PYA Webinar: "Hospitals, Capital, and Cashflow Under COVID-19"

Presenters: PYA Principal Michael Ramey, joined by Realty Trust Group Senior Vice-President Michael Honeycutt and Ponder & Company Managing Director Jeffrey B. Sahrbeck

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0:05
Good morning, everyone and welcome to today's webinar hosted by PYA hospitals capital and cash flow under COVID-19. PYA is a leading Professional Services firm providing expertise in health care tax management consulting and audit and Assurance. We are pleased to offer you our thought leadership on this important topic.

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All attendees have been placed in listen-only mode. You may submit written questions using the question pane of the control panel. Our presenters will address questions time permitting at the end of the webinar. If we cannot answer all questions due to time limitations, we will supplement the transcript to this webinar with are written responses. Please be aware with more people using online platforms outages can occur.

1:28
Thank you, Laura. I would like to start by briefly introducing the presenters on today's session. My name is Michael Ramey.

1:36
I am a principal with PYA in our strategy and integration practice. I work with various health systems and other health service providers and providing transaction advisory strategic planning and financial feasibility services to support various strategic initiatives. I am joined today by Michael Honeycutt from PYA's affiliate company Realty Trust Group. Michael has 15 years of real estate and financial services experience and specializes in providing full service Real Estate Services.

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for health systems, academic medical centers, community hospitals, and physician practices.

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I'm also joined by Jeff Sahrbeck from Ponder & Company. Ponder & Company is a healthcare capital and strategic advisory firm focused exclusively on providing services to not-for-profit hospitals and health systems.

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Jeff has more than two decades of experience advising clients on all aspects of capital formation and Jeff works on a variety of structures, including fixed and variable tax exempt and to civil and public and private offerings. In today's session, we will cover several topics. We will start with a brief overview of the current economic challenges faced by hospitals and health systems in the midst of the COVID-19 crisis. We will also touch on some of the latest information regarding sources of relief available for hospitals from the federal government. However, acknowledging that that relief only addresses a portion of the significant challenges.

3:19
You're facing hospitals today will also touch on some operational initiatives to address cash flow constraints. Jeff will be addressing the current state of capital markets in this environment and the availability of both public and private funds to address some of the liquidity challenges and the Michael Honeycutt will be addressing some considerations on how to utilize and manage a hospital's most significant asset.

3:48
The real estate to address some concerns of this time. He'll also spend some time discussing the current state of the real estate market as it and its various different impacts on hospitals.

4:04
So, to start I want to talk a little bit about cash flow challenges just to set the stage a little bit everyone participating today and working in the healthcare industry.

4:15
I believe can appreciate the simile that this environment is like a roller coaster right now for that visualization, maybe a roller coaster that right now we're going down the sharp decline at the very beginning that the hill and almost even in a tunnel a dark tunnel not knowing when that he'll might find it. It's bottomed out and I think everybody's feeling this right now that that heel is based on first of all, the sudden cessation of elective procedures that have occurred to allow for various different PPE to be made available for those on the on the front lines who are helping.

5:04
To combat this virus and ensuring safety for all of our providers as well as patients.

5:11
So we're feeling that and that's compounded by lower volume from avoidance of facility visits whether that be hospital or whether that be physician practices seeing a significant drop their revenues since these electives it ceased for many of our systems several Vapor door off by more than 50% those electives. We think about how patient being the obvious driver of that reduction but actually our research suggests that proximately 30% of deeper service payments from Medicare claims impatient Medicare claims also fall into that category.

6:01
So significant decrease is everyone's feeling right now. So, what does this mean next? Well, we will end where we anticipate seeing an increase in in-patient for COVID patients. We're seeing that right now and concentrated hotspots around the country who are seeing the surge. So, the

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anticipation is after that sharp that sharp healed that you go down the roller coaster. You're going to go back up a little bit the magnitude and for that matter the timing and the duration.

6:34

That increase is very uncertain at this point in time.

6:39

And I would project or is going to be very variable depending upon your individual Market as to how much that might increase after that increase and of note of believe of importance here is also questionable while Medicare has taken initiatives to increase reimbursement for the typical drgs, which These cases are going or are anticipated to be incurred in it. It's questionable as to whether or not the margins associated with those particular cases are going to offset. The margins that are realized in various different elective procedures that are supporting the hospital. So even with this increase, it's a question as to how much of that is actually going to want the sharp decrease with actual profit.

7:35

Cases the anticipation is also that they're after the surge.

