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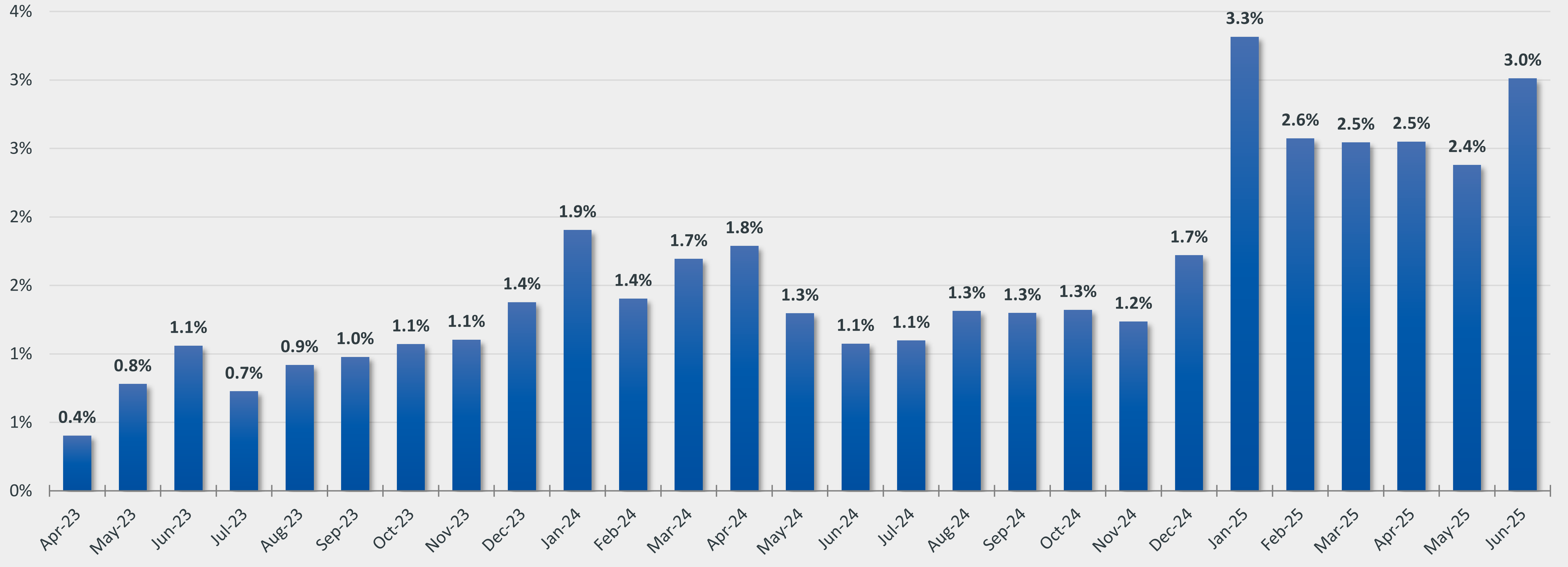
# WHEFA Insights Into Capital Finance Workshop

Healthcare Sector Update

**Milwaukee, WI | September 30, 2025**

# Hospital Operating Margins Have Stabilized in Recent Years

## U.S. hospital YTD operating margin index adjusted for corporate allocations
## April 2023 - June 2025




* Note: The Kaufman Hall Hospital Operating Margin and Operating Margin Index is composed of the national median of our dataset adjusted for allocations to hospitals from corporate, physician, and other entities.

