

# Alternatives for Financing Rural Health and Educational Facilities

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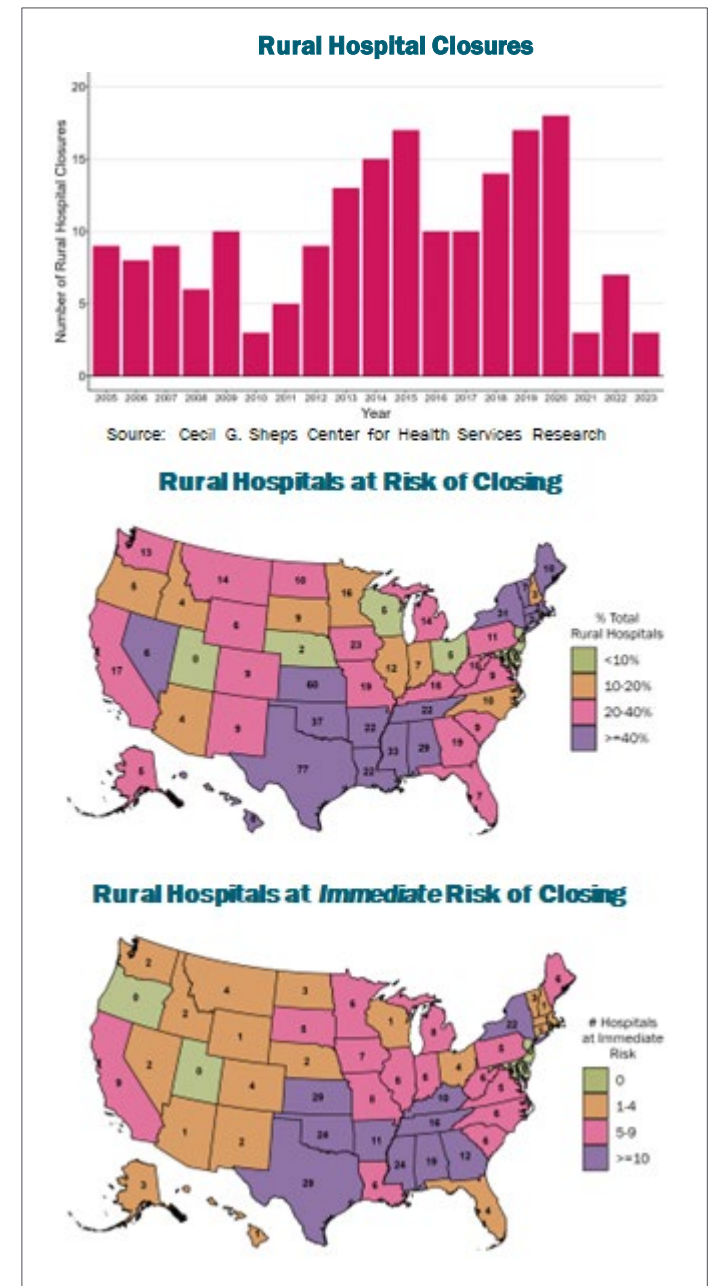
# Rural Healthcare

## 600+ rural hospitals are at risk of closing due to serious financial problems

- There are hospitals at risk of closing in almost every state; amounting to over 30% of all rural hospitals in the country.
- In over half the states, 25% or more of the rural hospitals are at risk of closing, and in 16 states, 40% or more are at risk.

## Most of the at-risk hospitals are located in isolated rural communities.

- Closure causes a loss of access to many essential healthcare services.



# Closures Can Be Detrimental to Local Economies

## Rural Hospitals: Community Cornerstones Facing Perilous Threats to Care

Millions of people living in rural areas depend on their community's hospital as an important — and often the only — source of local care. Rural hospitals provide care close to home and serve as economic anchors in the areas they serve. But they face major challenges, and further federal support is needed to ensure access.

### Rural Hospitals are Community Lifelines and Economic Engines



**46 million people** or **14% of the U.S. population** live in rural areas\*



Rural hospitals support **\$220 billion** of economic activity\*



Rural hospitals support **1 in 12** rural jobs in the U.S.\*

### Workforce and Financial Challenges



Over the last few years, rural hospitals' costs have increased significantly for labor, drugs and supplies



**10%** of U.S. physicians practice in rural areas



Medicare paid rural hospitals **\$5.8 billion** less than the cost of caring while Medicaid paid **\$1.2 billion** less\*

### Rural Hospital Closures Jeopardize Access



**136 total**  
2010 to 2020



**74%** of closures happened in states where Medicaid expansion was not in place or had been in place for less than a year

**19 closures**

in 2020 alone, the most of any year in that decade

### More Federal Support Needed

Congress can take the following actions to support rural hospitals and communities:

- Support Flexible Payment Options
- Support Telehealth Coverage
- Ensure Fair and Adequate Reimbursement
- Protect the 340B Program
- Bolster the Workforce

See AHA's rural advocacy agenda for specific provisions.

\*in 2020



## Affiliation Doesn't Always Preserve Rural Healthcare Services

An eight-hospital system recently announced a three-year "transformation plan" to reduce inpatient services in rural areas and increase services at its main hospital.

The plan was designed to address the shift to outpatient care, staffing shortages and reimbursement rates that have failed to keep up with rising labor and supply costs.

Rural facilities will become community hospitals with an emphasis on outpatient services, observation care, and emergency and outpatient services.

## Rural Emergency Hospital Model

Congress established the Rural Emergency Hospital designation in response to the loss of essential healthcare services in rural areas due to hospital closures.