7:40

There will be a decline again before electives are open back up and resume and when those electives opened back up and resume, there is an anticipation that there will be significant competition for those partnering with those position providers is they come back online The Specialist and there's also an anticipation that that some of those electives we will see how much the some of those will not return because of the loss of coverage as the in this this is impacting just about every industry and you see the record-breaking weekly unemployment claims that are occurring right now within our economy. The anticipation is the coverage will decrease and therefore not all of those electives will come back.

8:34

What our systems doing? Well, we'll talk more about that. But it obviously is a dire situation. We've got multibillion-dollar health systems and they don't seem projected losses exceeding a hundred million dollars a month layoffs and furloughs of thousands of employees at this point in time to try to manage this.

8:57

The revenue obviously is what's being recorded right now. The revenue decrease its closely followed by an actual cash flow decrease that those collections that were on services that were provided up through the beginning of March are now drying up in just your typical revenue cycle duration. So really feeling the impacts not only from an income perspective,

9:26

but from a cash flow perspective of seeing that and many systems have made necessary or taken necessary actions to be able to prepare for that.

9:42

At some of that is documented here on the on the next page. We won't go into all of this.

9:47

But because a lot of this is just first of all, there are many of these are all already underway most are our basic blocking and tackling but if you know where the items that for those participants who have not pursued some of these items may be worth some time first is, evaluate Clauses

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within your contracts that might allow you to Defer some of the some of the expenses that you're incurring better be a force majeure clause or some other type of cessation of services. This would be capital projects.

10:26
This would be purchased Services many of these are already kind of underway, but also evaluate if there's any opportunity within your particular policies on business Interruption Services if this particular event, Justifies such action to be able to make claims supplies is a very big item right now as far as actually increasing on a on a per unit basis due to the shortages that are encountered right now on PPE and other necessary equipment to be able to serve these cases. One thing is many GPO.

11:12
contracts have some level of price protection if you're ordering through that GPU so leveraging as many of those GPO products as possible is helpful.

11:26
We'll talk a little bit about Telehealth Services many of those have been rolled out, especially with in physician practices or your physician Enterprise to be able to continue to meet the needs of your patients as well as continue to have a revenue stream come in one thing though that that is noteworthy on that. You know Medicare has stepped up and many of the commercial payers have actually stepped up as well when it comes to Telehealth several waivers have been put in place. So, we're seeing advances there.

12:01
One thing we're not seeing many advances on is the commercial payer payers actually stepping up similar to what Federal government has done in terms of advanced payments. There have been some isolated cases. There are some Blue Cross plans in certain states that have put out a bit of a blueprint that follows closely with what Medicare has done in terms of the advance payment programs.

12:36
So that's encouraging but by and large that Community has been slow to we act we have been advising clients to work individually with those payers and also through various different associations, whether it be State Hospital association's whether it be, aha other various different organs associations within the industry to bring this to a head to say, what can we do to offset this Decline in revenue and in cash flow to be able to make sure that there is adequacy of coverage moving forward. So, if we will continue to monitor this, we feel pretty strong in our view that there's more to be done here on the commercial payer side to help the situation that hospitals and for that matter, physician practices and groups are incorrect or encountering right now.

13:49
Talking a little bit about the relief that we see from the federal government leave. Everyone is very familiar at this point with the cares act.

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This is ever evolving but the cares act itself does call for 100 billion dollars in the Public health and Social Services emergency fund and that is to be directed towards health care providers for reimbursement of healthcare related expenses and lost Revenue the actual Act Does not go very deep into how that's actually going to be administered. So, there's a lot of questions out there. I'm

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sure people on the on this call have been posing those questions. We have very little answers right now. We are still waiting. We know that at least a billion of that has been communicated to be designated for testing and diagnosis of uninsured patients for COVID.

14:47
There was a there was also a comment made and it is truly a comment made there is nothing coming out from HHS actually even validating this at this point. There's no literature but a comment was made by CMS administrator Seema Verma on Tuesday’s COVID tax task force meeting that 30 billion of that 100 billion was to be distributed soon and based upon Medicare fee-for-service.

15:21
Service Revenue, we've not seen anything more on that. We are watching diligently to see if that is in fact the case, but they were talking even within a week was what was communicated but we shall see if that ends up being the actual approach for distribute those funds. What we've been advising clients is be prepared maintained very diligent records both on the COVID related expenses.

15:51
Has as well as quantifying that lost Revenue that that is being incurred right now with the loss of electives and for that matter other inpatient services that likely will come to Bear some point in time to be able to support claims that are being made until further information is provided still assume that this needs to be something that you need to act on.

16:21
Quickly and be proactive about once the information comes out in regard to accessing those funds. The cares act the appropriation for that is meant to be a stimulus therefore not reimbursed which is different than Medicare Advance payments, which many people have already taken advantage of this impacts both part A providers and Part B.