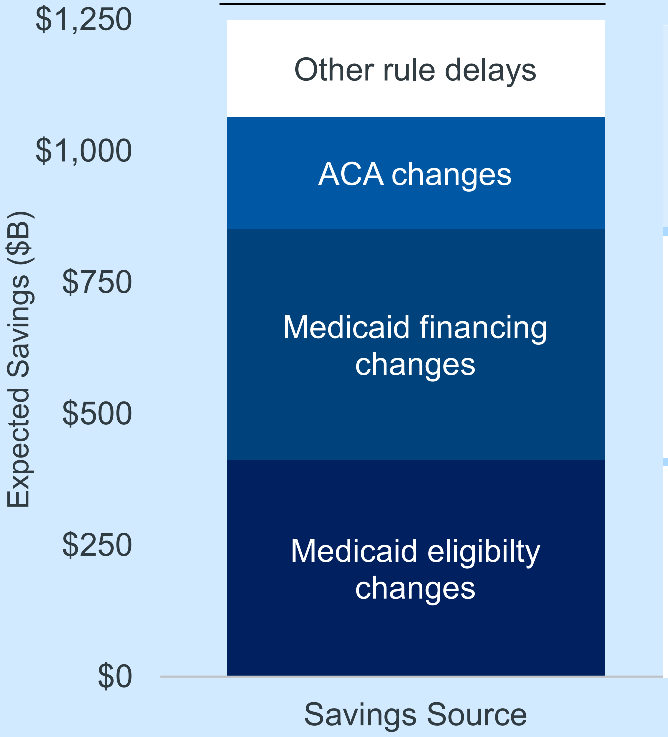
# OBBBA Changes to Medicaid and the Exchanges will Shift Nearly 12M Americans to Uninsured Status

**>$1T**

reduction in federal outlays over 10 years (2025 – 2034)

Impact ramps up through 2034, with **~59%** of the bill's maximum annual impact (and 26% of cumulative impact) realized by the end of FY 2029

**Prominent healthcare spending reductions in OBBBA**




**15%**
average 10-year federal Medicaid spending cut *(across states)*

All states will be affected, but impact will vary across and within states

**~11.8M** more **uninsured** people expected by 2034*

More **uncompensated care** and **bad debt** for hospitals and health systems

Pressure to **transform costs ahead of changes** and sustain margin

Note: see Vizient's OBBB summary for full information on OBBB changes, timing, and estimated savings impacts
Source: Kaiser Family Foundation "Allocating CBO's Estimates of Federal Medicaid Spending Reductions Across the States: Senate Reconciliation Bill", Congressional Budget Office, https://www.cbo.gov/publication/61534, Vizient analysis, 2025
*This projection could increase if the enhanced premium tax credits are not extended by the end of 2025





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# The impact of OBBBA ramps up over time, with >50% of the maximum annual spending reductions felt by year 5

## 2025

### Signed into law July 4, 2025

- Most impactful provisions take effect in later years

## 2026

### Changes begin phasing in*

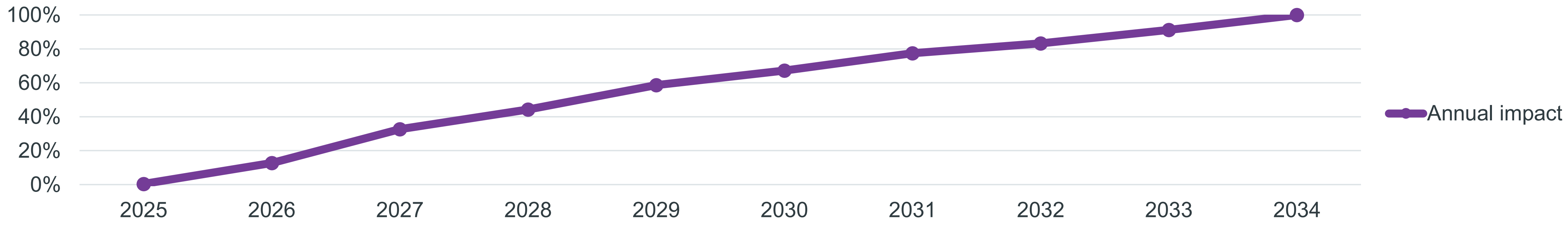
- Sunsets enhanced FMAP for expansion states (i.e., federal share of Medicaid financing)
- Tightens special enrollment periods for ACA
- ACA tax credit changes
- Other provisions

## 2027

### Major Medicaid eligibility and financing changes go live

- Medicaid work/community engagement requirement begins (12/31/26); states may request delay to 2028 or implement earlier
- States must redetermine Medicaid eligibility every six months for ACA expansion adults
- Other provisions

