

The Governance Institute presents

The Growing Importance of ESG in Not-for-Profit Healthcare Debt Issuance

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Presented by

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HEALTH

Today's Presenter



Lisa Goldstein

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Lisa Goldstein is a nationally recognized analyst, speaker, writer, and expert on not-for-profit healthcare. At Kaufman Hall, she is a member of the Treasury and Capital Markets practice and Thought Leadership team. Prior to joining Kaufman Hall, Lisa spent more than 30 years at Moody's Investors Service, including 10 years serving as Associate Managing Director. She managed the rating agency's U.S. not-for-profit healthcare ratings team and oversaw credit rating and monitoring for 350 not-for-profit hospitals. Lisa holds an M.P.A. in public and non-profit finance, management, and policy from the New York University Robert F. Wagner Graduate School of Public Service.

Learning Objectives

After viewing this Webinar, participants will be able to:



Environmental

Identify questions related to ESG typically asked by investors and others



Social

Describe hospital and health system options for demonstrating their commitment to ESG.



Governance

Continuing Education

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Field of study: Business Management & Organization

Program level: Overview

Prerequisites: None

Advanced preparation: None

Delivery method: Group Internet based

Maximum potential CPE credits: 1

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Poll #1: What Is ESG?

- a. A new way of looking at a hospital's long-standing efforts regarding Environment, Social, and Governance.
- b. A new financial ratio used by investors that measures Earnings, Scale, and Goods purchased.
- c. A tech platform that Elon Musk will Soon Govern.
- d. I don't know; it's a new concept that I need to understand.

ESG Integrates the Dual Aims of Environmental Stewardship and a Just Social Mission, with Governance over Both

Environmental

- Climate change and related risks
- The need to reduce toxic releases and waste
- New regulation expanding the boundaries of environmental liability with regard to products and services
- Increasing pressure by civil society to improve performance, transparency, and accountability, leading to reputational risks if not managed properly
- Emerging markets for environmental services and environment-friendly products

Social

- Workplace health and safety
- Community relations
- Human rights issues at company and suppliers' contractors' premises
- Government and community relations in the context of operations in developing countries
- Increasing pressure by civil society to improve performance, transparency, and accountability, leading to reputational risks if not managed properly

Governance

- Board structure and accountability
- Accounting and disclosure practices
- Audit committee structure and independence of auditors
- Executive compensation
- Management of corruption and bribery issues

Why Are Not-for-Profit Healthcare Investors Focused on ESG?

- ESG is a factor for taxable investors and of rising importance to tax-exempt investors when making their investment decisions.
- ESG disclosure may attract a wider base of investors.
- Rating agencies opine on ESG strategies and the impact on credit.
- There is increased demand for greater transparency around ESG, but ESG metrics are varied, not standardized and in the nascent stages.
- Disclosure of ESG-related metrics and benchmarks should be carefully considered.

Select ESG Topics and Themes for Not-for-Profit Healthcare

Environmental Considerations

- Climate-change weather events (hurricanes, rising sea levels, flooding, wildfires)
- Business continuity and resiliency plans
- Vendor and supplier selection based on environmental goals
- Sustainability and recycling efforts
- Carbon-emission reduction

Social Considerations

- Strategies to recruit and retain a diverse workforce
- Aging population and behavioral health needs
- Disparities in healthcare outcomes among socioeconomic groups
- Social determinants of health data and usage
- Responsible production of good and services

Governance Considerations

- Board and c-suite diversity and selection process
- Cyber preparedness and management
- Alignment of executive compensation with ESG goals
- Effective whistleblowing mechanisms
- Leadership role for ESG initiatives

Questions about ESG to Consider

Environmental

- What is your business continuity plan in the event of a weather-related event?
- What are your efforts toward sustainability, recycling, and lowering the carbon footprint?

Social

- What are your DE&I goals regarding workforce recruitment?
- What are your steps on address healthcare inequities and access to care?

