director, Standard & Poor's Ratings Services





## Common reasons for not expanding Medicaid

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- Reluctance to initially commit to the expansion
- Concerns that funding will not flow to the states as anticipated
- Are there other “strings attached”?
- Don’t make a broken system a bigger system, a bigger system will cost the state more overall
- Expansion could also attract more high utilization individuals “out of the woodwork” and add even more costs to the healthcare system (at traditional FMAP levels)
- We can/will design our own system
- We can/will expand later
  - Texas has a history of joining late
- It won’t solve our problem with illegal immigration utilization
- Etc.,





## S&P data – the self-pay numbers

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		Medicare %	Medicaid %	Commercial / Blues %	Self-Pay %	Other Payor %
Texas		42.0	14.0	29.8	11.9	2.3





## A hypothetical (and simplified) scenario

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- 12% self pay in Texas
  - 4% will likely get insurance on the health insurance exchange
  - 4% are illegal immigrants who wouldn't qualify anyway
  - 4% is the maximum potential that could have benefited from Medicaid expansion
    - Not everyone will sign up
    - The financial impact isn't a dramatic improvement
    - Access to insurance doesn't equal access to healthcare
    - We might expand later





## What it means for healthcare ratings

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- High levels of Medicaid and Self Pay have always been rating factors, this is no different
- It is just another Medicaid program (if expanding) or not (if not expanding) that we will evaluate it as a credit's overall payor mix and impact on their credit profile
- Minimal impact expected (at least initially)
  - Not withholding upgrades or positive outlooks on credits in non-expansion states
  - Not putting negative outlooks or downgrading credits in non-expansion states
  - Not putting positive outlooks or upgrading credits in expansion states
- Over time, this will, like most things, impact the smaller and weaker credits first, less so on the larger and stronger credits
- Still in a watch and wait mode
- More to be determined and decided on this issue
- A lot more politics to be played out





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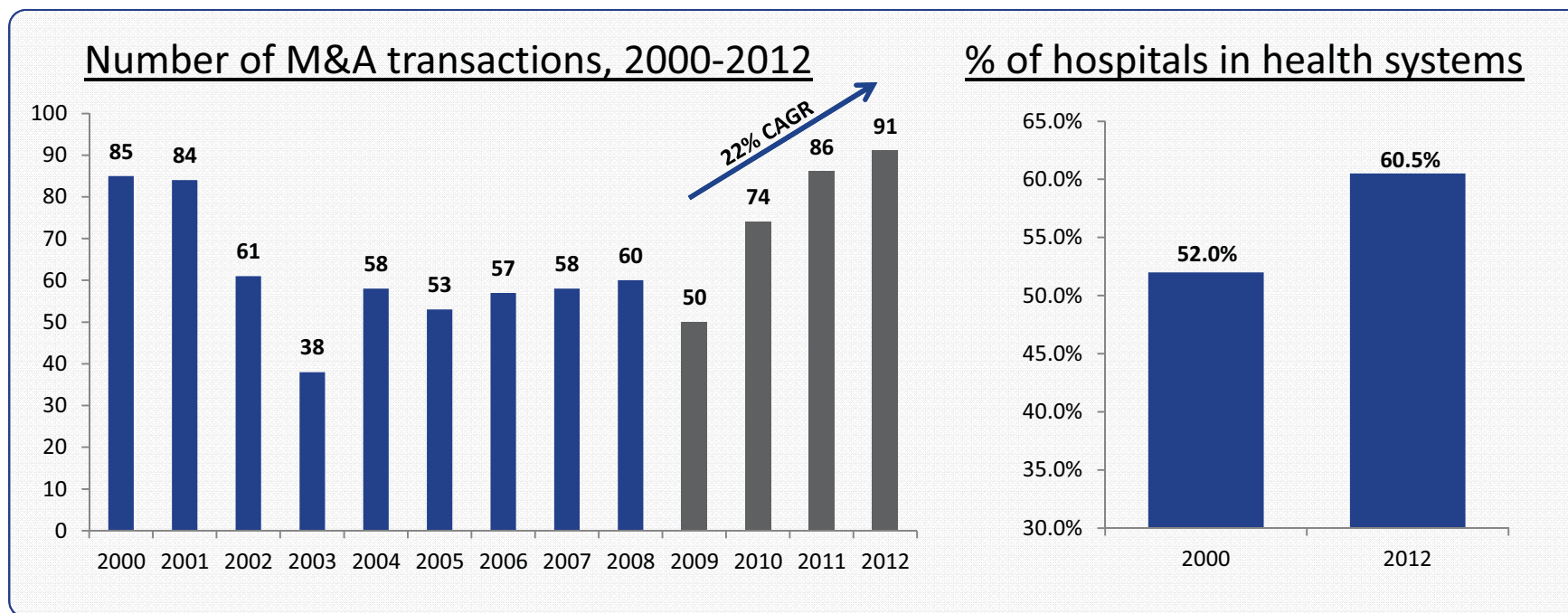
# Healthcare Reform and Its Impact on Non-Profit Hospitals