### OBBBA projected healthcare impact over time




*Note: Example changes by year are highly simplified and not exhaustive. See Vizient's full OBBB summary for detailed information on changes and timing
Source: Congressional Budget Office, https://www.cbo.gov/publication/61534 (Title VII, Subtitle B, change in estimated outlays over time), as of June 27, 2025 (estimates reflecting Senate changes are not yet available)
FMAP= federal medical assistance percentage, ACA= Affordable Care Act

# Rating Agencies Emphasize Long-Term Risk and Negative Credit Impact

## Moody's

### OBBB Observations

- Higher uninsured levels and uncompensated care as inevitable outcomes
- Safety-net and rural hospitals will face the greatest strain given Medicaid dependence

### Credit Impact

- Views OBBB as credit negative for hospitals due to Medicaid funding cuts
- Hospitals with limited flexibility may see material margin deterioration

## S&P Global

### OBBB Observations

- Low near-term risk, but emphasizes gradual long-term stress as coverage declines and supplemental funding is reduced
- Notes that implementation is phased providing hospitals time to adapt

### Credit Impact

- Credit impacts will vary widely by state and hospital profile
- Hospitals with high Medicaid payer mix are most vulnerable

## Fitch Ratings

### OBBB Observations

- Views OBBB is the largest long-term threat for NFP hospitals, primarily due to the Medicaid payor mix deterioration
- Notes timing provides a short window to prepare

### Credit Impact

- Expects operating cash flow will decline
- Anticipates increased M&A activity
- Strong balance sheet systems will have some cushion, but weaker credits remain exposed

Source: Moody's, S&P, and Fitch sector outlook reports





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# However, All Rating Agency Outlooks Remain Stable for 2025

Moody's

***2025 Outlook: Stable***

S&P Global

***2025 Outlook: Stable***

FitchRatings

***2025 Outlook: Neutral***

- **Margins will show steady** improvement; revenue growth to edge out expense growth
- **Days cash on hand will improve;** capital spending returns to longer-term strategic focus
- **Covenant violations** to decline and relegated to lower rated borrowers
- **Labor and physician shortages will pressure performance** in the coming years
- Shift in payer mix toward government payers with **growing reliance on state directed payment funds**