Governance

- What are your goals regarding board and c-suite diversification and strategies on succession planning?
- What are your benchmarks or indicators regarding ESG?

Environmental: Navigating Weather-Related Changes

- Investors will want to know how you are prepared for climate-change disasters (hurricanes, wildfires, flooding, sea-level rising, for example).
- Physical plant preparedness plans should be shared.
- Business continuity plans should address all facets of operations in the event of a natural disaster, including access to liquidity.

How Sutter Health, MD Anderson and a stand-alone clinic survived natural disasters

Communication, planning and the right technologies are key when wildfires and hurricanes strike large systems and community medical groups alike.

Turn around, don't drown: Glynn County streets flooded after 7 inches of rain

System dumping water on Southeast Georgia is unrelated to Hurricane Sally

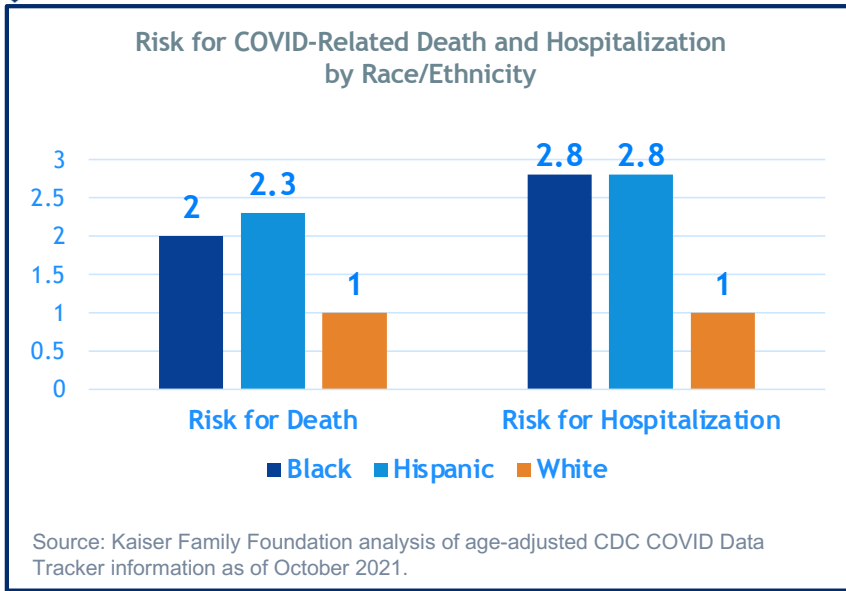
Social

Health Inequities and Public Health
Workforce Challenges
Aging Population

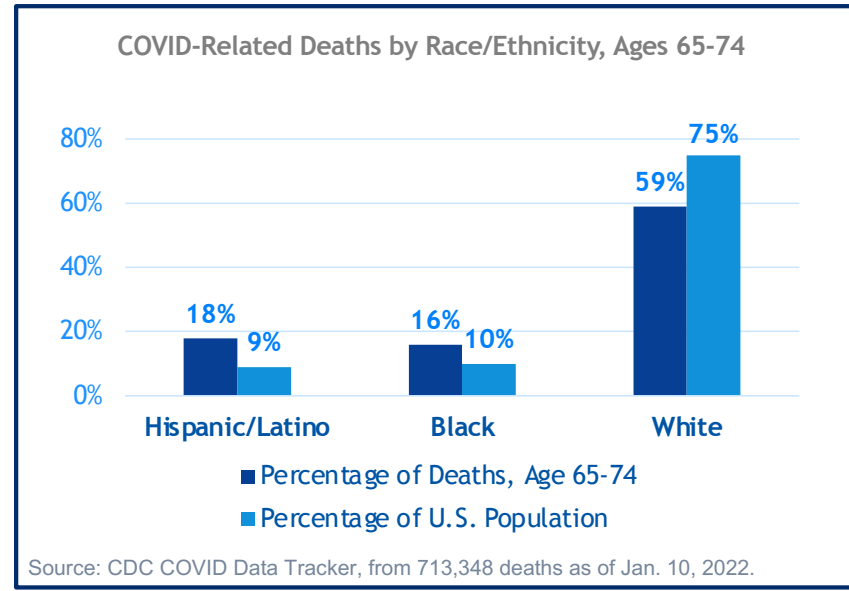
A Reality Check on Health Equity

- Achieving health equity is a challenging problem that is not being solved comprehensively, and the overall pace of change is inadequate.
- Achieving health equity will require large organizations with competency, sophisticated capabilities, and exceptional financial and intellectual resources.
- These characteristics must be woven together with the organizational values that will assure success in solving health equity problems wherever and whenever such inequities are found.

COVID Spotlighted the Longstanding Crisis of Health Inequity



Hispanic and Black individuals are at least twice as likely to die from COVID as their white counterparts and almost three times as likely to be hospitalized.



Percentage of deaths from COVID for Hispanics and Blacks is greater than their percentage of the total population in most age groups, while for whites, the percentage of death is significantly less than their percentage of the total population.

Poll #2: During the pandemic...

...our organization provided public health services beyond the clinical needs that included:

- a. Food banks
- b. Vaccinations
- c. Both a and b
- d. None of the above

COVID Highlighted Long-Term Underinvestment in Public Health

- Research shows that the U.S. has a \$4.5 billion shortfall in funding to provide a minimum standard of foundational public health capabilities.¹
- The fragmented system suffers from