Anu Singh  
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# Providers Consolidating at an Accelerated Pace



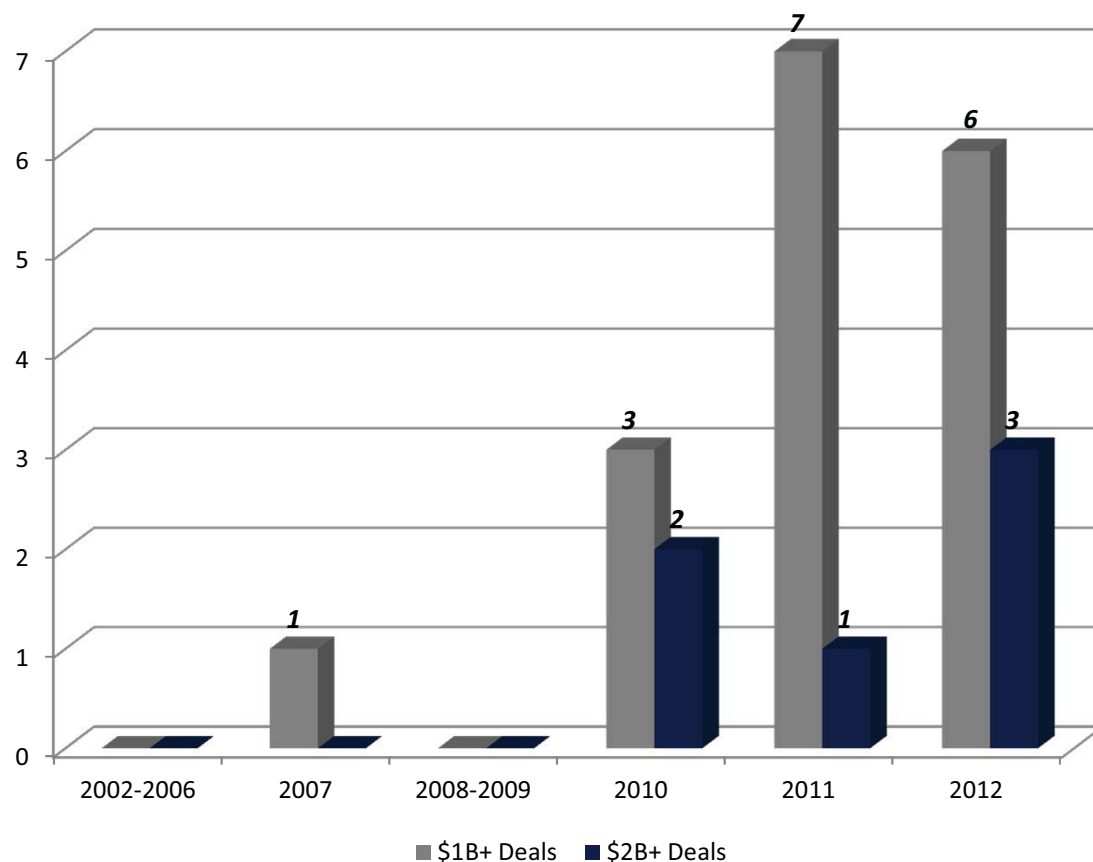
## Drivers of hospital consolidation in the past decade

- Financially distressed community hospitals
- Community hospitals requiring significant capital for investments, but unable to access the capital necessary to fund those projects