Source: Moody's, S&P, and Fitch sector outlook reports





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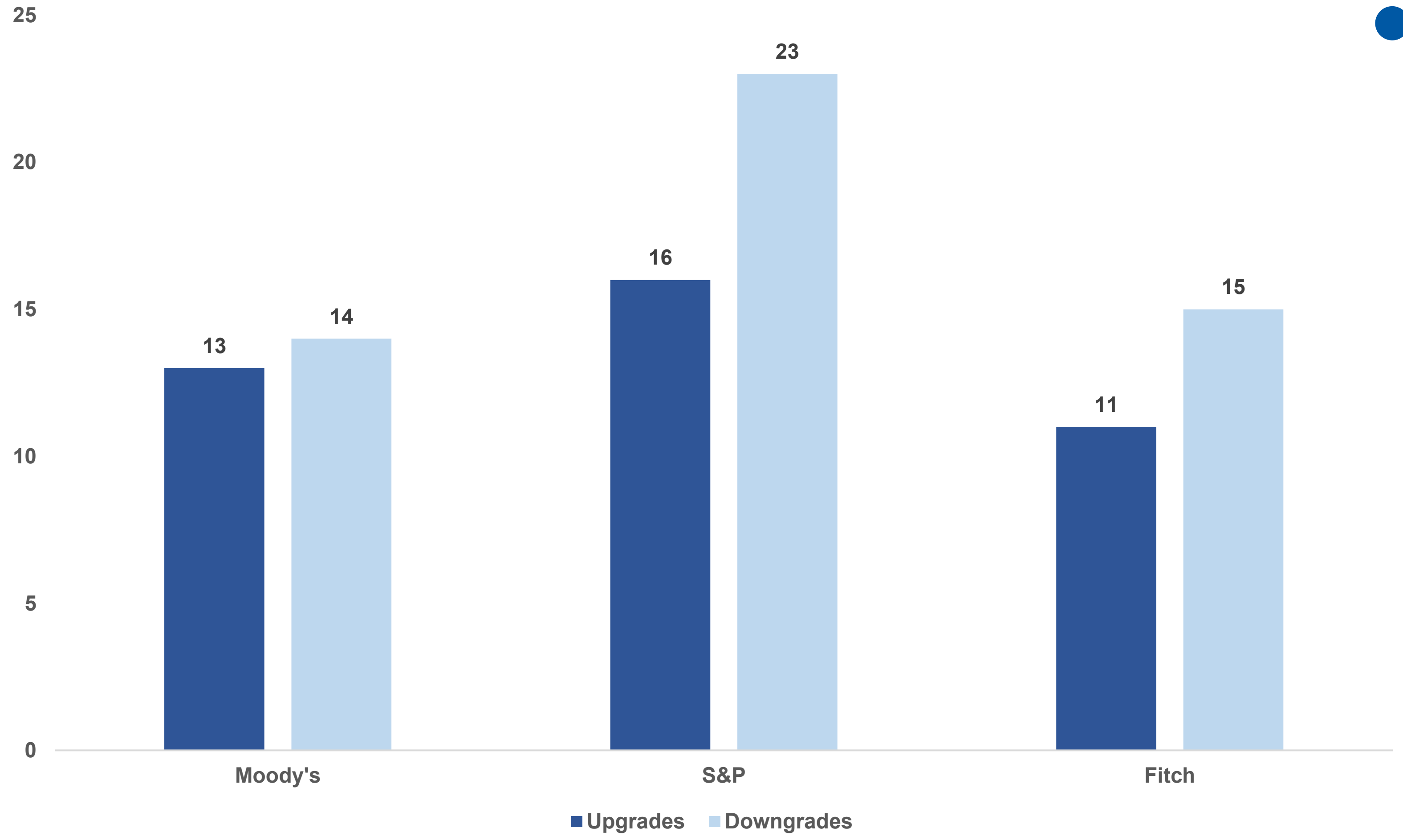
# Downgrades Moderate through Mid-2025

## Majority of rating actions remain affirmations




### Select Upgrades in 2025

- Baylor Scott & White Health System, TX (M: Aa3 to Aa2)
- Bon Secours Mercy Health, OH (M: A2 to A1)