 - a lack of planning and coordination
 - an insufficient workforce and training
 - a failure to create an infrastructure capable of providing basic public health functions such as vaccine development and distribution.²
- During the pandemic, test development, test administration, contact tracing, and vaccine administration fell largely to the nation's provider health systems, along with the 3+ million hospital admissions related to COVID-19.³

Sources: 1. Maani, N., Galea, S.: "COVID-19 and Underinvestment in the Public Health Infrastructure of the United States, *The Milbank Quarterly*, June 2020. 2. Ollove, M., Vestal, C.: "Public Health Systems Still Aren't Ready for the Next Pandemic," The PEW Charitable Trusts, Jan. 27, 2021. 3. Centers for Disease Prevention and Control, COVID-19 Data Tracker, Oct. 13, 2021.

What Public Health Challenges Mean for America's Health Systems

- As the COVID crisis continues, the job of America's health systems is to deliver exceptional and equitable healthcare to 330 million Americans, while confronting the current pandemic and broad problems of social and economic justice in America.
- To make the situation even more confounding, these problems will need to be met on a new economic platform.
- Therefore, meeting these challenges will require a new level of health system ideas, aggressiveness, ambition, and imagination.

A New Mindset for Healthcare Organizations

- **Hospitals are the organizations that truly matter** when it comes to healthcare delivery.
- And now, because of COVID, hospitals are also the organizations that truly matter when it comes to health equity and to public health.
- Moving forward, hospitals will be asked by communities all over the country to be the organizations that truly matter when it comes to a broader set of national problems related to the wellbeing of patients and communities:
 - Problems that COVID has made much worse
 - Problems that the public sector has never been able to solve

During COVID, did your hospital provide:

- Vaccines?
- Food banks?
- Affordable housing?
- Childcare?
- Facilities for education?
- Mental health services?
- Public laundry services?

Poll #3: A focus on ESG can help recruit and retain employees because:

- a. ESG is of growing importance to the healthcare consumer.
- b. ESG shows a commitment to address the ongoing challenges of access to affordable healthcare.
- c. Diversity, equity, and inclusion is one of the key tenets of ESG and important to our organization.
- d. All of the above.