Source: *The Health Care M&A Report, 2000-12*, Irving Levin Associates, Inc. and AHA Hospital Statistics



## Scale Considerations and “What is ‘Big’ Enough?”



- Providers of larger scale and breadth will continue to consolidate at a faster pace
- “Big Enough” is clearly an evolving standard

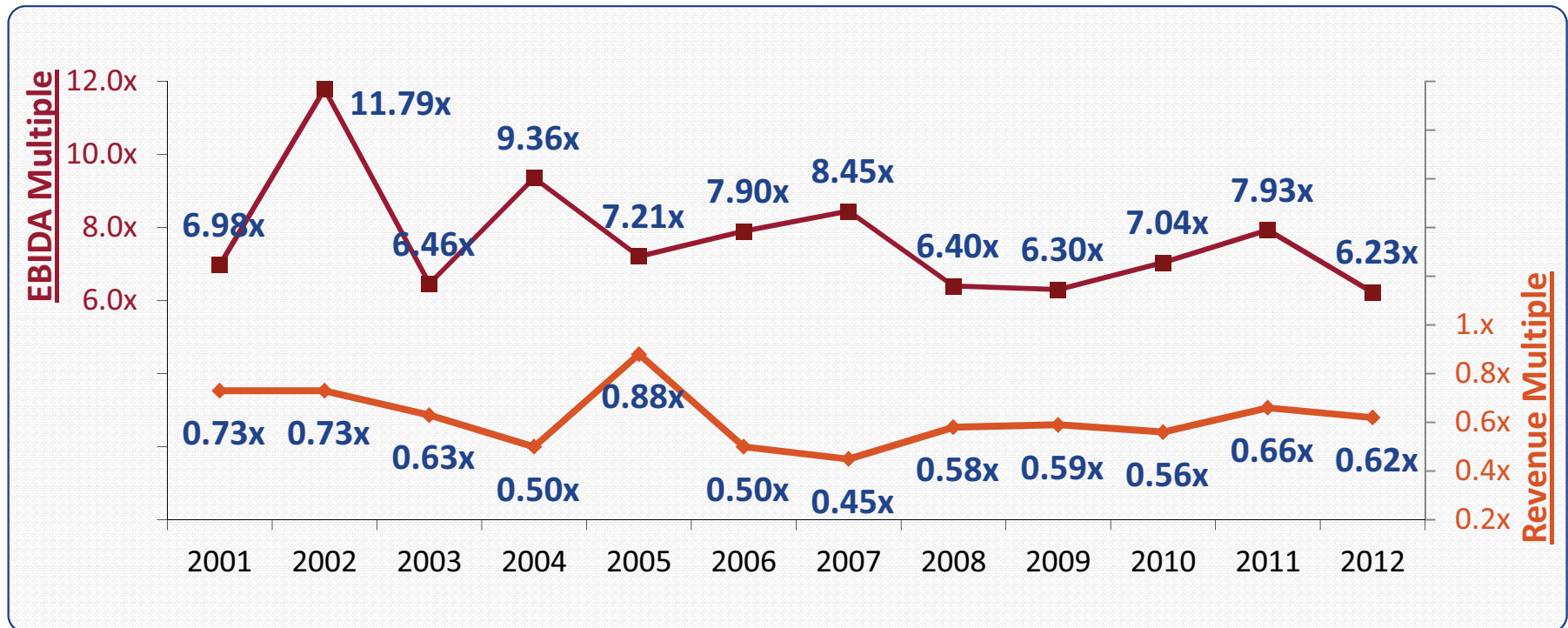
Source: Kaufman Hall proprietary database

Note: Deal size based on target total operating revenue and excludes for-profit target acquisitions



# Hospital Transaction Multiples Observed in the Market

SMFS PANEL



**Over time, observed multiples in the market have stabilized**

- Less oscillation of EBIDA multiples as future performance expectations are being tempered
- Consistent revenue multiples suggest strategic value continues to be a driver for some participants

