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PULSE

Financial Distress Drives Surge in 2023 Health Care M&A Activity

Financial difficulties were identified as a contributing factor in 28% of the 65 health care mergers and acquisitions in 2023.

A recent Kaufman Hall report shedding light on a surge in mergers and acquisitions (M&A) activity in 2023 found that 28% of the 65 announced health care transactions cited financial distress as a driving factor in their mergers.

After a rebound in M&A activity in 2022 following the challenges posed by the COVID-19 pandemic, the momentum continued into 2023, with 65 transactions totaling an impressive $38.4 billion. The last quarter of 2023 alone witnessed 16 transactions amounting to $10.4 billion. However, the smaller parties involved in these transactions had an average size of $647 million.

Taking a deeper dive, the report revealed that 19 deals had a smaller party with revenue less than $100 million, 32 deals had revenues between $100 million and $500 million, and six transactions had revenues ranging between $500 million and $1 billion. Additionally, there were eight mega-mergers in 2023, defined by the smaller party's average revenue exceeding $1 billion.

Interestingly, mega-mergers, while significant, accounted for 12% of all transactions in 2023, down from 15% in the previous year. This shift indicates a broader trend where more hospitals and health systems, grappling with financial distress, sought strategic partnerships to secure their future viability.

The report highlighted that financial distress played a role in 28% of announced transactions in 2023, the highest percentage since tracking began. In contrast, only 15% of transactions cited financial distress as a factor in 2022. The persistence of negative operating margins throughout 2022 was a driving force behind this surge in M&A activity the following year.

Despite the increase in financial distress as a catalyst for deals, the report noted that the share of transactions where the smaller party had a credit rating of A- or higher remained consistent. This observation suggested that even creditworthy organizations recognized the need for strategic partnerships to navigate the evolving healthcare landscape, according to Kaufman Hall.

While hospital margins improved in 2023, many organizations continued to grapple with financial challenges. The report emphasized the importance

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for organizations to proactively seek partnership alternatives from a position of strength before financial distress impacts their flexibility.

Looking ahead, Kaufman Hall researchers anticipate there will be a continued focus on regional market development, persistent influence of financial pressures, movement among previously stable independent community health systems, and the emergence of new partnership models in 2024.

Read the report here.

Minnesota Legislature Introduces Debt Fairness Act

The sweeping legislation would prohibit medical debt credit reporting and collections on out-of-statute debt and amend the statute of limitations, among other changes.

Legislation that would make sweeping changes to debt collection processes was officially introduced in the Minnesota House and Senate in February.

The Minnesota Debt Fairness Act, part of the Minnesota Debt Fairness Agenda spearheaded by Attorney General Keith Ellison, includes items focused on medical debt that Gov. Tim Walz pledged to support, ACA International previously reported.

The legislation, HF 4100/SF 4065, relates to "consumer protection, modifying various provisions governing debt collection, garnishment and consumer finance; providing for debtor protections," among other debt collection topics.

The proposal would prohibit medical debt credit reporting, described as "any item of information which the collecting party knows or should know concerns medical information, or concerns any debt arising from the provision of medical care," and prohibit interest from accruing on medical debt.

It would prohibit collecting on out-of-statute debt or otherwise attempting to "revive" a debt, and reduce garnishment wages and the statute of limitations.

The legislature also seeks to prohibit communicating with a consumer by use of "an automatic telephone dialing system or an artificial or prerecorded voice," including but not limited to, artificial intelligence chat bots and the term as defined under the Telephone Consumer Protection Act, United States Code, title 47, Section 227(b)(1)(A).

The House bill was referred to the Commerce, Finance and Policy Committee and the Senate bill was referred to the Commerce and Consumer Protection Committee. It must pass out of policy committees by March 27.

Pennsylvania Considers Medical Debt Relief in Budget Proposal

The governor proposed to use budget dollars for relief to consumers based on their debt levels and income.

Pennsylvania has announced a medical debt relief plan as part of Gov. Josh Shapiro's budget proposal, days after Connecticut's governor shared similar goals.

According to *The Philadelphia Tribune*, Shapiro said in a budget address that he wants to buy residents' medical debt using the $4 million in the commonwealth's funds.

Reports show Philadelphia would contract with an organization like RIP Medical Debt to provide debt relief to eligible consumers.

RIP Medical Debt is a nonprofit organization that purchases debt for forgiveness. It uses data to find the debt at households most in need based on their earnings compared to the Federal Poverty Level (FPL) and debt ratio to their annual income, according to the

NEWS & NOTES

Rural Health Care Crisis Deepens as Half of U.S. Rural Hospitals Operate in the Red

A recent analysis by health care advisory firm Chartis reveals a worsening outlook for rural healthcare in the U.S., particularly for independent providers.
The study highlights that 50% of rural hospitals are operating at a financial loss, up from 43% just a year ago.
Independent rural hospitals face even greater challenges, with 55% operating at a deficit.
The analysis identifies 418 facilities as "vulnerable to closure" due to increasing revenue losses, signaling a critical threat to healthcare access in rural areas.
Additionally, the study underscores the shift toward Medicare Advantage plans, posing financial challenges for rural hospitals as these plans often offer lower reimbursement rates and may not cover all services provided by traditional Medicare.

Read more here.