16:53
The as of April 7th 38 billion dollars have been directed or Advanced underneath this program. There are repayment requirements. The advanced can be up to up to six months and it's a no interest over up to 12 months the recruitment recoupment begin 220 days following receipt of the initial and then the full payment.

17:21
Has to be back by the end of one year so many people have taken advantage of this for purposes of going back to the roller coaster visualization managing that deep drop and continuing to provide services maintain essential services, but just it is it that that is anticipated to be paid back other.

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Sources that are available as well through Federal programs include sequestration of the Medicare reduction for the two percent, so that that has been put on hold at this point in time also the planned Federal fiscal year 2020 reduction in Medicaid dish has been eliminated that will be caught back up.

18:21
In subsequent periods. As I said previously Medicare is increasing the amount that is reimbursed on drgs for COVID-19 patients do this National Emergency and while we won't spend much

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time here because there's there are other webinars specific to these two next two topics. There is a lot of opportunity in regard to Telehealth reimbursement through the expansion.

18:51
And waivers that are presently underway to deal with this particular situation as well as well not applicable to the hospitals that are applicable to most of your independent position groups the paycheck production Protection Program, which is bent it's administered through the small business administration SBA through loans of organizations at the clickable to those entities that have less than 500.

19:21
Employees, there's other various different areas or different requirements. But that's one of the key ones and encourage everyone to seek out various state grants through these emergency funds.

19:34
There are grants that have been made available. Tennessee for one has for 10 million dollars to small and Rural hospitals under Readiness grants in preparation for COVID-19 and also to help blunt some of the blow here on the losses that are being incurred and then Jeff will talk more about various different private lender options. So, with that said I will actually hand off to Jeff to discuss the current state of the capital markets. Jeff. Thanks, Michael, appreciate the introduction. I have been asked to talk a little bit about the capital markets and what we're seeing in them.

20:21
As you look, you know the First Market the market that everyone turns to is the tax-exempt public fixed rate Market, I think over the last month and a half we've seen an incredible amount of volatility in the market, as you can see in the graph on the right which Compares our AAA MMD to AAA treasuries, as would be expected with the COVID crisis. You've seen an incredible flight to Quality.

20:47
So, money has been pulled out of almost all asset classes and put into cash and treasury Securities which you know for our supply demand perspective has pushed treasury Securities down yield. And so, you've seen a pretty steady decline of about a hundred basis points for treasury Securities over the course of the year. That was, the muni industry was following that Trend but at the point where the the crisis really struck in early March or kind of early to mid-March, there is definitely a disconnect.

21:21
The money started flowing over top of the muni industry, which is normally meant for a route, you know meant to be a relatively safe investment, but it just bypasses that saved investment in right to treasuries in cash. And so, you saw a tremendous amount of liquidity pulled out of the market very quickly in perspective over two weeks over 25 billion was pulled out of muni funds and the largest one week decline ever was four and a half billion.

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back in 2013 during the taper tantrum spike from spending. So, it was really an incredible amount of cash with out of the market which caused a tremendous amount of selling. I think we quickly found out that our Market was, we always know that the tax-exempt public market is

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very driven by supply and demand and even when there's no supply because new issuance is coming from most of the month of March, you know with money gets pulled out it

22:21
Really cause those huge fluctuation. So, you saw rates go up about 200 basis points in the span of two weeks. Then as it looks very attractive compared to treasuries at one point [undiscernible] were trading at less than 30% Every burden for tax-exempt brakes were true in a lot of crossover buyers. You wouldn't normally into the market as those investors are this virus came in drove down.

22:53
Think you're going to continue to see the volatility because you celebrate take down a hundred fifty three basis points in one week and then very quickly go off the following week and now come back down. So, all in all we're seeing rates basically flat on the air. So, if you're a AAA State borrower and the tax-exempt world your borrowing at about the same rate that you started the year at, even though treasury rates are down hundred basis points.

23:23
It's not exactly the same in the health care market. So, moving to the next page, the healthcare Credit spreads, as I mentioned the index rates AAA have stayed the same, but healthcare spread, credit spreads have increased pretty dramatically depending on where you are in the credit spectrum and the investment grade. We've kind of focused on that area rates are up anywhere from 50 to 90 basis points 50 kind of in the double a space.

23:51
It's down to close to the 90 and the lower triple B range.