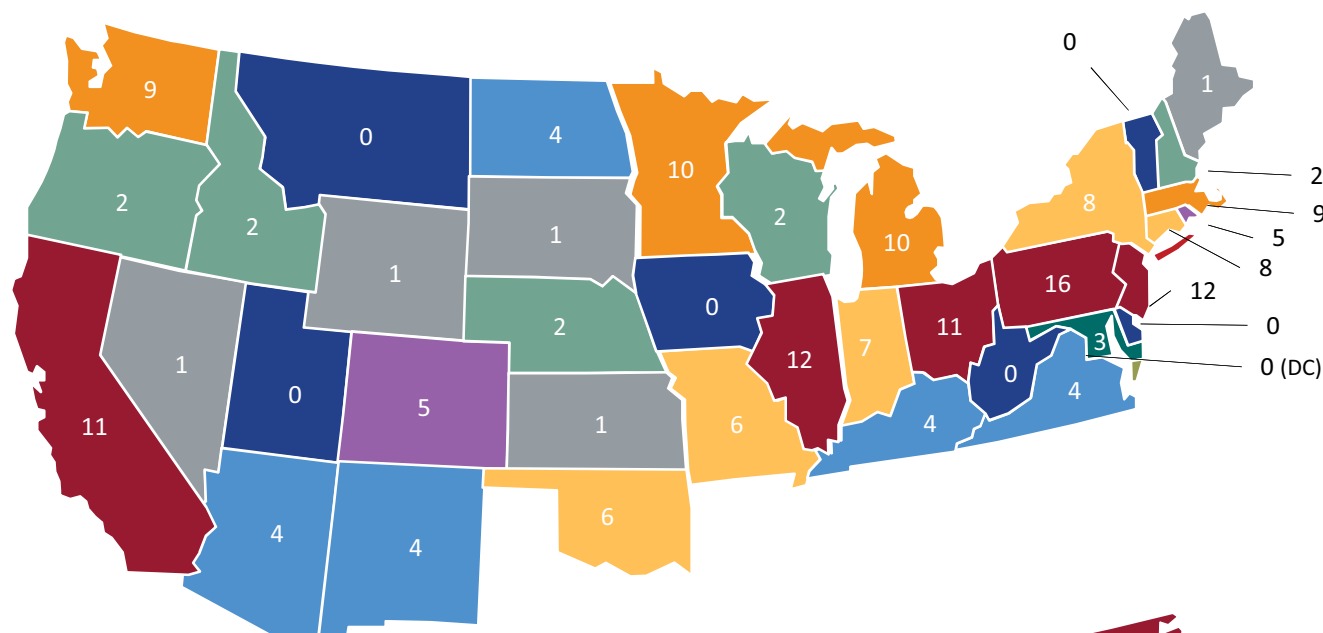
Source: Kaufman Hall Proprietary Transaction Database



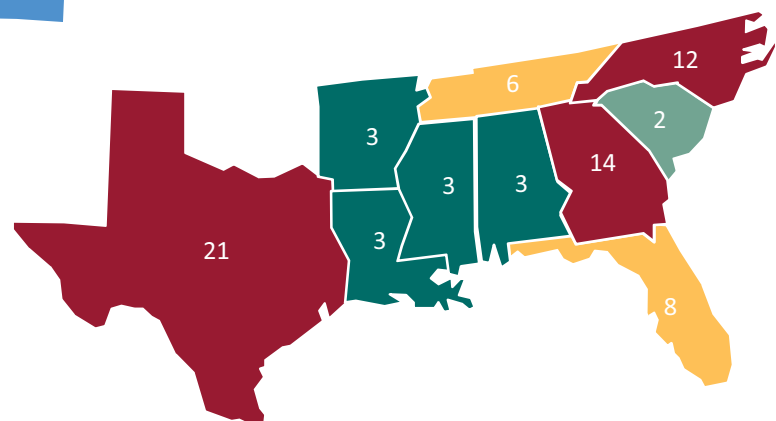
# Trends Across States Are Varied (2011 to Present)

SMFS PANEL

SE States  
responsible for  
29% of total  
transactions  
from 2011 to  
present