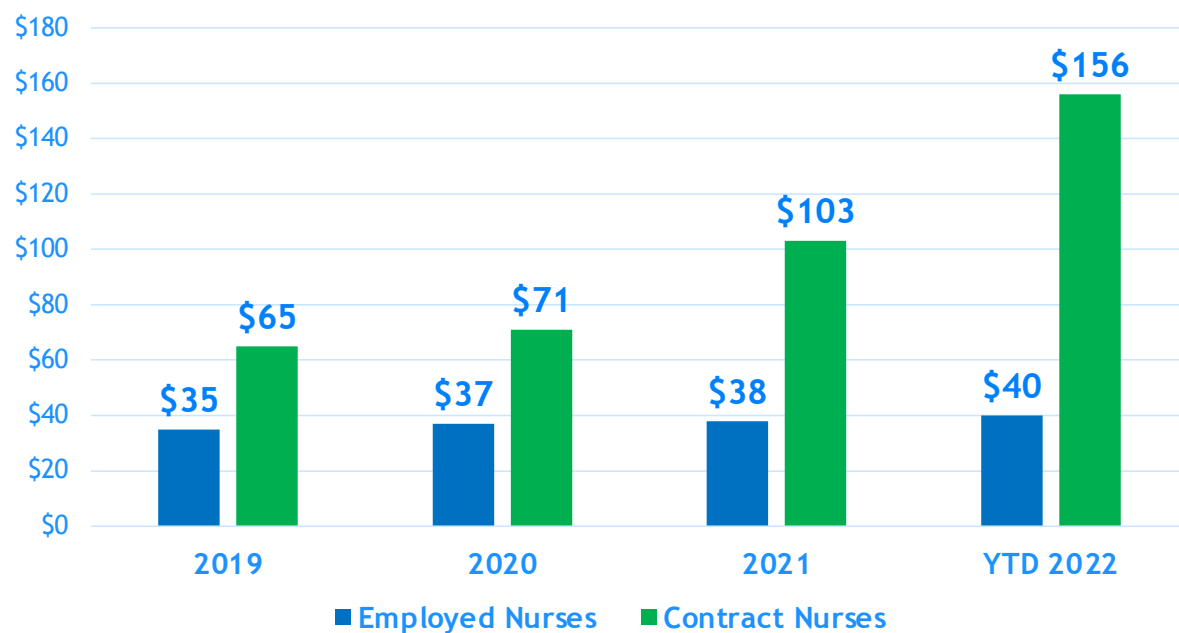
Workforce Dislocation Is a Real and Permanent Problem

- In April 2020, during the first wave of COVID, more than 5 million Americans left the workforce.¹
- Between May and September of 2021, as COVID dragged on, 20 million Americans voluntarily left their jobs.²
- 1.4 million mothers with school-age children found themselves forced to leave the paid workforce during the pandemic.³
- The percentage of women in the workforce is lower than it has been for 30 years.⁴
- During the pandemic, almost 1 in 5 healthcare workers quit their jobs.⁵
- One-third of nurses plan to leave their current roles by the end of 2022.⁶
 - More than a quarter of nurses planning to leave their jobs target becoming traveling nurses.
- Staffing shortages and COVID-19's effects on healthcare workers' mental health are cited as the top two patient safety concerns for 2022.⁷

Sources: 1. U.S. Bureau of Labor Statistics; Cassella, M.: "The pandemic drove women out of the workforce. Will they come back?" *Politico*, July 22, 2021. 2. U.S. Bureau of Labor Statistics. 3. Heggeness, M.L., et al.: "Tracking Job Losses for Mothers of School-Age Children During a Health Crisis," U.S. Census Bureau, March 3, 2021. 4. Cassella, *Politico*. 5. Saad, L. and Wigert, B.: "Remote Work Persisting and Trending Permanent," Gallup, Oct. 14, 5. Galvin, G.: "Nearly 1 in 5 Health Care Workers Have Quit Their Jobs During the Pandemic," *Morning Consult*, Oct. 4, 2021. 6. Saad, Gallup *Study: 34% of Nurses Plan to Leave their Current Role by the End of 2022*, Incredible Health, 2021. 7. Special Report: Top 10 Patient Safety Concerns 2022. ECRI and the Institute for Safe Medication Practices, 2022.