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So if you look on the right the interesting thing, you know that we're comparing or you're basically seeing that with rates flat on the year rates that tax-exempt borrowers can actually borrow at are up significantly because of the credit spread, so if you were borrowing it a 279 at the beginning of the year now, you can borrow it at about a 340 now when you compare that it's I think the interesting thing is it's Still an attractive level overall because the index rates are so low. So even though credit spreads are higher you're still trading are you can still borrow as a healthcare institution at a level that's significantly below, where you've been able to borrow historically, the real question I think comes down to where do rates and credit spreads go from here.

24:45
It's hard to say, you know the market I think is going to remain volatile. And we should also note that the market remains relatively untested. There have only been seven tax exempt or Sorry Seven healthcare borrowings, you know of any size over the last month and a half three in the tax-exempt market and foreign the taxable revised down a transaction for nonrecourse yesterday, we saw a significant decline in where credit spreads where rates were kind of over the last week even comparing, you know deals that were done a week ago you You're looking at rates that are significantly lower than that. So I think you're going to continue to see this level of volatility and depending on the size of your deal and the credit strength, I think it's going to continue to be a little bit of a swing in markets over the next couple months or weeks certainly in the next couple months.

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moving on to the short-term market and I think if anyone on the webinar had commercial paper revered EMS, they saw a tremendous spike in those rates in mid-march, as we mentioned in the in the same flight to Quality money was being pulled out of Muni funds and the long-term market and also in the short term market, so there's money being pulled out of prime funds and the median Three as well as others and being put into government funds. So with that even though the Fed was cutting rates to, near zero, you know at that point you would expect that the SIFMA average, you know to move down to the zero, you know area like it had, you know been from 2010 to 2016 when offended elevates is 0 you actually saw the opposite where rates were spiking up.

26:45
We saw dailies head, you know up as high as 10 to 11%, the VRDBs, but the FED when they came into the market and they announced that they were going to buy VRBNs and they were able to buy CP and they were going to effectively backstop the industry. You quickly saw rates come down.

27:08
You said that the seven-day weekly VRDBs come down into the three four five percent range and they've had steadily gone down since then now you're below 1% for SIFMA and Below 1% foremost dailies and weekly VRDBs trading including CP but I think that you probably if you think about where a normal Market should be live or the tax will side tends to trade at the 10 to 15 basis points over where the FED funds rate should be so they still pretty far decline expected for Libor over time and then, you know SIFMA historically, you know should be in a 65 to 75 percent range for of Libor.

28:03
So, there is still a long way to go I think to get back to token organization, but with the, you know with a little bit of the panic out of the market that we saw in mid-march you've definitely seen Return to normalcy where CP trades that, couldn't trade more than a day or going out longer and variants are being back. So, at this point, I think the short-term Market is back to where it was. that doesn't mean that we're not going to see more volatility going forward, but I think we're going to continue to see you see that market moving to steadier pace.

28:41
You know in the taxable side, we use the example of a double-a - credit, you know and just looking at the pricing. We were following this for a number of clients. And as the treasury rates kept going down and fell all the way, we saw 30-year US Treasury rates below 1% the expectation was that you know bar should be able to borrow at relatively low levels. I think the interesting thing is that you know what we really saw.

29:10
I was either the investors hit a reader had a floor on borrowing rates or just the credit spreads kind of increased so that if rates went down, a hundred basis points, you saw an increase in 70 to 80 basis points and credit spread. So, you know the healthcare bar where was in just not getting the full advantage of these lower index rate.

29:34
So, you know has that example, if you look from mid-February to early March Ouch, you know the US Treasury way from 197 and nine to ninety, but the all I'm borrowing cost, you know only went down so it's a hundred in 10 basis points move, but the Olimar and costs only went down

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by 15 or 20 basis points for a deadly - borrower as we got to mid-march and I think the full effect on the economy was starting to be understood you even saw credit spreads go up even more dramatically and go out pretty quickly.

30:06
So even when treasury rates went up at the rates went up we see So in the fact that in two weeks far and cost went from you know below 3% probably close to 5% If you know anyone was to try to get a bond deal done. There's very little, you know getting done at this point, but that's basically where we're seeing the market or being told where the Mark was by investors who are interested, since then we've definitely seen credit spreads come down, but they have not come down, you know to pre-crisis levels yet. And I think it's probably going to take some time before we see that.

30:40
That before we fully get there.

30:46
so moving on to the rating agency reaction, I think a lot of borrowers of they're also very focused on how the rating agencies are looking at these, this pandemic on the effect on the health care sector Moody's was the quickest to act and to put a negative outlook on the sector in mid-march, but the others quickly followed to revise their outlooks from Most able to- I think with as Michael pointed out in the beginning there's going to be a tremendous effect on the overall revenue and as most people in the industry know the the fixed cost and health Care are relatively high. So, when you lose Revenue, it's just very difficult to pull out as much sticks cost to match that and so I think from that perspective, you know performance the rating agencies like everyone else.

