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Fitch: US NFP Children's Hospital Medians Hold Steady Even as Profits Fall Again

Fitch Ratings-Austin-14 August 2024: Medians for U.S. not-for-profit children's hospitals are still solid, although 2023 marked the lowest profitability level for the sector in a decade, according to Fitch Ratings in its latest annual medians report.

The operating environment for children's hospitals continues to be challenging as a result of increased staffing costs and year-to-year volume fluctuations from respiratory virus cases. Despite this, the standalone children's hospitals' median rating remains strong at 'AA-'. Even with a positive median operating margin, profitability is at the lowest level in 10 years with no easy to implement solutions available to generate a "v-shaped" recovery.

"Elevated labor expenses are an unavoidable reality for NFP children's hospitals," said Director Richard Park. "They must continue to seek creative solutions for this issue, as rate increases will not make up the gap on their own."

In the long term, children's hospitals will also face the effects of declining birth rates. Meanwhile, traditional adult acute care hospitals are looking to improve profitability by becoming full-service providers across all ages and care continuums. This includes the pursuit of growth in high acuity and margin service lines that are mainly provided at children's hospitals. Hospitals are also considering whether to incorporate AI into the daily operations of health care, with many likely to start adopting the technology to reduce administrative burden.

"Healthcare still remains a service industry centered around person-to-person interactions. Finding a way to augment a human's capabilities while improving the patient experience will be key to the industry's adoption of technology going forward," said Park.

Fitch's '2024 Median Ratios for Not-for-Profit Children's Hospitals' is available at 'www.fitchratings.com'.