As Demand for Contract Labor Increased, So Did Its Wage Rates

Median Wage Rates for Employed and Contract Nurses



- Pre-pandemic, wage rates for contract nurses were almost double those for employed nurses.
- As the pandemic continued and labor shortages intensified, that wage gap increased significantly.
- As of March 2022, the median wage rate for contract nurses was almost **three times** higher than the wage rate for employed nurses.

Source: Kaufman Hall

Workforce Is Very Much a C-Suite Challenge

Chief Executive Officer

- *Limited growth opportunities*
- *Competition from disruptors*
- *Workforce dissatisfaction*
- *Patient care quality*

Chief Human Resources Officer

- *High attrition rates*
- *Challenge sourcing clinical staff*
- *Staff requiring flexible working arrangements*
- *DE&I efforts*

Chief Operating Officer

- *Operating in high uncertainty*
- *Difficulty staffing shifts*
- *Increase in administrative tasks and platforms to use for patient care*



Chief Financial Officer

- *Inflation/higher labor costs*
- *Lower margins/profitability*
- *Increase in clinical hiring costs*

Chief Medical Officer

- *Physician burnout*
- *Administrative tasks increase*
- *Nursing staff shortage*
- *Patient dissatisfaction*

Chief Nursing Officer

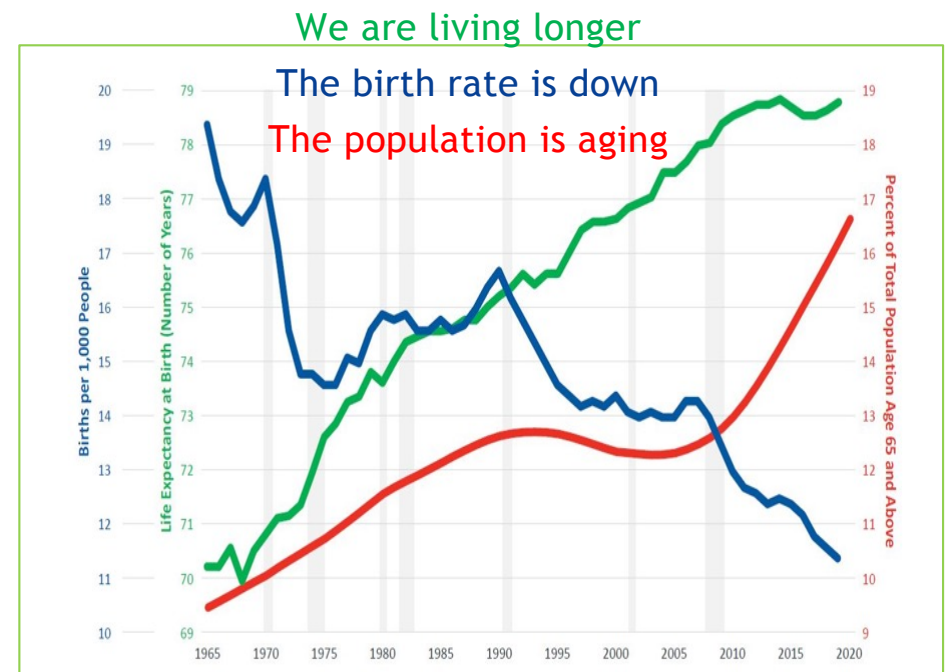
- *Nurse burnout*
- *Multiple shifts due to workforce shortages*
- *Higher patient expectations*

Asking the Right Questions to the Workforce

- What would cause you to *consider a new job opportunity*?
- What would cause you to *stay with our hospital* rather than leave for another job opportunity?
- What are your basic requirements for an *acceptable job*?
- Does your hospital *fulfill those requirements*?
- What does your *ideal job* look like?
- What is *meaningful work* for you?
- What *gets in the way* of your spending enough time on meaningful work?
- What does *flexibility* mean to you?
- What is a *fair level of compensation*?
- What *benefits* are the most critical to you?