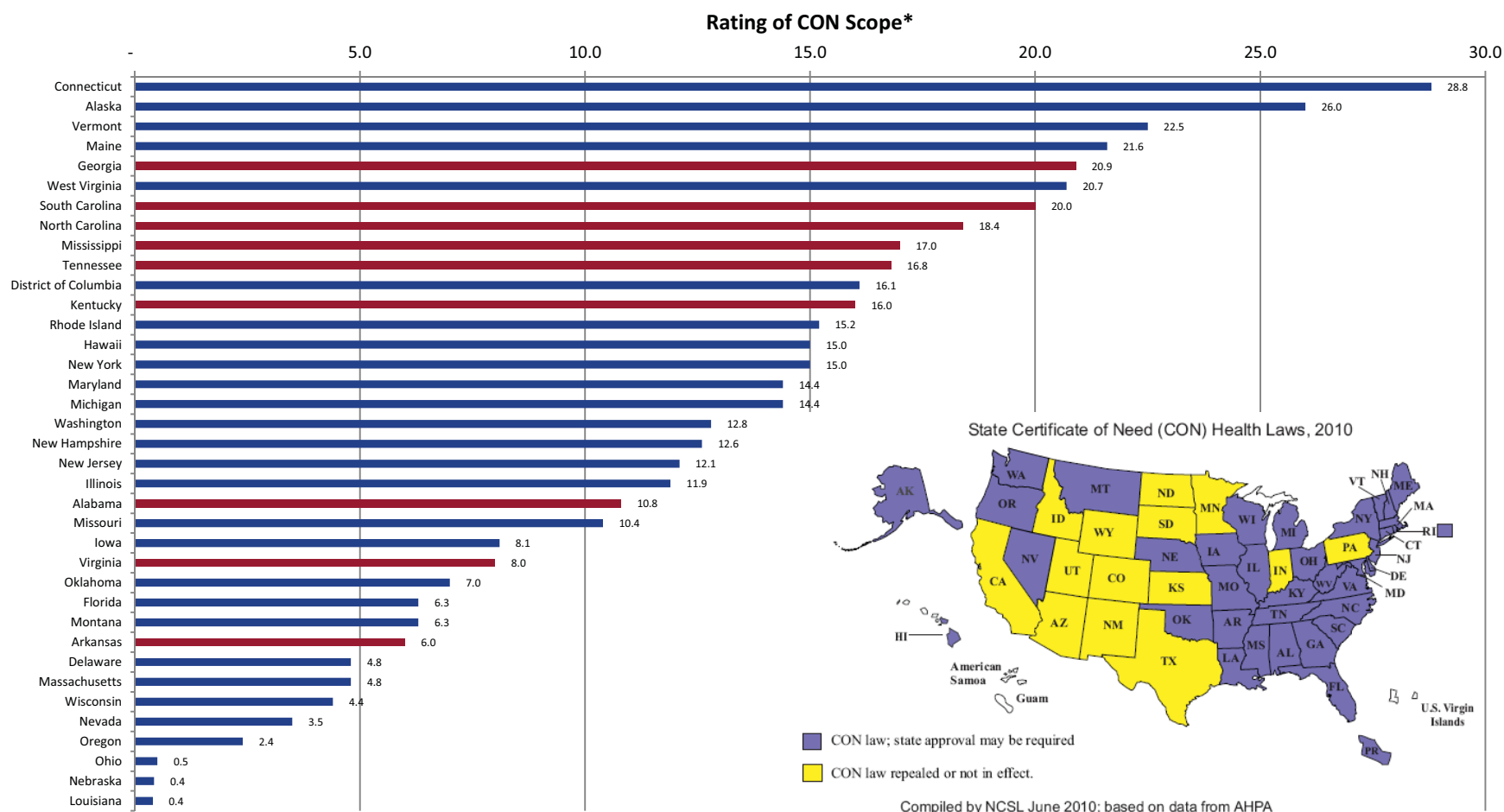
# of Transactions	Color	States
0	Dark Blue	AK, DC, DE, IA, MT, UT, VT, WV
1	Light Blue	HI, KS, ME, NV, SD, WY
2	Green	ID, NE, NH, OR, SC, WI
3	Teal	AL, AR, LA, MD, MS
4	Blue	AZ, KY, ND, NM, VA
5	Purple	CO, RI
6-8	Yellow	CT, FL, IN, MO, NY, OK, TN
9-10	Orange	MA, MI, MN, WA
11+	Dark Red	CA, GA, IL, NC, NJ, OH, PA, TX



Source: Kaufman Hall Proprietary transaction database, excludes multi-state transactions.