- Eisenhower Health System, CA (F: BBB to BBB+)
- Stanford Health System, CA (M: Aa3 to Aa2)
- Sutter Health, CA (F: A+ to AA-)

Source: Kaufman Hall internal database; Rating Agency reports through September 19, 2025





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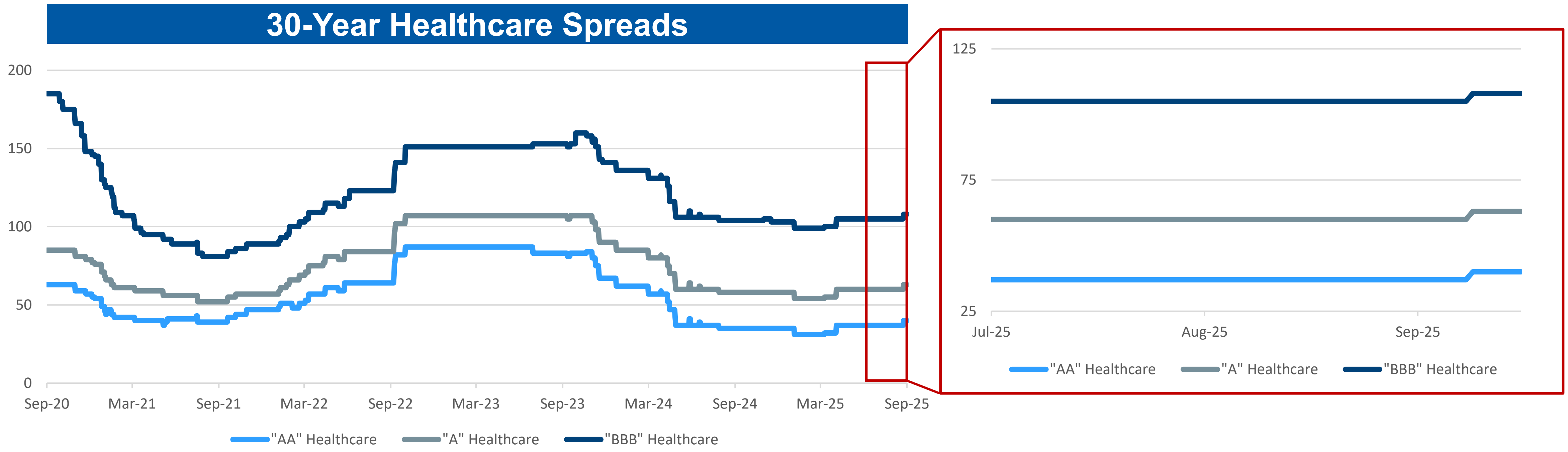
# 30-Year Tax-Exempt Healthcare Spreads Have Remained Stable