The Aging U.S. Population Will Shape How Healthcare Is Delivered

- Hospitals need to address “Where to Care?” as the population ages.
- More integrated forms of healthcare delivery including digital, DIY healthcare, and hospital at home will play a greater role.
- With Medicare representing about half of hospital revenue, operating efficiencies will be even more important.



Sources: FRED Economic Bank, Federal Reserve Bank of St. Louis; World Bank Data.

Governance

What Went Well during COVID
Impact Investing
Considerations Regarding ESG Disclosure

Poll #4: A discussion of your ESG strategies...

...with investors and rating agencies is important because:

- a. They are looking more closely at ESG in their buying and rating evaluations.
- b. It is part of a not-for-profit hospital's inherent mission, governance, and maintenance of tax-exempt status.
- c. There may be a financial benefit when pricing debt of organizations with ESG-oriented strategies.
- d. All of the above.

Investors Witnessed Resiliency During Pandemic

Remarkable agility

- Clinical lessons learned from the rapidly spreading cases in Seattle, New York, and New Jersey.
- Trustees and management used all available resources to secure PPE, ventilators and liquidity.
- Uniform advocacy for swift and substantial relief funds.
- Rapid decisions made on staffing given the shutdown.

Deft Covenant Management

- Many hospitals faced debt covenant violations given material revenue decline.
- Many hospitals proactively sought amendments during COVID before the covenant violation occurred or received a multi-period waiver thereafter.
- Rating agencies not only look at the causal factors but a team's steps to manage covenants.

Impact Investing Expands Traditional Community Benefit

- Impact investing takes community benefit to the next level with loans (not grants) to organizations who address social needs.
- A small return ensures that the funds can be re-invested into new projects.
- Shorter-term gains include social benefits that the projects address (such as affordable housing); longer-term gains can improve healthcare access and appropriate use of hospital facilities.
- Investors and rating agencies will focus on size of allocation relative to unrestricted cash, pace and structure of investments and reporting guidelines.

UMASS Memorial Health Care's Anchor Mission focuses impact investments on affordable housing and community health services.

Management Teams Need to Consider All Aspects of ESG Disclosure

Pros

- ✓ Demonstrating a commitment to ESG may **help workforce recruitment efforts**, especially among younger generations.
- ✓ For organizations considering new debt issuance, an ESG commitment may **attract a broader pool of investors**.
- ✓ Disclosure of ESG data **aligns with the mission-driven, community-centered focus** of not-for-profit healthcare.
- ✓ A leadership position on ESG issues may enable the organization to help **shape emerging disclosure standards**.

Cons

- ✓ **Disclosure standards are still in a nascent stage** and may change over time.
- ✓ Committing to ESG also **will require a commitment of resources** to gather and report on ESG data.
- ✓ Thus far, **there have not been significant savings** or “greeniums” from ESG-focused debt issuance in not-for-profit healthcare.
- ✓ Once committed to ESG, it may be **difficult to disengage** if other priorities emerge.

Can Your Trustees Answer These Five ESG Questions?

1. What are your goals regarding board and C-suite diversification and strategies on succession planning?
2. What are your strategies to address health inequities and access to affordable care?
3. What are your benchmarks or indicators regarding ESG?
4. What are your commitments to disclosure and transparency regarding ESG strategies?
5. What are your cyber strategies and preparedness?

Management and governance must answer the foundational question of what the role of their not-for-profit hospital should be

Key Takeaways Regarding ESG

- ✓ Expect questions on ESG strategies from muni and taxable investors.
- ✓ Expect increased discussion on your ESG strategies in rating agency reports.
- ✓ Consider including an ESG section in offering statements, especially if selling taxable debt, with input from consultants, underwriters, and disclosure counsel.
- ✓ Include a slide on ESG related strategies in rating agency presentations or a thoughtful discussion on ESG strategies in meetings.
- ✓ Thoroughly vet a disclosure commitment around ESG; as with any metric, once disclosure begins it can be difficult to abate.

Discussion & Questions

Contact Us...

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