# Certificate of Need Scope and Comparative Regulatory Burden Across States



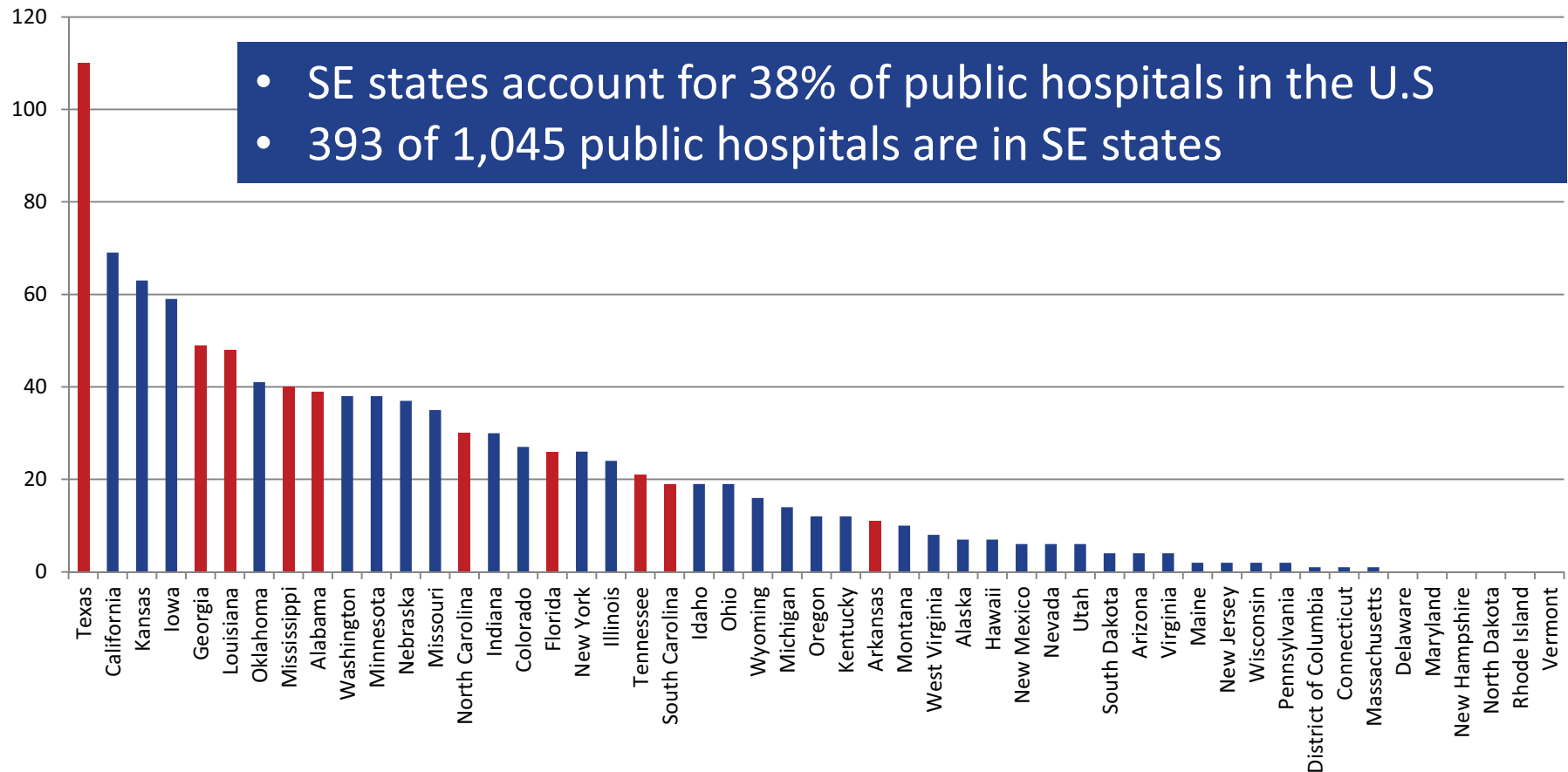
Source: <http://www.ncsl.org/issues-research/health/con-certificate-of-need-state-laws.aspx>; Washington Policy Center

\*The weight assigned to a given medical service is determined by the dollar amount above which a proposed project is subject to Certificate of Need regulation. A higher rating represents high regulatory burdens

Red fill represents states in the South East; chart excludes states without CON regulations



# Prevalence of Public Hospitals in the United States



Source: AHA 2013 Statistics Book

\*Calculated as the percent of total public, community hospitals within the each state

Red fill represents states in the South East



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## Speaker Bios:

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### *Ratings Impact:*

Kevin Holloran, Director, S&P

### *Region Specific Impacts (FL):*

Ed Morton, Managing Director & Principal, Wasmer, Schroeder & Company Inc.