31:45
Expecting performance to lag, you know across the industry in addition, one of the main strengths of the organization's has always been the liquidity in in this crisis. You've also seen that we're at the point where and it seems like when it rains it pours, you know for all of the industries days cash on hand. A lot of it is likely kept in equities. And so, at the same time that you're seeing a liquidity crunch on the revenue side, you're also seeing a liquidity crunch on the balance sheet.

32:15
as well because you know of a decrease in the size of the investment portfolios, and also I think you know for a lot of health systems, when you see the market down 25-30 percent, it's obviously come back now, but when the equity markets are down that much that quickly, people don't want to dip into their pools, so then they looking for other means of getting the liquidity. But I think there's also you know slight some differentiation between the agenices. I do think that you know overall, the agencies understand that the stronger systems that you know are dominant in their Market that have you know are the leading market share for provider in the area that they're in as well as those with the larger balance sheets. They're they're going to feel the pain of this but they're going to be able to get through it.

33:09
I do think there's going to be a differentiation, you know amongst the agencies, they're looking at credits that Of an older population that might be hit by this little bit harder than the ones that have less cash and the organizations that are smaller and so don't have the clout with the payers

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or the state as the payer, you know are probably going to be hit a little bit harder than the other organizations.

33:36
So and I think that a lot of our clients are calling us about is our debt covenants and we've you know been working through, that with the number of people with Revenue down so substantially, the largest covenants in our industry are generally days cash on hand for my liquid. He's perspective that a lot of people have some have a debt to capped as but that's probably less important right now and then others have the debt service coverage.

34:04
That's probably going to be the first one or the most important one to manage.

34:07
You know, I think as we're talking through it, we're one I think there's a huge value and projections and so we're definitely telling our clients to stress test these covenant options and to look at where they are in the spectrum, and if they're going to make the projections or if they can do things now to allow them to make the projections, whether it's taking realized gains in investment portfolios, deferring expenses, doing expenditures, issuing debt to improve days cash.

34:46
I think all of those things we would recommend that they move forward with and see what they can accomplish, but if not, then, you know talking with lenders and moving forward I think is an important part of the discussion as well. we'd also note that the private market I think you know for debt is, something that is definitely out there, and banks are have shown a willingness to provide credit. I think that in the we in 2008 the probably the large it the last large crisis we saw it was a very different time than where we are today.

35:34
Today the in the private Market either the banks right now because of Dodd-Frank and because of other changes are much more much more liquid than they were in the past. Now, they've seen an incredible draw across all Industries. So it's not just the health care sector that you know pulled down their lines of credit and you are putting cash on the balance sheet as every sector in America, he's doing and so, so they're not Limitless, but we definitely seen some possible.

36:04
these from the banks and providing especially amongst the relationship Banks providing decent Capital to help soon, but you know on the other side and when I would say on the Covenant boring when you have issues with your covenants, a lot of times, they will be with those lenders and then with the banks and so engaging them early is a good way to make sure that you have the most positive outcome. So, I think with that I'm going to turn it over to Michael to talk about real estate.

36:41
Thanks, Jeff some great info and a good segue over to real estate.

36:47
It's we're going to switch gears a bit and talk about real estate specifically as it relates to the topic here of capital planning and cash flow management probably goes without saying that most cell systems have significant Capital allocated to their real estate portfolios, but the some may not realize just how much Capital that truly is or that where they simply sometimes view it more. So,

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from an expense perspective rather than an asset and a potential source of capital in in tough times.

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From a balance sheet perspective when you think about property plant and Equipment, that's usually one of the largest items on any given health systems balance sheet.

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Obviously that includes the hospital facility itself your portfolio of Medical Office Buildings administrative space Warehouse facilities leasehold interest other items there and obviously it can vary from one system to another but real estate can come Only make up about a third of the total assets on your on your balance sheet similarly from an income statement perspective. Just thinking about rental expenses operating expenses and debt service costs that are that are allocated towards facility projects.

38:06

This is again, this is a significant item and again can vary but typically one of the top expense categories may be in the top five and sometimes even in the top three typically by and employee compensation and medical supplies. So, this can be a significant tool when you think about Capital planning across the Enterprise.

38:31

In terms of real estate Capital strategies and really the question of how Real Estate is typically funded and finance. There's certainly some how systems may be able to fund projects from cash reserves, but more times than not they will utilize one of the three tools outlined here Jeff's already given us some great information on institutional and the bond market those funds are commonly used for the hospital itself physical plant Park.