***Healthcare spreads have been relatively stable in 2025, showing little change since the passing of OBBBA.***

Source: LSEG Refinitiv as of September 19, 2025; Fund flow data sourced from ICI.org, inclusive of ETF data



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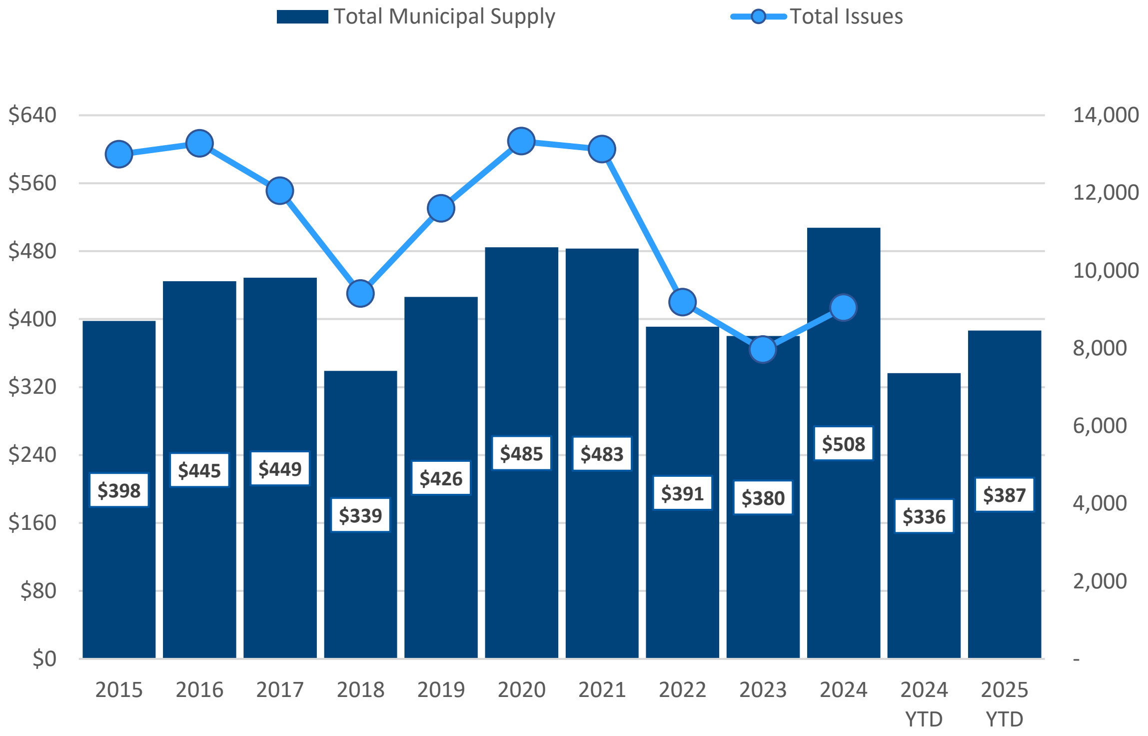
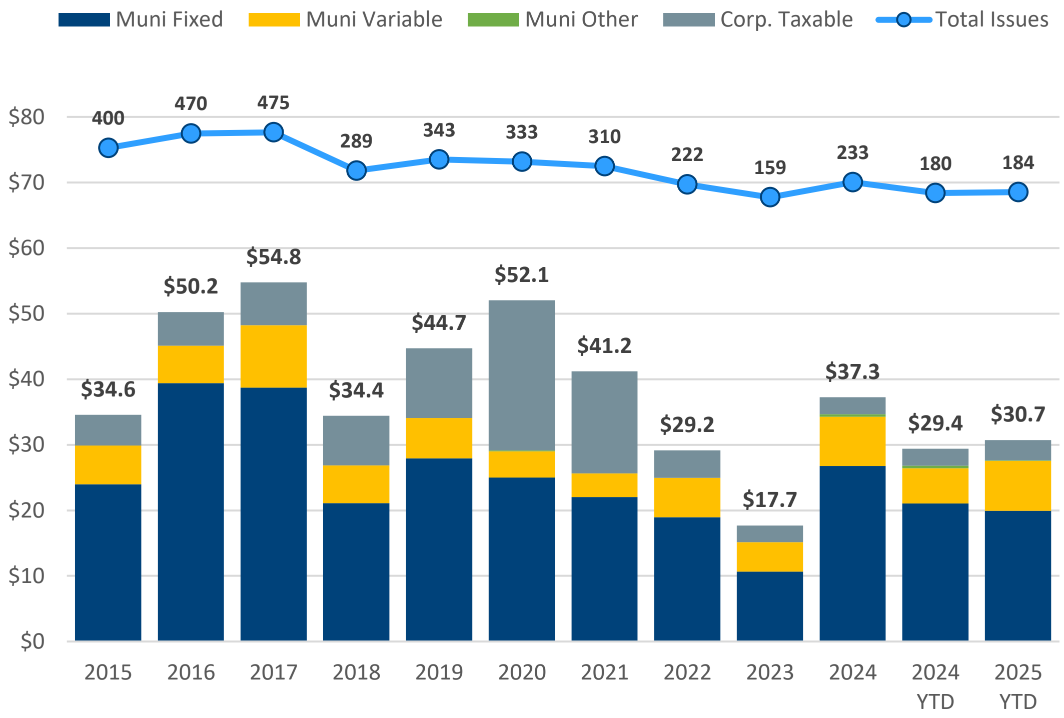
# YTD 2025 Healthcare Issuance Slightly Higher Relative to 2024

**Total Municipal Market Activity ($B)**




**Total Healthcare Issuance ($B)**




***Total municipal issuance and total healthcare supply are 14.9% higher and 4.6% higher, respectively, year-to-date 2025 compared to year-to-date 2024.***

Source: LSEG Refinitiv, MuniOS as of September 19, 2025; Bond Buyer as of August 31, 2025





