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## **Fitch: Minor Stresses Emerging for U.S. NFP Children's Hospitals.**

Fitch Ratings-Austin-25 June 2018: Operational stresses in the general acute health care sector are beginning to seep into some performance metrics for U.S. not-for-profit children's hospitals, according to Fitch Ratings in a new report.

Fitch's 'AA-' median rating for stand-alone children's hospitals is secure thanks to their robust liquidity, strong philanthropic support, solid operating margins and specialized clinical services relative to Fitch-rated general acute care hospitals. That said, median operating margins have fallen in each of the last two years.

Median operating margins declined sharply to 4.5% in fiscal 2017 from 6.1% in the prior year. Median operating EBITDA also declined last year albeit more subtly, falling to 11.9% in fiscal 2017 from 12.6% in fiscal 2016. Conversely, median EBITDA margins improved slightly to 14.5% last fiscal year compared to 14.2% for fiscal 2016. 'Lower operating margins have been balanced out by stronger investment returns over the last year, which explains the mixed margin performance for children's not-for-profit hospitals,' said Senior Director Kevin Holloran.

Stand-alone children's hospitals may also be vulnerable to volume erosion over time as payors and patients become increasingly price sensitive. 'The more aggressive push for risk-based contracts that have developed in several major metro areas could pose additional reimbursement pressure for those children's hospitals not yet structured to manage risk,' said Holloran.

Children's hospitals' high exposure to Medicaid and inherent vulnerability to governmental funding cuts will always be a credit concern. However, the sector will continue to be insulated from any decreases in either Medicaid or supplemental reimbursement. Helping matters is the strong political and public-policy support for specialized pediatric services that remains firmly in place. 'Any further dismantling of the ACA would have, at worst, a marginal impact on stand-alone children's hospitals since broad coverage for children already existed pre-ACA in most states,' said Holloran.

'2018 Median Ratios for Not-for-Profit Children's Hospitals' is available at '[www.fitchratings.com](http://www.fitchratings.com)'

Contact:

Kevin Holloran  
Senior Director  
+1-512-813-5700  
Fitch Ratings, Inc.  
111 Congress Avenue  
Austin, TX 78701

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: [sandro.scenga@fitchratings.com](mailto:sandro.scenga@fitchratings.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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