39:00

Raj projects things of that nature when you think more about the second to Regional Banks and third party Capital these are commonly used for your mid-sized projects. They may be Medical Office Buildings Tenant Improvement projects things of that nature and while there are certainly many considerations as you evaluate these on a broad scale, and we don't have time here today to talk about these as an overall strategy. I think there's an important fundamental question that we that we do.

39:30

I want to speak to in terms of just how practical these approaches in the current environment are. So, I think a number of considerations one just timing and how quickly do you need to supplement your cash? And is this really a short-term need or a longer term Capital need human capital and by that what I mean just the allocation of internal resources.

39:55

Obviously, health systems across the country are taking All hands on deck approach pulling any resources, they can directly towards COVID initiatives. And so if you think about a larger Capital plan right now really just the question of is there human capacity available to focus on those efforts and then last but not least the lender or the buyer capacity and how are they being affected by this and ability to push deals through the pipeline so to speak so we'll touch on these a bit more here on the following slides.

40:30

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From a real estate lending perspective is really two main words that I'll draw your attention to the first is capacity and the second is caution. When you think about Capital both again Financial capital and human capital as I mentioned a moment ago, the lenders many of the lenders certainly the regional and relationship lenders, they're extremely focused on exist on servicing existing loans. There's a number of loan modifications.

41:00
- requests coming in whether that's a principle deferral or something that nature. They're seeing a tremendous amount of credit or I'm sorry tremendous amount of activity related to lines of credit and drawing those down or requesting limit increases as folks plan for uncertainty and then not to mention the flood of SBA loan applications that they've all had to tackle over the last few days and continue through this week as they dedicate a number of resources there.

41:33
If they are position in a good position of Lynn most are being extremely cautious asking fundamental questions. Like how do we underwrite a healthcare provider in this environment? How long is it going to take them to recover? What is the what is the impact cash flow? So there certainly being more conservative in some of their underwriting evaluations and we're seeing many limit any additional credit to short-term credit meaning typically one year or less.

42:00
And although rates are still very historically low. This is consistent with what just spoke to a moment ago. We are seeing some upward pressure certainly more conservative rates and what we're available immediately prior to the COVID environment.

42:16
All that said we still have a very small sample size. It's a short window of experience and just don't know exactly how long it's going to take these markets to stabilize, but it's certainly no understatement to say that there's a great deal of uncertainty here.

42:32
On the third party Capital side. And typically, these are REITs real estate investment trusts or other private Equity sources private developers again will qualify that it's still very early in the process and it's hard to judge fully how they are being impacted but there are two recent industry surveys that shed some light on the topic. The first is was released last week, I believe.

43:03
By E re healthcare real estate advisors on the topic specifically on the investment and Acquisitions side of the industry.

43:13
You can see here, there's positive in that 73% continue acquiring properties, but at the bottom of the page, 64% anticipate delays many are re-evaluating even their current deal Pipeline and many are also re-evaluating their mission criteria and underwriting criteria on a go forward basis 58% anticipate a degradation of market pricing which ultimately means a lower sales price as you evaluate potentially monetizing assets out in the market.

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Another survey that was actually just released yesterday. So, this is this is some real time information from hre. I which is an industry publication that stands for healthcare real estate insights.

44:05
They offer a very similar outlook on the investment front where they're projecting 71 percent of projects potentially being slowed or put on hold, but they also indicate some activity on the development front and That means new construction projects with 46. Excuse me, 46 percent of projects being slowed or put on hold. It's not all bad news again. You often hear the saying you can make data say anything you want it to say and so it really depends on which lends you look through this data. If you if you turn that coin so to speak you can look at these metrics and also say, you know 36 percent on investment and development. That's roughly one in three projects are still proceeding as planned.

44:51
And we don't know all those specifics but generally speaking what we're seeing amongst our client’s projects that were already underway certainly projects that were already in construction. Those are generally moving forward. They may be slowed. But still moving forward while projects that were in planning or the design phase those have almost all at least been temporarily delayed.

45:17
All that said back to the question. We posed earlier are these practical and reliable Capital approaches in the current environment as we mentioned we do expect things to stabilize over time, but no one knows exactly when that will be so for the time being it's really a case-by-case analysis, but we would advise that you anticipate delays and certainly a more conservative underwriting and evaluation process from these buyers.

45:46
and lenders So if we switch gears to what can you do from an immediate perspective really to manage expenses? So this is more from a cash flow perspective many Hospital landlords are certainly experiencing negative cash flow impact due to practice closures from an operational perspective, but also from a rent perspective these many of these practices that are closing you guys are probably all receiving rent relief request in some form or fashion.