### *Market Impacts:*

Anu Singh, Senior Vice President, Kaufman Hall & Associates, Inc.



Edward Morton joined Wasmer, Schroeder & Company, Inc. as Managing Director in January of 2007. Mr. Morton is responsible for business development and strategic planning.

Mr. Morton has over 40 years of experience in the executive and financial fields. After serving his country as a Captain in the US Army during the Vietnam war, in 1972 Mr. Morton began his career in finance with the NCH Healthcare System where he retired in 2006. During his tenure at NCH, Mr. Morton held the positions of Chief Financial Officer, Chief Operating Officer, and for the last six years of his career, Chief Executive Officer. Through Mr. Morton's leadership, NCH's net-worth doubled from \$137.8 million in 2000 to \$275.5 million in 2006, during which time NCH achieved several highly recognized awards: the top 5% of all healthcare organizations in the US (2004, 2005, 2006); the top 100 status of all healthcare organizations in the US for overall performance improvement over the past five years (ending in 2006); multiple awards for NCH cardiac programs, including Code Save A Heart; and acquired the area's first CyberKnife, daVinci Surgical System robot and Pet/CT scanner technology.

Mr. Morton holds a BA in Accounting from the University of Notre Dame, an MBA from the University of Miami and an MS in Health Science from Florida Gulf Coast University. He is an elected Officer of the Leadership Collier Foundation; Trustee of the Youth Development Foundation (Quest); Advisory Board Member of the Neighborhood Health Clinic; Trustee of the Moorings Park Institute; and most recent appointed to the Board of Governors of the State of Florida University System by Governor Rick Scott.



Kevin Holloran, Director in Corporate & Government Ratings, joined Standard & Poor's Rating Services in 2003. Kevin is the analytical manager of the central region, and responsible for managing ratings in the not-for-profit health care sector, private higher education sector and charter school sector. Kevin follows a portfolio of high-profile acute care health care credits around the country.

Before joining Standard & Poor's in 2003, he worked for 7 years in consulting



at Ernst & Young, LLP and Cap Gemini Ernst & Young, focusing on post-merger integration projects within the health care space.

Kevin holds masters of health services administration from the University of Michigan and a bachelor's degree in business from the University of Notre Dame.

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Anu Singh, a Senior Vice President of Kaufman Hall, provides financial advisory services to healthcare organizations and companies nationwide. As a member of Kaufman Hall's Mergers and Acquisitions practice, Mr. Singh leads the evaluation, structuring, negotiation, and execution of mergers, acquisitions, joint ventures, and other forms of transactions. These engagements range from the initial evaluation of strategic options to the solicitation, evaluation, negotiation, and execution of potential transactions. Clients include small community providers, academic medical centers, large multi-regional systems, and many other types of organizations. Mr. Singh has advised on more than 75 transaction-related engagements, spanning from facilitated exclusive negotiations to auctions under the direction of a Bankruptcy Court.

Mr. Singh's previous experience included the execution of turnaround and restructuring plans, advising on mergers, acquisitions, and other transactions, and the raising of capital for a variety of clients. These included underperforming or distressed companies and well-capitalized, investment-grade borrowers. He has extensive overseas work experience, particularly on behalf of aid agencies, Central Banks, and other parties involved in major financial markets. Prior to joining Kaufman Hall, Mr. Singh was a Director at Huron Consulting Group, within its Corporate Advisory Services practice. He has authored articles and presented at various industry and professional events and seminars, including those sponsored by The Governance Institute, Healthcare Financial Management Association, and Volunteer Hospital Association.

Mr. Singh has an M.B.A from Northwestern University's Kellogg School of Management and a B.S. in Finance from the University of Illinois at Urbana-Champaign. He also holds CPA, CFA, CTP, CIRA, and CDBV certifications.