

# Private Debt Investor

September 2022 • [privatedebtinvestor.com](http://privatedebtinvestor.com)

**EXTRA**  
Tackling  
the energy  
crisis

## Fund finance

The questions LPs  
need to ask



# How lenders can help bridge the US healthcare gap



Guest comment by **Mark Slusar**

## *Private debt has a major role to play in improving healthcare facilities in under-served areas of the country*

Hospitals and medical facilities across the US are feeling the heat. Pressure points range from staff shortages and burnouts, the lingering effects of the pandemic and the continued shift to new healthcare delivery models, such as telemedicine or urgent care that partially edge out traditional healthcare services.

The 46 million residents of rural parts of the US, perhaps a lesser focus for many investors, feel the effects of these healthcare shifts most acutely and are at increasing risk of losing access to medical care altogether when traditional facilities, such as hospitals, shut down. This can happen due to financial and operational inefficiencies, lack of innovation or talent and struggles to attract fresh capital to address these issues.

More than 130 rural hospitals have closed over the past decade, and over 600 additional rural hospitals – more than 30 percent of all rural hospitals in the country – are at risk of closing in the near future, per the Center for Healthcare Quality and Payment Reform.

It has been shown that private lenders, creditors and other investors can play a meaningful role in helping bridge the gaps in rural healthcare.

Working in partnership with struggling hospitals and medical facilities in underserved economic areas, and with pre-determined goals for investment outcomes, financing solutions tied to impact can sustain hospitals' operations, upgrade existing facilities, help expand access and save jobs.

Financing provided to traditional healthcare institutions – complementing or ultimately giving way to next-generation healthcare services – drives significant social benefit and impact in underserved economic areas by ensuring continued access to medical services.

Although the healthcare services industry is undergoing drastic change, committed investors and their financing solutions can support traditional healthcare facilities in myriad ways, resulting in improved local medical coverage.

### **Upgrades and development**

Rural medical centres can struggle to offer the latest services when they have older technology or outdated infrastructure. According to *The Economic and Productivity Impact of IT Security on Healthcare* report by the Ponemon Institute, the use of outdated communication technologies increases patient discharge times by over 100 minutes and wastes more than 45 minutes of a

clinician's day, costing the US healthcare industry in excess of \$8.3 billion annually. Improved and upgraded infrastructure can not only lead to better outcomes for patients but more efficient use of medical professionals' time.

Lexington, Nebraska is a severely distressed low-income rural community with a poverty rate of 24 percent, more than double the national average, per the US Census Bureau, as of January 2022. Lexington Regional Health Center, a critical access hospital, needed capital to upgrade its infrastructure, receiving an investment from Enhanced Capital in 2014. This investment allowed the health centre to upgrade over 23,000 square feet of existing infrastructure and add more than 31,000 new square feet, resulting in 25 inpatient beds, three operating rooms, 14 exam rooms, two general procedure rooms, a procedure room dedicated to wound care and ancillary support areas. Lexington Regional continues to bring critical services to the area, and in 2021, served over 48,000 patients.

When disparate facilities are all serving the same areas, investment can help fund the creation of sites that efficiently combine services or offer entirely new services. A 2018 National Council on Compensation Insurance report found

that healthcare consolidation improves integration of care and reduces duplication of clinical services. Hospital mergers can lead to operating cost reductions of 15-30 percent for acquired hospitals. A Charles River Associates report from 2018 found that while cost reductions most greatly benefit the acquired hospitals, the benefit of scale caters to the acquirers as well.

Louisiana has a poverty rate of 19 percent, according to the Louisiana Budget Project. Since 2002, Community Health Services has offered key medical services across the state with a particular focus on low-income, un- or under-insured populations.

In 2021, Enhanced Capital made an investment to finance the construction of a 41,000-square-foot, state-of-the-art facility that consolidated three standalone sites. The new medical centre in Bastrop will expand medical, dental, and behavioural health services; create jobs; add pharmacy, radiology and laboratory services; and create an emergency 25-bed shelter. Once complete, the new facility is expected to serve more than 5,000 individual patients annually.

### Expanding access

Some services supporting rural healthcare need an infusion of capital to expand their offerings and services. In 2021, the Department of Health and Human Services distributed \$7.5 billion in relief funds to rural healthcare providers, reported the *New York Times*. This support was not to fix underlying structural problems, but solely to offset increased expenses and revenue losses due to covid, highlighting the immense need and opportunity for capital.

When Quitman Hospital in rural Marks, Mississippi closed in 2016, it left the community without access to a hospital. However, with support from Progressive Medical Enterprise, an experienced group of specialists in the rural hospital space, Quitman was able to reopen as a designated Critical Access Hospital in 2021, offering 24-hour emergency medical services. As



*“Rural medical centres can struggle to offer the latest services when they have older technology or outdated infrastructure”*

operations continue to scale up, financial support from Enhanced Capital will enable Quitman to offer the community in-patient care, physical therapy, cardiac rehabilitation, outpatient radiology and covid-19 testing and treatment.

The rise of telemedicine has been a lifeline to rural communities in the US who, according to the Centers for Disease Control and Prevention, are more likely than urban residents to die prematurely from heart disease, cancer, unintentional injury, chronic lower respiratory disease and strokes. McKinsey & Company states telehealth utilisation has stabilised at levels 38 times higher than before the pandemic. Investments in new technologies can lead to better health outcomes for all patients, in particular those in underserved or rural settings.

The initial rollout of Pfizer’s covid vaccine and the need for ultra-cold shipping and storage presented logistical challenges, especially in rural communities. Global Cooling, an Athens, Ohio-based rural manufacturer of eco-friendly, ultra-low cooling solutions for pharmaceutical, biotechnology and academic industries received an investment from Enhanced Capital to support in-sourced manufacturing capabilities. This supported job retention and creation in rural Athens, in addition to the utilisation of technology to reduce operating costs and increase research value. Global Cooling has experienced rapid growth and, since the investment, more than doubled revenues over three years.

Even as telehealth consultations rise, testing and lab work are two areas that prove challenging for rural communities. Rheonix, located in Ithaca, New York, is a biotech company delivering fully automated testing technology. During the pandemic, Rheonix benefited communities by providing small and medium-sized labs with fast, cost-effective, sample-to-answer testing that could be quickly deployed. By bringing testing in-house, these labs were able to shorten their testing times from two weeks to same-day, enabling rapid patient management decisions. The company received an investment from Enhanced Capital to complete the development of its core technology.

Americans in rural communities suffer a mortality rate 23 percent higher than urban communities, in part due to the lack of access to quality care, according to *Health Affairs*. *Barron’s* reports that Americans gave roughly \$470 billion to charity in 2020, but more than \$70 trillion sit in US capital markets. Private lenders are uniquely positioned to leverage capital to bring healthcare access to underserved populations, create or retain local jobs, or strengthen hospitals and other anchor institutions to help revitalise local communities. ■

Mark Slusar is a managing partner at US-based impact investing firm Enhanced Capital