Hospital Groups Challenge HHS Interpretation of DSH Payments in Supreme Court Appeal

The American Hospital Association (AHA) and five other prominent hospital organizations are rallying against the Department of Health and Human Services' (HHS) interpretation of disproportionate share hospital (DSH) payments, crucial for hospitals grappling with high uncompensated care costs.
At the heart of the dispute is the timing of considering patients entitled to Supplemental Security Income (SSI) benefits in the DSH formula. The hospital groups argue that HHS's stance, which considers SSI entitlement only during the receipt of cash SSI payments, contradicts a previous Supreme Court ruling and could significantly curtail DSH payments, potentially causing hospitals to lose over a billion dollars annually.
This dispute, encapsulated in the amicus brief submitted to the Supreme Court, emphasizes the critical importance of the DSH formula for sustaining hospitals, particularly impacting rural and safety-net facilities already facing financial constraints and potentially limiting access to care for vulnerable populations.

Read more here.

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organization's website. There is also no tax liability or penalties, according to the site.
In Philadelphia, qualified consumers include those whose annual income is at 400% or less of the FPL or those who owe more than 5% of their income for debts, according to a report from Spotlight PA.
The governor's bill is similar to legislation in Pennsylvania that would require the Department of Health to partner with an organization like RIP Medical Debt to cover unpaid bills, according to the report.
The legislation is pending in the Pennsylvania Senate while the governor's proposal is pending due to budget debates. Shapiro could focus the medical debt relief on rural areas to help the plan advance, according to the Spotlight PA report.
Similar efforts have occurred at the municipal level across the U.S., including in New York City.
The plans underway in Connecticut and those proposed in Pennsylvania shed light on debt forgiveness processes for qualifying patients and how providers can tailor their own policies.
The Affordable Care Act requires that nonprofit hospitals establish charity care — essentially financial assistance policies —for patients unable to cover their expenses. IRS Regulation 501(r) addresses extraordinary collection activities, such as credit reporting and legal remedies.
Providers in many states have seen the threshold at 200% or 300% of the FPL as the starting point before any copays or deductibles need to be paid to a non-profit provider. Consistent with the Connecticut program, for example, patients who earn 400% or more of the FPL would be expected to pay their copays and deductibles in full while providers continue to offer charity care options for patients making less than that amount.
Oregon is the first state in the nation to mandate required charity care discounts for nonprofit providers. In Oregon, health care is free from nonprofit providers for patients living at 200% or below of the FPL, there are significant discounts for those living between 200% and 400% of the FPL, and no discounts required for patients living above 400% of the FPL.

It will be very important to properly define qualifying medical debt and qualifying patients to ensure the program goals are actually achieved.

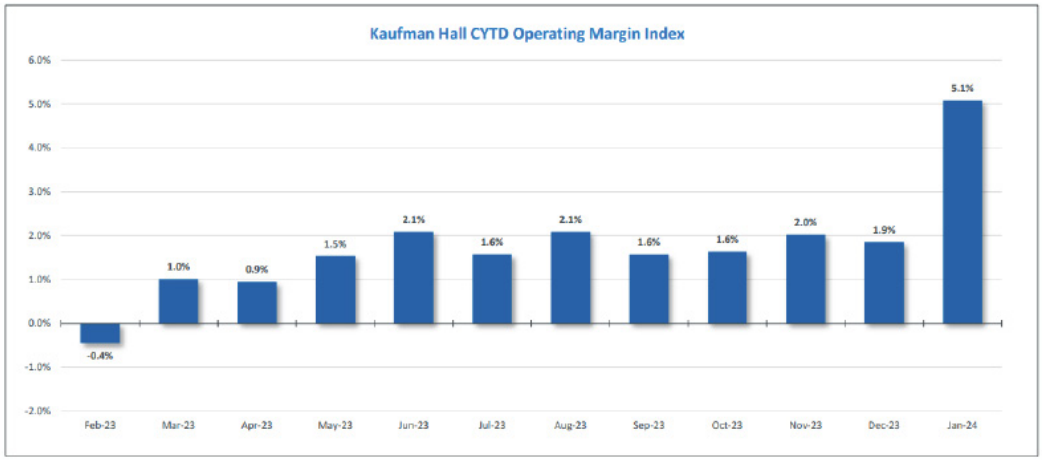
DATAWATCH

Hospital Margins Show January Dip, But Financial Stability Prevails

A recent report from Kaufman Hall indicates a marginal decline in hospital margins from December 2023 to January 2024, with the monthly operating margin index dropping from 5.5% to 5.1%. However, the financial landscape appears more robust compared to previous years, with a 25% year-over-year increase in operating margins. Notably, while net operating revenue and gross operating revenue both experienced growth, the 5% month-over-month increase in gross revenue compared to a 1% rise in net revenue suggests intensified payer negotiations and a shift toward value-based payment models among providers.

In terms of patient metrics, inpatient revenue saw an 8% rise, and outpatient revenue increased by 4%, accompanied by an uptick in discharges, adjusted patient days, and average length of stay. However, emergency department visits witnessed a 4% decline. Rising expenses, particularly in labor, non-labor, supply, and drug categories, contributed to the overall increase in total expenses.

Operating Margin



Source: *Kaufman Hall, National Hospital Flash Report February 2024* https://tinyurl.com/pnsdy5er

PULSE

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