- The REH designation is designed to maintain access to critical outpatient hospital services in communities that may not be able to support or sustain a Critical Access Hospital or small rural hospital.
- REHs are required to provide 24-hour emergency and observation services and can elect to furnish other outpatient services.
- Facilities designated as an REH will receive enhanced Medicare payments for certain outpatient services and additional monthly payments.

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# Private College Overview – Broad Themes

## Declining enrollment

- Demographics - young populations in US smaller than in previous decades
- Urban/rural demographics, private school enrollment most impacted
- Concerns as to value, student loan debt, return on investment, job prospects
- Trade school demand skyrocketing
- Leads to supply-demand imbalance, tuition discounting, reduced program offerings

## Difficult economies and financial results

- Costs rising faster than revenues, exacerbated by general inflation
- Balance sheets only temporarily improved from federal transfers and investment returns
- Delayed capital infusion resulting in high deferred maintenance needs
- 95% of colleges are tuition reliant; many have negative operating margins

## Changes in learning patterns

- Career changes, completion, credentials
- Online delivery and other technology

# Private College Overview – View from the Credit Markets

## RATING AGENCIES HAVE MIXED VIEWS

- Moody's: Negative
- Fitch: Deteriorating
- S&P: Stable but Bifurcated

## INVESTORS ARE WARY AND FOCUS ON:

- Business Plan
- Demand for Programming
- Finances Post-COVID Relief
- Payment On Time and In Full

## BOND AND LOAN TRANSACTIONS ARE STILL GETTING COMPLETED

- Stringent Loan Covenants
- Higher Rates/Credit Spreads

## U.S. Nonprofit Higher Education by the Numbers

### Private institutions

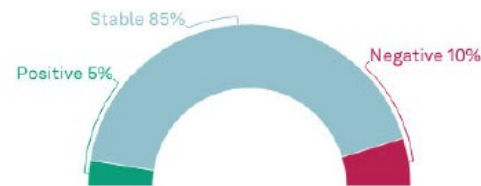


Source: S&P Global Ratings.

AAA AA A BBB SPEC



Source: S&P Global Ratings.



Source: S&P Global Ratings.

**S&P Global**  
Ratings

**9** Private College  
Downgrades in 2022  
vs **19** in 2021

### Public institutions

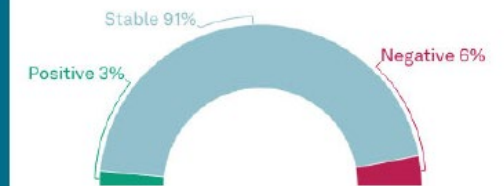


Source: S&P Global Ratings.

AAA AA A BBB SPEC



Source: S&P Global Ratings.



Source: S&P Global Ratings.

**414** Rated Institutions  
**18** Rated 'AAA'  
**A-/A+** Median rating  
(Private/Public)

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# Alternative Financing Structures For Struggling Borrowers

## USDA Rural Development Programs

## HUD 242 Program

## Off-Balance Sheet or P3 Financings

## Debt Guarantees

- Usually come with requirements for board representation

## DSRF Guarantees

- Less of an impact on the guarantor's balance sheet
- Rating is 1 to 2 notches below the guarantor's rating

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# Alternative Financing Structures For Struggling Borrowers

## **Tax-Exempt Leases via an Authority or Charitable Real Estate Foundation**

- Lease is not secured under the MTI

## **State/County/City Supported Direct Placements**

- Local government direct purchases of debt
- Indiana Bond Bank - Treasurer-driven program to benefit rural county-owned hospitals
- Louisiana Rural Development Low Interest Loan Program
- Colorado Education and Cultural Facilities Authority – moral obligation to charter schools
- California School Finance Authority – Federal Department of Education provides money for Debt Service Reserve Fund

## **Healthcare Access and Stabilization Program (NC)**

- Federally-funded program run by CMS
- Provides hospitals enhanced Medicaid reimbursement to bring those rates closer to what commercial health insurers are paying and the cost of actually providing care.
- Specifically designed to help critical, safety-net hospitals.

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## Overall Tips and Recommendations

### Working Collaboratively with Rural Borrowers

- Encourage borrowers to avoid overly sophisticated financing tools if they are not widely understood and/or provide a significant benefit
- Advocate for borrowers to utilize a placement agent or municipal advisor for placement negotiations to ensure all terms are market based and proposals are competitive
- Promote creation of reimbursement resolutions to ensure borrowers can finance for capital maintenance versus taxable issuance for operations when struggling



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# Potential Benefits to Shared Services

## College of St. Benedict & Saint John's University

- Shared President, Provost, CAO, COO – separate financially (audit, fundraising)
- Board of Trustees – Two board, but same board members
- Complete sharing of courses
- Back-office collaboration
- Information Technology department
- Human Resources department
- Marketing department (recent)
- Student Success department (recent)
- Food services
- Maintenance

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# Potential Benefits to Shared Services

## St. Olaf College & Carleton College

- Initiated by \$1.4M grant from the Andrew W. Mellon Foundation
- Co-registration system
- Shared Environmental, Health and Safety staff
- Share Information Security Officer
- Library systems – inter-library loan program
- Integrative collaboration with Northfield development authorities and neighborhood councils
- Joint event offerings – art exhibition, speaker talks
- Student perks
  - Take courses offered at unenrolled college if not offered at enrolled college
  - Eat meals at either campus

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# Advocacy

## Hospital and educational facility closures exact a deep economic toll on rural economies

- Therefore, we urge the members of the authorities who serve these borrowers to advocate on their behalf
- Talk with your local representatives about establishing programs or providing financial support to enable these facilities to survive and support their local economies.

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