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Moody's: U.S. Not-For-Profit Health Care Sector Outlook Revised To Stable From Negative, Though Uncertainties Persist.

Standard & Poor's Ratings Service has revised its outlook on the U.S. not-for-profit health care sector to stable from negative. We made this revision in light of operational improvements driven by the Affordable Care Act (ACA) Medicaid expansion, including a stronger-than-expected boost in volumes and payor mix reflecting clear declines in the number of uninsured people, management initiatives that are delivering on their early promise to improve performance, increasing balance sheet flexibility with generally higher unrestricted reserves, and continued operational benefits from merger and acquisition (M&A) activity.

Our previous negative outlook had anticipated modestly more downgrades than upgrades over the course of 2015. As recently as December 2014, however, we mentioned that there was "a glimmer of relief" for health care providers. The glimmer emerged faster and stronger than projected, as the historical changes sweeping the health care delivery system are taking root slower than expected allowing providers' responses to a broad array of pressures to take hold. Although we expect broad industry pressures to continue and even grow over time, most notably the movement toward a value versus the current fee for service orientation, we believe ratings for the vast majority of providers will remain the same over the remainder of 2015 and 2016, and upgrades and downgrades will remain balanced. Therefore, Standard & Poor's revised its outlook on the U.S. not-for-profit sector to stable.

Overview

- ACA Medicaid expansion has helped improve utilization and payer mix.
- Operational benefits continue to emerge from M&A activity.
- Systems are weathering industry challenges better than stand-alone hospitals.
- The number of uninsured and the related burden for providing uncompensated care has lessened as a result of the ACA and Medicaid expansion.
- Year to date rating action trends favor credits that reside in Medicaid expansion states.

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