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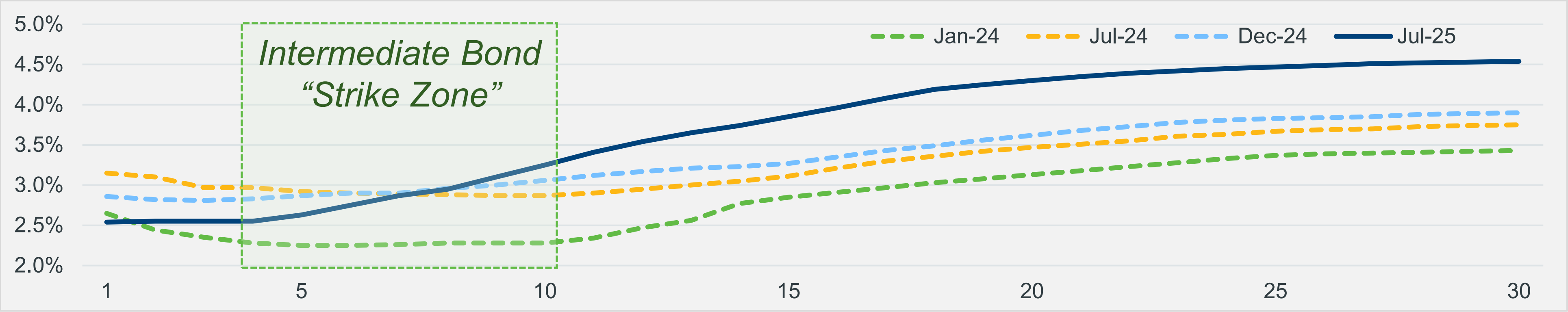
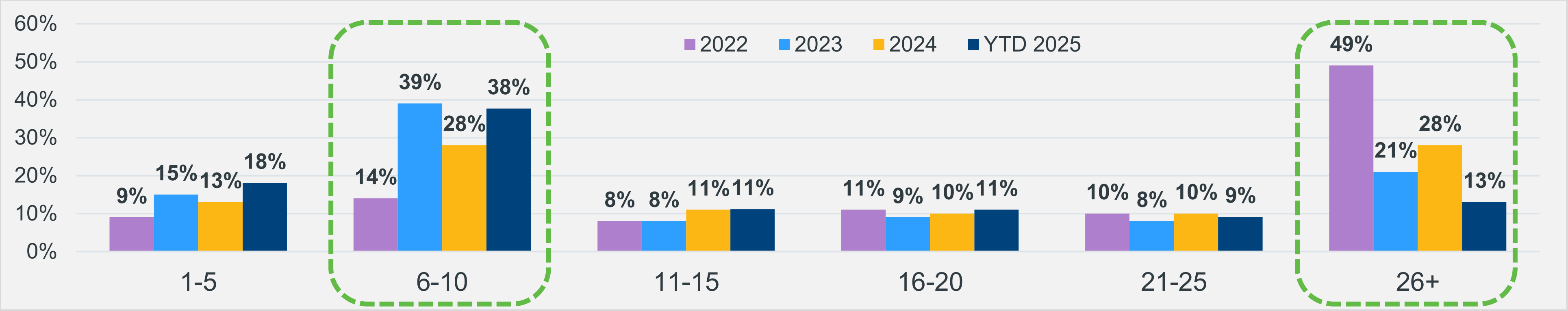
# Focus on Intermediate Tax-Exempt Rates

**MMD Yield Curve Continues to Steepen**




**Fixed Rate Issuers Moving Down the Curve**




**Takeaway**: As the yield curve normalizes and long-term rates climb, fixed rate issuers are prioritizing shorter maturities to secure a lower cost of capital, even though longer-dated maturities still appeal to both issuers and investors.

Source: Bloomberg, LSEG Refinitv





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# Borrowers Are Adapting to Evolving Markets

| *$ in millions* | Rating at Issue | Pricing Date | TE Fixed | TE Bullet | TX Fixed | Puts | VRDBs |
|---|---|---|---|---|---|---|---|
| Benefis Health System | NR / NR / A+ | 8/21/2025 | ✓$61.0 | | ✓$70.0 | ✓$50.0 | |
| Baptist Memorial Health Care | NR / BBB+ / BBB+ | 8/21/2025 | | | | ✓$45.3 | |
| MultiCare | NR / A / A+ | 8/14/2025 | ✓$177.9 | | | | |
| children's health | Aa3 / AA / AA- | 8/13/2025 | ✓$600.0 | | | | |
| Sanford Health | NR / A+ / AA- | 8/13/2025 | ✓$137.8 | | | ✓$270.7 | ✓$250.0 |
| NYC Health + Hospitals | Aa3 / A+ / AA- | 8/12/2025 | ✓$242.9 | | | | |
| Roswell Park Comprehensive Cancer Center | NR / A- / A+ | 8/7/2025 | ✓$123.4 | | ✓$51.8 | | |
| Baptist Health South Florida | Aa3 / AA- / NR | 8/5/2025 | ✓$259.5 | | | ✓$200.0 | |
| Beth Israel Lahey Health | A3 / A / NR | 8/5/2025 | ✓$893.1 | | ✓$130.6 | | |
| Mount Sinai | Baa3 / BBB / NR | 7/31/2025 | ✓$72.3 | ✓$176.5 | | | |
| UF Health University of Florida Health | A3 / A / NR | 7/31/2025 | | ✓$299.4 | | | |
| CHC Community Health Centers | NR / NR / BBB | 7/30/2025 | ✓$44.5 | | | ✓$290.5 | |
| Hospital Sisters Health System | NR / A+ / A+ | 7/29/2025 | ✓$310.0 | ✓$100.0 | | | ✓$125.0 |