46:21
And while there's been some regulatory release relief on those matters through the CMS blanket waivers that were released there's still a significant administrative burden on those and it can certainly be in a significant cash flow impact as well. So many landlords are focusing their attention on very proactive expense management.

46:45
There's a heavy Reliance on their facilities and Property Management teams to Really scrutinize any and all expenses. So we've listed a few things here that we're seeing many of our clients do in the form of reducing services or hours of operation wherever possible there's a prioritization there to say what if a number of tenants in a building have closed their practices then do let's reduce Services as much as possible while still continuing to serve those that are essential and that are continuing to serve COVID related initiatives.

47:20

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in extreme cases they may Totally closed non-essential buildings or ask certain tenants to limit their hours as I mentioned earlier a lot of non-essential construction and capital projects are being put on hold and then we've actually seen a rise here with a number of health systems who are re-evaluating property tax on the nonprofit perspective to see if there are any reduction opportunities that they could realize in the short term.

47:56
The next page we look just a little deeper.

48:00
Sorry, just a little deeper into some of those service reduction opportunities some real tactical kind of practical things. That could be explored. This is this is a bit down in the weeds. But these are things that we're certainly seeing a number of our clients do from the perspective of every dollar counts right now. So, reducing buildings down to vacate status reducing Services, things all the way down to reducing Landscaping Windows Services things of that nature.

48:27
Those may be very minor, but when you think about those on a Scale across a broad portfolio there may actually be significant dollars that can be realized there and again the property tax comment which I reference just a moment ago, but I did encourage everybody to think about that as well. These circumstances can obviously vary from one jurisdiction to another if there are properties that you've recently acquired and have not applied for those property tax exemptions or if there's properties where over time you've transitioned from third party.

49:00
Tenants to hospital departments and or employed physician practices there may be opportunities there and those are typically fairly significant dollars. So would encourage you to take a look at those as well.

49:15
And then flipping to the other side of the equation when you think about health system or Hospital in a tenant position, so no longer in the landlord, but now from a tenant position much the same way that you are being asked for rent relief from your tenants. We'd encourage you to evaluate those options with your landlords. There is no one-size-fits-all on those, but we are seeing a lot of landlords offer some level of rent relief on those.

49:43
And if you just think about that at the simplest level and as we spoke to earlier where rent can be a significant expense across the portfolio if you were able to realize one month of savings across your portfolio of your lease portfolio, that could be an 8% reduction across your across your lease expense portfolio at 2 months 3 months.

50:04
Obviously, you can do the math there and see how that those savings could potentially add up in most cases really what's happening there is Of a deferral where you may be pushing that rent out either to later in the year potentially in the next year or we may see landlords asking for a rent. I'm sorry at least extension in exchange for those deferrals.

50:27
But again, in a in an environment where every dollar matters those can be critical dollars to your ongoing operations and again centralizing Services much as we described on the landlord side

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when you think about maybe some of your Retail locations or Urgent Care physical therapy things of that nature. We're certainly seeing many of those be temporarily closed to mitigate Staffing and operational costs there. And then that when you do look at those clothes locations, make sure that you're making the corresponding service reductions so that you're not paying for services that are going in used.

51:08
Lastly while no one knows again went fully how long this this pandemic will last when the markets will begin to stabilize. We do anticipate that there will be some long-term impacts in the shorter term there suddenly, you know anticipate a spike in demand for many of those elective procedures as providers respond to the pent-up demand.

51:34
We see many prepping for extended hours and here discussion of Six to seven day a week operation as they plan to catch up on pent-up demand and then I think longer term, there are some questions here around how this could impact the physician Community as a whole whether it leads to a rise in employment models and also in Telehealth, which Michael Ramey spoke to earlier.

51:59
Both of those could have a pretty significant impact on your traditional office space planning and needs in terms of how those spaces are utilized and what providers are looking for in terms of space. It needs things of that nature within their space and then last but not least when hospitals really look at this from a long-term real estate perspective again, a critical eye on many decisions the lease versus own decision. How are these projects financed are some of these locations that may be temporarily closed today to they do they permanently are they permanently closed?

52:38
And then from an administrative perspective, obviously the work from home environment that we're all living in, how much of that carries forward into a long-term environment. And certainly, how does that begin to impact space needs and related expense and cost considerations around those spaces.

53:02
With that, I think we have just a just a few minutes left here. We've got about five minutes left Michael Ramey. I'll turn it back over to you if we have any questions we want to address.

53:12
Thank you, Michael. This there is one question will bring up here that is submitted by participant. I think we'll have time to address and I'll open it up to I'll make a comment and response and then open it up to Jeff and Michael as well. It says some of the COVID-19 relief measures involved advances for Medicare and temporary suspension of payroll taxes.

