HHC bonds hit the market

The city's Health and Hospitals Corp. is selling $110 million in bonds this week to refund earlier debt. Fitch gives the bonds an A+ rating, reflecting the fact that HHC is required to pay debt service in full each month from its revenue flow.

The patient revenue lockbox arrangement keeps HHC's creditworthiness strong. But market factors are a concern. Fitch notes that HHC's management has been focused on efficiency, savings and growth using a systems-wide process improvement tool that is in effect at 50% of HHC facilities. About 22% of HHC's staff use the process tool. So far, the tool has driven $304.2 million in financial benefits, said HHC, including cost savings of $24.5 million and new revenue of $273.7 million. The cost-containment initiatives helped boost financial performance slightly over the past two fiscal years. Operating losses fell to $146.5 million in 2012 (a negative operating margin of 6.3%) from $747.8 million in 2010 (a negative 11.6% operating margin), Fitch reported.

Last year, HHC earned 63% of its gross revenue from Medicaid and 20% from Medicare. About one-third of its patients are uninsured, and it has no significant revenue from commercial payers. In fiscal 2012, ended in June, unrestricted cash and investments were $1.1 billion, up from $656 million in 2010, which meant days of cash on hand rose to 55.1, up from 34.5.

HHC has had fairly steady funding in Medicaid Upper Payment Limit and Disproportionate Share Hospital payments, slightly higher in 2012 than the prior year. But come 2014, the combined UPL and DSH payments will start to drop, "resulting in growing revenue shortfalls," said Fitch. That's why HHC is looking for alternate funding.

At A Glance

HFMA: The Hudson Valley chapter of the Healthcare Financial Management Association holds its annual conference at the Doubletree Hotel in Tarrytown on April 18. Discounted registration is available through March 22. The agenda and information are online here [http://www.hfmanewyorkny.org/index.php/site/events/hudson_valley_ch]

EXTRA: The first in the annual Extra series identifying venture-capital deals for local health care-related companies.