Source: LSEG Refinitiv, Bloomberg, and Internal Kaufman Hall sources





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# Wisconsin Issuers Diversify Financing Structures

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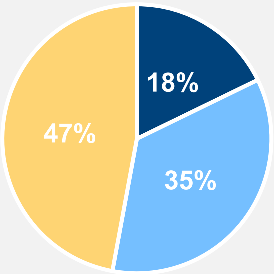
## Froedtert | ThedaCare

| Series 2025A | Series 2025B |
|---|---|
| *Fixed Rate - LT* | *Fixed Rate - Int* |
| $69,895,000 | $138,000,000 |
| **Series 2025C** | **Series 2025D** |
| *VRDB* | *VRDB* |
| $92,500,000 | $92,500,000 |

**Rating**: NR / AA / AA

**Structuring Feature**: Mix of tax-exempt fixed-rate and VRDB's, along with the establishment of a $200M taxable commercial paper program.

**Issuance Debt Mix**




## UW Health

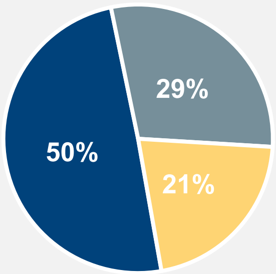
| Series 2024A | Series 2024B |
|---|---|
| *Fixed Rate - LT* | *7yr Put* |
| $186,660,000 | $110,040,000 |

**Series 2024C**
*VRDB*
$80,115,000

**Rating**: Aa3 / AA- / NR

**Structuring Feature**: Combination of tax-exempt fixed-rate and VRDB's, with a 7yr put bond.

**Issuance Debt Mix**



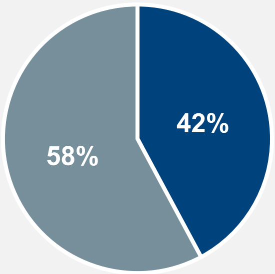

## Fort HealthCare For Health

| Series 2024A | Series 2024B |
|---|---|
| *Fixed Rate - LT* | *10yr Put* |
| $22,745,000 | $31,210,000 |

**Rating**: NR / A- / NR

**Structuring Feature**: Utilized tax-exempt fixed rate and 10yr premium put bond structures.

**Issuance Debt Mix**




*Tax-Exempt Put* | *Long-term Tax-Exempt Fixed Rate* | *Intermediate Tax-Exempt Fixed Rate* | *Variable Rate*





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# NFP Health Systems Have Utilized Alternative Financing Vehicles to Help Manage Capital More Flexibly

| Type | Real Estate | Energy | Other |
|---|---|---|---|
| **Rationale** | 1. Monetizing / developing existing assets<br>2. Outsource management of noncore assets to a more-efficient third party that specializes in subject matter | | |
| **Examples** | Legacy Health<br>MultiCare<br>Boston Medical Center<br>Memorial Hermann | Adventist Health<br>Banner Health<br>Novant Health<br>Henry Ford Health<br>LCMC Health | Greenville Health System / Prisma Health |
| **Service Provider** | The Centurion Foundation, Inc. A non-profit organization<br>Veyron<br>Provident Resources Group<br>Blue Owl | Bernhard<br>Kiewit | Diogenes Capital |




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