53:38
These essentially are short-term loans if a low liquidity rider takes advantage of these measures might they be worse off post-crisis if volumes don't rebound. I will say that yes, they are in fact Loan in nature the item that we talked about here that it at least for Hospital providers that are is not associated with repayment primarily as is the cares act and that is the hundred billion made available through the emergency fund.

54:13

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Yeah, we don't know how that's going to be distributed. But it it's insightful hear that. Yes, they are in fact loans and they do have repayment that right now is relatively short term in nature meaning for Medicare Advance payment those payments must start being paid back for months after the initial outlay and must be fully paid back within 12 months from the initial outlay.

54:41
So yes, that is something that has to be considered and you no longer term cash management and forecasting is required.

54:53
I would also say though that given the current conditions current economic conditions and the strains on cash flow that such measures likely will have to be taken at this point in time just to be able to Continue to move forward to be able to deal with that situation in in the future for many providers. Jeff and Michael. I'll let you comment as well there.

55:23
R yeah, I think from our perspective of loans as two types of things. It's either capital or it's for liquidity the imagine the payroll tax, that's something where you defer it. Now you have to pay back at the end of twenty one and twenty to fifty percent each. what that does, is it really provides you with liquidity now?

55:48
And so, I think you know one of my first mentors always told me Companies don't go bankrupt because they don't make money. They go bankrupt because they run out of cans and so the real question comes down to if an organization needs to liquidity to get to the next payment or just figure out where they are from a balance sheet perspective then I think we think these are good options, they're also relatively low cost options.

56:14
If you compare these two, you know Bank liquidity facilities and mean Bank lines of credit, that existing ones are Relatively low cost maybe Libor plus 55 or 60 basis points are right. Now that's 150 basis points or so or one and a half percent. these loans are at from what we understand neither, 50 basis points are the Medicare The Accelerated pavement CMS is actually zero so, you know from a revenue perspective actually help because if you have to borrow this money it's going to be cheaper to take it from here. So, it's kind of a free loan, you know from the credit perspective.

56:52
They Are driving the quiddity, but certainly for organizations that you know don't have the cash to withstand the amount of cash that they're going to lose over the next few months. Then they need more of a long-term solution and that may mean many different things, may mean finding a partner. It may mean, working with the state or other payers to get to a point where they can be profitable.

57:19
You know, there are a lot of different options, but I think what it the most thing you know what It really does it buys all of these organizations time. So, and time to make decisions on a more structured basis than just to react with the markets giving you so that you know can disagree that if an organization doesn't have enough cash to fund, the potential losses. It's going to take over the next months to months, it's going to be in a worse position, but I do think you know at a minimum it gives them time, which is helpful.

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57:55
Thank you, Jeff. I think we have time for one more question here. There's a question that says have you heard about any new information regarding relief for medium-sized business IE the greater than 500 employees. So, this would be not the small business administration loans those medium-sized.

58:14
I'll make a comment there with regard to that that 500 billion Loan program are the cares act the treasury Department really launched that Targeting specific Industries and under the airline industry is at the Forefront of that in regard to that that in that funding similar to the hot the 100 billion for the Public health and Social Services emergency fund. Not much information has been actually provided as to what's going on how that's going to be administered and for that matter no announcements. We've seen at this point.

58:54
Regarding the how the balance of that program is going to be provided, you know beyond especially the airline industry. So, we're still watching to see kind of what happens there. But at this point, I'm Still awaiting more intelligence.

59:15
And the one thing I would I would also say on that is the 500 employee limit. What we're finding is even with some of our larger systems. They may have businesses that have fewer than 500 employees.

59:30
So, if it's definition Network their home health network if they have a critical access hospital that separate, it may be a smaller number than then the 500 million so it's like five hundred employees. So I think you know people should be it seems like they are obviously targeting you know with a lot of these loans are targeting specific areas, but I think you know people are thinking outside the box on and how they might qualify, not just looking at the whole organization and the whole employee base.

1:00:05
Thank you, Jeff. And with that we are at the end of the presentation. So, I'll turn it back over to Laura.

1:00:12
Ra thanks to our presenters Michael Ramey,, Michael Honeycutt and Jeff Sahrbeck. If you have any additional questions, their presentation and contact information will be emailed to you along with a recording of today's webinar. Also, if PYA can provide assistance please call or email us.

1:00:30
You may also visit our website at www.pyapc.com for more details about our specific areas of expertise or to subscribe to receive PYA insights. On behalf of PYA I say thank you for joining us and have a great rest of your day.

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